



March 23, 2011

PFM Asset Management LLC

2375 E. Camelback Rd, Suite 5118

Phoenix, AZ 85016

602.387.5187

www.pfm.com

City of Surprise
Investment Guidelines and Objectives
Month Ended February 28, 2011

Investment Objectives: In accordance with the City's Investment Policy, the City's primary objectives in order of priority are:

- A. Safety** – Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to prudently mitigate credit risk and interest rate risk. It is understood by the City that no investment is completely free of risk.
- B. Liquidity** – The investment portfolio shall remain sufficiently liquid to meet anticipated cash flow requirements. This is to be accomplished by structuring the portfolio so that securities mature concurrent with anticipated cash flow needs (static liquidity). Furthermore, because all possible cash demands cannot be anticipated, the portfolio should consist of securities for which there are active secondary markets (dynamic liquidity).
- C. Optimal Yield** – Return on investment is of lesser importance compared to the safety and liquidity objectives described above. The investment portfolio shall be designed to optimize the yield the City obtains from the portfolio taking into account the criteria of the investment policy, the dynamic liquidity needs of the City, and the current interest rate outlook/economic condition.

Investment Guidelines: In relation to the investment portfolio, the City's investment strategy focuses on the following:

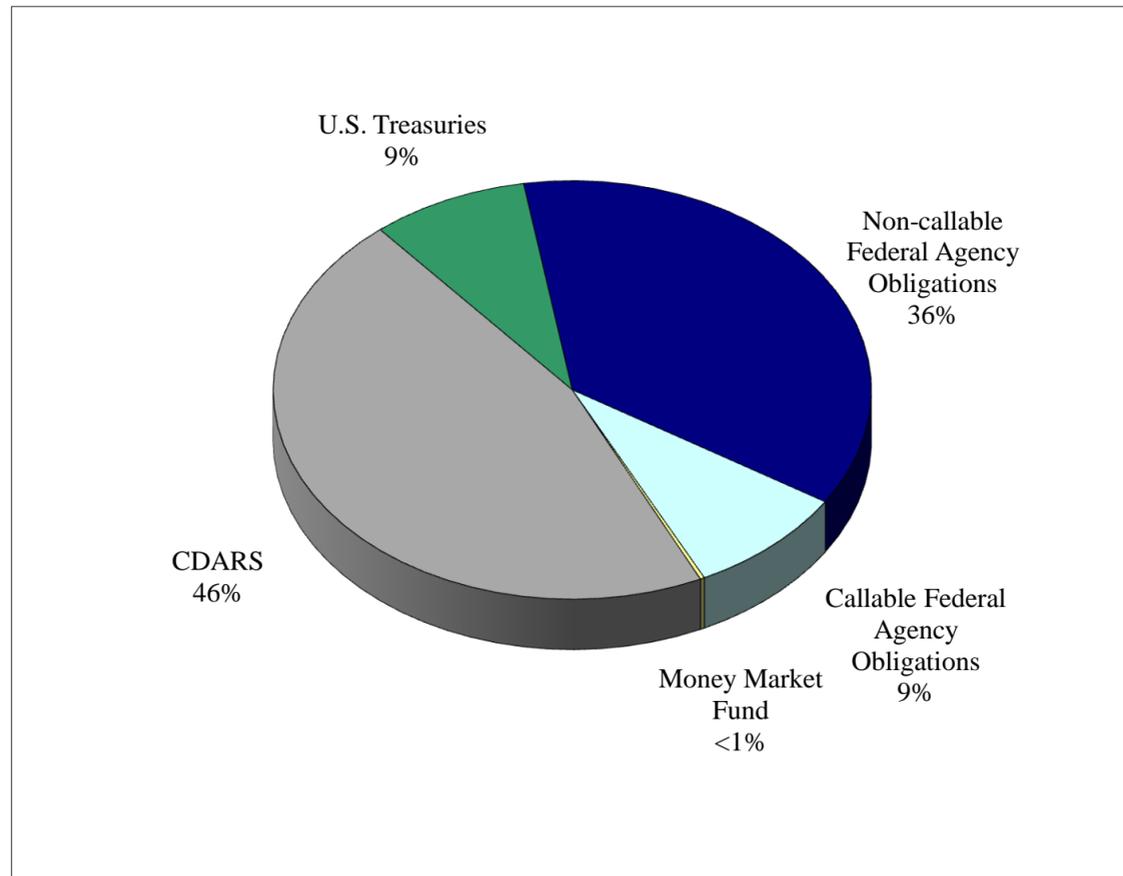
- **Permitted Investments.** The City will invest in permitted securities consistent with A.R.S.§35-323. Additionally, the City may desire to be more conservative in its investment portfolio and restrict or prohibit certain of the investments outlined in the Investment Policy.
- **Transactions prior to maturity** – Securities shall generally be held to maturity with the following exceptions:
 - A security with a declining credit may be sold early to minimize loss of principal.
 - Liquidity needs of the portfolio require that the security be sold.
 - Securities may be sold to better position the portfolio in accordance with better market opportunities. The City will approve all of these transactions but only after PFM Asset Management LLC, the City's investment advisor, provides detailed information about the transaction, including the qualitative and quantitative impacts on the portfolio, and will be cognizant of trades that will result in large material realized losses.

City of Surprise Portfolio Summary and Characteristics

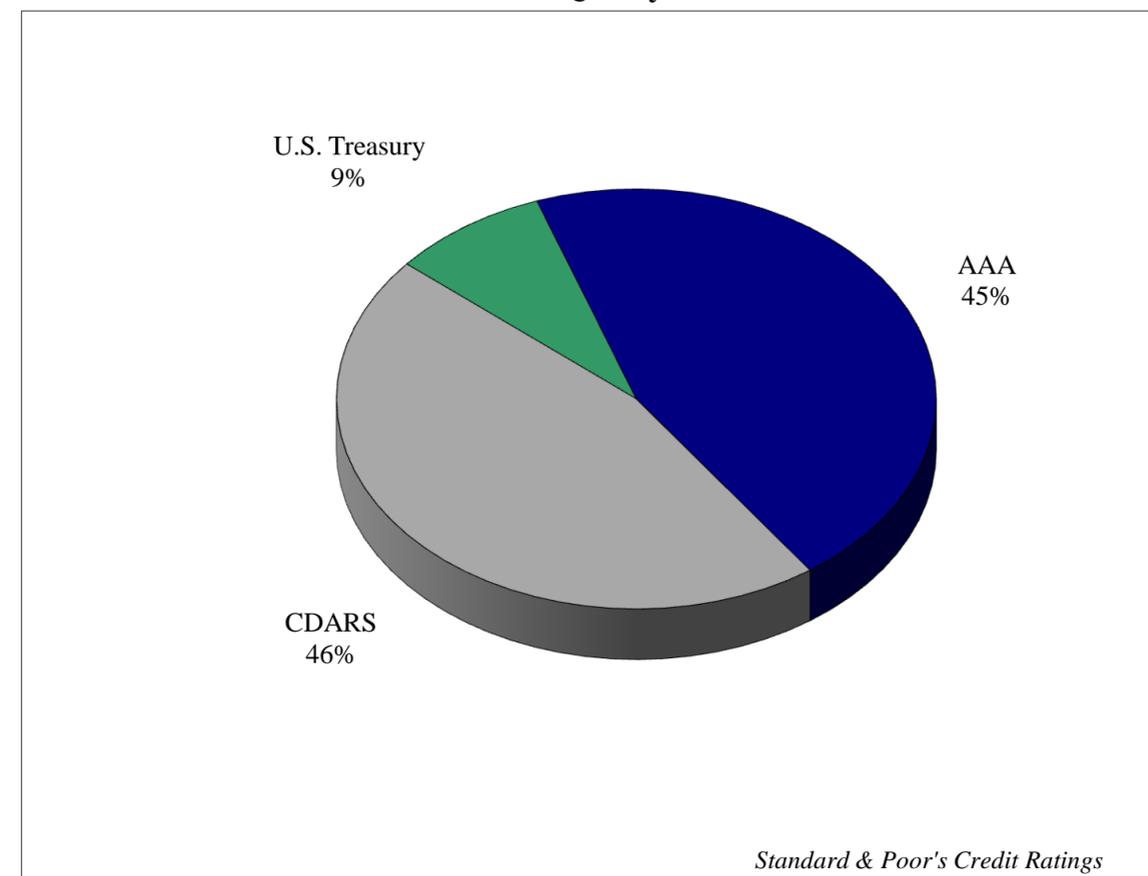
Month Ended February 28, 2011

<u>Security Type</u>	<u>Current Holdings*</u>	<u>Current Month % of Portfolio</u>	<u>Previous Month % of Portfolio</u>
U.S. Treasury	\$5,555,230.46	9%	5%
Federal Agency	\$29,604,770.94	45%	49%
Callable Federal Agency	\$5,708,235.00	9%	16%
Non-callable Federal Agency	\$23,896,535.94	36%	33%
CDARS	\$30,000,000.00	46%	46%
Wells Fargo MMF	\$152,483.96	<1%	<1%
Total Market Value	\$65,312,485.36	100%	100%

Sector Distribution



Credit Quality Distribution



The City's portfolio complies with the investment policy and the Arizona Revised Statutes

*Security market values excluding accrued interest as of settlement date. Note that PFM monthly statements reflect holdings as of trade date.

City of Surprise Maturity Summary and Key Portfolio Statistics
Month Ended February 28, 2011

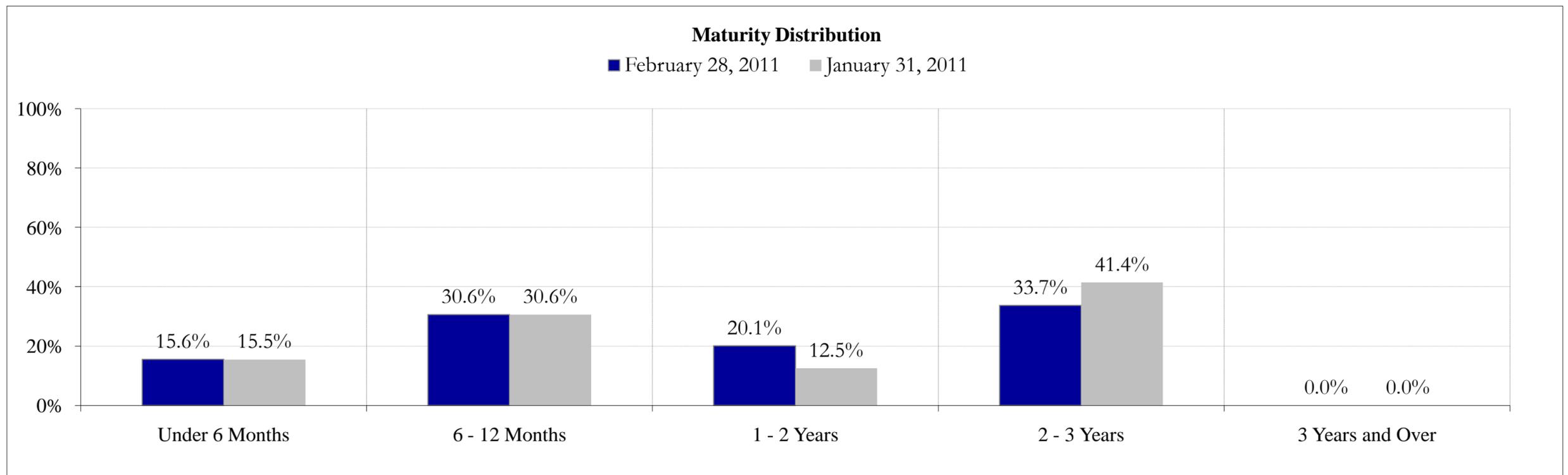
Maturity Distribution Summary		
<u>Maturity Class</u>	<u>Fair Value*</u>	<u>% of Portfolio</u>
Under 6 Months	\$10,152,483.96	15.6%
6 - 12 Months	\$20,000,000.00	30.6%
1 - 2 Years	\$13,154,077.72	20.1%
2 - 3 Years	\$22,005,923.68	33.7%
3 Years and Over	\$0.00	0.0%
Total Market Value	\$65,312,485.36	100%

*Security market values excluding accrued interest as of settlement date. Note that PFM monthly statements reflect holdings as of trade date.

Key Portfolio Statistics	
Effective Duration¹	1.75 years
Benchmark Duration²	1.76 years
Yield at Cost	0.81%

1. Duration to worst as of 02/28/2011 was 2.10
2. The City's benchmark is the Merrill Lynch 1-3 year U.S. Treasury Index
Performance statistics exclude money market fund and CDARS investments

Please note that the percentages on this page are rounded and may not add up to 100% due to the rounding.



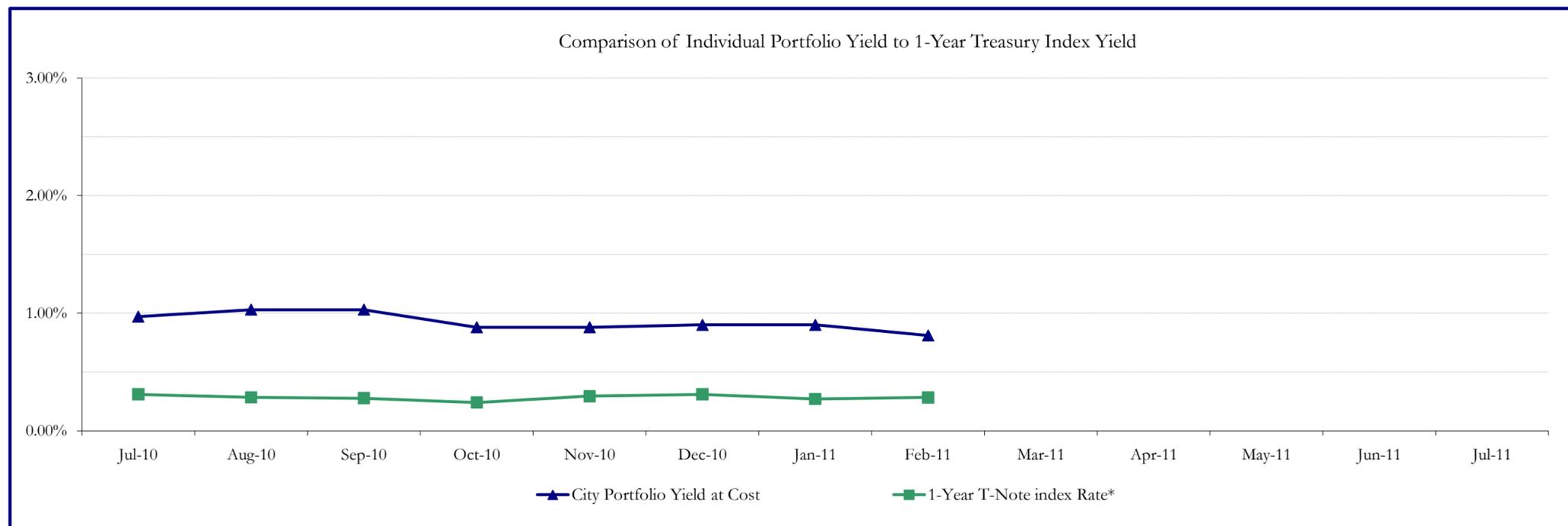
City of Surprise Individual Portfolio Yield Summary Fiscal Year 2010-2011

Date	Month-End Market Value ¹	Duration ²	Portfolio YTM at Cost ²	1-Year T-Note Index Rate ³
Jul-10	\$15,279,792	1.75	0.97%	0.31%
Aug-10	\$20,296,127	1.37	1.03%	0.28%
Sep-10	\$20,306,987	1.29	1.03%	0.28%
Oct-10	\$34,159,429	1.72	0.88%	0.24%
Nov-10	\$35,295,699	1.82	0.88%	0.29%
Dec-10	\$35,315,499	1.73	0.90%	0.31%
Jan-11	\$35,342,530	1.50	0.90%	0.27%
Feb-11	\$35,312,485	1.75	0.81%	0.28%

¹ Excludes accrued interest and CDARS. Includes balance in the custody account MMF

² Excludes CDARS and custoday account MMF

³ Rate represents the Merrill Lynch 1-Year U.S. Treasury Note Index month-end yield (GC03). Source Bloomberg

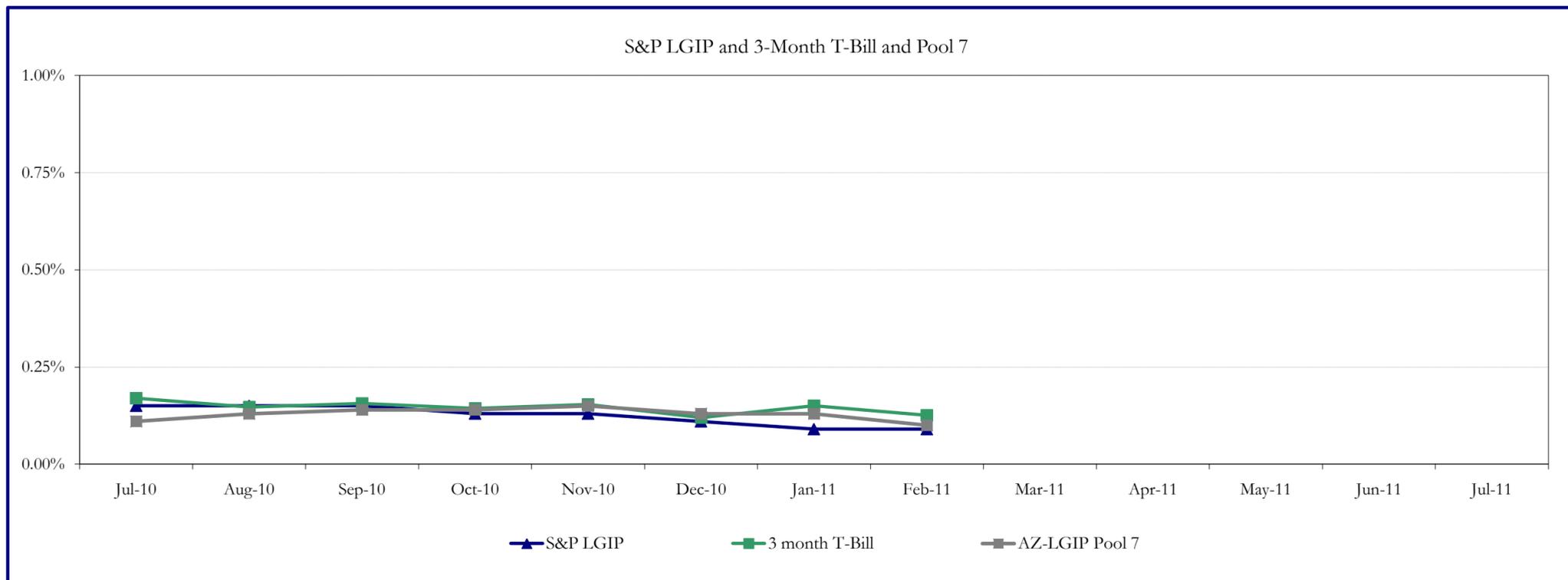


**City of Surprise Short-Term Benchmark Comparisons
Fiscal Year 2010-2011**

Date	S&P LGIP	AZ-LGIP Pool 7 ¹	3 month Treasury Bill ²
Jul-10	0.15%	0.11%	0.17%
Aug-10	0.15%	0.13%	0.15%
Sep-10	0.15%	0.14%	0.16%
Oct-10	0.13%	0.14%	0.14%
Nov-10	0.13%	0.14%	0.14%
Dec-10	0.11%	0.13%	0.12%
Jan-11	0.09%	0.13%	0.15%
Feb-11	0.09%	0.10%	0.13%

¹ Monthly Apportionment Yields. Source: Office of the Arizona State Treasurer

² Rate represents the Merrill Lynch 3-Month U.S. Treasury Bill Index month-end yield (G001). Source: Bloomberg



City of Surprise Holdings
Month Ended February 28, 2011

Operating Funds Investment Inventory by Maturity Date

Issuer	Maturity	Years to Maturity	Fair Value	Yield to Maturity	Next Call Date	Frequency
Wells Fargo MMF	2/28/2011	0.00	\$152,484	0.01%		
Alliance Bank	6/30/2011	0.33	\$10,000,000	0.55%		
Alliance Bank	9/29/2011	0.58	\$15,000,000	1.01%		
Alliance Bank	12/29/2011	0.83	\$5,000,000	0.88%		
U.S. Treasury	6/30/2012	1.33	\$2,508,200	0.52%		
FNMA	10/30/2012	1.67	\$2,494,303	0.77%		
FHLMC	11/30/2012	1.75	\$2,984,565	0.66%		
FHLMC	12/21/2012	1.81	\$2,121,928	1.09%		
FNMA	2/26/2013	1.99	\$3,045,082	0.83%		
FHLMC	4/15/2013	2.13	\$1,235,170	0.56%		
FNMA	6/26/2013	2.32	\$2,025,738	1.41%		
FNMA	7/19/2013	2.39	\$2,004,690	1.39%	7/19/11	One-time
FFCB	9/16/2013	2.54	\$5,006,060	0.43%		
FNMA	9/23/2013	2.56	\$4,983,690	0.73%		
FHLMC	11/15/2013	2.71	\$1,234,743	1.01%	5/15/11	Quarterly
U.S. Treasury	11/15/2013	2.71	\$3,047,030	0.81%		
FNMA	11/26/2013	2.74	\$2,468,803	0.98%	5/23/11	Quarterly
Total Market Value			\$ 65,312,485			



Managed Account Detail of Securities Held

For the Month Ending February 28, 2011

CITY OF SURPRISE OPERATING FUND

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 06/30/2010 0.625% 06/30/2012	912828NS5	2,500,000.00	TSY	TSY	02/16/11	02/16/11	2,503,710.94	0.52	2,589.78	2,503,614.08	2,508,200.00
US TREASURY NOTES DTD 11/15/2010 0.500% 11/15/2013	912828PU8	3,090,000.00	TSY	TSY	12/01/10	12/02/10	3,062,117.58	0.81	4,524.03	3,064,416.16	3,047,030.46
Security Type Sub-Total		5,590,000.00					5,565,828.52	0.68	7,113.81	5,568,030.24	5,555,230.46
Federal Agency Bond / Note											
FANNIE MAE GLOBAL NOTES DTD 10/08/2010 0.500% 10/30/2012	31398A4T6	2,500,000.00	AAA	Aaa	02/16/11	02/16/11	2,488,575.00	0.77	4,201.39	2,488,853.03	2,494,302.50
FHLMC NOTES DTD 10/22/2010 0.375% 11/30/2012	3137EACP2	3,000,000.00	AAA	Aaa	12/01/10	12/02/10	2,982,900.00	0.66	4,031.25	2,985,010.62	2,984,565.00
FHLMC GLOBAL REFERENCE NOTES DTD 12/17/2007 4.125% 12/21/2012	3137EABE8	2,000,000.00	AAA	Aaa	06/23/10	06/24/10	2,148,600.00	1.09	16,041.67	2,108,065.50	2,121,928.00
FNMA NOTES DTD 01/18/2011 0.750% 02/26/2013	3135G0AK9	3,045,000.00	AAA	Aaa	02/02/11	02/03/11	3,039,747.38	0.83	317.19	3,039,941.71	3,045,082.22
FHLMC GLOBAL NOTES DTD 03/04/2010 1.625% 04/15/2013	3137EACJ6	1,215,000.00	AAA	Aaa	10/28/10	11/01/10	1,246,602.15	0.56	7,458.75	1,242,336.76	1,235,170.22
FNMA GLOBAL NOTES DTD 05/21/2010 1.500% 06/26/2013	31398AT44	2,000,000.00	AAA	Aaa	06/16/10	06/17/10	2,005,560.00	1.41	5,416.67	2,004,282.10	2,025,738.00
FANNIE MAE (CALLABLE) GLOBAL NOTES DTD 07/19/2010 1.375% 07/19/2013	31398AW32	2,000,000.00	AAA	Aaa	07/13/10	07/19/10	1,999,280.00	1.39	3,208.33	1,999,425.64	2,004,690.00
FFCB (FLOATING) NOTE DTD 09/16/2010 0.400% 09/16/2013	31331JG64	5,000,000.00	AAA	Aaa	10/12/10	10/13/10	5,000,000.00	0.43	4,426.39	5,000,000.00	5,006,060.00
FANNIE MAE GLOBAL NOTES DTD 08/06/2010 1.000% 09/23/2013	31398A2S0	5,000,000.00	AAA	Aaa	10/12/10	10/13/10	5,038,650.00	0.73	21,944.44	5,033,667.50	4,983,690.00
FREDDIE MAC GLOBAL NOTES (CALLABLE) DTD 11/15/2010 1.000% 11/15/2013	3134G1XN9	1,250,000.00	AAA	Aaa	10/28/10	11/15/10	1,249,625.00	1.01	3,680.56	1,249,661.34	1,234,742.50
FNMA NOTES (CALLABLE) DTD 11/26/2010 1.000% 11/26/2013	31398A5Y4	2,500,000.00	AAA	Aaa	11/05/10	11/26/10	2,501,562.50	0.98	6,597.22	2,500,723.88	2,468,802.50



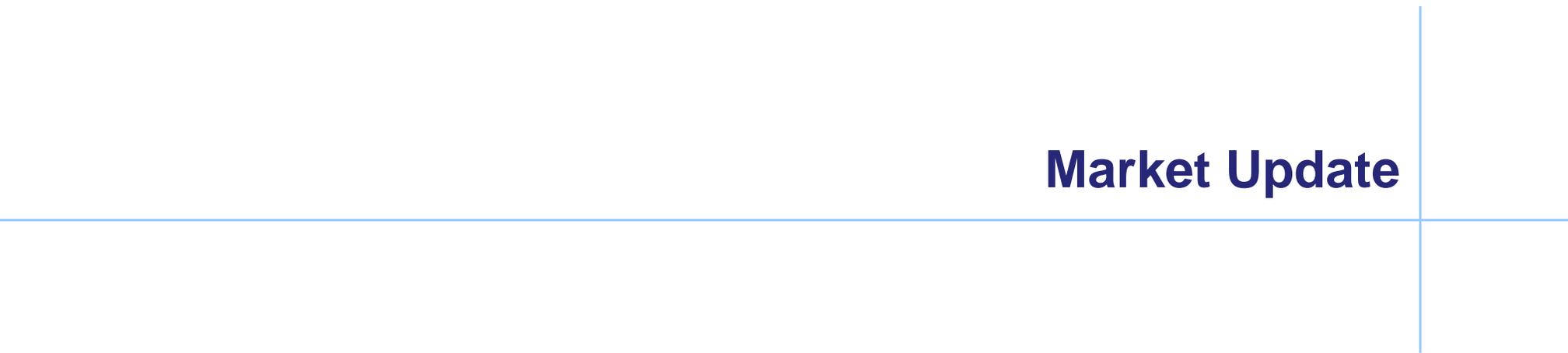
Managed Account Detail of Securities Held

For the Month Ending February 28, 2011

CITY OF SURPRISE OPERATING FUND

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Security Type Sub-Total		29,510,000.00					29,701,102.03	0.83	77,323.86	29,651,968.08	29,604,770.94
Managed Account Sub-Total		35,100,000.00					35,266,930.55	0.81	84,437.67	35,219,998.32	35,160,001.40
Securities Sub-Total		\$35,100,000.00					\$35,266,930.55	0.81%	\$84,437.67	\$35,219,998.32	\$35,160,001.40
Accrued Interest											\$84,437.67
Total Investments											\$35,244,439.07

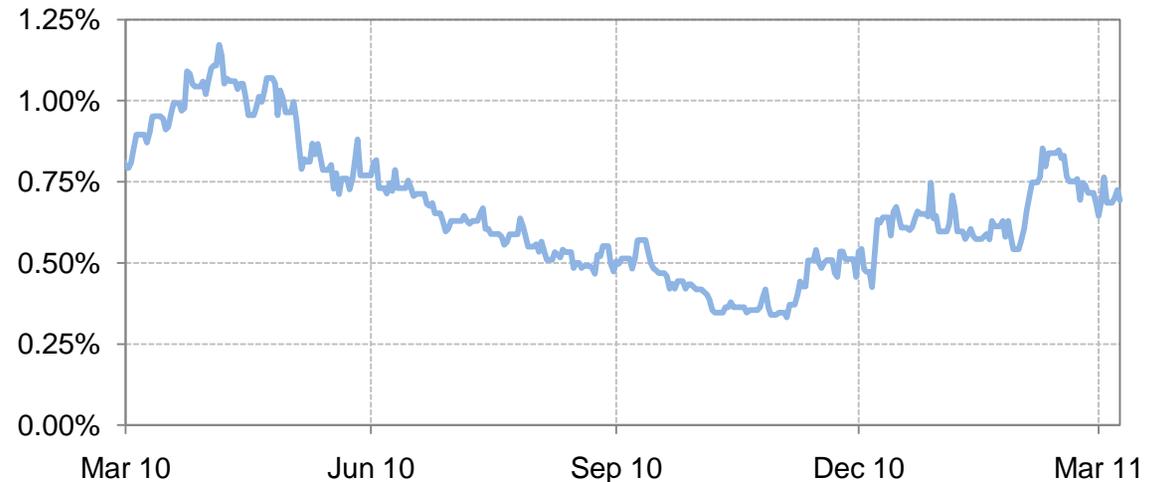
Market Update



Yields Impacted by Crisis in Middle East

- Treasury yields rose in early February due to positive economic data and inflationary expectations. However, yields have since retreated because of tensions in the Middle East.
 - Since reaching their one-year high of 0.85% in early February, yields have declined 0.16%.
- Spreads between sectors remain historically narrow with Treasuries trading close to Federal Agency securities.

2-Year U.S. Treasury Yields
March 2010 to March 2011



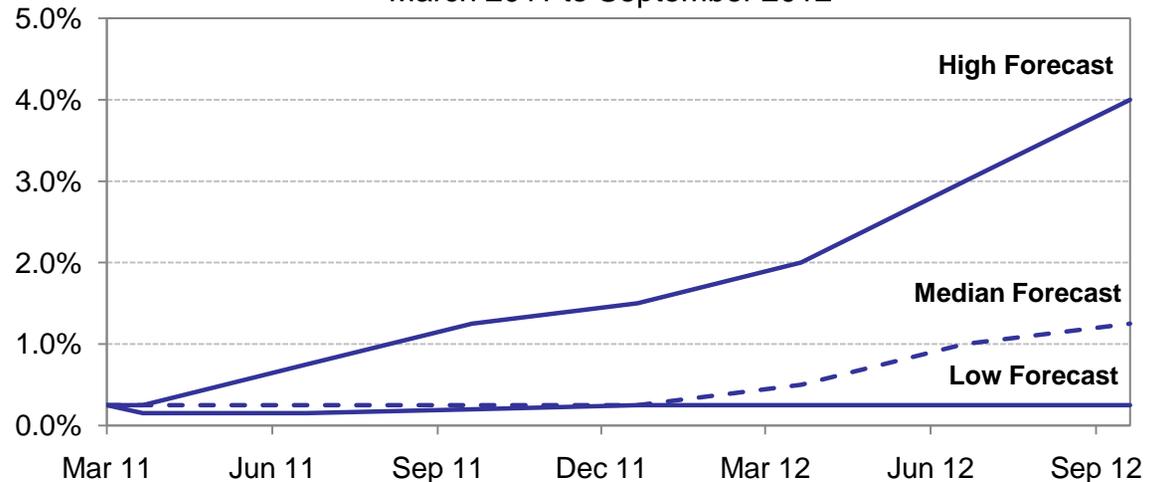
2-Year Treasury vs 2-Year Agency Spread
March 2010 to March 2011



Rates Are Expected to Remain Low and Near Current Levels

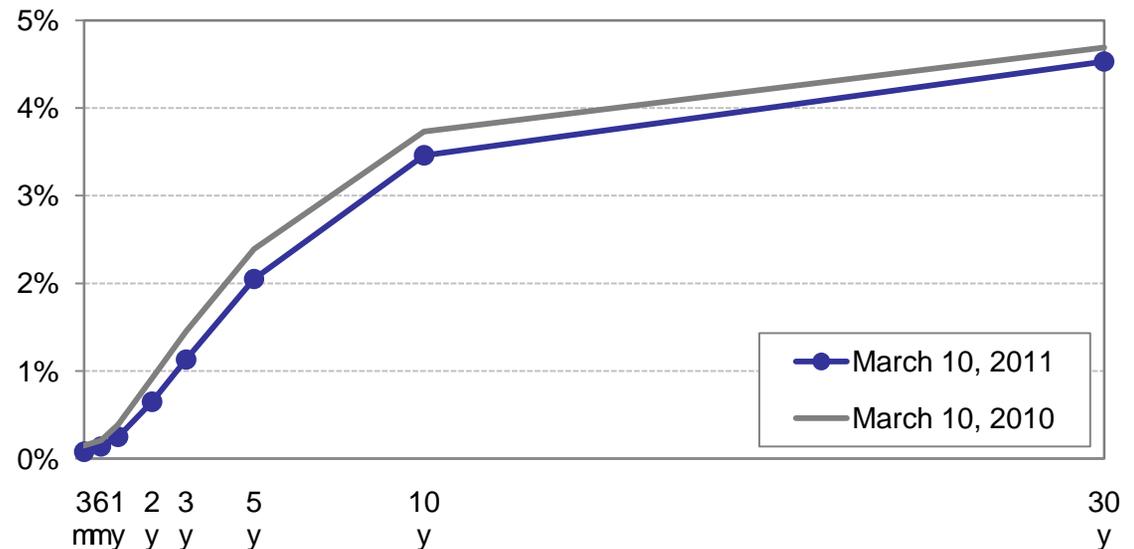
- Most economists still expect the Federal Funds target rate to remain at 0.0% to 0.25% through 2011.

Fed Funds Target Rate – February Forecast
March 2011 to September 2012



- With very short-term rates anchored by the Fed's target rate, the yield curve will likely remain steep.
 - Since the same time last year, the yield curve has moved very little.

U.S. Treasury Yield Curve
March 10, 2011 vs March 10, 2010



Source: Bloomberg

Economic Growth Impacted by Reduced State and Local Government Spending

2010 Contributions to Percent Change in Real Gross Domestic Product
(Seasonally Adjusted at Annual Rates)

	1Q10	2Q10	3Q10	4Q10
Percent change at annual rate:				
Gross Domestic Product	3.7	1.7	2.6	2.8
Percentage points at annual rates:				
Personal Consumption Expenditures	0.44	-0.62	1.96	1.16
Goods	5.7	3.4	4.1	9.8
Durable goods	8.8	6.8	7.6	21
Nondurable goods	4.2	1.9	2.5	4.8
Services	0.1	1.6	1.6	1.4
Gross Private Domestic Investment	29.1	26.2	15	-22.1
Fixed investment	3.3	18.9	1.5	4.8
Nonresidential	7.8	17.2	10	5.3
Structures	-17.8	-0.5	-3.5	4.5
Equipment and software	20.4	24.8	15.4	5.5
Residential	-12.3	25.7	-27.3	2.8
Change in private inventories	--	--	--	--
Net Exports of Goods and Services	--	--	--	--
Exports	11.4	9.1	6.8	9.6
Goods	14	11.5	5.8	11.7
Services	5.8	3.9	8.9	5
Imports	11.2	33.5	16.8	-12.4
Goods	12	40.5	17.4	-14.1
Services	7.8	4.3	14.2	-3.7
Government Consumption Expenditures and Gross Investment	-1.6	3.9	3.9	-1.5
Federal	1.8	9.1	8.8	-0.2
National defense	0.4	7.4	8.5	-2.1
Nondefense	5	12.8	9.5	3.7
State and local	-3.8	0.6	0.7	-2.4

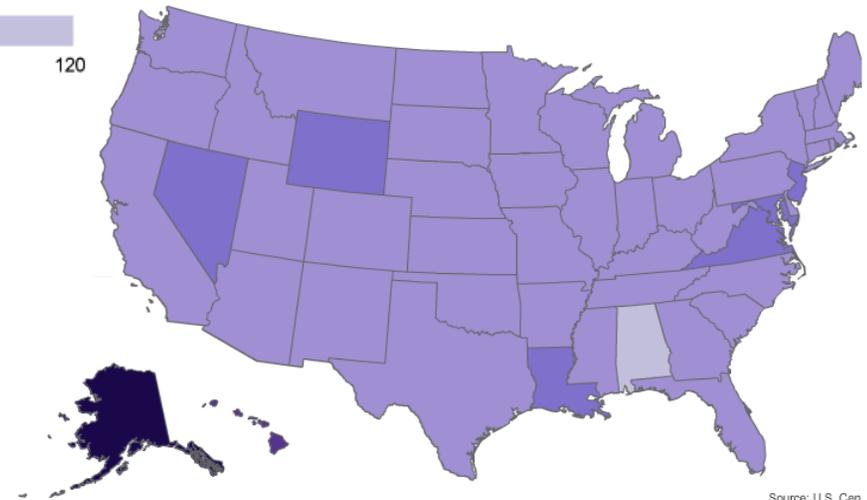
Majority of State & Local Governments Facing Reduced Tax Revenues and Budget Shortfalls

- Falling tax revenues and federal stimulus reductions are setting up confrontations between governors and legislatures over which state services and programs to pare.

State of Arizona Statistics

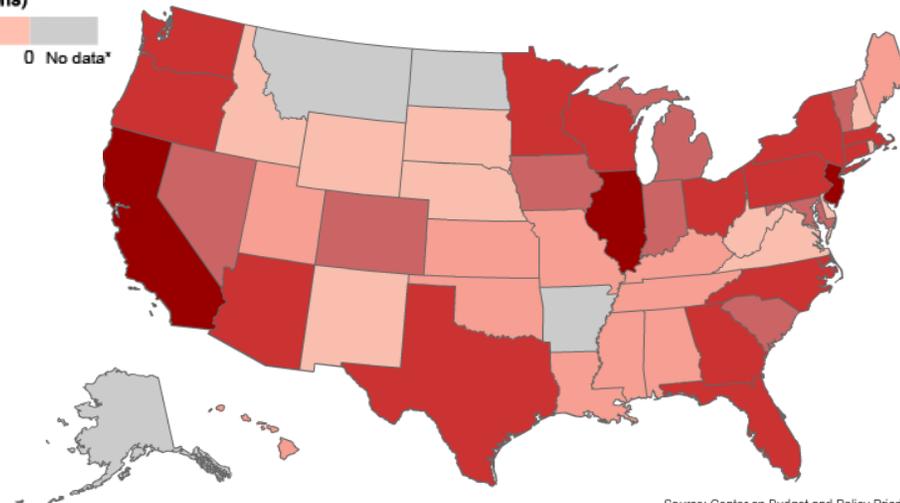
FY 11/12	Projected Budget Shortfalls (millions)	\$974
	Total Budget Gap (millions)	\$3,100
FY 10/11	Gap as % of Budget	36.5%
	Tax Revenue as % of Peak	35%
July 09 – Sept 2010 (% change)	Tax Revenue	5.5%
	Personal Income Tax	6.4%
	Corporate Income Tax	-0.3%
	Sales Tax	4.4%

Tax revenue pct. change



Source: U.S. Cen

FY2011 Total Budget Gap (in \$ billions)

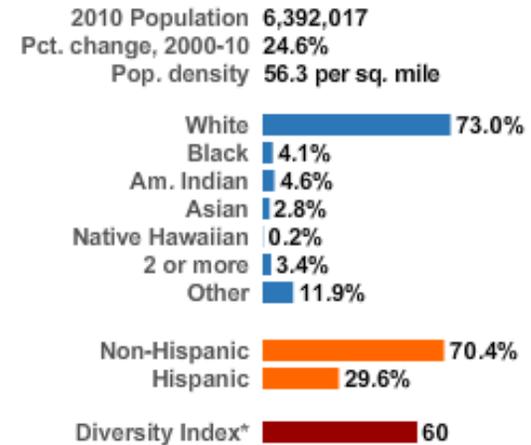


Source: Center on Budget and Policy Prior

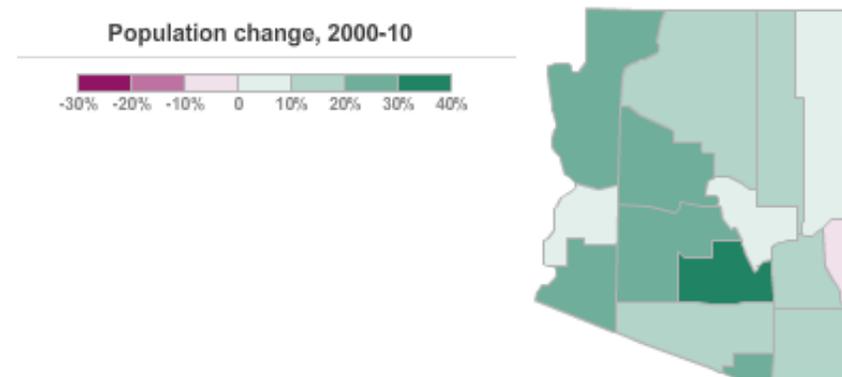
Arizona Population Growth Has Slowed Significantly

- The latest U.S. Census data showed Arizona's population rose nearly 25% in the past 10 years to almost 6.4 million, but less than expected.
 - Phoenix failed to hit double-digit growth for the first time in a century.
 - Phoenix and Tucson each grew by less than 10% during that period.
 - Arizona fell 270,000 residents short of predictions, the largest amount of any state, and the discrepancy represents a loss of about \$750 million in federal funds.

2010 Arizona Demographics



Arizona Population Change 2000 - 2010

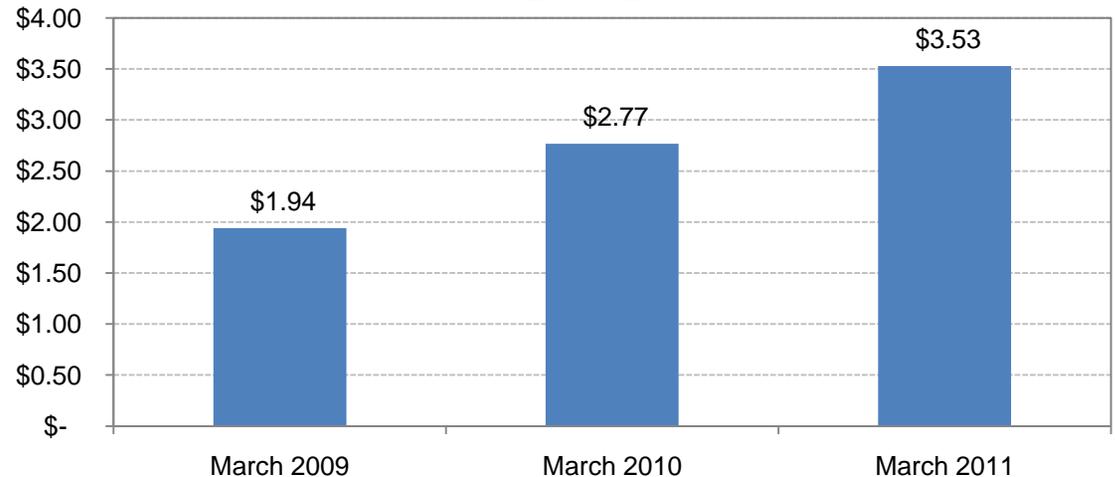


Source: USA Today and U.S. Census Bureau

Fuel and Food Prices Reflect Rising Inflationary Pressures

- Political unrest in the Middle East nations pushed the average cost of regular unleaded gasoline to \$3.53, up \$0.76 gallon from a year ago.
- The ripple effect of rising prices could crimp corporate profits and derail consumer spending, the main driver behind the economic recovery.

Average Price Per Gallon of Regular Gas
2009 –2011

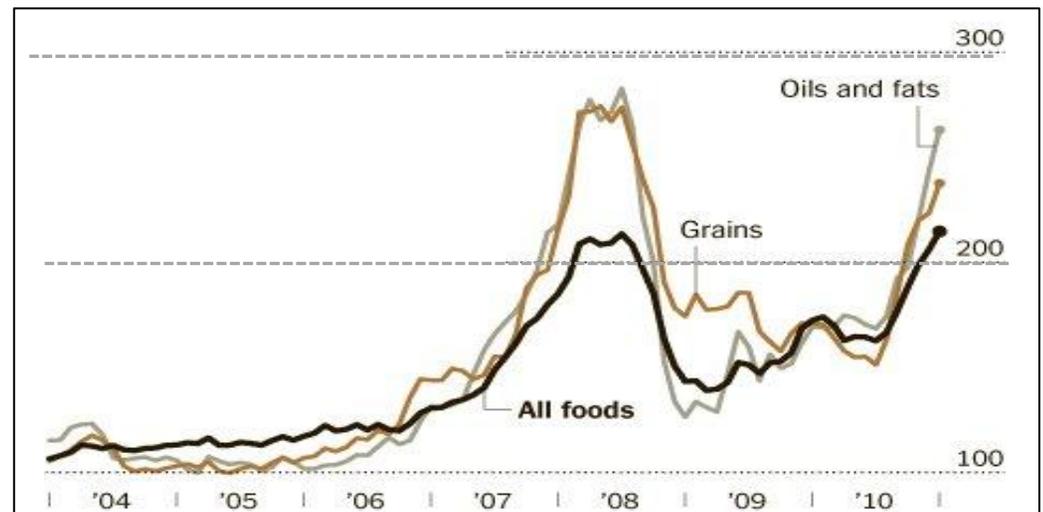


Source: USA Today. AAA Daily Fuel Gauge Report

- Global food prices reached their highest point in 20 years and could increase further because of rising oil prices.

- February marked the eighth consecutive month of rises in food prices.
- Increases were mainly driven by higher prices of cereals, meat, and dairy products

Monthly Food Price Indexes
2002-2004=100



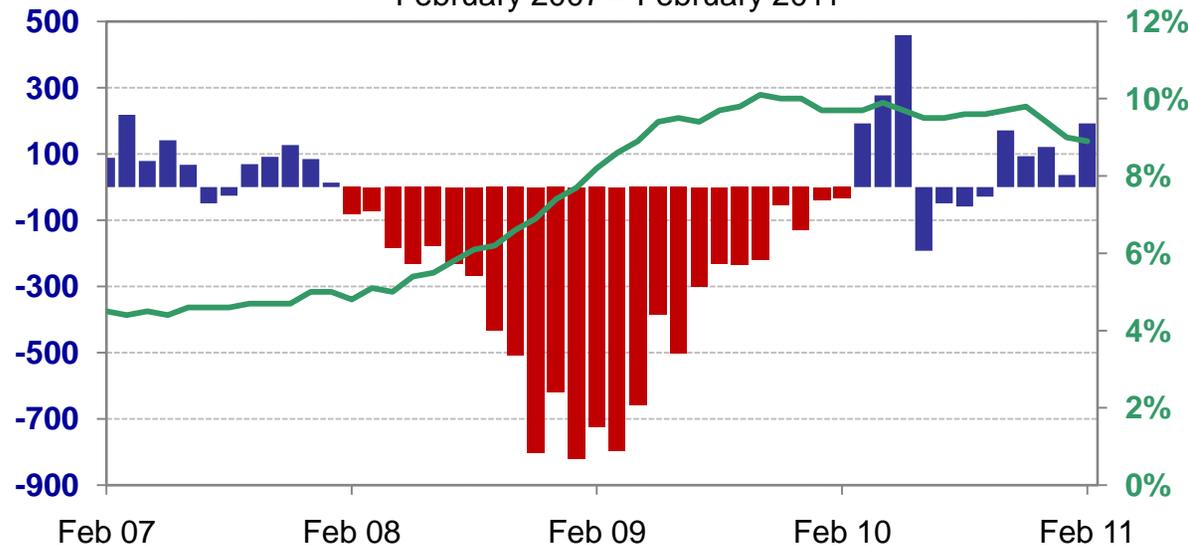
Source: Food and Agriculture Organization of the United Nations

Positive Job Creation Trend, But Unemployment Remains High

- Despite positive growth in February, overall unemployment remains high at 8.9%. In February:
 - Jobs rebounded from January's lows caused by severe weather.
 - Private sector job gains came in the manufacturing, construction, and professional and business services industries.

Change in Non-Farm Payrolls/ Unemployment Rate

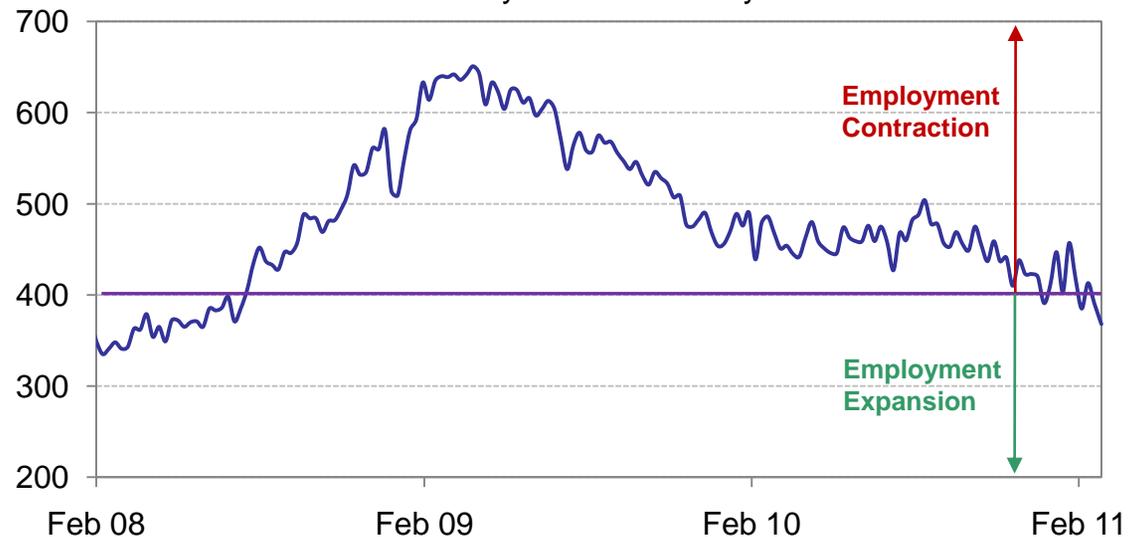
February 2007 – February 2011



- Weekly jobless claims signal some positive employment data as they fell back below 400,000.

Weekly Initial Jobless Claims

February 2008 – February 2011



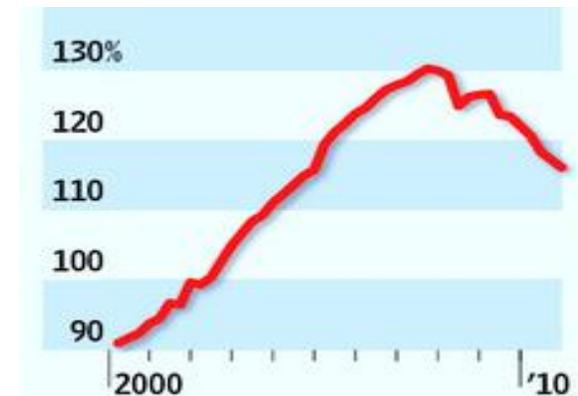
Source: Bloomberg



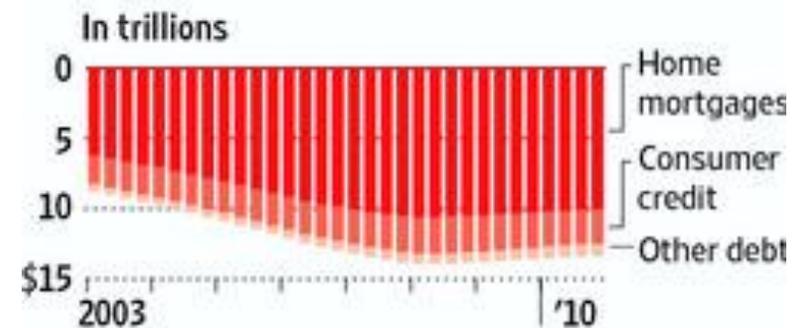
Recessionary Silver Lining: Decrease of Household Debt

- U.S. families debt burden, including credit card debt and mortgages, in 2010 was lower than any point in the previous six years.
 - This may translate into increased consumer spending.
- However, households have a long way to go to improve debt situation.
 - As some economists believe a healthy household-debt-to-disposable-income ratio would be 100% or lower.

Household Debt as a % of Annual Disposable Income
2000 - 2010



Debt Outstanding By Type
2003 - 2010



Source: WSJ and Federal Reserve

PFM-Managed Portfolio: Recent Transactions

Date	Transaction	Security	Maturity	Par	Yield	Realized Gains
2/3/11	Buy	FNMA Notes	2/26/13	\$3,045,000	0.84%	-
2/3/11	Sell	FHLB Tap Bonds	6/8/12	\$3,000,000	0.49%	\$19,400
2/16/11	Buy	Fannie Mae Global Notes	10/30/12	\$2,500,000	0.77%	-
2/16/11	Buy	US Treasury Notes	6/30/12	\$2,500,000	0.52%	-
2/16/11	Maturity	FNMA Notes (Called)	2/16/11	\$5,000,000	1.25%	-

Disclaimer

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