



July 31, 2011

PFM Asset Management LLC

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City of Surprise
Investment Guidelines and Objectives
Month Ended July 31, 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:

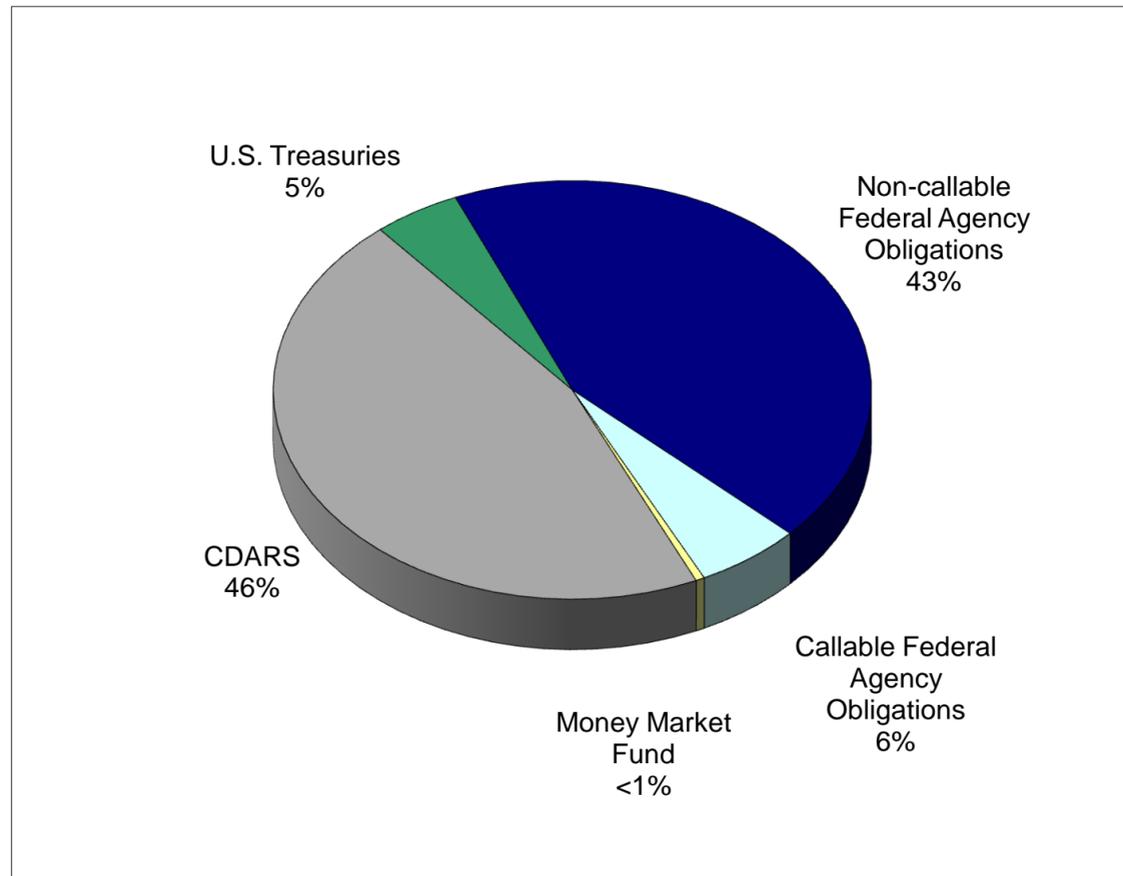
- **Permitted Investments.** The City will invest in permitted securities consistent with A.R.S.§35-323. Additionally, the City may desire to be more conservative in its investment portfolio and restrict or prohibit certain of the investments outlined in the Investment Policy.
- **Transactions prior 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

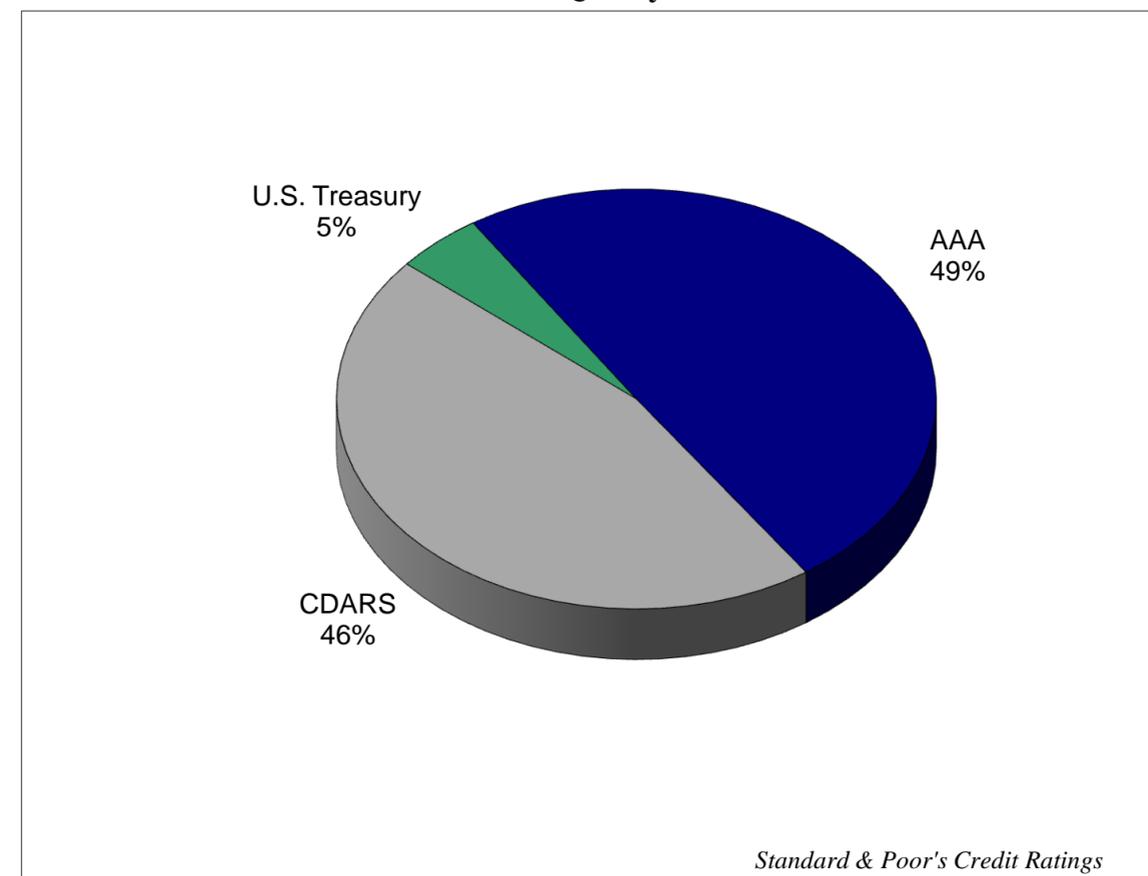
Month Ended July 31, 2011

<u>Security Type</u>	<u>Current Holdings*</u>	<u>Current Month % of Portfolio</u>	<u>Previous Month % of Portfolio</u>
U.S. Treasury	\$3,097,725.00	5%	5%
Federal Agency	\$32,264,670.34	49%	49%
Callable Federal Agency	\$3,750,988.75	6%	9%
Non-callable Federal Agency	\$28,513,681.59	43%	40%
CDARS	\$30,000,000.00	46%	46%
Wells Fargo MMF	\$313,376.34	<1%	<1%
Total Market Value	\$65,675,771.68	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 July 31, 2011

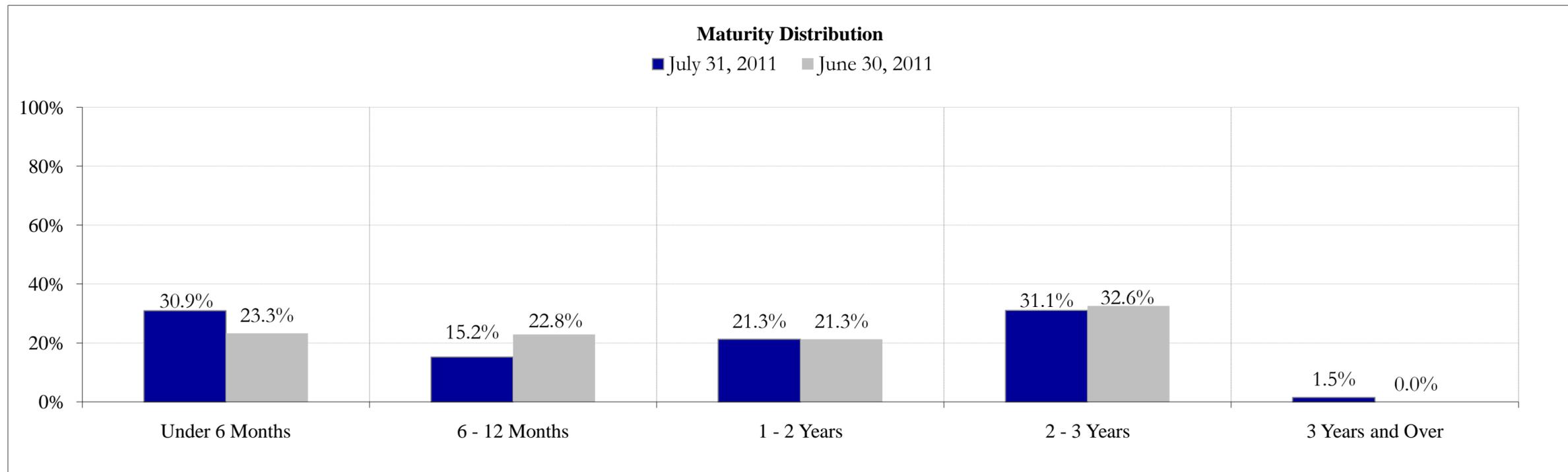
Maturity Distribution Summary		
<u>Maturity Class</u>	<u>Fair Value*</u>	<u>% of Portfolio</u>
Under 6 Months	\$20,313,376.34	30.9%
6 - 12 Months	\$10,000,000.00	15.2%
1 - 2 Years	\$13,946,914.09	21.3%
2 - 3 Years	\$20,410,651.25	31.1%
3 Years and Over	\$1,004,830.00	1.5%
Total Market Value	\$65,675,771.68	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	1.41 years
Benchmark Duration²	1.79 years
Yield at Cost	0.78%

1. Duration to worst as of 07/31/2011 was 1.70
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.



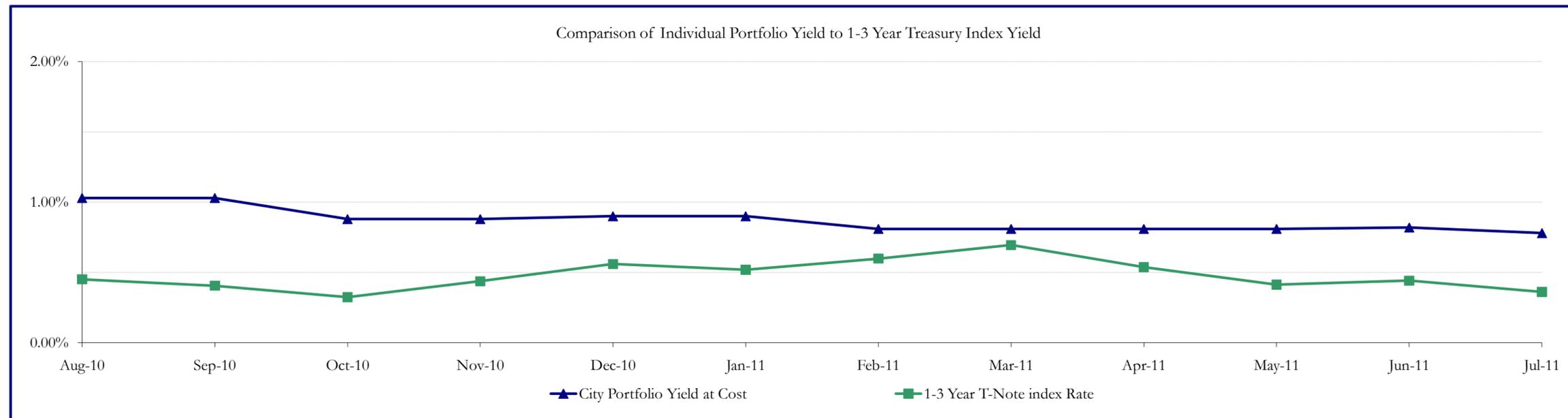
City of Surprise Individual Portfolio Yield Summary Trailing 12 Months

Date	Month-End Market Value ¹	Duration ²	Portfolio YTM at Cost ²	1-3 Year T-Note Index Rate ³
Aug-10	\$20,296,127	1.37	1.03%	0.45%
Sep-10	\$20,306,987	1.29	1.03%	0.41%
Oct-10	\$34,159,429	1.72	0.88%	0.32%
Nov-10	\$35,295,699	1.82	0.88%	0.44%
Dec-10	\$35,315,499	1.73	0.90%	0.56%
Jan-11	\$35,342,530	1.50	0.90%	0.52%
Feb-11	\$35,312,485	1.75	0.81%	0.60%
Mar-11	\$35,311,883	1.66	0.81%	0.69%
Apr-11	\$35,456,156	1.48	0.81%	0.54%
May-11	\$35,580,243	1.39	0.81%	0.41%
Jun-11	\$35,649,124	1.41	0.82%	0.44%
Jul-11	\$35,675,772	1.41	0.78%	0.36%

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 1-3 Year U.S. Treasury Note Index month-end yield. Source Bloomberg

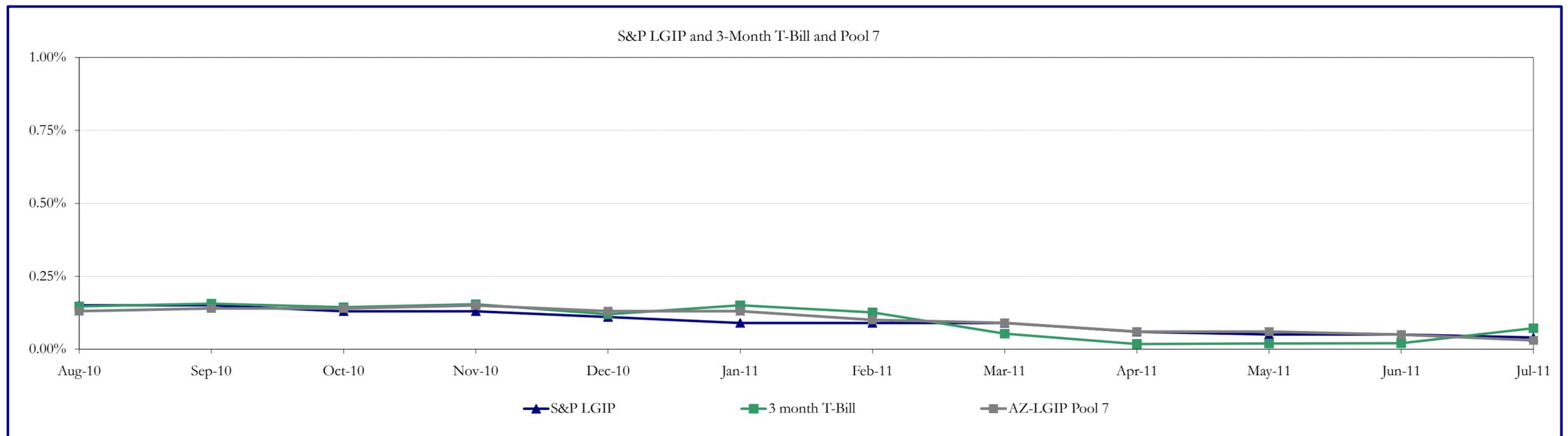


City of Surprise Short-Term Benchmark Comparisons Trailing 12 Months

Date	S&P LGIP	AZ-LGIP Pool 7 ¹	3 month Treasury Bill ²
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%	0.15%	0.15%
Dec-10	0.11%	0.13%	0.12%
Jan-11	0.09%	0.13%	0.15%
Feb-11	0.09%	0.10%	0.13%
Mar-11	0.09%	0.09%	0.05%
Apr-11	0.06%	0.06%	0.02%
May-11	0.05%	0.06%	0.02%
Jun-11	0.05%	0.05%	0.02%
Jul-11	0.04%	0.03%	0.07%

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. Source: Bloomberg



City of Surprise Holdings
Month Ended July 31, 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	7/31/2011	0.00	\$313,376	0.01%		
Alliance Bank (CDARS)	9/29/2011	0.16	\$15,000,000	1.01%		
Alliance Bank (CDARS)	12/29/2011	0.41	\$5,000,000	0.88%		
Alliance Bank (CDARS)	6/29/2012	0.91	\$10,000,000	0.66%		
FNMA	10/30/2012	1.25	\$2,503,870	0.77%		
FHLMC	11/30/2012	1.33	\$2,999,781	0.66%		
FHLMC	12/21/2012	1.39	\$2,102,676	1.09%		
FNMA	2/26/2013	1.57	\$3,061,346	0.83%		
FHLMC	4/15/2013	1.71	\$1,239,586	0.56%		
FNMA	6/26/2013	1.91	\$2,039,656	1.41%		
FHLB	8/28/2013	2.08	\$999,965	0.57%		
FFCB	9/16/2013	2.13	\$5,001,085	0.43%		
FNMA	9/23/2013	2.15	\$5,045,550	0.73%		
FHLMC	11/15/2013	2.29	\$1,250,211	1.01%	8/15/11	Quarterly
U.S. Treasury	11/15/2013	2.29	\$3,097,725	0.81%		
FNMA	11/26/2013	2.32	\$2,500,778	0.98%	8/23/11	Quarterly
FHLB	12/27/2013	2.41	\$2,515,338	0.71%		
FHLMC	8/27/2014	3.08	\$1,004,830	0.94%		
Total Market Value			\$ 65,675,772			



Managed Account Detail of Securities Held

For the Month Ending July 31, 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 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	3,274.73	3,068,341.85	3,097,725.00
Security Type Sub-Total		3,090,000.00					3,062,117.58	0.81	3,274.73	3,068,341.85	3,097,725.00
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	3,159.72	2,491,634.28	2,503,870.00
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	1,906.25	2,988,571.26	2,999,781.00
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	9,166.67	2,083,316.70	2,102,676.00
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	9,832.81	3,040,996.22	3,061,345.56
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	5,813.44	1,236,994.27	1,239,585.53
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	2,916.67	2,003,523.18	2,039,656.00
FHLB GLOBAL NOTES DTD 07/21/2011 0.500% 08/28/2013	313374Y61	1,000,000.00	AAA	Aaa	07/20/11	07/21/11	998,610.00	0.57	138.89	998,628.11	999,965.00
FFCB (FLOATING) NOTE DTD 09/16/2010 0.330% 09/16/2013	31331JG64	5,000,000.00	AAA	Aaa	10/12/10	10/13/10	5,000,000.00	0.43	2,112.50	5,000,000.00	5,001,085.00
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	17,777.78	5,028,232.10	5,045,550.00
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	2,638.89	1,249,712.90	1,250,211.25
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	4,513.89	2,500,000.00	2,500,777.50
FHLB NOTES DTD 11/18/2010 0.875% 12/27/2013	313371UC8	2,500,000.00	AAA	Aaa	06/30/11	06/30/11	2,510,225.00	0.71	2,065.97	2,509,874.18	2,515,337.50



Managed Account Detail of Securities Held

For the Month Ending July 31, 2011

CITY OF SURPRISE OPERATING FUND

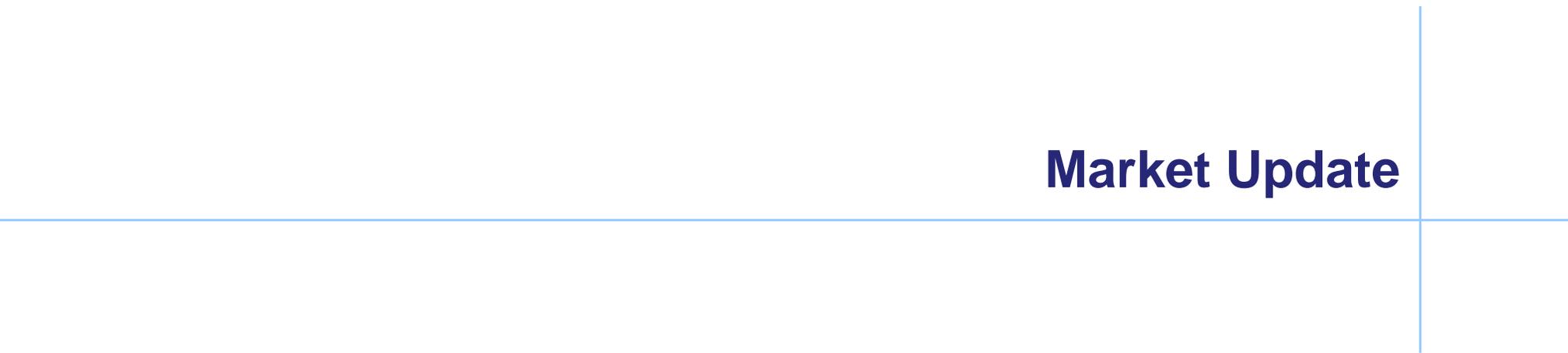
Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Federal Agency Bond / Note											
FHLMC NOTES DTD 07/05/2011 1.000% 08/27/2014	3137EACV9	1,000,000.00	AAA	Aaa	07/19/11	07/20/11	1,001,860.00	0.94	722.22	1,001,841.51	1,004,830.00
Security Type Sub-Total		32,010,000.00					32,212,517.03	0.78	62,765.70	32,133,324.71	32,264,670.34
Managed Account Sub-Total		35,100,000.00					35,274,634.61	0.78	66,040.43	35,201,666.56	35,362,395.34
Securities Sub-Total		\$35,100,000.00					\$35,274,634.61	0.78%	\$66,040.43	\$35,201,666.56	\$35,362,395.34
Accrued Interest											\$66,040.43
Total Investments											\$35,428,435.77

Maturity Reinvestment

Purchase Date	Security	Coupon	Final Maturity	Par	Yield
7/19/11	FHLMC Notes	1.000%	8/27/14	\$1,000,000	0.94%
7/20/11	FHLB Notes	0.500%	8/28/13	\$1,000,000	0.57%

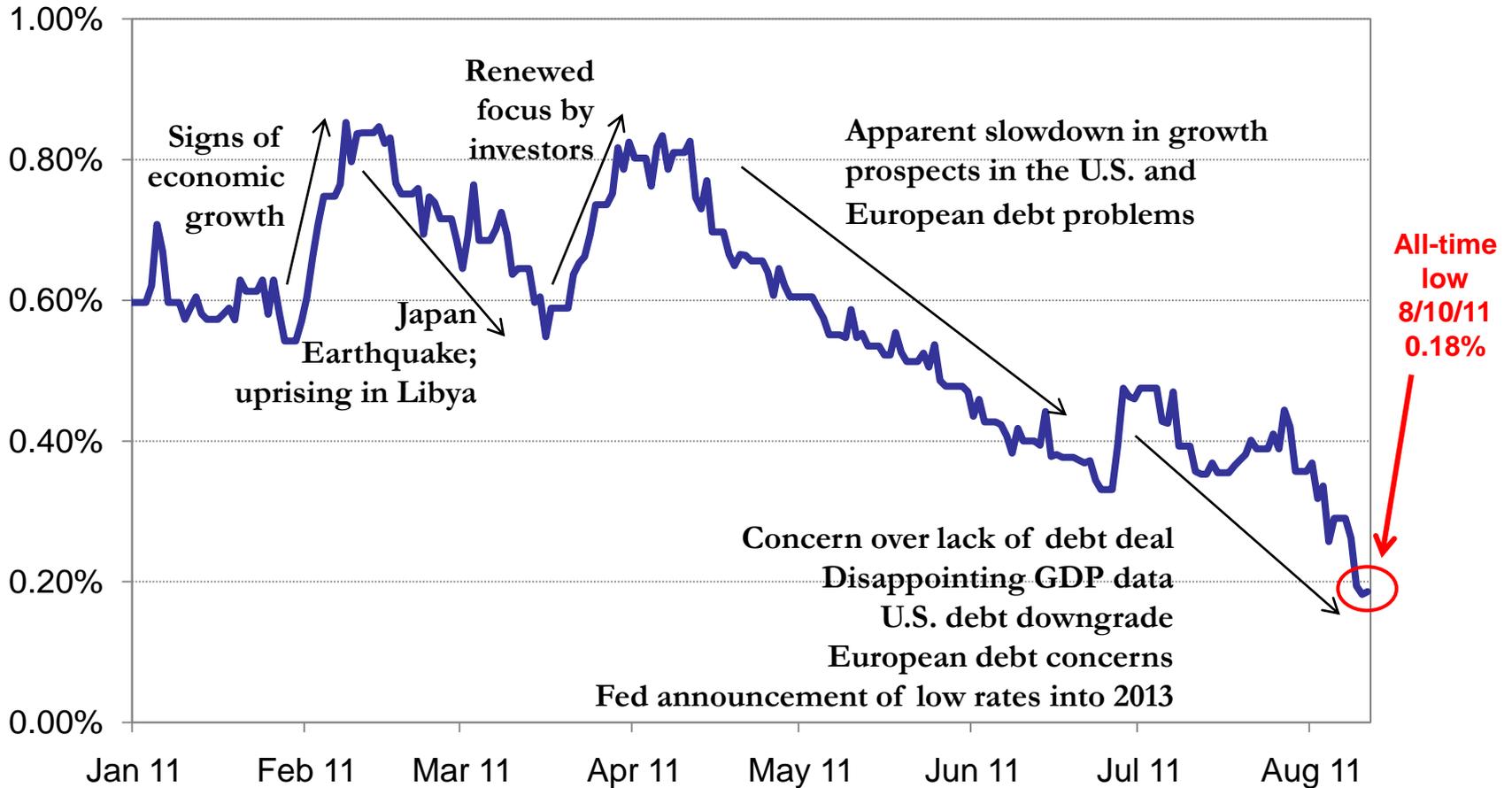
- The reinvestments helped to extend duration in regards to its benchmark in line with our current duration strategy.
- In addition, we were able to lock in attractive yields

Market Update



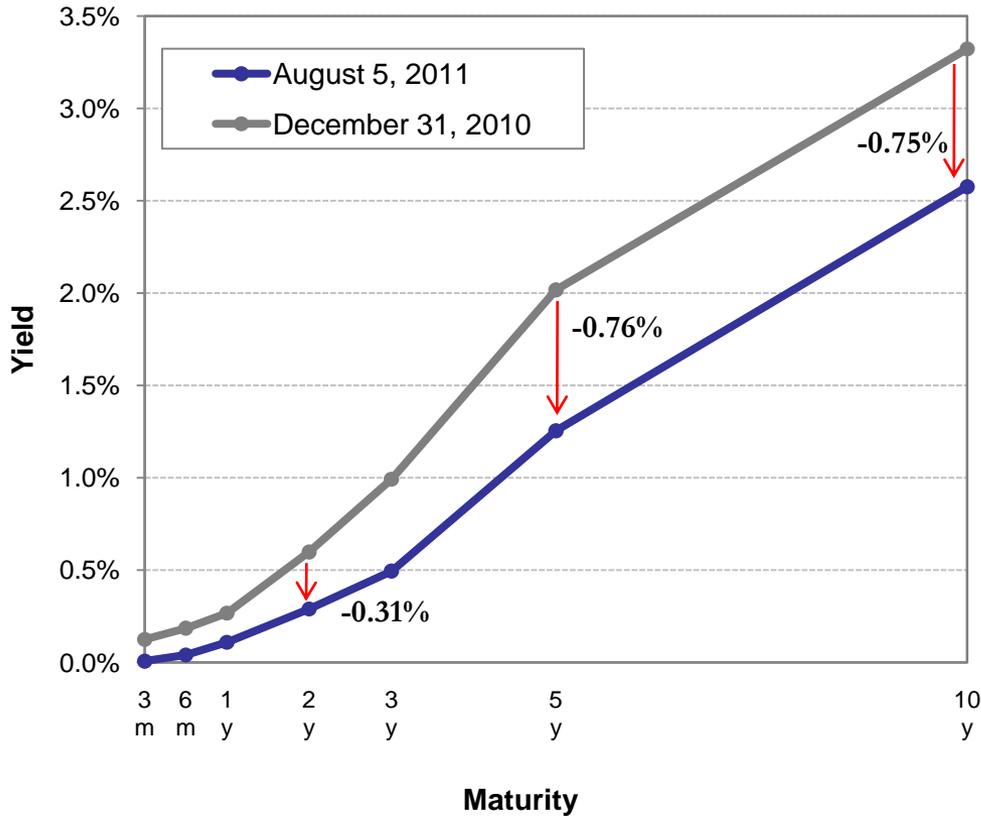
Treasury Yields Plummet to Record Lows

2-Year U.S. Treasury Yields
January 1, 2011 – August 11, 2011



Huge Yield Curve Flattening

U.S. Treasury Yield Curve
12/30/10 vs. 8/5/11



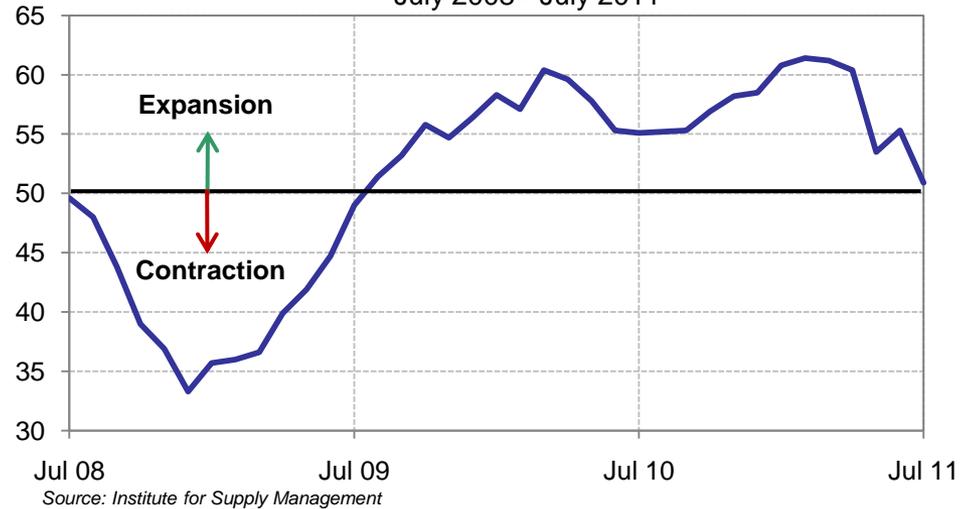
Yield Spread Between 10-year & 2-year Treasury
12/30/10 – 8/5/11



Weak U.S. Economic Data

- U.S. manufacturing stalled in July; latest ISM report was 50.9.
- The index reflects slowest rate of growth for the manufacturing sector thus far in the economic recovery.

ISM Purchasing Manager's Index
July 2008 - July 2011



- July consumer confidence numbers were mixed, showing improvement in the outlook but deterioration in current conditions.
- Concerns about the labor market continue to weigh on consumers' attitudes.

Consumer Confidence
July 2008 - July 2011

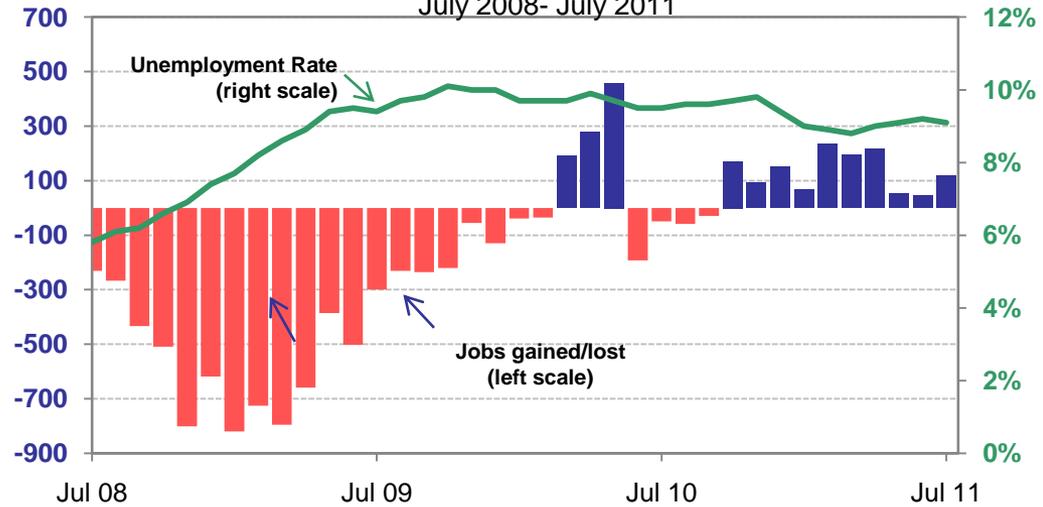


Source: Confidence Board

Weak U.S. Economic Data (continued)

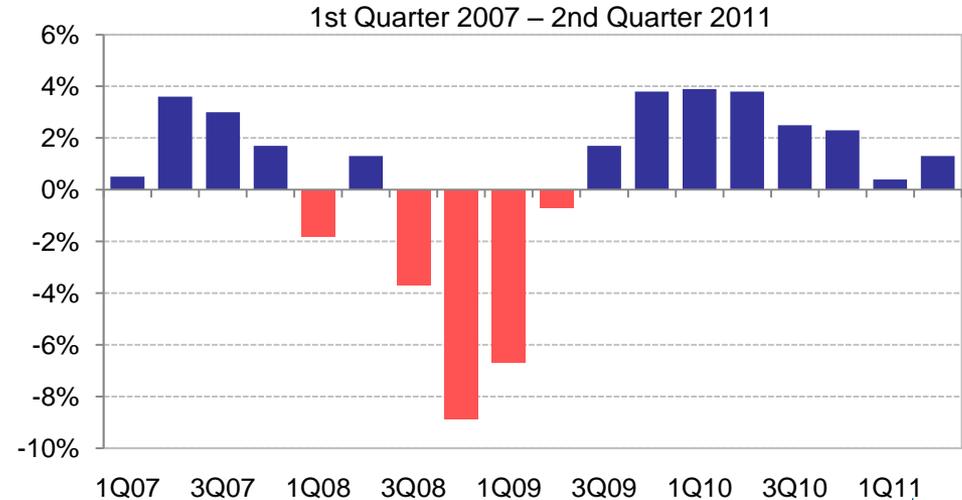
- Employers added 117,000 jobs in July, the unemployment rate fell to 9.1%, and wages increased, which helped to allay some fears that the U.S. economy is grinding to a halt.
- Second quarter U.S. economic activity grew at an annual rate of 1.3%.
- This number was actually positive compared to earlier in the year; first quarter GDP was revised dramatically downward from 1.9% to 0.4%.

Unemployment Rate vs. Jobs Gained/Lost



Source: Bureau of Labor Statistics

GDP (quarter over quarter)



Source: Conference Board

European Debt Problems Persist

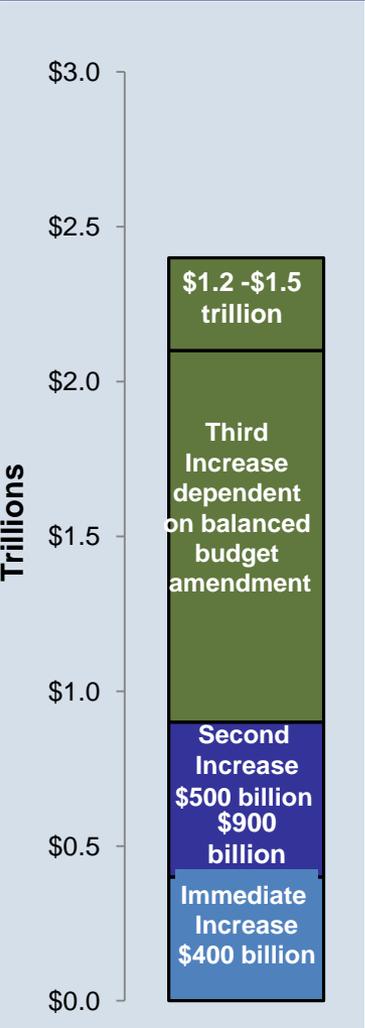
- European debt situation continues, however, the European Central bank has recently stepped in to help stabilize borrowing costs for Italy and Spain.
- Signs of stress remain in Europe's financial markets despite the positive market reaction to the ECB's bond decision – including concern France will lose its AAA rating.

10-year Global Bond Yields 8/9/11

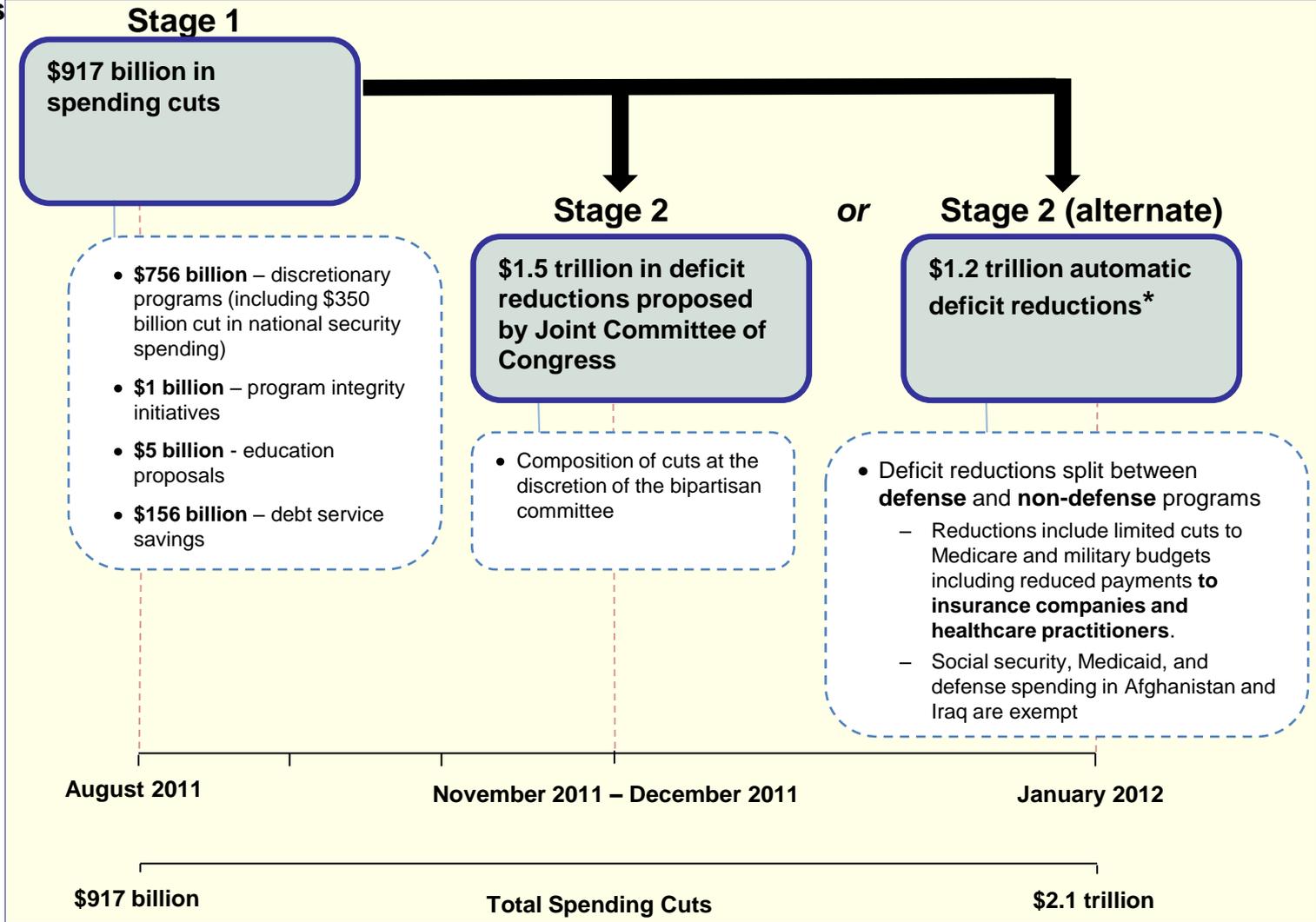
S&P Credit Rating	Maturity 10 Year ▼		Current Pricing Information						Yield Change		
	Bond		Price	Chg	C	Yield	Chg	Time	Source	Ann	6Mon
AAA	1) UK 10yr	UKT3 ¾ 09/20	108.320	-.600		2.710	+7	8/9	CBBT	-53	-116
AAA	2) France 10yr	FRTR 3 ¼ 21	100.360	-.695		3.207	+8	8/9	CBBT	+43	-45
AAA	3) Germany 10yr	DBR3 ¼ 07/21	107.740	-.950		2.362	+10	8/9	CBBT	-16	-94
A+	4) Italy 10yr	BTPS 4 ¾ 21	97.410	+.890		5.146	-12	8/9	CBBT	+138	+40
AA	5) Spain 10yr	SPGB 5 ½ 21	103.520	+.695		5.030	-9	8/9	CBBT	+100	-25
AAA	6) Sweden 10yr	SGB3 ½ 06/22	112.424	+.313		2.195	-3	11:59	BGN	-38	-127
AAA	7) Dutch 10yr	NETHER3 ¼ 21	104.310	-.630		2.748	+7	8/9	CBBT	+5	-73
AAA	8) Swiss 10yr	SWISS 2 04/21	107.923	-.268		1.134	+3	11:39	BGN	-20	-81
AAA	9) Norway 10yr	NGB3 ¾ 05/21	109.000	-.165		2.689	+2	20:01	CBBT	-63	-120
AAA	10) Denmark 10yr	DGB3 11/15/21	103.590	-1.030		2.596	+11	8/9	CBBT	0	-73
CC	11) Greece 10yr	GGB6 ¼ 06/20	60.170	-.565		14.512	+17	8/9	CBBT	+435	+347
BBB-	12) Portugal 10yr	PGB3.85 04/21	63.595	+.760		9.850	-17	8/9	CBBT	+488	+267
AA+	13) Belgium 10yr	BGB4 ¼ 09/21	100.320	+.140		4.210	-2	8/9	CBBT	+115	-1
BBB+	14) S. Africa 10yr	SAGB 6 ¾ 21	91.745	+.000		7.992	0	18:02	CBBT	-42	-50
AAA	15) Austria 10yr	RAGB 3 ½ 21	104.890	-.755		2.933	+8	8/9	CBBT	+7	-80

Debt Ceiling Deal

Debt Ceiling Increases

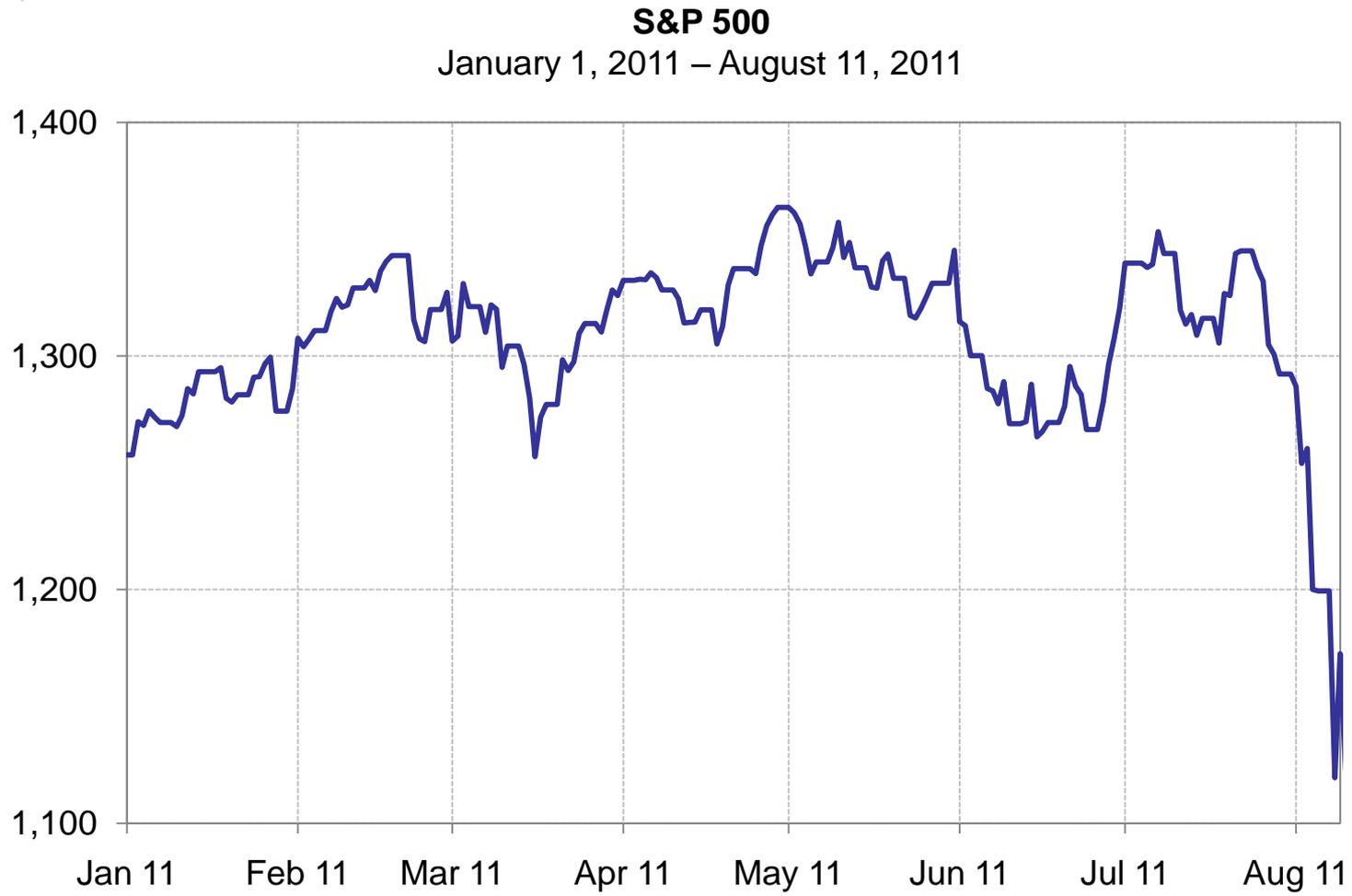


Deficit Reductions



Source: Congressional Budget Office, Financial Times, Bloomberg, CNN, News Daily, Boston Herald
 *Contingent on Joint Committee recommendation

Risk Aversion Sparks “Flight to Quality”



FOMC Statement – August 9, 2011

Committee's Economic Recovery Observations:

- Growth so far this year has been considerably slower than the Committee had expected.
- Recently inflation has moderated as prices of energy and some commodities have declined from their earlier peaks. Longer-term inflation expectations have remained stable.
- Temporary factors—higher food and energy prices negative impact on consumer purchasing power and spending and supply chain disruptions associated with the events in Japan—appear to account for only some of the recent weakness in economic activity.

Committee's Response: Interest Rates and Stimulus

- To promote the ongoing economic recovery and to help ensure that inflation is at levels consistent with its mandate, the target range for the federal funds rate will remain at 0% to 0.25%.
- The target rate will remain exceptionally low at least through mid-2013.
- Committee discussed the range of policy tools available to promote a stronger economic recovery in a context of price stability. It will continue to assess the economic outlook in light of incoming information and is prepared to employ these tools as appropriate.

Disclaimer

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