

CITY OF CORVALLIS

Treasury Report

July 2014

CITY OF CORVALLIS, OREGON
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MONTH END COMMENTARY

July 2014

With the exception of the 30-year long bond, yields rose in July, spurred on by a much higher than expected increase in GDP in the second quarter of 4%. This report was issued after the GDP in the first quarter was revised to a negative 2.1%. Growth in the first half of the year has now averaged 1%. The Bureau of Economic Analysis emphasized that the second quarter advance estimate was based on source data that are incomplete or subject to further revision by the Bureau. The “second” estimate for the second quarter, based on more complete data, will be released on August 28, 2014. Nevertheless, bonds reacted negatively with a large sell off in prices and an increase in yields across the curve.

Geo-political Events: Before the GDP number was released, bond prices had rallied to their highest point since March as a flight to quality continued due to a variety of global destabilizing events. The shooting down of a Malaysian plane in the Ukraine, Israel’s escalating military operations in the Gaza strip and expanded sanctions in Russia contributed to the rush to the safety of U.S. Government bonds.

FOMC Minutes: The Federal Reserve will continue to taper and reduce its pace of bond purchases by another \$10 billion as labor market conditions improve and the unemployment rate declines further, the June FOMC meeting minutes said. However, the FOMC cautioned that there remains significant underutilization of labor resources, with the recovery in the housing sector moving at a slow pace. The federal funds rate will remain at the current 0 to .25% target range. The minutes showed the FOMC is debating having the final reduction come in a single \$15 billion reduction, or in a \$10 billion reduction followed by a \$5 billion reduction, which would make the final reduction in October.

Other economic data:

Non-farm Payrolls/Unemployment: Payroll employment increased by 288,000 in the month of June, with upward revisions to both May and April. Job gains were broad based, with notable increases in business services outside of the temporary sector. The unemployment rate fell to 6.1%, the lowest reading since September 2008. Expectations were for the unemployment rate to remain unchanged at 6.3%.

European Bond Yields: Bonds yields have fallen to the lowest levels in modern history in Germany, France and other European nations. 10 Year German bonds fell to a record low of 1.1% while French 10 Year bonds fell to 1.50%. The 10 Year U.S. Bond ended the month at 2.56%. Risks of deflation and mounting concerns about sanctions against Russia contributed to the drop in European yields.

Housing Data: Housing starts fell 9.3% to an 893,000 annualized rate from a 985,000 pace in May that was weaker than initially estimated. The median estimate of 79 economists surveyed by Bloomberg called for a 1.02 million rate.

Policy Compliance Report (Market Values)

Overall Portfolio Structure

	Investment Strategy Range		Market Value	Neutral Allocation	Actual Allocation	Position
	Low	High				
Liquid Component	\$5,000,000.00	\$20,000,000.00	\$28,395,116.15	60.00%	65.11%	5.11%
Investment Component (Core)	\$15,000,000.00	\$20,000,000.00	\$15,217,433.00	40.00%	34.89%	-5.11%
Total			\$43,612,549.15			

	Policy Requirement	Actual Portfolio	Within Limits
Under 30 Days	> 10%	65%	Yes
Under 1 Year	> 25%	65%	Yes
Under 5 Years	100%	100%	Yes
WAM	< 1.5 Years	0.71	Yes

Asset Allocation Strategy

	Policy Maximum Allocation	Per Issuer Restriction	Current Portfolio Allocation	Market Value	Policy Maximum Maturity	Amount Available to Invest	Within Limits
US Treasuries	100%		4.60%	\$2,005,000.00	5 Years	\$41,607,549.15	Yes
Federal Agency and Agency Sponsored	100%	40%	25.29%	\$11,031,010.00	5 Years	\$32,581,539.15	Yes
CDs/ Bank Deposits/ Savings (OST Qualified Institutions)	25%	15%	7.52%	\$3,281,523.82		\$7,621,613.47	Yes
Bankers Acceptances	10%		0.00%	\$0.00		\$4,361,254.92	Yes
Commercial Paper (A-1/P-1)	10%	5%	0.00%	\$0.00	120 Days	\$4,361,254.92	Yes
Corporate Bonds (Aa3/AA-)	10%	5%	1.56%	\$680,373.00	5 Years	\$3,680,881.92	Yes
Municipal Obligations (OR, WA, AA or better)	10%	5%	1.15%	\$501,050.00	5 Years	\$3,860,204.92	Yes
State Pool (LGIP)	ORS Maximum or 100%		59.88%	\$26,113,592.33	N/A	\$19,529,292.67	Yes
Total			100.00%	\$43,612,549.15			

ORS Maximum as of 9/9/2013 \$45,642,885.00

***Investment Policy Note:** Section 5.03.102 states "Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time. Securities need to be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained."

Policy : April 2014

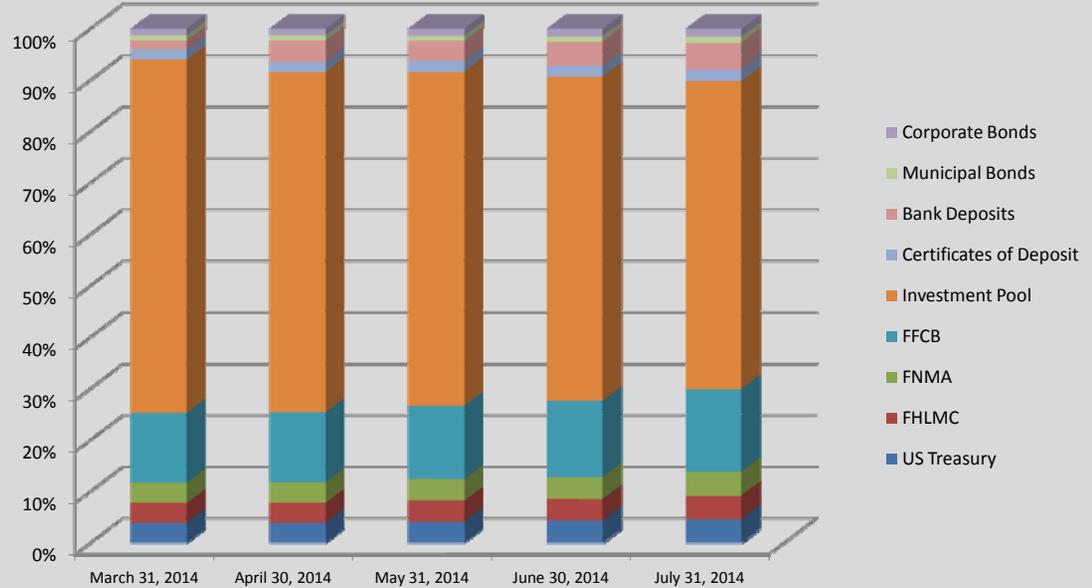
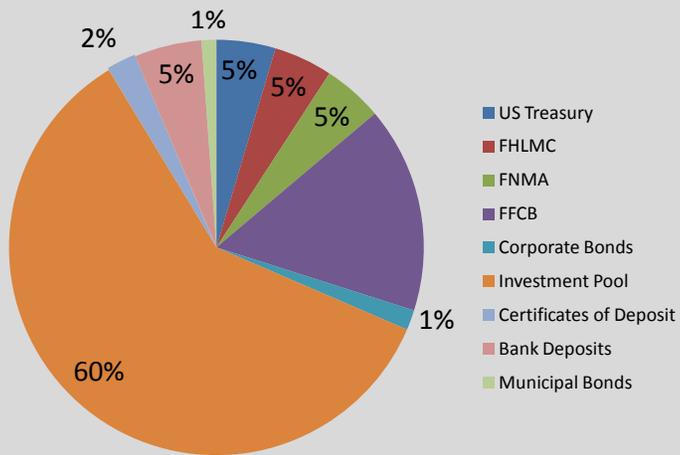
Total Asset Allocation Strategy (Market Values)

Commentary

With the core portfolio of approximately \$15 million fully invested, and no maturities in July, no investment purchases were made this past month. A decrease in the total portfolio reflects the normal pattern of increased fiscal year end spending along with lower property tax receipts during the summer months.

Sector	YTM @ Settlement	March 31, 2014	April 30, 2014	May 31, 2014	June 30, 2014	July 31, 2014	Change From Last Month*
US Treasury	0.67%	\$2,004,680.00	\$2,007,500.00	\$2,013,280.00	\$2,010,468.00	\$2,005,000.00	(\$5,468.00)
FHLMC	1.04%	\$1,991,000.00	\$1,996,740.00	\$2,001,780.00	\$2,001,228.00	\$1,995,640.00	(\$5,588.00)
FNMA	0.81%	\$2,040,960.00	\$2,041,400.00	\$2,039,140.00	\$2,034,184.00	\$2,033,760.00	(\$424.00)
FFCB	0.67%	\$6,991,810.00	\$6,999,230.00	\$7,012,700.00	\$7,008,325.00	\$7,001,610.00	(\$6,715.00)
Corporate Bonds	0.70%	\$679,758.75	\$680,069.25	\$680,940.00	\$680,188.05	\$680,373.00	\$184.95
Investment Pool	0.54%	\$35,481,139.06	\$34,058,546.86	\$31,868,589.68	\$29,840,832.39	\$26,113,592.33	(\$3,727,240.06)
Certificates of Deposit	1.00%	\$1,000,000.00	\$1,000,000.00	\$1,000,000.00	\$1,000,000.00	\$1,000,000.00	-
Bank Deposits	0.20%	\$938,942.92	\$2,149,476.21	1,924,814.62	2,250,151.57	2,281,523.82	\$31,372.25
Municipal Bonds	0.88%	\$500,690.00	\$501,505.00	\$503,580.00	\$501,440.00	\$501,050.00	(\$390.00)
Total	0.60%	\$51,628,980.73	\$51,434,467.32	\$49,044,824.30	\$47,326,817.01	\$43,612,549.15	(\$3,714,267.86)

Current Sector Allocation



City of Corvallis
Portfolio Holdings by Asset Class
All Portfolios

Date: 7/31/2014

Description CUSIP	Face Amount / Shares	Settlement Date YTM @ Cost	Cost Value Book Value	Market Price YTM @ Market	Market Value Accrued Interest	% Portfolio Unre. Gain/Loss	Credit Rating Credit Rating	Days To Call/Maturity Duration To Maturity
Agency - Bullet								
FFCB 0.75 6/14/2016 3133EAUH9	2,000,000.00	6/29/2012 0.76	1,999,640.00 1,999,829.71	100.43 0.52	2,008,520.00 1,958.33	4.59% 8,690.29	Moodys-Aaa S&P-AA+	684 1.86
FHLMC 1 7/28/2017 3137EADJ5	2,000,000.00	12/12/2013 1.04	1,997,494.00 1,997,931.22	99.78 1.07	1,995,640.00 166.67	4.58% -2,291.22	Moodys-Aaa S&P-AA+	1093 2.95
FNMA 1.625 10/26/2015 31398A4M1	2,000,000.00	1/17/2012 0.81	2,060,564.00 2,019,865.70	101.69 0.26	2,033,760.00 8,576.39	4.63% 13,894.30	Moodys-Aaa S&P-AA+	452 1.22
Sub Total Agency - Bullet	6,000,000.00	0.87	6,057,698.00 6,017,626.63	0.62	6,037,920.00 10,701.39	13.8% 20,293.37		742 2.01
Agency - Callable								
FFCB 0.55 8/26/2016-13 3133EC3F9	3,000,000.00	11/26/2012 0.59	2,995,950.00 2,997,760.52	99.89 0.61	2,996,610.00 7,104.17	6.88% -1,150.52	Moodys-Aaa S&P-AA+	757 2.06
FFCB 0.68 9/26/2016-12 3133EA2D9	2,000,000.00	9/26/2012 0.71	1,997,500.00 1,998,651.61	99.82 0.76	1,996,480.00 4,722.22	4.58% -2,171.61	Moodys-Aaa S&P-AA+	788 2.14
Sub Total Agency - Callable	5,000,000.00	0.64	4,993,450.00 4,996,412.13	0.67	4,993,090.00 11,826.39	11.46% -3,322.13		769 2.09
Cash & Equivalents								
OSU Federal Savings MM MM2461	1,226.72	3/31/2014 0.05	1,226.72 1,226.72	100.00 0.05	1,226.72 0.00	0% 0.00	NR NR	1 0
Petty Cash Cash CASH	9,540.00	3/31/2014 0.00	9,540.00 9,540.00	100.00 0.00	9,540.00 0.00	0.02% 0.00	NR NR	1 0
State of Oregon LGIP LGIP4031	26,113,592.33	3/31/2014 0.54	26,113,592.33 26,113,592.33	100.00 0.54	26,113,592.33 0.00	59.9% 0.00	NR NR	1 0
Wells Fargo Bank MM MM5892	2,270,757.10	3/31/2014 0.20	2,270,757.10 2,270,757.10	100.00 0.20	2,270,757.10 0.00	5.21% 0.00	NR NR	1 0
Sub Total Cash & Equivalents	28,395,116.15	0.51	28,395,116.15	0.51	28,395,116.15	65.13% 0.00		1 0
Certificate of Deposits								

City of Corvallis
Portfolio Holdings by Asset Class
All Portfolios

Date: 7/31/2014

Description CUSIP	Face Amount / Shares	Settlement Date YTM @ Cost	Cost Value Book Value	Market Price YTM @ Market	Market Value Accrued Interest	% Portfolio Unre. Gain/Loss	Credit Rating Credit Rating	Days To Call/Maturity Duration To Maturity
OSU Federal 0.995 4/19/2016		4/19/2013	1,000,000.00	100.00	1,000,000.00	2.29%	NR	628
CD1234	1,000,000.00	1.00	1,000,000.00	1.00	0.00	0.00	NR	1.71
			1,000,000.00		1,000,000.00	2.29%		628
Sub Total Certificate of Deposits	1,000,000.00	1.00	1,000,000.00	1.00	0.00	0.00		1.71
Corporate Bonds								
General Electric 1 12/11/2015-13		11/19/2013	679,137.75	100.80	680,373.00	1.55%	Moody's-Aa3	498
36962G6M1	675,000.00	0.70	677,740.16	0.41	937.50	2,632.84	S&P-AA+	1.35
			679,137.75		680,373.00	1.55%		498
Sub Total Corporate Bonds	675,000.00	0.70	677,740.16	0.41	937.50	2,632.84		1.35
Municipal Bonds								
Polk Marion & Benton Countys 0.881 6/15/2016		2/13/2013	500,075.00	100.21	501,050.00	1.15%	NR	685
731418KU2	500,000.00	0.88	500,042.18	0.77	562.86	1,007.82	S&P-AA+	1.86
			500,075.00		501,050.00	1.15%		685
Sub Total Municipal Bonds	500,000.00	0.88	500,042.18	0.77	562.86	1,007.82		1.86
Treasury Notes								
T-Note 0.875 12/31/2016		12/12/2013	2,012,265.62	100.25	2,005,000.00	4.61%	Moody's-Aaa	884
912828RX0	2,000,000.00	0.67	2,009,724.49	0.77	1,474.18	-4,724.49	S&P-AA+	2.39
			2,012,265.62		2,005,000.00	4.61%		884
Sub Total Treasury Notes	2,000,000.00	0.67	2,009,724.49	0.77	1,474.18	-4,724.49		2.39
			43,637,742.52		43,612,549.15	100.00%		262
TOTAL PORTFOLIO	43,570,116.15	0.60	43,596,661.74	0.57	25,502.32	15,887.41		0.71

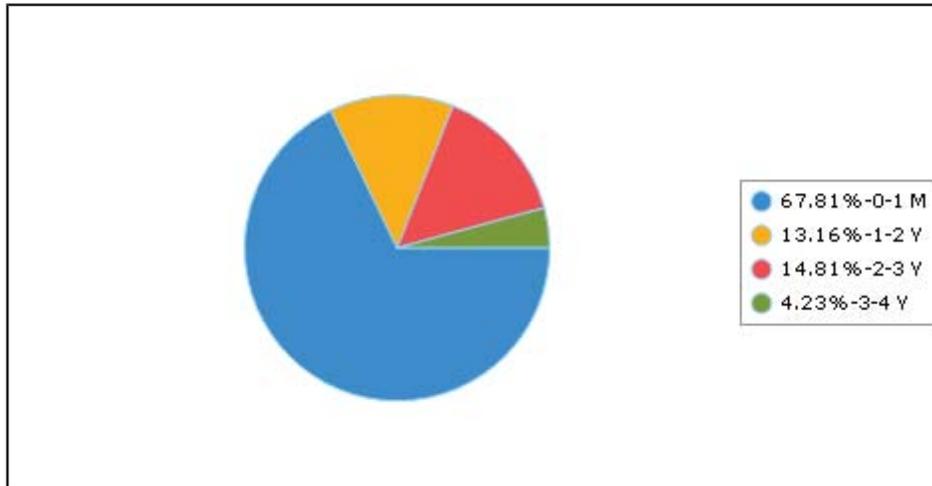
City of Corvallis
Distribution by Maturity Range - Market Value
All Portfolios

Begin Date: 6/30/2014, End Date: 7/31/2014

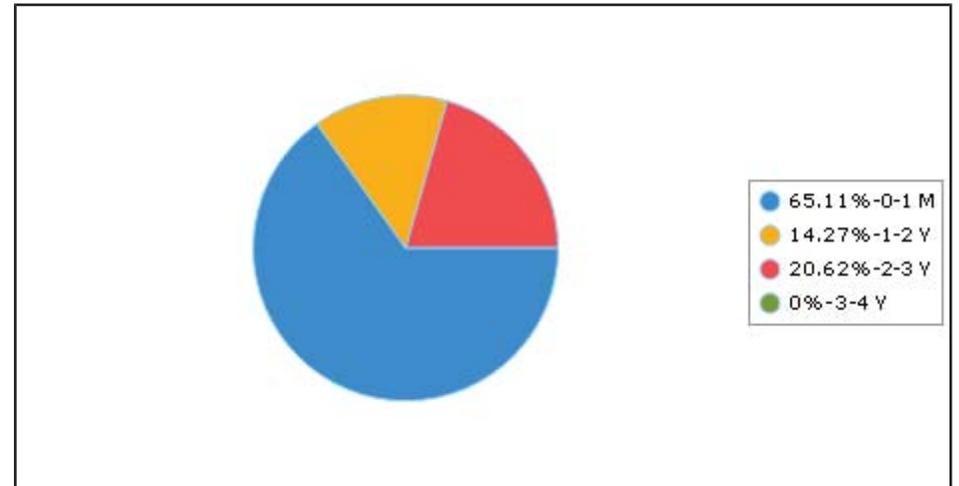
Maturity Range Allocation

Maturity Range	Market Value 6/30/2014	% of Portfolio 6/30/2014	Market Value 7/31/2014	% of Portfolio 7/31/2014
0-1 Month	32,090,983.96	67.81	28,395,116.15	65.11
1-2 Years	6,227,220.75	13.16	6,223,703.00	14.27
2-3 Years	7,008,090.00	14.81	8,993,730.00	20.62
3-4 Years	2,001,220.00	4.23	0.00	0.00
Total / Average	47,327,514.71	100.00	43,612,549.15	100.00

Portfolio Holdings as of 6/30/2014



Portfolio Holdings as of 7/31/2014

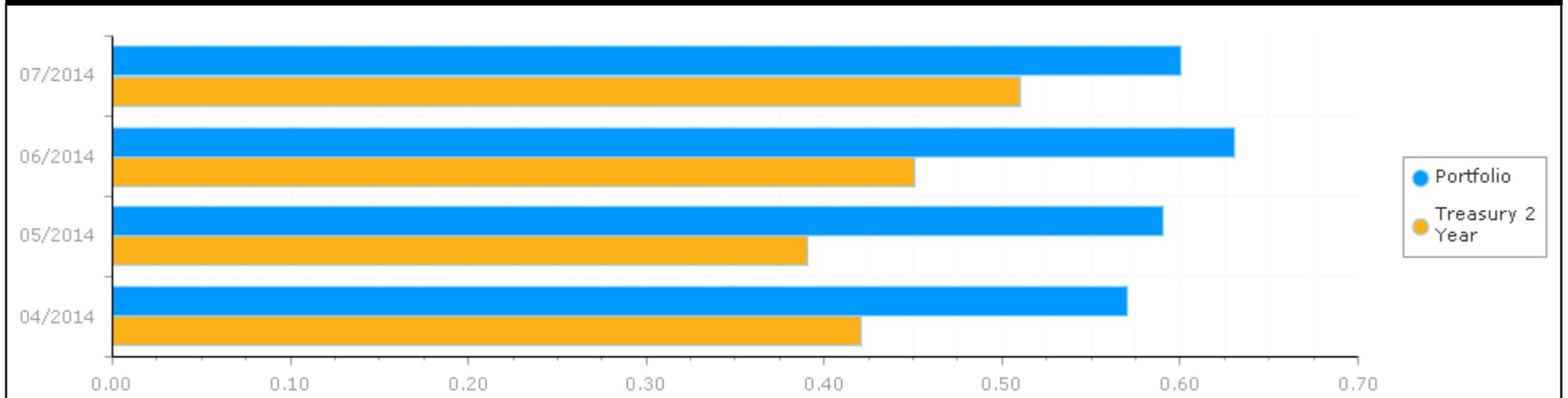


City of Corvallis
Total Rate of Return - Book Value by Month
All Portfolios

Begin Date: 4/30/2014, End Date: 7/31/2014

Month	Beginning BV + Accrued Interest	Interest Earned During Period-BV	Realized Gain/Loss-BV	Investment Income-BV	Average Capital Base-BV	TRR-BV	Annualized TRR-BV	Treasury 2 Year
4/30/2014	51,659,634.25	24,591.76	0.00	24,591.76	51,620,577.75	0.05	0.57	0.42
5/31/2014	51,439,925.29	25,221.33	0.00	25,221.33	51,336,101.62	0.05	0.59	0.39
6/30/2014	49,034,505.35	25,482.74	0.00	25,482.74	48,940,943.00	0.05	0.63	0.45
7/31/2014	47,318,857.49	23,641.04	0.00	23,641.04	47,174,533.43	0.05	0.60	0.51

Annualized TRR-BV



City of Corvallis
Previous Quarter plus 6 Months Projected Cash Flow by Month
All Portfolios

Begin Date: 04-2014, End Date: 12-2014

Date	CUSIP	Face Amount/Shares	Description	Principal Amount	Interest/Dividends	Total
4/26/2014	31398A4M1	0.00	FNMA 1.625 10/26/2015	0.00	16,250.00	16,250.00
4/30/2014	CD1234	0.00	OSU Federal 0.995 4/19/2016	0.00	818.12	818.12
April, 2014				0.00	17,068.12	17,068.12
5/31/2014	CD1234	0.00	OSU Federal 0.995 4/19/2016	0.00	845.40	845.40
May, 2014				0.00	845.40	845.40
6/11/2014	36962G6M1	0.00	General Electric 1 12/11/2015-13	0.00	3,375.00	3,375.00
6/14/2014	3133EAUH9	0.00	FFCB 0.75 6/14/2016	0.00	7,500.00	7,500.00
6/15/2014	731418KU2	0.00	Polk Marion & Benton Countys 0.881 6/15/2016	0.00	2,202.50	2,202.50
6/30/2014	CD1234	0.00	OSU Federal 0.995 4/19/2016	0.00	818.12	818.12
6/30/2014	912828RX0	0.00	T-Note 0.875 12/31/2016	0.00	8,750.00	8,750.00
June, 2014				0.00	22,645.62	22,645.62
7/28/2014	3137EADJ5	0.00	FHLMC 1 7/28/2017	0.00	10,000.00	10,000.00
7/31/2014	CD1234	0.00	OSU Federal 0.995 4/19/2016	0.00	845.40	845.40
July, 2014				0.00	10,845.40	10,845.40
8/26/2014	3133EC3F9	0.00	FFCB 0.55 8/26/2016-13	0.00	8,250.00	8,250.00
8/31/2014	CD1234	0.00	OSU Federal 0.995 4/19/2016	0.00	845.40	845.40
August, 2014				0.00	9,095.40	9,095.40
9/26/2014	3133EA2D9	0.00	FFCB 0.68 9/26/2016-12	0.00	6,800.00	6,800.00
9/30/2014	CD1234	0.00	OSU Federal 0.995 4/19/2016	0.00	818.12	818.12
September, 2014				0.00	7,618.12	7,618.12
10/26/2014	31398A4M1	0.00	FNMA 1.625 10/26/2015	0.00	16,250.00	16,250.00
10/31/2014	CD1234	0.00	OSU Federal 0.995 4/19/2016	0.00	845.40	845.40
October, 2014				0.00	17,095.40	17,095.40
11/30/2014	CD1234	0.00	OSU Federal 0.995 4/19/2016	0.00	818.12	818.12
November, 2014				0.00	818.12	818.12
12/11/2014	36962G6M1	0.00	General Electric 1 12/11/2015-13	0.00	3,375.00	3,375.00
12/14/2014	3133EAUH9	0.00	FFCB 0.75 6/14/2016	0.00	7,500.00	7,500.00
12/15/2014	731418KU2	0.00	Polk Marion & Benton Countys 0.881 6/15/2016	0.00	2,202.50	2,202.50
12/31/2014	CD1234	0.00	OSU Federal 0.995 4/19/2016	0.00	845.40	845.40
12/31/2014	912828RX0	0.00	T-Note 0.875 12/31/2016	0.00	8,750.00	8,750.00
December, 2014				0.00	22,672.90	22,672.90
TOTAL				0.00	108,704.48	108,704.48

City of Corvallis Glossary of Acronyms and Terms

Investment/Issuer Types			Other		
BA	Banker's Acceptance	FHLB	Federal Home Loan Bank	CPI	Consumer Price Index
CD	Certificates of Deposit	FHLMC	Federal Home Loan Mortgage Corporation	FOMC	Federal Open Market Committee
CP	Commercial Paper	FNMA	Federal National Mortgage Association	GDP	Gross Domestic Product
FFCB	Federal Farm Credit Bureau	LGIP	Local Government Investment Pool	OSTFB	Oregon Short Term Fund Board
FFCR	Federal Farm Credit Bank	PETTYCASH	Petty Cash	YTM	Yield to Maturity
* All agency securities are held with US Bank, the City's third-party safekeeper and OSU Federal Credit Union.					

Asset Allocation Strategy: a strategy that incorporates evaluating spread relationships between the investment alternatives. Treasury securities are the baseline yields to which all other issues are compared.

Benchmark: a benchmark is a target or market level comparator using a set of securities that appropriately matches the portfolio's risk and return characteristics through interest rate cycles.

Book Value: the cost of the principal at the time of the security purchase.

Buy long: reporting program terminology meaning a security has been placed in the portfolio.

Days to Maturity: (weighted average) number of days from the report date to the maturity date of a security (or group of securities).

Duration Strategy: a strategy that provides discipline for making investment decisions based on balancing risk and return. The duration of the portfolio will be adjusted relative to the benchmark as interest rates vary. The portfolio duration will be longer than the benchmark when rates are historically high and shorter when rates are historically low. The portfolio manager will typically manage the duration in a range of +/-25% to the benchmark duration.

Investment Component (Core): portion of the portfolio that is not expected to be needed for daily needs of participants. This portion is invested in maturities between 1 month and 3 years with an average maturity target of 9 months.

Liquidity Component: portion of the portfolio that is held in short maturity investments to meet immediate liquidity needs of the Funds. Investments designated to this component are LGIP Funds and Bank deposits.

Market Value: par value time the price at which the security could theoretically have been sold at month end per Interactive Data Corp. (IDC) an independent third-party security pricing firm.

Par Value: the face value of a security. This is the value to which the coupon rate is applied for interest payments.

Purchased Accrued Interest: number of days interest between last coupon date and purchase date that is paid for at time of investment purchase.

Return: the return of the total funds will be calculated on an accrual yield basis, which is the amount paid out to participants. This return will be compared to the OST Pool rate. Additionally, a total return calculation will be calculated and tracked internally to assist management in being accountable to the risk and return of the core investment portfolio on a market value basis.

Risk: the risks associated with investing are credit risk, mark to market risk and reinvestment rate risk.

Security Types: the portfolio's call exposure will be managed through balancing callable or variable rate exposure to fixed rate maturity securities.

Sell long: reporting program terminology meaning a security in the portfolio is available to sell; typically a liquid/cash account, since the City generally holds to maturity.

Term: (weighted average) number of days from the purchase date to the maturity date of a security (or group of securities).

Yield Curve Strategy: the portfolio will be generally laddered, but the manager will implement a yield curve strategy when value is present in particular maturity sectors.

City of Corvallis
Cash Flow Summary
JULY 2014

	Receipts (1)	Disbursements (2)	Net
Actual Activity	4,982,131	9,007,324	(4,025,193)
Average of Prior Three Years	4,254,520	7,828,418	(3,573,898)
Difference	727,611	1,178,906	(451,295)

(1) Receipts represent all revenues recorded for the month, including any property taxes, fees, charges for service, interest earnings, grants, etc. This year in July, utility revenues were nearly \$132,000 higher than the last year, due to irrigation for a dry, hot summer. SDC income has also continued to trend above the 3-year average for the month so far in July 2014. The three year average receipts were pulled down by the one-time \$1.4 million property tax refund to Hewlett-Packard last fiscal year.

(2) Disbursements include vendor payments, payroll costs, and all other operating expenditures made by check and wire or electronic transfer. A \$620,000 Fire Engine purchase in July 2014 explains much of the higher than average cash outflow relative to the same period in prior years. Liability and property insurance costs normally paid in July were only \$40K higher than last fiscal year, but with a lower cost in FY 12-13, combined with a timing issue where nearly half the payment was made in August instead of July, this year came in about \$180,000 over average.

Note: Intrafund and interfund transfers, and investment purchases and maturities are movements between cash in different accounting funds or investment securities. The net effect on cash is zero, therefore they are not included in either receipts or disbursements.

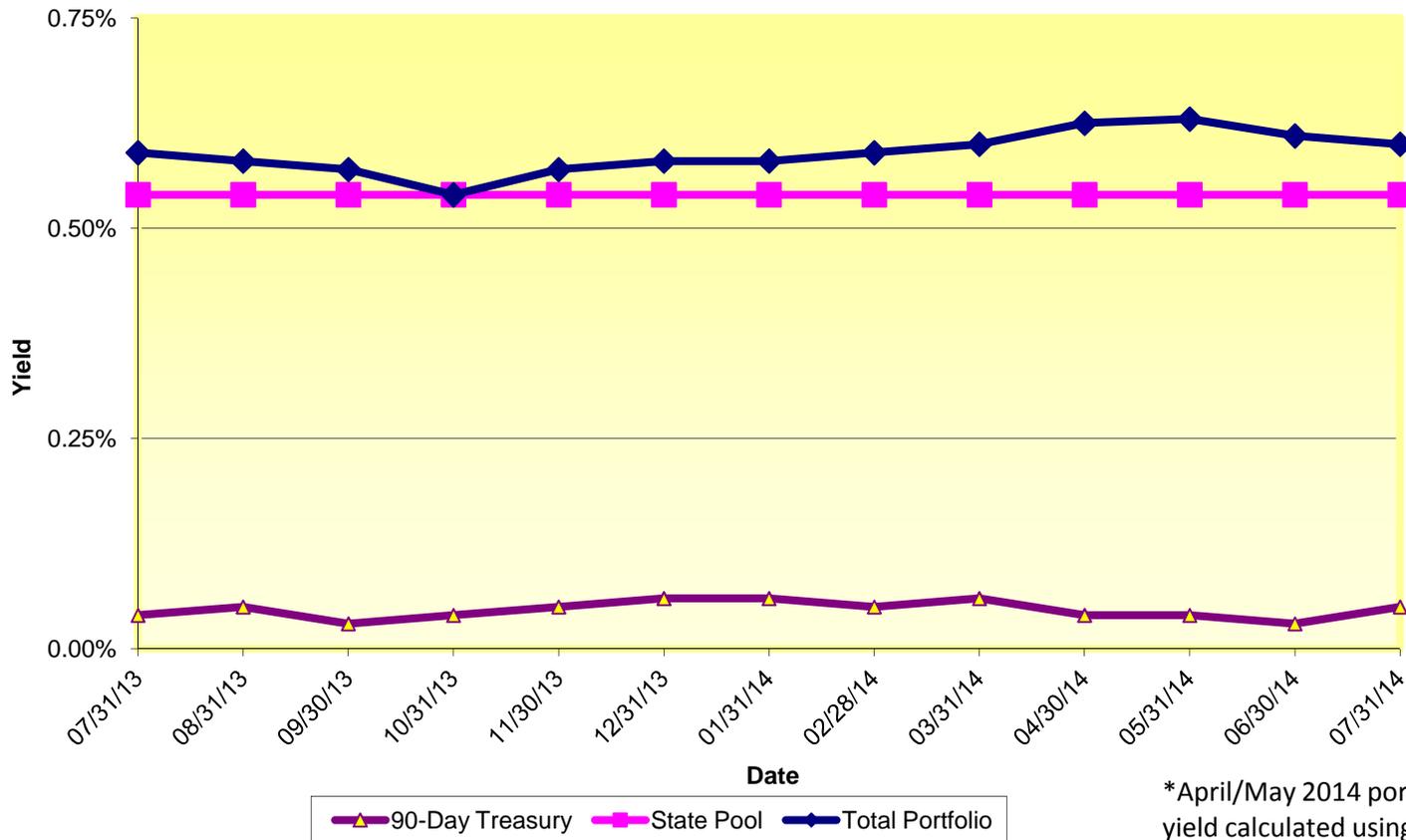
**City of Corvallis
Monthly Revenue Allocations
Distributed in July 2014**

Fund	Fund Name	Month's Avg Cash Balance *	Interest Distributed	Fund	Fund Name	Month's Avg Cash Balance *	Interest Distributed
101	General	\$6,565,262	\$4,857	501	Water	1,917,524	324
201	Street	1,001,470	169	502	Water Timber	373,722	63
208	Street SDC	3,258,801	1,101	508	Water SDC	5,978,277	2,020
218	Parks SDC	2,951,447	997	520	Wastewater	2,681,300	453
220	911	375,214	64	528	Wastewater SDC	11,024,919	3,725
230	Development Services	2,876,461	486	540	Storm Water	1,287,611	217
250	Comm Dev Revolving	37,299	13	548	Storm Water SDC	125,347	42
260	Parking	927,823	157	560	Airport	556,779	188
270	Transit	1,873,389	317	610	Fleet Maintenance	68,785	12
301	Capital Improvement	(18,903)	(3)	615	Facility Maintenance	223,923	38
401	General Obligation Debt Service	(12,904)	(2)	620	Technology & Communications	642,083	109
460	Davidson Library	5,539	2	625	Administrative Services	707,903	120
				630	Risk Management	1,269,319	215
Total						46,698,390	15,684

* Monthly interest earnings accrued/acreted and market adjusted are allocated based on the average cash balance for the period in which interest is earned. Most investments earn interest over a 3 or 6 month period, so even if the most recent monthly average is positive, if prior months' cash balances in a given fund were negative, this could result in net negative earnings for that fund in the month interest is paid.



City of Corvallis Total Portfolio vs. Benchmark July 2013 - July 2014*



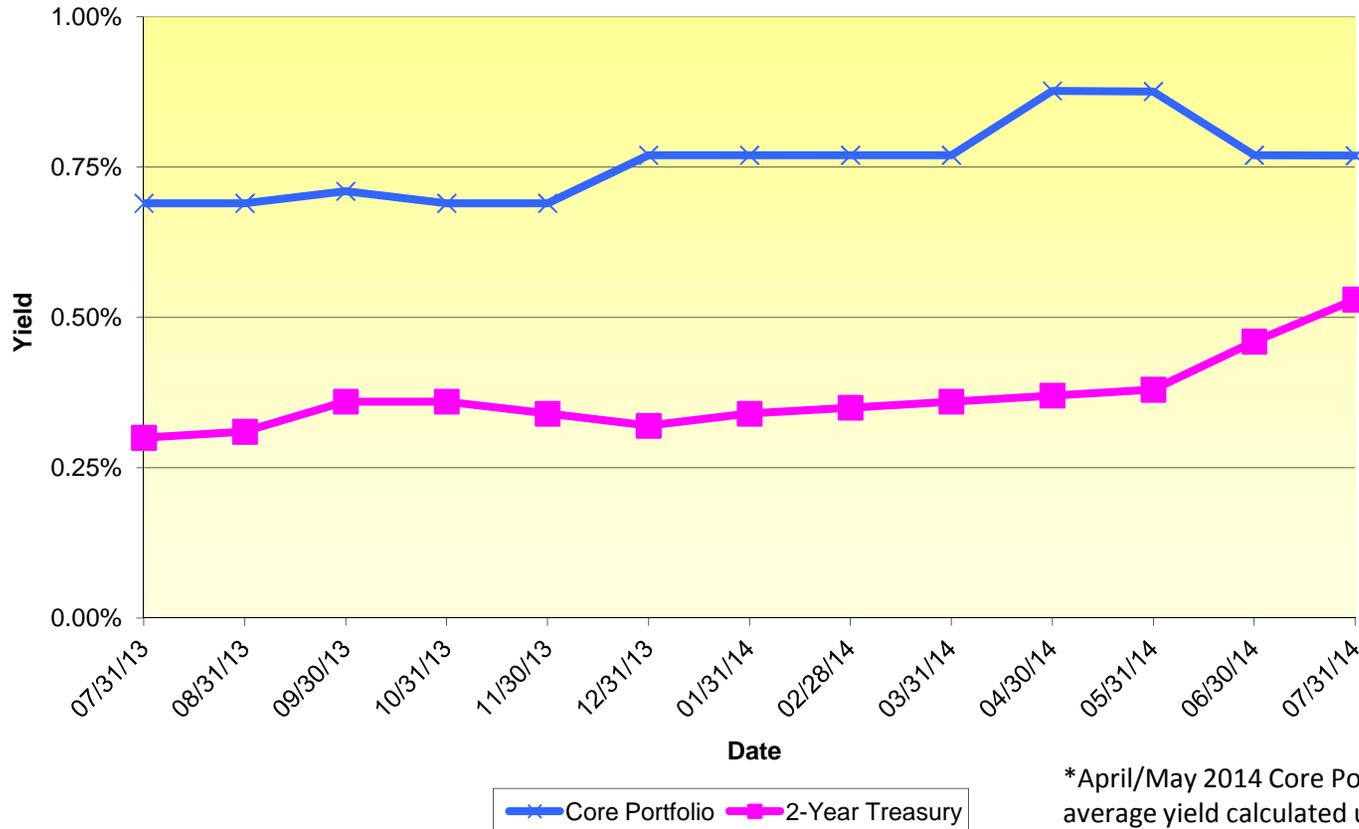
*April/May 2014 portfolio weighted-average yield calculated using US Bank data.



City of Corvallis

Core Portfolio vs. Benchmark

July 2013 - July 2014*





City of Corvallis

Cash & Investments

