

CITY OF CORVALLIS

Treasury Report

March 2014

CITY OF CORVALLIS, OREGON
Treasury Report - Table of Contents

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DRAFT
CITY OF CORVALLIS
INVESTMENT COUNCIL MEETING
FEBRUARY 6, 2014
MINUTES

The City of Corvallis Investment Council meeting was called to order at 7:30 a.m. in the Madison Avenue Meeting Room, 500 SW Madison Avenue, Corvallis, Oregon.

ROLL CALL

Present: Jim Patterson, Richard Hervey, Bill Mercer, Nancy Brewer, Janet Chenard
Absent: Scott Fewel

SUMMARY OF DISCUSSION

Agenda Item	Information Only	Held for Further Review	Recommendations
Approve Draft Minutes of November 7, 2013			Approved as drafted.
Fiscal Year 2013-2014 Second Quarter Review	X		
Review/Approve Corporate Securities List	X		Follow-up needed.
Open Discussion	X		Follow-up needed.
Adjournment – 8:00 a.m.			

CONTENT OF DISCUSSION

I. APPROVE DRAFT MINUTES OF NOVEMBER 7, 2013

City Manager Jim Patterson invited any corrections to the draft minutes of the November 7th meeting. There being none, Finance Director Nancy Brewer moved, City Councilor Richard Hervey seconded, and the minutes were approved unanimously as submitted.

II. FISCAL YEAR 2013-2014 SECOND QUARTER REVIEW

Budget & Financial Planning Manager Janet Chenard presented the Quarterly Portfolio Summary for the quarter ending December 31, 2013 (Attachment A). Ms. Chenard shared that on balance the economy showed improvement in the fourth quarter of the calendar year. Unemployment rate fell to 6.7% in December, but was mainly due to workers leaving the labor force. Hiring slumped sharply in December, as the economy added only 74,000 jobs, according to the government. This was the weakest month for job growth since January 2011 and came as a huge surprise to economists, who were expecting an addition of 193,000 jobs. For all of 2013 however, the economy added 2.2 million jobs, which was about the same as 2012's gains.

Inflation for the year was 1.5%, as measured by the CPI-U, below the Federal Reserve target of 2%, allowing them to maintain their accommodative stance of a very low 0-1/4% Fed Funds rate. Tapering finally got underway in January, with a \$10 billion reduction in the Fed's bond-buying program from the \$85 Billion per month they had been purchasing since September 2012, to only \$75 billion in January. There is talk of dropping the purchases to \$65 Bn per month in February, despite the weak jobs data noted previously.

The yield curve edged up across the board in the fourth quarter, from 5 basis points (bp) in the 3-month time frame to 42 bp in the 10-year term since the third quarter end. The curve also got steeper, with a 136 bp difference between the 2-5 year time frame, versus only 106 bp at the end of the third quarter.

The City's portfolio was changed as a result of some of this improvement, as well as other events. The influx of about \$21.5 million in permanent rate, 2011 Operating Levy and GO Debt Levy property taxes helped grow the total cash and investment balance by \$19 million in the fourth quarter, to a total \$53.3 million at December 31. At the beginning of the quarter, there was an existing shortfall in the core portfolio of about \$1 million from a summer maturity that had not been replaced because the markets were below the LGIP yield levels. The Core portfolio was scheduled to fall further below target when a \$3 million investment matured in the last week of December. Staff was able to place \$4.675 million in Treasuries, a Freddie Mac agency and a GE Corporate security in mid-December, to bring the core portfolio to just over the \$15M goal level by the end of the quarter. With the currently laddered structure, the City will not need to place an investment for another 12 months, unless any of the securities are called or sold (which is not expected).

The core portfolio added 8 bp of yield with these investments, bringing the total portfolio yield, with still nearly 2/3 of the portfolio invested in the LGIP, up by about 1 bp to a total of 0.58%. With a weighted average maturity of less than 2 years, this yield continues to compare favorably to the 2 year Treasury note at 0.32%. Ms. Chenard responded to Mr. Patterson's comment that there had been more activity this past quarter by advising that the timing had indeed been good, particularly in light of slightly lower rates so far in the first quarter of calendar 2013.

In response to Councilor Hervey's question about why the LGIP was not doing better given the great stock market results this calendar year, Ms. Brewer responded that there needs to be an understanding of different types of "State" investing. For example, PERS account investments are doing well and benefitting from improved stock market returns based on permitted investments with that \$87 Billion. However, the State Pool, with its cash balances from local governments is subject to basically the same rules to which the City is bound – i.e., very restrictive, with security of funds or preservation of principal being primary, and returns being well down the list of goals. Ms. Chenard also reminded Council members that the LGIP is a high-yielding liquid investment, since the City can access up to several million dollars from its account for same or next day transfer if needed. Additionally, staff does not really expect the return on the LGIP to increase anytime soon, despite an improved economy as the pool is still holding reserves that detract from the potential yield of its investments, based on hits it took with the recent year bank failures, such as Lehman Brothers, etc. Davidson Fixed Income Management (DFIM) has even forecast the potential for a drop in this rate, based on higher yielding maturities coming off the State books; so far this decline has not occurred.

III. CORPORATE SECURITIES LIST

Ms. Chenard distributed an updated Corporate Securities List (Attachment B) and noted that the only difference from the online meeting packet version was that DFIM had completed some of the blanks that had previously been present in the matrix with the relevant information missing. None of the names have

changed from the original list that was distributed as part of the email discussion held in mid-November 2013 about the proposed purchase of the General Electric corporate security mentioned earlier. Councilor Hervey reiterated his intent that this list be reviewed by the Administrative Services Committee (ASC) when the responsibility for Investment oversight is moved to that body. In that regard, he inquired when this event might occur. Ms. Brewer responded that staff hoped to take the Financial Policy revisions to ASC at its February 19, 2014 meeting along with the Investment Council's recommendation to sunset itself and transfer their responsibilities to ASC.

Concern about certain names on the list was expressed, due to the political nature of the Corvallis environment, where OSU is considering divesting itself of oil-related investments, for example. Ms. Brewer noted that from a staff perspective, specific criteria established by ASC would be necessary in order to exclude any names from the list and avoid possible accusations of subjectivity in this regard. Furthermore, staff has very little capacity with current resources to develop such criteria, let alone research these companies' holdings and conduct tests on some basis to establish the "acceptability" of a given company for investment. If a proposal is made to pursue something in this vein once ASC takes over the reins, staff would hope that this topic could wait until the summer after the budget cycle was completed in June, in order to not detract from that more critical work.

Citizen Member Bill Mercer noted that we could use our Financial Investment Advisor to provide some advice, as well as due diligence in this regard. Councilor Hervey further noted that he has no predisposition to what the outcome of such a discussion would be, it just feels prudent to be proactive and be able to say that we had the discussion should such conversations or questions emerge later. Mr. Patterson further expressed that a good example of Ms. Brewer's consideration of potential complications is that what might be acceptable to some and not others from a political standpoint, is a name like Walmart. While one camp may say that we should not be investing in that company based on a certain perception or value, others would point out that they've signed on to be part of the coalition with the President of the United States to hire more Americans, so why wouldn't the City invest in them. The City's elected officials may choose to want to be prepared to say they've considered and answered that question.

So, while the decision is to wait to have further discussion with ASC on potentially removing certain names based on specific criteria as yet undetermined, it was agreed that staff is authorized by the current body to use the approved list if future purchases from it make financial sense in the context of the current Investment procedure criteria.

IV. OPEN DISCUSSION

Ms. Brewer updated the Investment Council with the information that just last week an addendum to the City's Investment Advisor contract was signed to extend those services for one year. Then, on Monday this week, Deanne Woodring and the other four personnel out of DFIM's Portland office resigned from Davidson to form their own new company, Government Portfolio Advisors (GPA), with Ms. Woodring as president. The City was notified on Tuesday morning of this event, and has begun conducting its due diligence on whether the contract can now be maintained by DFIM's Seattle office, or whether we will have to invoke the termination clause and figure out some other course of action (such as go out for a new request for proposal (RFP) for investment advisory services, or temporarily contract with GPA for continuity, etc.).

Mr. Mercer wondered why GPA staff had made this move. Ms. Chenard shared that Ms. Woodring and the other Portland staff were unhappy with the level of financial and technical support they were getting from the parent company of Davidson.

As such, Ms. Brewer noted that part of City staff's due diligence would be to ensure that the Seattle DFIM office would affirm its strong interest in maintaining the contractual relationship through a near-term on-site visit, seamless monthly reporting support, and other current needs. Ms. Chenard has already been in touch with the managing director of the Seattle office, and has begun testing the responsiveness of this group, and hopes to have more information in this regard shortly.

A key issue in the short-term is the ability to continue to report out monthly on our Investment holdings, for which we have relied quite extensively on DFIM since the contract began three years ago. Fortunately the City's safekeeping custodian, U.S. Bank, has a reporting system that staff may access if needed to produce such a report should DFIM be unable to do so. Mr. Mercer also confirmed with Ms. Brewer that City staff and DFIM-Seattle both continue to have access to the third-party safekeeping information, and that GPA staff no longer have said access. Neither DFIM nor GPA have any financial access to the City's investment holdings at U.S. Bank.

While this is an interesting situation to be in, the City is obviously not alone, as many entities statewide are currently dealing with the same issue. Councilor Hervey inquired as to how unusual it is for a firm like this to have such a strong emphasis and knowledge of Oregon agencies. Ms. Brewer replied that when the RFP was originally conducted, there were three respondents. One of the firms was from California and did not score particularly well due to its lack of Oregon clients, but was hoping to break into the market. The other two firms were Portland-based and likely equally competent and qualified, but DFIM was much more price competitive at only \$18,000 per year. It will be part of our best practices to look at the market again, likely in the next year given this change. While we could go out for an RFP sooner, as per Mr. Mercer's suggestion that we invoke the termination clause based on loss of key personnel, there is less urgency to do so, given that the \$15 million in core portfolio has no maturities due prior to October 2015. Ms. Brewer also reminded Council members that with staff's current budget focus, and our desire to first conduct due diligence on DFIM-Seattle, we would prefer to wait till the summer anyway to begin work on a big project like this RFP process. Based on what staff knows today, we are comfortable with this path. Mr. Mercer also noted that this timing appears appropriate based on the potential transition to the new oversight body of ASC, where their involvement in the RFP process might lend itself to additional insight into the finer details of government finance.

Councilor Hervey finalized the discussion by noting that he supports the intent that Mr. Mercer continue to be invited to attend ASC meetings when the quarterly investment information is discussed. His historical and professional expertise over the many years he has participated in Investment Council is highly valued.

VII. ADJOURNMENT

The meeting was adjourned at 8:00 a.m.



MONTHLY MARKET COMMENTARY

MARCH 2014

The month of March was characterized by substantial rate volatility. Early in the month, the Crimean vote to secede from Ukraine and weaker-than-expected economic data out of China encouraged a flight-to-quality among investors which sent yields more than 10 basis points lower in 5- and 10-year Treasuries. After the March FOMC meeting, rates spiked and the curve flattened, with the 2-year treasury up 9 basis points, the 3-year up 16 basis points, the 5-year rising 18 basis points, and the 10-year rising 10 basis points. Bond yields continued the slow march higher led by the short to intermediate sector of the yield curve as investors prepare for further reductions in monetary policy accommodation in the U.S.

Non-farm payrolls/Unemployment:

The U.S. Labor Department reported 192,000 new jobs were added in March and the unemployment rate remained steady at 6.7 percent. The number of new nonfarm jobs created last month was in line with market expectations, although the “whisper” forecast for a larger than 200,000 gain, caused traders to position cautiously all week. Payroll growth for January and February were revised higher by a total of 37,000, resulting in an average monthly advance of 177,000 for the first quarter. Market reaction was swift with the intermediate sector of the curve experiencing the largest gains. Five year Treasuries have benefited with the yield falling from roughly 1.80 percent to 1.75 percent following the data release. Many investors prepared for a stronger jobs report and given difficult market conditions, are generally defensive with regard to risk.

The Fed:

Bond yields spiked in March in reaction to interest rate projections from the Federal Reserve that showed more members of the FOMC believe the target fed funds rate will move toward 1.00 percent sooner than most market analysts projected. When asked during her first press conference as Fed Chair how soon the Fed may consider a rate increase, Janet Yellen responded with a guess of “six months” following the end of the bond purchase program. This could put the first rate increase in April 2015. Interestingly, the Fed forecast showed the “longer run” objective for the fed funds rate at 4.00 percent, consistent with the rule of inflation plus 2.00 percent equals the target fund rate.

Other Headlines:

The Dow Jones Industrial Average began the month at 16,322 and ended the month at 16,458. GDP grew at a 2.6% seasonally adjusted annual rate in the fourth quarter, with a slight upward revision to consumer spending on healthcare; however, severe weather continued to suppress economic growth overall. The housing recovery continued to moderate with the Case Shiller Home Price Index rising 13.2% year over year, new home sales falling 3.3% from last month, and housing starts and existing home sales remaining flat.

City of Corvallis – Total Portfolio Account Review – March 2014



Davidson
Fixed Income Management
REGISTERED INVESTMENT ADVISER

- Davidson Fixed Income Management: Julie Hughes, Portfolio Manager; Laurie Nichols, Client Advisory Services
- Investment Objectives:
 - Safety of Principal: The primary objective is to protect against any loss of principal.
 - Liquidity: Investments will be managed to ensure that funds are available to meet obligations as necessary.
 - Yield: Investments will be managed to optimize returns within the appropriate safety and liquidity constraints.

Performance Information (1/01/2014 – 03/31/2014)

	<u>Corvallis</u> ²	<u>ML US Treas 0-3 Yrs</u>
BV Return (Yield) ¹	0.59%	0.33%
Total Return	0.07%	0.11%

1. BV Rate of Return (Income) = Earned Interest +/- Realized Gain/Loss +/- Amortization. Merrill Lynch Index reflects a month-end yield only.
2. Book Value Return (Yield) and periodic Total Return are reported gross of advisory fees.

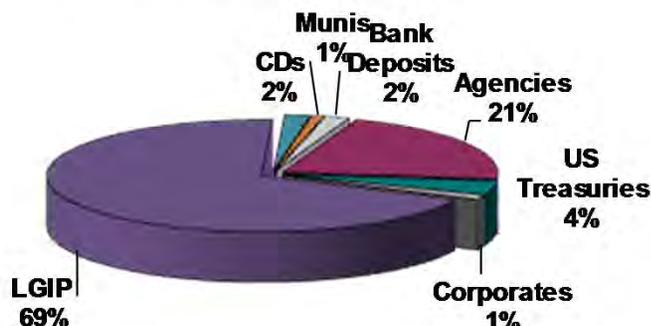
Past performance of the Corvallis Total portfolio does not guarantee future results.

Portfolio Characteristics 03/31/2014

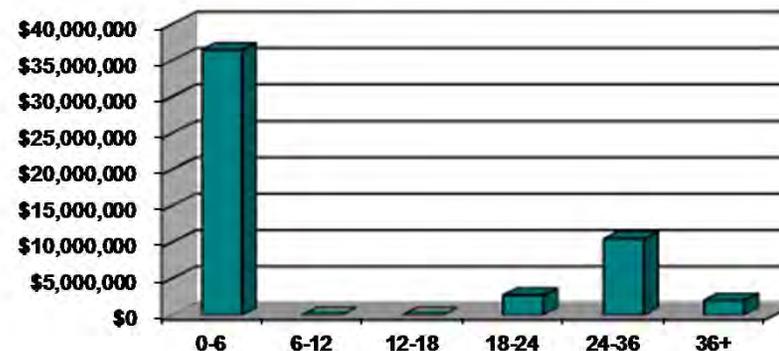
Par Value:	\$	51,595,082
Market Value:	\$	51,630,854
Book Value:	\$	51,628,213

Weighted Avg YTM:	0.60%
Weighted Avg Maturity/Call:	8.5 Months
Duration to Worst (excludes cash):	2.35

Total Portfolio Diversification



Maturity Distribution



Policy Compliance Report
(Market Values)

	Investment Strategy Range		Market Value	Neutral Allocation	Actual Allocation	Position
	Low	High				
	Overall Portfolio Structure					
Liquid Component	\$5,000,000.00	\$20,000,000.00	\$36,420,081.98	60.00%	70.54%	10.54%
Investment Component (Core)	\$15,000,000.00	\$20,000,000.00	\$15,210,772.05	40.00%	29.46%	-10.54%
Total			\$51,630,854.03			

	Policy Requirement	Actual Portfolio	Within Limits
Under 30 Days	> 10%	71%	Yes
Under 1 Year	> 25%	71%	Yes
Under 5 Years	100%	100%	Yes
WAM	< 1.5 Years	0.70	Yes

	Policy Maximum Allocation	Per Issuer Restriction	Current Portfolio Allocation	Market Value	Policy		Within Limits
					Maximum Maturity	Amount Available to Invest	
US Treasuries	100%		3.88%	\$2,004,688.00	5 Years	\$49,626,166.03	Yes
Federal Agency and Agency Sponsored	100%	40%	21.35%	\$11,023,778.00	5 Years	\$40,607,076.03	Yes
CDs/ Bank Deposits/ Savings (OST Qualified Institutions)	25%	15%	3.76%	\$1,938,942.92		\$10,968,770.59	Yes
Bankers Acceptances	10%		0.00%	\$0.00		\$5,163,085.40	Yes
Commercial Paper (A-1/P-1)	10%	5%	0.00%	\$0.00	120 Days	\$5,163,085.40	Yes
Corporate Bonds (Aa3/AA-)	10%	5%	1.32%	\$679,756.05	5 Years	\$4,483,329.35	Yes
Municipal Obligations (OR, WA, AA or better)	10%	5%	0.97%	\$502,550.00	5 Years	\$4,660,535.40	Yes
State Pool	ORS Maximum or 100%		68.72%	\$35,481,139.06	N/A	\$10,161,745.94	Yes
Total			100.00%	\$51,630,854.03			

ORS Maximum \$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 : August 2013

Corvallis Strategic Review

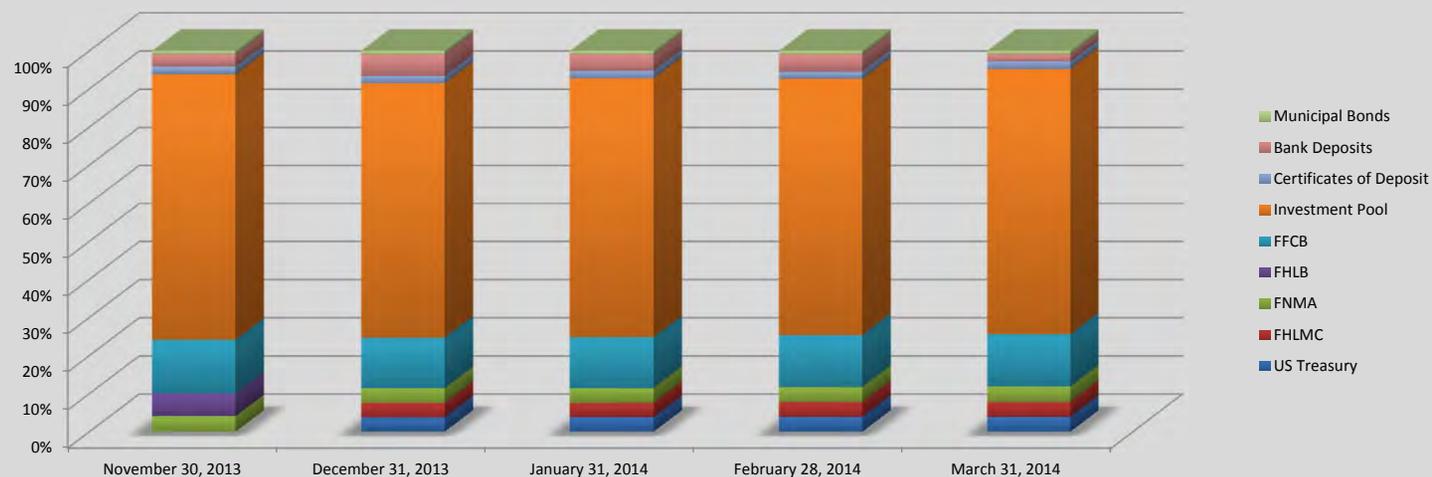
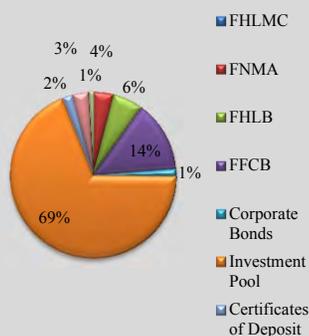
Total Asset Allocation Strategy
 (Market Values)

Commentary

There were no transactions in the portfolio this month. The goal is to maintain the investment component at approximately \$15,500M and allow the LGIP to hold balances to accommodate uncertain cash flows in the coming year.

Sector	Yield	November 30, 2013	December 31, 2013	January 31, 2014	February 28, 2014	March 31, 2014	Change From Last Month
US Treasury	0.67%	\$0.00	\$2,004,376.00	\$2,012,436.62	\$2,013,282.00	\$2,004,688.00	(\$8,594.00)
FHLMC	1.04%	\$0.00	\$1,987,368.00	\$1,998,558.67	\$2,003,312.00	\$1,991,006.00	(\$12,306.00)
FNMA	0.81%	\$2,049,210.00	\$2,043,702.00	\$2,053,464.39	\$2,042,904.00	\$2,040,952.00	(\$1,952.00)
FHLB	0.00%	\$3,001,593.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
FFCB	0.67%	\$7,013,297.00	\$6,992,384.00	\$7,003,420.72	\$6,997,550.00	\$6,991,820.00	(\$5,730.00)
Corporate Bonds	0.70%	\$678,803.63	\$680,407.43	\$681,648.68	\$681,102.67	\$679,756.05	(\$1,346.62)
Investment Pool	0.54%	\$34,820,109.84	\$35,138,225.02	\$35,804,458.92	\$34,622,100.79	\$35,481,139.06	\$859,038.27
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	\$0.00
Bank Deposits	0.05%	\$1,584,659.41	\$2,999,162.48	\$2,291,859.27	\$2,278,905.42	\$938,942.92	(\$1,339,962.50)
Municipal Bonds	0.88%	\$500,825.00	\$498,385.00	\$502,532.86	\$503,375.00	\$502,550.00	(\$825.00)
Total	0.60%	\$50,648,497.88	\$53,344,009.93	\$53,348,380.13	\$52,142,531.88	\$51,630,854.03	(\$511,677.85)

Current Sector Allocation



City of Corvallis
Total Portfolio
Investment Details
March 31, 2014

Cusip	Security Description	Trade Date	Par Value	Original Cost	Market Value	Book Value	Coupon Rate	YTM/C	DTM/C	Next Call Date	Maturity Date	Pct Assets
Cash and Equiv.												
CASHCOR	CORVALLIS - PETTY CASH			10,015.00	10,015.00	10,015.00	0.000	0.000				0.02
OSU	OSU FEDERAL SAVINGS			1,099.60	1,099.60	1,099.60	0.000	0.000				0.00
ORPOOL	STATE OF OREGON LGIP			35,481,139.06	35,481,139.06	35,481,139.06	0.540	0.540				68.72
WFBK	WELLS FARGO BANK - CORVALLIS			927,828.32	927,828.32	927,828.32	0.050	0.050				1.80
			0.00	36,420,081.98	36,420,081.98	36,420,081.98	0.527	0.527	0			70.54
CD's												
CORV001CD	OSU FEDERAL CREDIT UNION CD	04-19-13	1,000,000.00	1,000,000.00	1,000,000.00	1,000,000.00	0.995	0.997	749		04-19-16	1.94
Agencies												
31398A4M1	FNMA	01-17-12	2,000,000.00	2,060,564.00	2,040,952.00	2,025,260.88	1.625	0.809	572		10-26-15	3.95
3133EAUH9	FFCB	06-29-12	2,000,000.00	1,999,640.00	2,008,010.00	1,999,799.42	0.750	0.755	803		06-14-16	3.89
3133EC3F9	FFCB (Callable - Cont.)	11-26-12	3,000,000.00	2,995,950.00	2,991,450.00	2,997,399.86	0.550	0.586	876		08-26-16	5.79
3133EA2D9	FFCB (Callable - Cont.)	09-26-12	2,000,000.00	1,997,500.00	1,992,360.00	1,998,443.49	0.680	0.712	907		09-26-16	3.86
3137EADJ5	FHLMC	12-12-13	2,000,000.00	1,997,494.00	1,991,006.00	1,997,700.37	1.000	1.035	1,214		07-28-17	3.86
			11,000,000.00	11,051,148.00	11,023,778.00	11,018,604.02	0.890	0.762	873			21.35
Municipals												
731418KU2	POLK MARION & BENTON SD OR	02-13-13	500,000.00	500,075.00	502,550.00	500,049.71	0.881	0.876	804		06-15-16	0.97
US Treasury Notes												
912828RX0	U.S. TREASURY NOTE	12-12-13	2,000,000.00	2,012,265.62	2,004,688.00	2,011,065.10	0.875	0.672	1,003		12-31-16	3.88
Corporate Notes												
36962G6M1	GENERAL ELEC CAP CORP	11-19-13	675,000.00	679,137.75	679,756.05	678,411.99	1.000	0.700	619		12-11-15	1.32
TOTAL PORTFOLIO			15,175,000.00	51,662,708.35	51,630,854.03	51,628,212.80	0.637	0.598	256			100.00

City of Corvallis
Total Portfolio
TRANSACTION SUMMARY - SETTLED TRADES
From 03-01-14 To 03-31-14

Security Symbol	Security	Current Rate	Maturity Date	Tran Code	Trade Date	Settle Date	Quantity	Trade Amount
Interest								
CORV001CD	OSU FEDERAL CREDIT UNION CD	0.995	04-19-2016	in	03-19-14	03-19-14		845.41
3133EA2D9	FFCB (Callable - Cont.)	0.680	09-26-2016	in	03-26-14	03-26-14		6,800.00
OSU	OSU FEDERAL SAVINGS	0.000		in	03-31-14	03-31-14		0.01
ORPOOL	STATE OF OREGON LGIP	0.540		in	03-31-14	03-31-14		16,494.05
WFBK	WELLS FARGO BANK - CORVALLIS	0.050		in	03-31-14	03-31-14		63.72
Total								24,203.19



Davidson Fixed Income Management, Inc.
REALIZED GAINS AND LOSSES - SETTLED TRADES
City of Corvallis
Total Portfolio
 From 03-01-2014 Through 03-31-2014

Open Date	Close Date	Quantity	Symbol	Security	Cost Basis	Amort. or Accretion	Proceeds	Gain or Loss	
								Short Term	Long Term
TOTAL GAINS								0.00	0.00
TOTAL LOSSES								0.00	0.00
TOTAL REALIZED GAIN/LOSS					0.00			0.00	0.00

Davidson Fixed Income Management, Inc.
EARNED INCOME REPORT
City of Corvallis
Total Portfolio
From 02-28-14 To 03-31-14

Security Symbol	Description	Beginning Accrued Interest	Purchased Interest	Sold Interest	Interest Received	Ending Accrued Interest	Earned Interest	Amortization/ Accretion	Earned Income
CERTIFICATES OF DEPOSIT (USD)									
CORV001CD	OSU FEDERAL CREDIT UNION CD 0.995% Due 04-19-16	266.52	0.00	0.00	-845.41	320.97	899.86	0.00	899.86
		<hr/> 266.52	<hr/> 0.00	<hr/> 0.00	<hr/> -845.41	<hr/> 320.97	<hr/> 899.86	<hr/> 0.00	<hr/> 899.86
AGENCY BONDS (USD)									
31398A4M1	FNMA 1.625% Due 10-26-15	11,013.89	0.00	0.00	0.00	13,993.06	2,979.17	-1,362.89	1,616.28
3133EAUH9	FFCB 0.750% Due 06-14-16	3,083.33	0.00	0.00	0.00	4,458.33	1,375.00	7.72	1,382.72
3133EC3F9	FFCB (Callable - Cont.) 0.550% Due 08-26-16	91.67	0.00	0.00	0.00	1,604.17	1,512.50	91.73	1,604.23
3133EA2D9	FFCB (Callable - Cont.) 0.680% Due 09-26-16	5,742.22	0.00	0.00	-6,800.00	188.89	1,246.67	53.08	1,299.75
3137EADJ5	FHLMC 1.000% Due 07-28-17	1,666.67	0.00	0.00	0.00	3,500.00	1,833.33	58.69	1,892.03
		<hr/> 21,597.78	<hr/> 0.00	<hr/> 0.00	<hr/> -6,800.00	<hr/> 23,744.44	<hr/> 8,946.67	<hr/> -1,151.66	<hr/> 7,795.00
US TREASURY NOTES (USD)									
912828RX0	U.S. TREASURY NOTE 0.875% Due 12-31-16	2,852.21	0.00	0.00	0.00	4,350.83	1,498.62	-341.43	1,157.19
		<hr/> 2,852.21	<hr/> 0.00	<hr/> 0.00	<hr/> 0.00	<hr/> 4,350.83	<hr/> 1,498.62	<hr/> -341.43	<hr/> 1,157.19
CORPORATE BONDS (USD)									
36962G6M1	GENERAL ELEC CAP CORP 1.000% Due 12-11-15	1,443.75	0.00	0.00	0.00	2,062.50	618.75	-170.44	448.31
		<hr/> 1,443.75	<hr/> 0.00	<hr/> 0.00	<hr/> 0.00	<hr/> 2,062.50	<hr/> 618.75	<hr/> -170.44	<hr/> 448.31
MUNICIPAL BONDS (USD)									
731418KU2	POLK MARION & BENTON SD OR 0.881% Due 06-15-16	893.24	0.00	0.00	0.00	1,297.03	403.79	-1.91	401.88
		<hr/> 893.24	<hr/> 0.00	<hr/> 0.00	<hr/> 0.00	<hr/> 1,297.03	<hr/> 403.79	<hr/> -1.91	<hr/> 401.88
CASH AND EQUIVALENTS (USD)									
CASHCOR	CORVALLIS - PETTY CASH	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ORPOOL	STATE OF OREGON LGIP	0.00	0.00	0.00	-16,494.05	0.00	16,494.05	0.00	16,494.05



Davidson Fixed Income Management, Inc.
EARNED INCOME REPORT
City of Corvallis
Total Portfolio
From 02-28-14 To 03-31-14

Security Symbol	Description	Beginning Accrued Interest	Purchased Interest	Sold Interest	Interest Received	Ending Accrued Interest	Earned Interest	Amortization/ Accretion	Earned Income
OSU	OSU FEDERAL SAVINGS	0.00	0.00	0.00	-0.01	0.00	0.01	0.00	0.01
WFBK	WELLS FARGO BANK - CORVALLIS	0.00	0.00	0.00	-63.72	0.00	63.72	0.00	63.72
		0.00	0.00	0.00	-16,557.78	0.00	16,557.78	0.00	16,557.78
TOTAL PORTFOLIO		27,053.49	0.00	0.00	-24,203.19	31,775.77	28,925.47	-1,665.45	27,260.02

City of Corvallis

Total Portfolio

Interest Earnings

From 02-28-14 To 03-31-14

Yield on Average Book Value

CUSIP	Description	Beginning Book Value	Average Book Value	Maturity Date	Current Rate	Annualized Yield	Adjusted Interest Earnings		
							Interest Earned	Amortization/ Accretion Amount	Adjusted Interest Earning
CASHCOR	CORVALLIS - PETTY CASH	10,065.00	10,038.44		0.000	0.00	0.00	0.00	0.00
3133EAUH9	FFCB 0.750% Due 06-14-16	1,999,791.69	1,999,884.11	06-14-16	0.750	0.79	1,375.00	7.72	1,382.72
3133EA2D9	FFCB (Callable - Cont.) 0.680% Due 09-26-16	1,998,390.41	1,998,999.24	09-26-16	0.680	0.74	1,246.67	53.08	1,299.75
3133EC3F9	FFCB (Callable - Cont.) 0.550% Due 08-26-16	2,997,308.14	2,998,274.85	08-26-16	0.550	0.61	1,512.50	91.73	1,604.23
3137EADJ5	FHLMC 1.000% Due 07-28-17	1,997,641.68	1,997,839.24	07-28-17	1.000	1.08	1,833.33	58.69	1,892.03
31398A4M1	FNMA 1.625% Due 10-26-15	2,026,623.77	2,011,062.67	10-26-15	1.625	0.92	2,979.17	-1,362.89	1,616.28
36962G6M1	GENERAL ELEC CAP CORP 1.000% Due 12-11-15	678,582.43	677,944.92	12-11-15	1.000	0.75	618.75	-170.44	448.31
CORV001CD	OSU FEDERAL CREDIT UNION CD 0.995% Due 04-19-16	1,000,000.00	1,000,000.00	04-19-16	0.995	1.03	899.86	0.00	899.86
OSU	OSU FEDERAL SAVINGS	1,054.18	1,078.30		0.000	0.01	0.01	0.00	0.01
731418KU2	POLK MARION & BENTON SD OR 0.881% Due 06-15-16	500,051.61	500,034.13	06-15-16	0.881	0.92	403.79	-1.91	401.88
ORPOOL	STATE OF OREGON LGIP	34,622,100.79	35,070,217.85		0.540	0.54	16,494.05	0.00	16,494.05
912828RX0	U.S. TREASURY NOTE 0.875% Due 12-31-16	2,011,406.53	2,010,272.01	12-31-16	0.875	0.66	1,498.62	-341.43	1,157.19
WFBK	WELLS FARGO BANK - CORVALLIS	2,267,786.24	1,555,901.73		0.050	0.05	63.72	0.00	63.72
TOTAL		52,110,802.47	51,831,547.49			0.60	28,925.47	-1,665.45	27,260.02

City of Corvallis
Glossary of Davidson Fixed Income Management, Inc. Acronyms and Terms

Investment/Issuer Types			Other		
BA	Banker's Acceptance	FHLB	Federal Home Loan Bank	CPI	Consumer Price Index
CASH	Petty Cash	FHLMC	Federal Home Loan Mortgage Corporation	FOMC	Federal Open Market Committee
CBANK3	Wells Fargo Bank Checking	FNMA	Federal National Mortgage Association	GDP	Gross Domestic Product
CD	Certificates of Deposit	ORPOOL	Local Government Investment Pool	OSTFB	Oregon Short Term Fund Board
CP	Commercial Paper			QE	Quantitative Easing
FFCB	Federal Farm Credit Bureau			YTM	Yield to Maturity
FFCR	Federal Farm Credit Bank			TIPS	Treasury Inflation Protected Securities

* 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
MARCH 2014**

	Receipts (1)	Disbursements (2)	Net
Actual Activity	5,368,066	5,738,416	(370,350)
Average of Prior Three Years (3)	5,931,508	5,900,569	30,939
Difference	(563,442)	(162,153)	(401,289)

(1) Receipts represent all revenues recorded for the month, including any property taxes, fees, charges for service, interest earnings, grants, etc. Cash inflows are lower than average primarily due to decreased federal grant receipts, property tax collections and charges for services in the current month.

(2) Disbursements include vendor payments, payroll costs, and all other operating expenditures made by check and wire or electronic transfer.

(3) In previous years, the cash flow summary has been a comparison of actual activity to scheduled/budgeted cashflow. As of FY13-14, monthly cashflowing has been discontinued for budget purposes due to technology and staffing resource issues. Instead, a three-year average is considered a good proxy for comparison to highlight changes in activity in the current year.

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 March 2014

Fund	Fund Name	Month's Avg Cash Balance *	Interest Distributed	Fund	Fund Name	Month's Avg Cash Balance *	Interest Distributed
101	General	13,791,072.21	10,972.00	509	Water Construction (1)	395,409.79	-
201	Street	566,297.73	131.43	520	Wastewater	2,044,078.73	521.01
208	Street SDC	2,964,297.77	1,463.38	528	Wastewater SDC	10,587,930.20	5,245.24
218	Parks SDC	2,842,181.04	1,410.51	529	Wastewater Construction (1)	167,061.99	-
220	911	493,867.40	128.08	540	Storm Water	978,150.67	230.11
230	Development Services	2,482,275.75	584.47	548	Storm Water SDC	112,056.67	55.47
250	Comm Dev Revolving (2)	(144,934.87)	(66.91)	549	Storm Water Construction (1)	9,013.75	-
260	Parking	994,018.23	247.48	560	Airport	507,126.73	255.04
270	Transit	2,043,652.04	514.87	569	Airport Construction (1) (2)	(358.31)	-
301	Capital Improvement	451,597.80	94.10	610	Fleet Maintenance	70,096.37	18.12
401	General Obligation Debt Service	895,390.34	221.14	615	Facility Maintenance	214,750.45	52.92
460	Davidson Library	5,527.91	2.72	620	Technology & Communications	601,660.85	147.53
501	Water	1,664,338.35	508.46	625	Administrative Services	554,245.43	135.03
502	Water Timber	389,371.05	97.00	630	Risk Management	951,820.32	236.79
508	Water SDC	5,796,527.33	2,874.34				
Total						52,428,523.72	26,080.33

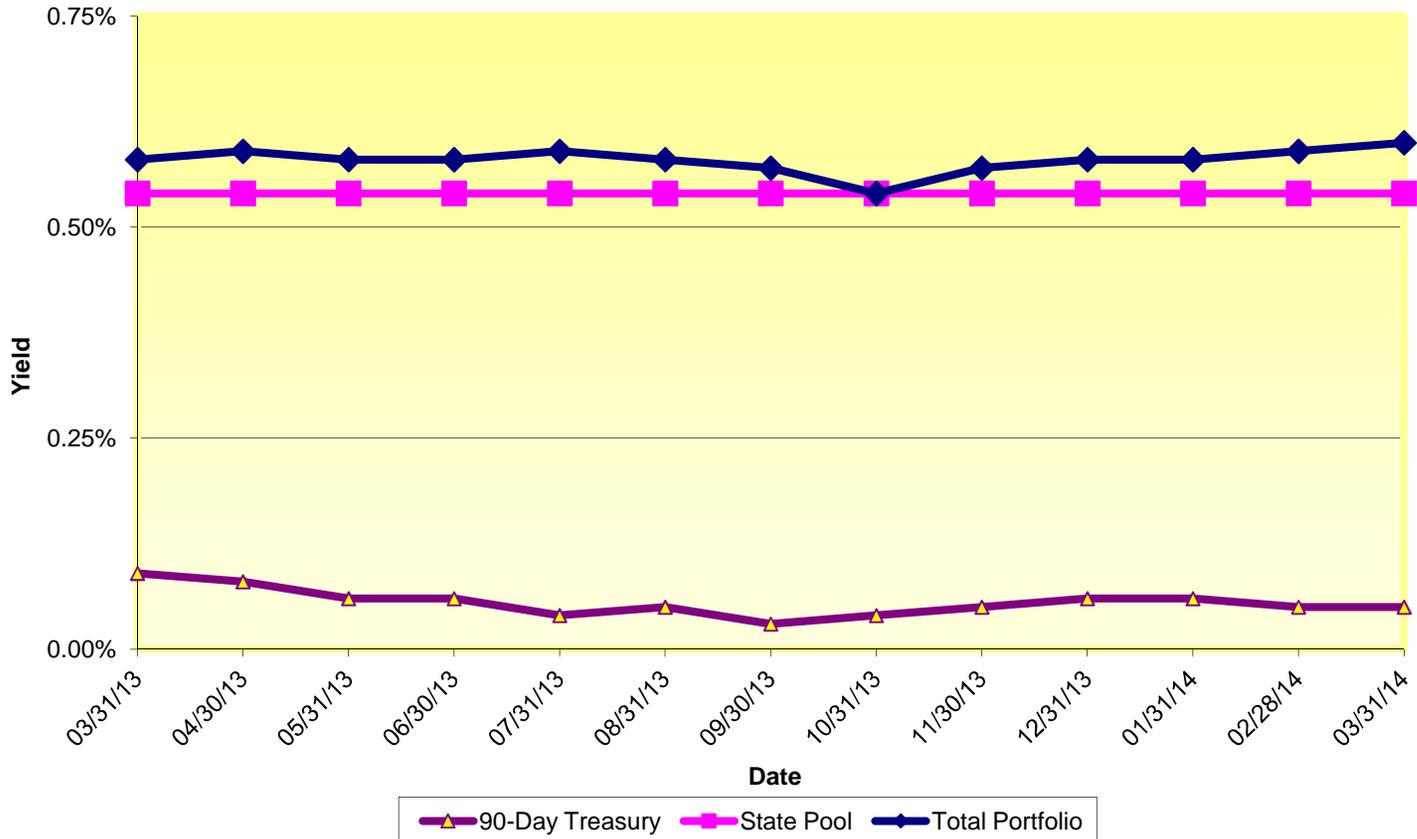
* Monthly interest earnings accrued/acreted and market adjusted are allocated based on the average cash balance for the period in which interest is earned. Most investments earn interest over a 3 or 6 month period, so even if the most recent monthly average is positive, if prior months' cash balances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

(1) Interest based on construction component fund cash balances for 509, 529, 549, & 569 is distributed to the related operations fund.

(2) CD Revolving Fund and Airport Construction Funds are carrying negative cash balances due to timing of grant reimbursements relative to expenditures.



City of Corvallis Total Portfolio vs. Benchmark Mar 2013 - Mar 2014

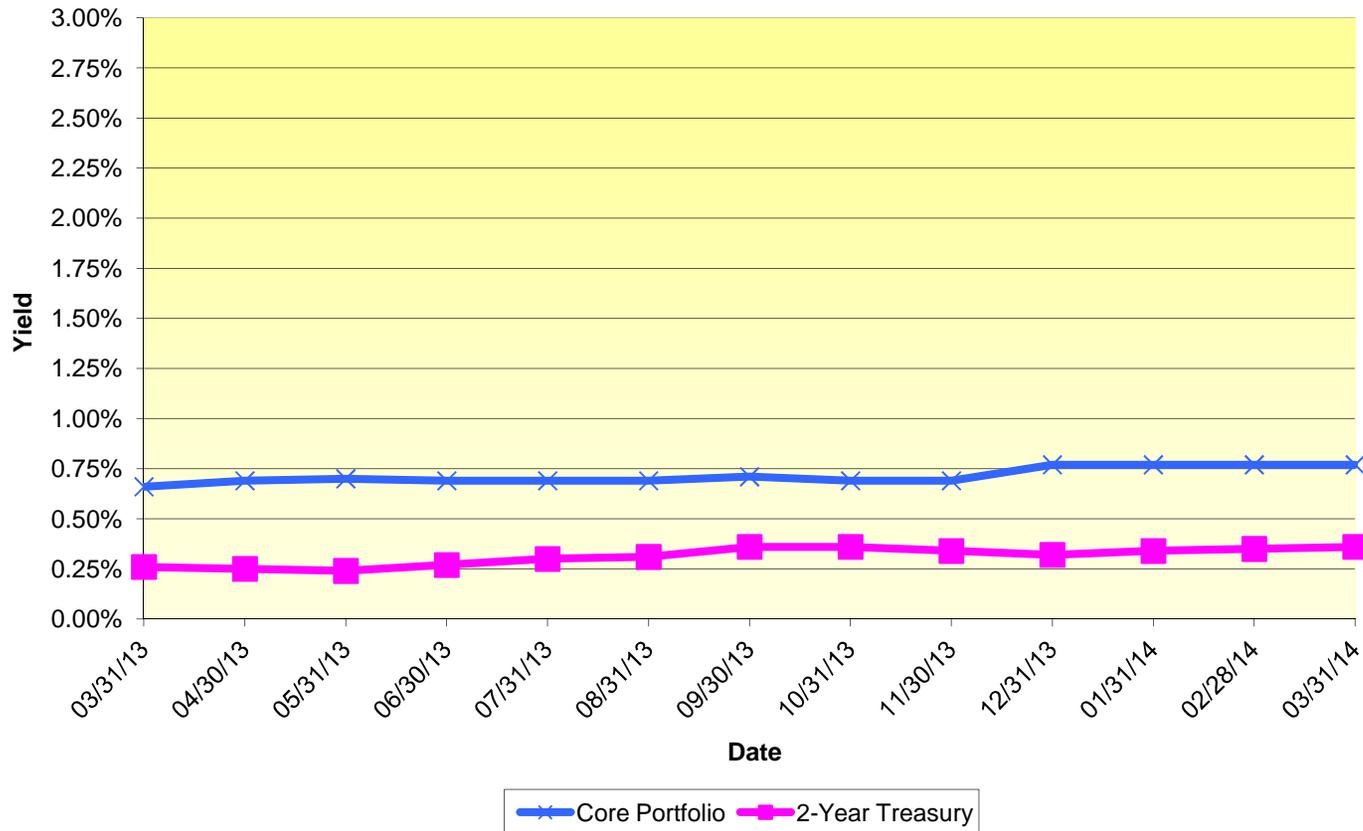




City of Corvallis

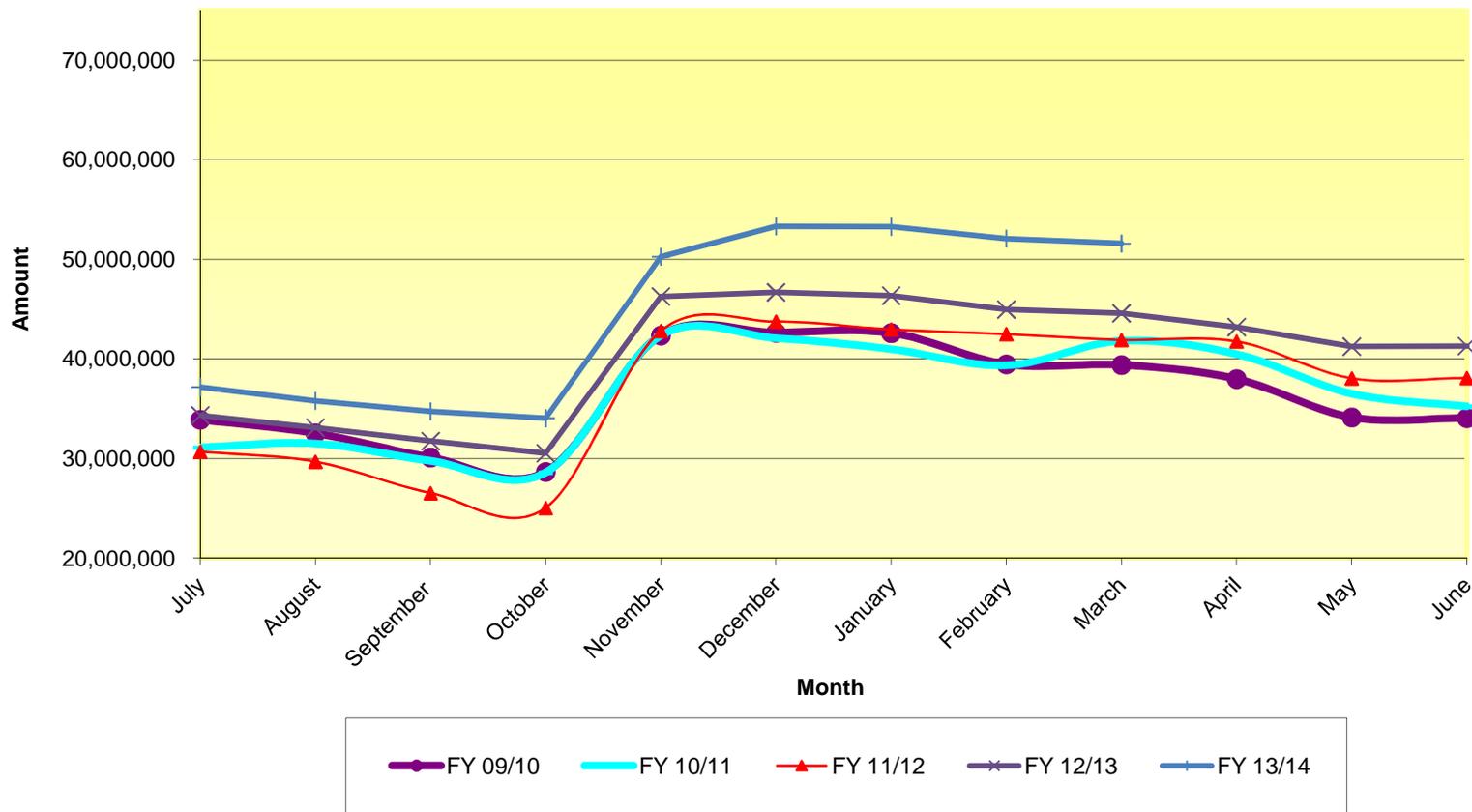
Core Portfolio vs. Benchmark

Mar 2013 - Mar 2014





City of Corvallis Cash & Investments





City of Corvallis Cash and Investments By Quarter

