August 31, 2011

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City of Surprise
Investment Guidelines and Objectives
Month Ended August 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:

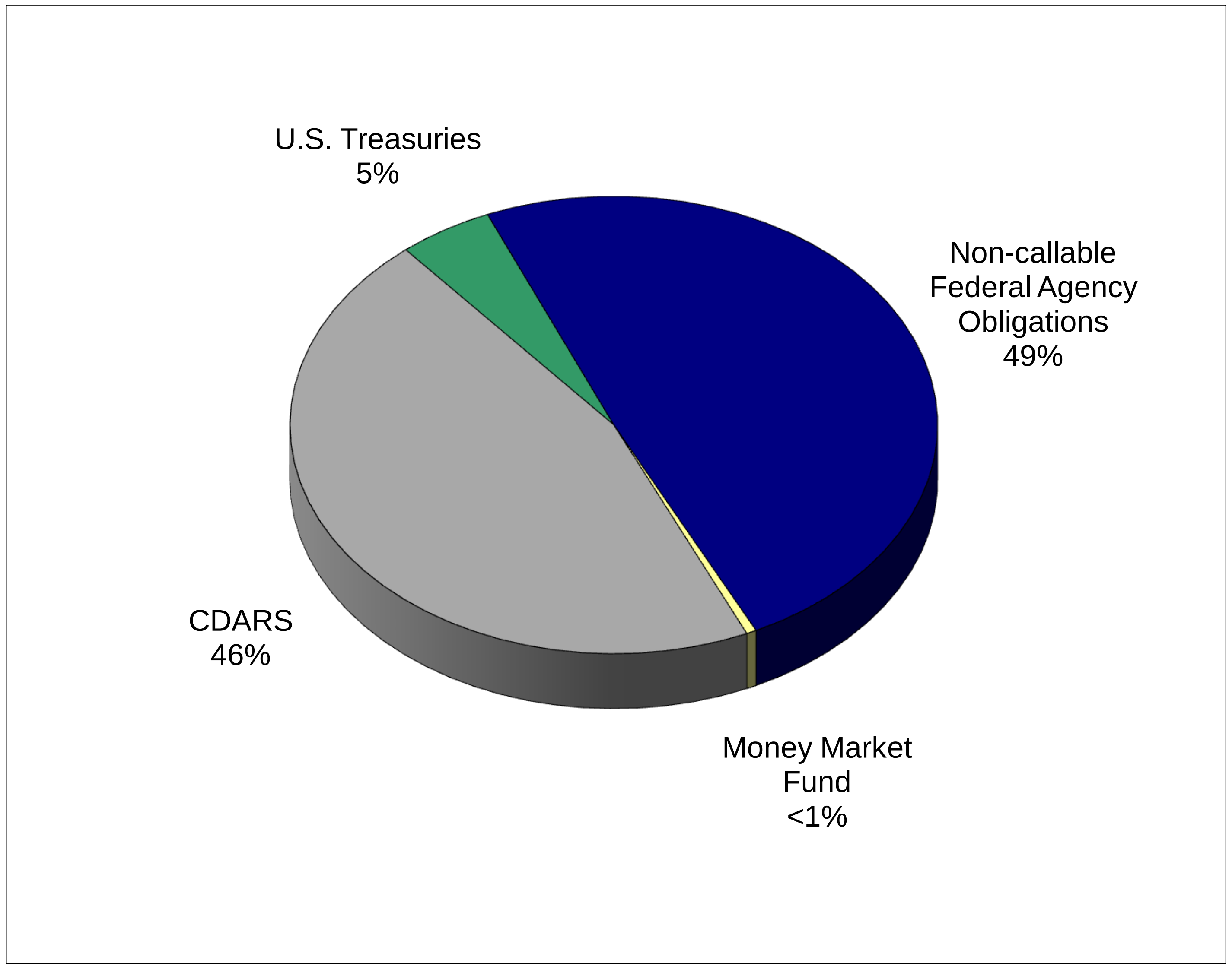
- Permitted Investments. The City will invest in permitted securities consistent with A.R.S.§35-323. Additionally, the City may desire to be more conservative in its investment portfolio and restrict or prohibit certain of the investments outlined in the Investment Policy.
- Transactions prior to maturity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

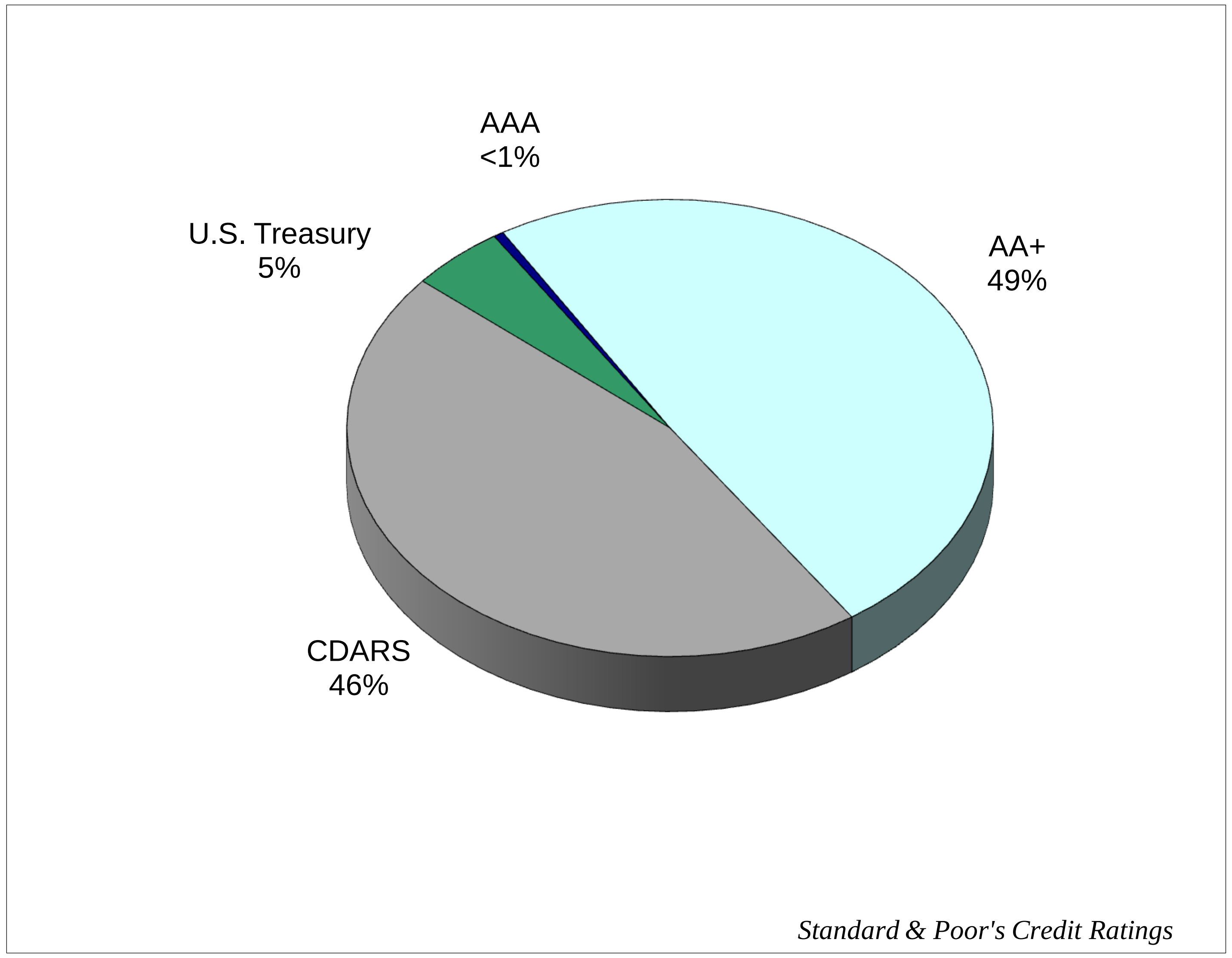
Month Ended August 31, 2011

Security Type	Current Holdings*	Current Month % of Portfolio	Previous Month % of Portfolio
U.S. Treasury	**$3,109,312.50**	**5%**	5%
Federal Agency	**$32,318,618.85**	**49%**	49%
Callable Federal Agency	$0.00	0%	6%
Non-callable Federal Agency	$32,318,618.85	49%	43%
CDARS	**$30,000,000.00**	**46%**	46%
Wells Fargo MMF	**$330,786.76**	<1%	<1%
Total Market Value	**$65,758,718.11**	**100%**	**100%**

Sector Distribution



Credit Quality Distribution



Standard & Poor's Credit Ratings

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 August 31, 2011

Maturity Distribution Summary

Maturity Class	Fair Value*	% of Portfolio
Under 6 Months	**$20,330,786.76**	**30.9%**
6 - 12 Months	**$10,000,000.00**	**15.2%**
1 - 2 Years	**$16,215,409.19**	**24.7%**
2 - 3 Years	**$19,212,522.16**	**29.2%**
3 Years and Over	**$0.00**	**0.0%**
Total Market Value	**$65,758,718.11**	**100%**

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

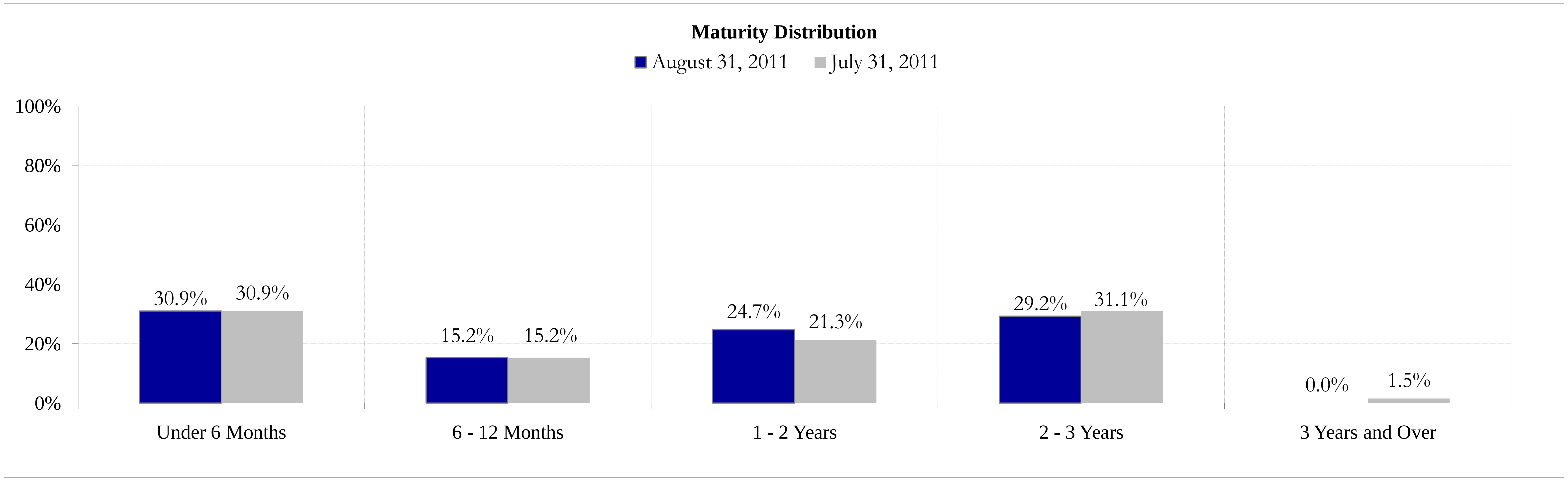
Key Portfolio Statistics

Effective Duration[1]	**1.60 years**
Benchmark Duration[2]	**1.78 years**
Yield at Cost	**0.73%**

1. Duration to worst as of 08/31/2011 was 1.88
2. The City's benchmark is the Merill 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.



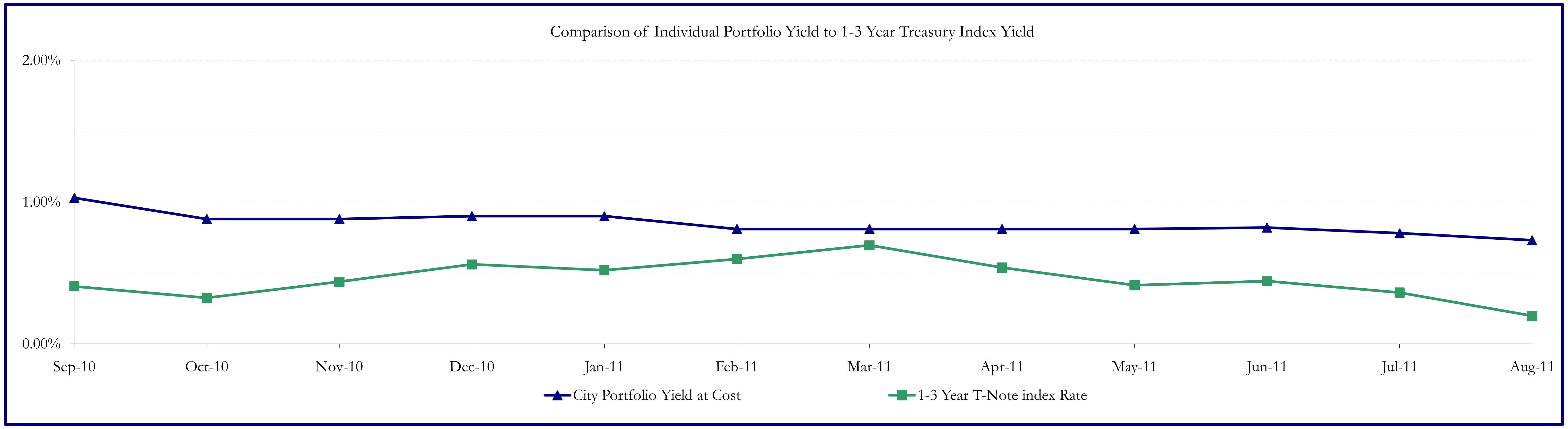
City of Surprise Individual Portfolio Yield Summary
Trailing 12 Months

Date	Month-End Market Value[1]	Duration[2]	Portfolio YTM at Cost[2]	1-3 Year T-Note Index Rate[3]
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%
Aug-11	$35,758,718	1.60	0.73%	0.20%

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

[2] Excludes CDARS and custoday account MMF

[2] Rate represents the Merrill Lynch 1-3 Year U.S. Treasury Note Index month-end yield. Source Bloomberg

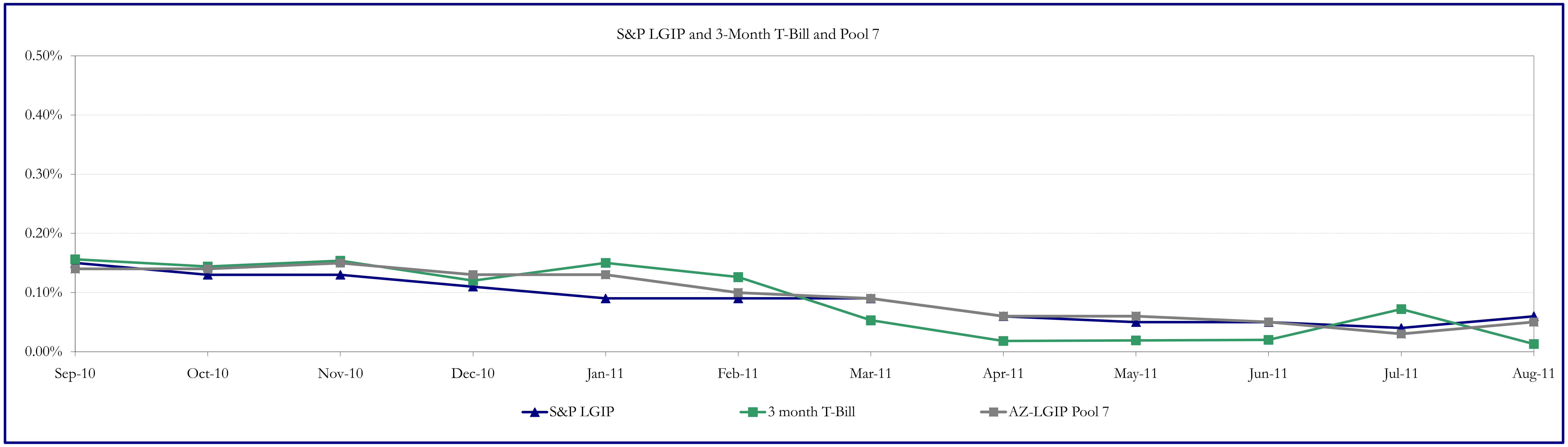


City of Surprise Short-Term Benchmark Comparisons
Trailing 12 Months

Date	S&P LGIP	AZ-LGIP Pool 7[1]	3 month Treasury Bill[2]
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%
Aug-11	0.06%	0.05%	0.01%

[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 August 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	8/31/2011	0.00	$330,787	0.01%		
Alliance Bank (CDARS)	9/29/2011	0.08	$15,000,000	1.01%		
Alliance Bank (CDARS)	12/29/2011	0.33	$5,000,000	0.88%		
Alliance Bank (CDARS)	6/29/2012	0.83	$10,000,000	0.66%		
FNMA	10/30/2012	1.17	$2,508,618	0.77%		
FHLMC	11/30/2012	1.25	$3,003,540	0.66%		
FHLMC	12/21/2012	1.31	$2,099,202	1.09%		
FNMA	2/26/2013	1.49	$3,065,331	0.83%		
FHLMC	4/15/2013	1.63	$1,240,638	0.56%		
FNMA	6/26/2013	1.82	$2,042,362	1.41%		
FNMA	8/9/2013	1.94	$1,253,123	0.36%		
FHLB	8/28/2013	1.99	$1,002,596	0.57%		
FFCB	9/16/2013	2.04	$5,001,295	0.43%		
FNMA	9/23/2013	2.06	$5,060,185	0.73%		
U.S. Treasury	11/15/2013	2.21	$3,109,313	0.81%		
FHLB	12/27/2013	2.33	$2,526,350	0.71%		
FNMA	2/27/2014	2.49	$1,244,775	0.44%		
FHLMC	8/27/2014	2.99	$1,013,663	0.94%		
FHLMC	8/27/2014	2.99	$1,256,942	0.54%		
Total Market Value			**$ 65,758,718**			

Managed Account Detail of Securities Held

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	AA+	Aaa	12/01/10	12/02/10	3,062,117.58	0.81	4,576.22	3,069,132.21	3,109,312.50
Security Type Sub-Total		**3,090,000.00**					**3,062,117.58**	**0.81**	**4,576.22**	**3,069,132.21**	**3,109,312.50**
Federal Agency Bond / Note											
FANNIE MAE GLOBAL NOTES DTD 10/08/2010 0.500% 10/30/2012	31398A4T6	2,500,000.00	AA+	Aaa	02/16/11	02/16/11	2,488,575.00	0.77	4,201.39	2,492,190.65	2,508,617.50
FHLMC NOTES DTD 10/22/2010 0.375% 11/30/2012	3137EACP2	3,000,000.00	AA+	Aaa	12/01/10	12/02/10	2,982,900.00	0.66	2,843.75	2,989,281.96	3,003,540.00
FHLMC GLOBAL REFERENCE NOTES DTD 12/17/2007 4.125% 12/21/2012	3137EABE8	2,000,000.00	AA+	Aaa	06/23/10	06/24/10	2,148,600.00	1.09	16,041.67	2,078,347.10	2,099,202.00
FNMA NOTES DTD 01/18/2011 0.750% 02/26/2013	3135G0AK9	3,045,000.00	AA+	Aaa	02/02/11	02/03/11	3,039,747.38	0.83	317.19	3,041,207.27	3,065,331.47
FHLMC GLOBAL NOTES DTD 03/04/2010 1.625% 04/15/2013	3137EACJ6	1,215,000.00	AA+	Aaa	10/28/10	11/01/10	1,246,602.15	0.56	7,458.75	1,235,924.88	1,240,637.72
FNMA GLOBAL NOTES DTD 05/21/2010 1.500% 06/26/2013	31398AT44	2,000,000.00	AA+	Aaa	06/16/10	06/17/10	2,005,560.00	1.41	5,416.67	2,003,370.58	2,042,362.00
FNMA NOTES DTD 06/17/2011 0.500% 08/09/2013	3135G0BR3	1,250,000.00	AA+	Aaa	08/26/11	08/29/11	1,253,437.50	0.36	381.94	1,253,427.71	1,253,122.50
FHLB GLOBAL NOTES DTD 07/21/2011 0.500% 08/28/2013	313374Y61	1,000,000.00	AA+	Aaa	07/20/11	07/21/11	998,610.00	0.57	41.67	998,682.50	1,002,596.00
FFCB (FLOATING) NOTE DTD 09/16/2010 0.330% 09/16/2013	31331JG64	5,000,000.00	AA+	Aaa	10/12/10	10/13/10	5,000,000.00	0.43	3,536.11	5,000,000.00	5,001,295.00
FANNIE MAE GLOBAL NOTES DTD 08/06/2010 1.000% 09/23/2013	31398A2S0	5,000,000.00	AA+	Aaa	10/12/10	10/13/10	5,038,650.00	0.73	21,944.44	5,027,144.35	5,060,185.00
FHLB NOTES DTD 11/18/2010 0.875% 12/27/2013	313371UC8	2,500,000.00	AA+	Aaa	06/30/11	06/30/11	2,510,225.00	0.71	3,888.89	2,509,534.65	2,526,350.00
FNMA GLOBAL NOTES DTD 02/01/2011 1.250% 02/27/2014	3135G0AP8	1,220,000.00	AA+	Aaa	08/15/11	08/15/11	1,244,900.20	0.44	169.44	1,244,466.12	1,244,774.54

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	AA+	Aaa	07/19/11	07/20/11	1,001,860.00	0.94	111.11	1,001,791.21	1,013,663.00
FHLMC NOTES DTD 07/05/2011 1.000% 08/27/2014	3137EACV9	1,240,000.00	AA+	Aaa	08/26/11	08/29/11	1,257,099.60	0.54	137.78	1,257,068.09	1,256,942.12
Security Type Sub-Total		**31,970,000.00**					**32,216,766.83**	**0.72**	**66,490.80**	**32,132,437.07**	**32,318,618.85**
Managed Account Sub-Total		**35,060,000.00**					**35,278,884.41**	**0.73**	**71,067.02**	**35,201,569.28**	**35,427,931.35**
Securities Sub-Total		**$35,060,000.00**					**$35,278,884.41**	**0.73%**	**$71,067.02**	**$35,201,569.28**	**$35,427,931.35**
Accrued Interest											**$71,067.02**
Total Investments											**$35,498,998.37**

Callable Securities Once Again Offer Value

Trade Type	Purchase Date	Settle Date	Security	Coupon	Final Maturity	Par	Yield
Sell	9/1/11	9/20/11	Fannie Mae Global Notes	0.500	10/30/12	$2,500,000	0.25%
Buy	9/1/11	9/20/11	FHLMC Callable Global Notes	0.600	9/20/13	$2,500,000	0.60%

- For some time, new issuance levels for callable securities have been priced at somewhat narrow yield spreads relative to bullet Agencies. And, following the announcement of the Federal Reserve, last month, the significant, immediate drop in yields lessened the value of callable securities in the market.
- However, over the past few weeks we have seen value return to the callable Agency sector as a spike in volatility has made callables more attractive.
- The callable security purchased for the City's portfolio has a very desirable yield in the current environment and is callable one time in six months with a final maturity of two years.

Reinvestment Of Called Securities

Purchase Date	Security	Coupon	Maturity	Par	Yield
8/15/11	FNMA Notes	1.250	2/27/14	$1,220,000	0.44%
8/26/11	FNMA Notes	0.500	8/9/13	$1,250,000	0.36%
8/26/11	FHLMC Notes	1.000	8/27/14	$1,240,000	0.54%

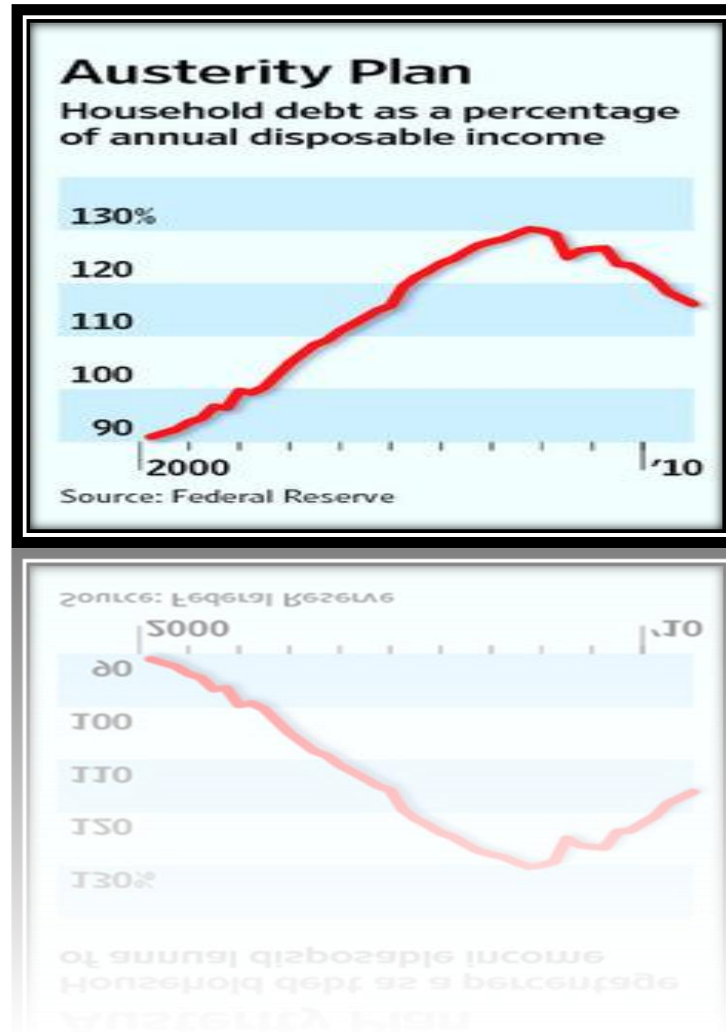
- Three Federal Agency securities with maturities ranging from 2 to 3 years were purchased with the proceeds of called securities during the month.
- While yields are at all time lows, the yield advantage of an Agency security over a Treasury security has widened, increasing the relative value of the Agency sector.
- 2 to 3-year Agency bullets are particularly attractive, offering rates much higher than short investments and include good roll-down characteristics.
- In addition, at 2 to 3 years maturity, by the time the Fed might begin raising rates in mid-2013, this will be only a 6- to 12-month investment with limited market risk.

Market Update

No Change Here…

Household Debt Trending Down

- U.S. household net worth seems to be slowly recovering from the 23% slump during the recession, growing 1.2% to $58.1 trillion in the first quarter of 2011, but still well below the peak of $65.8 trillion in June 2007.
- Looking at the total household debt to disposable income ratio shows that consumers are deleveraging, however, the current level of 114% still remains well above the 60% – 80% levels of the 1980’s.
- Total consumer debt outstanding declined $50 billion to $11.4 trillion in the second quarter, however, consumers did not reduce their debt as much as banks charged off these debts.
- Credit limits are up 2% in the second quarter, which is usually a sign that credit markets are improving.
- Still, unemployment and underemployment are high and need to be significantly reduced in order to strengthen the recovery.



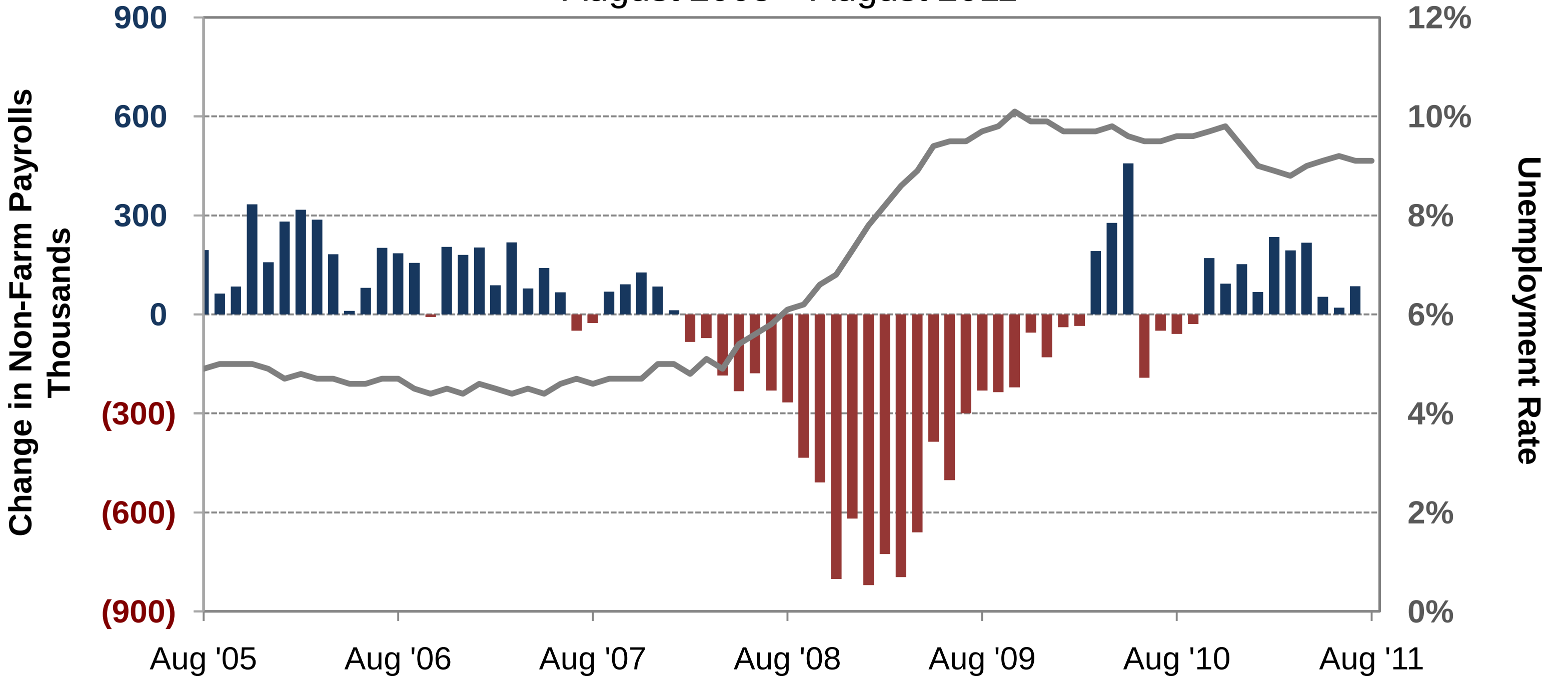
Source: Bloomberg

Companies Reluctant To Hire

- Zero nonfarm payroll jobs were created during the month of August. The prior month's 85,000 was revised down from 115,000. Economists projected a 60,000 increase for the month of August. Private sector growth for service jobs was stronger than for goods-producing jobs. While goods-producing jobs dropped 3,000, following a 52,000 rise in the prior month, service-producing jobs increased 20,000, following a 104,000 increase in July. Apparently, companies were reluctant to hire following the recent debt ceiling debate and the stock market decline. The actual unemployment rate was unchanged at 9.1% and met the market consensus.

Change in Non-Farm Payrolls/ Unemployment Rate

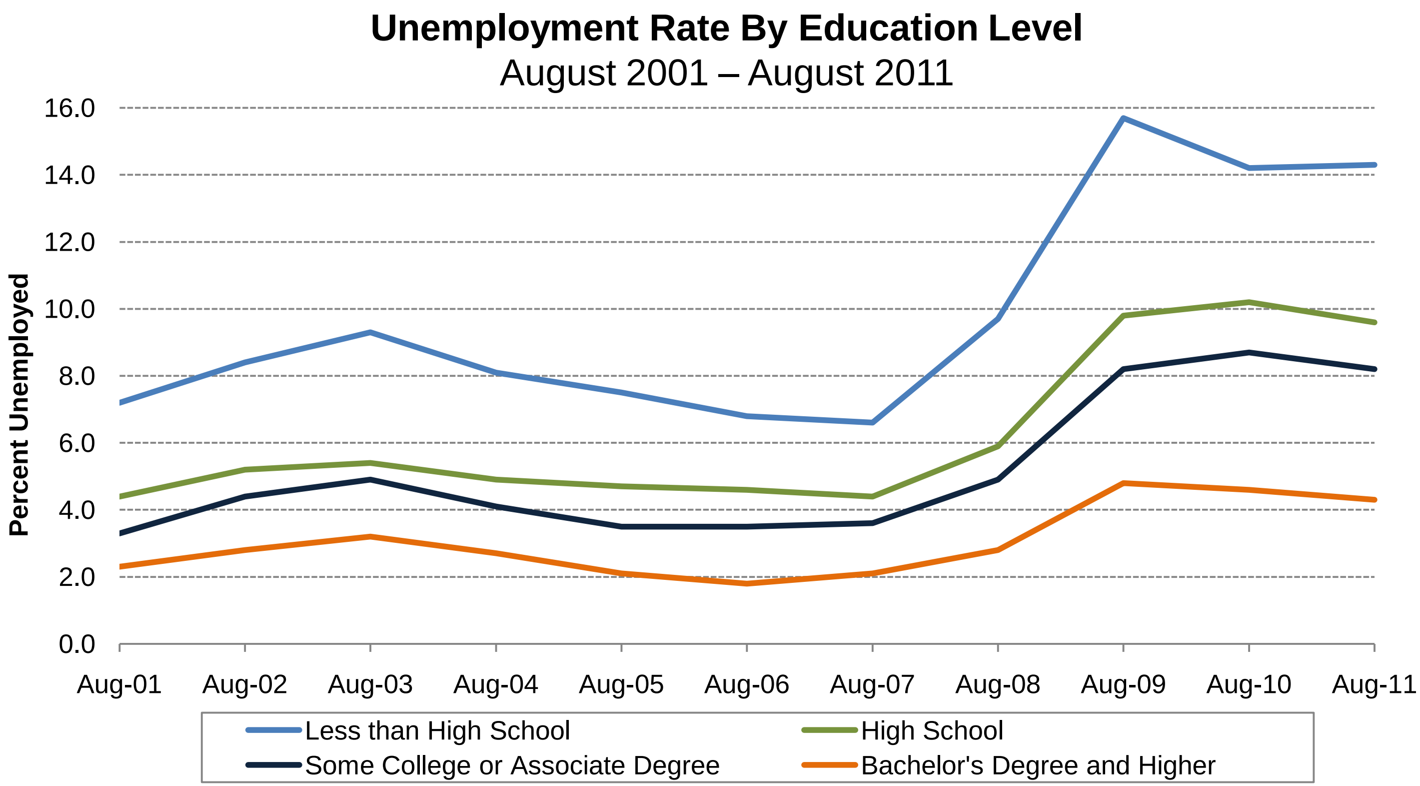
August 2005 – August 2011



Source: Bloomberg

Low Education Level Results In Over 14% Unemployment

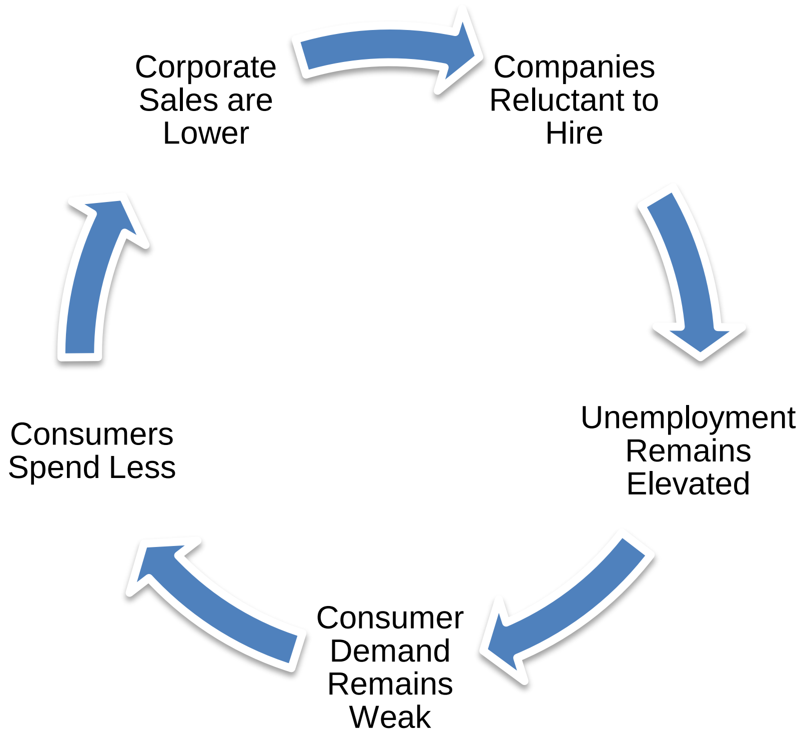
- The headline unemployment rate of 9.1% doesn't tell the entire story of the state of the labor force in America. While unemployment has risen in all of the categories presented below, those with less education are being hit the hardest by the recession. Jobs that require more education remain in fairly high demand; unemployment for those with a bachelor's degree or higher reached just 4.5% at the height of the recession. On the other hand, the unemployment rate for those with less than a high school degree has remained at over 14% for the past two years.



Source: Bureau of Labor Statistics

The Vicious Cycle Continues

- High unemployment causes consumers to pull back spending, which leads to lower corporate sales. As revenues decline, companies become reluctant to hire, which in turn causes unemployment to remain elevated. Consumer demand remains weak because consumers have less money to spend. From this point on the cycle starts all over again, until eventually employment picks up and consumption increases.



Source: Bloomberg

Putting America Back To Work

- Consumption makes up about 70% of the entire economy, thus, as the demand for goods and services increases, the economy grows and new jobs are created.

  How to create demand?

- Federal Reserve officials recently suggested buying bonds with long maturities and selling short maturities, which would lower yields on the long-end of the yield curve, and raise yields on the short-end.
- With lower long-term interest rates, the Fed also hopes to encourage companies to borrow, expand and hire more people.
- Long-term borrowing costs would be reduced, which would allow consumers to refinance long-term debt, such as mortgages or student loans at lower cost.
- Disposable income would increase, as would the demand for goods and services, which in turn would create new jobs.
- On the downside, pre-payments on mortgages and student loans would speed-up and investors of asset-backed securities would lose out on interest, as they would need to reinvest the proceeds at the lower rate.

Source: Bloomberg

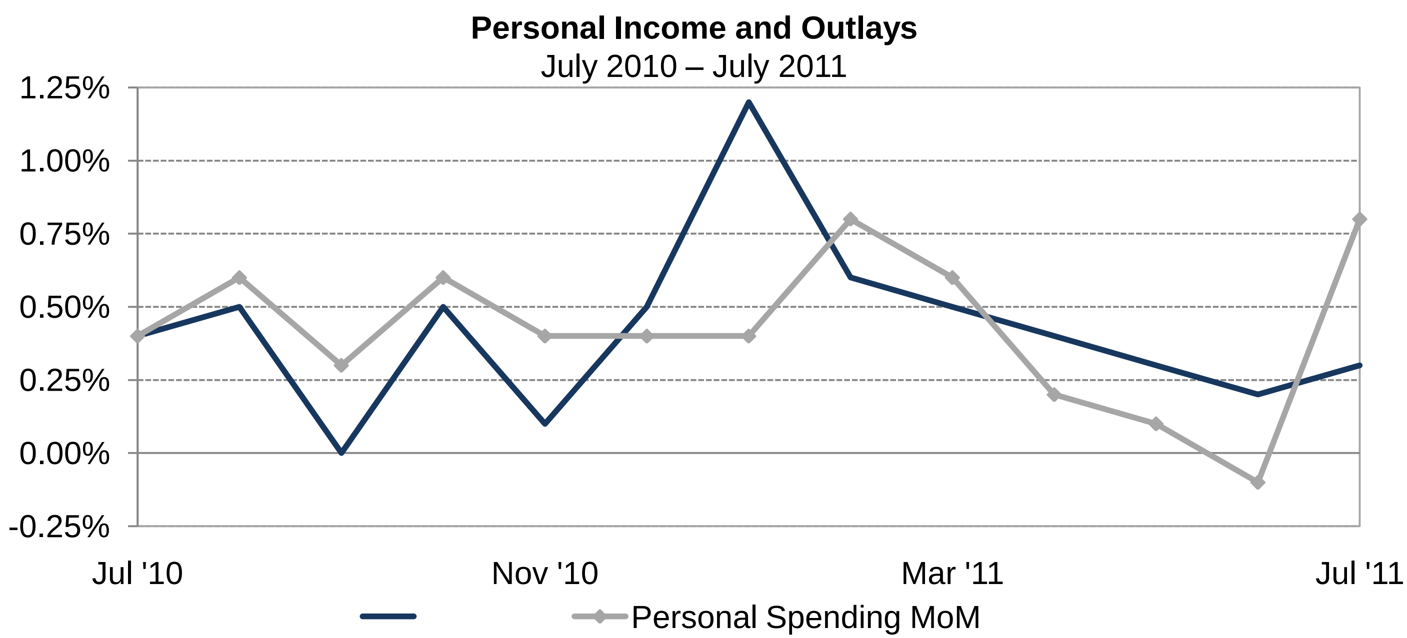
European Slowdown May Impact Global Recovery

- Economic growth in Europe dropped to 0.2% in the second quarter from 0.8% in the first.
- Manufacturing, business activity and consumer confidence declined in the second quarter for the first time since 2009 and may continue in the third.
- The ECB has increased its benchmark interest rate twice from 1% to 1.5% this year and might be forced to cut rates in light of the weak economic data.
- ECB President, Jean-Claude Trichet mentioned earlier this week, that the ECB might reverse its monetary tightening policy, signaling that interest rate cuts may be on their way.
- As concerns over Germany’s influence in the European Financial Stability Facility (EFSF) are growing, German Chancellor Merkel is losing support, not only from voters but also from members of her center-right coalition, which could lead to further pressure on the euro.

Source: Bloomberg

Personal Income And Consumption Increase

- Consumer spending and personal income advanced nicely in July, following a 0.1% decline in consumption expenditures and a 0.2% jump in personal income in the prior month. While personal income growth matched the consensus of 0.3%, consumer spending rose 0.8%, beating analysts' expectations for a 0.5% increase. The 0.3% spike in disposable income helped boosting sales of durable goods, which rose 1.9% after declining 1.1% in June. Non-durable goods and services advanced 0.7%, following a 0.5% drop and a 0.1% increase in June, respectively. On the inflation side, the headline PCE price index rose 0.4%, primarily due to higher food and energy costs. Core PCE advanced 0.2%, which was in-line with the market consensus.

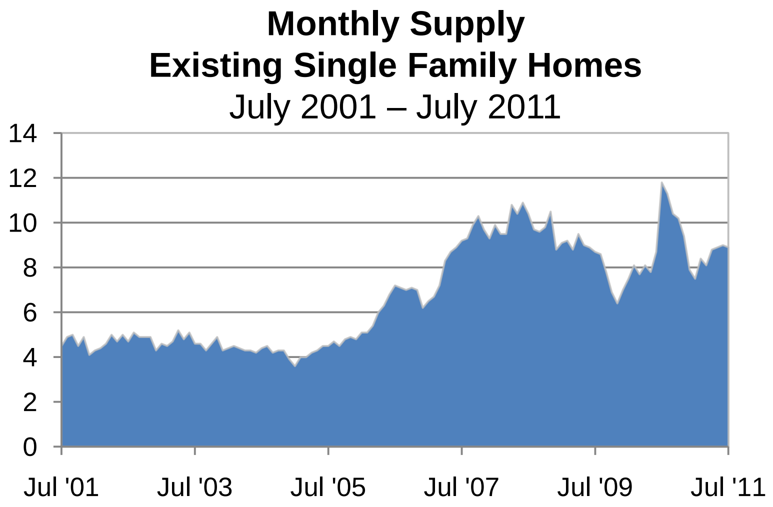


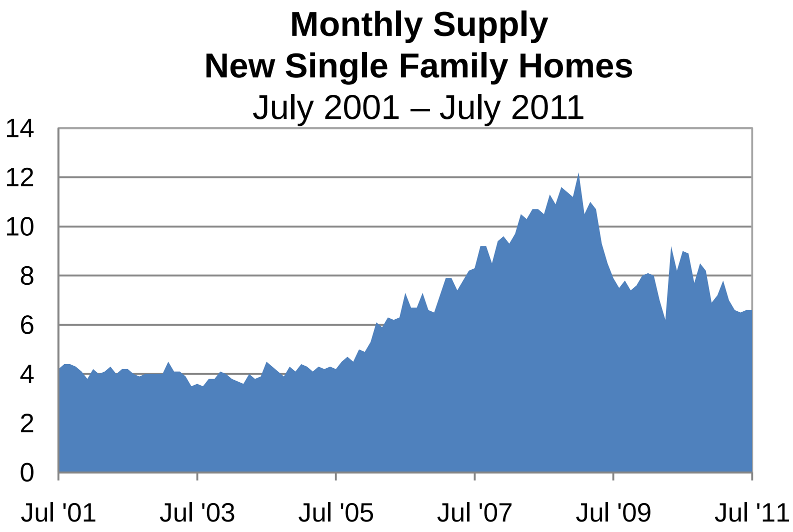
Personal income includes wages and salaries, fringe benefits such as employer contributions of private pension plans, proprietors' income, income from rent, dividends and interest and transfer payments less contributions for social insurance.
Personal outlays include consumption expenditures, interest payments, and transfer payments. Consumption expenditures make of a major portion of outlays and give an advanced indication of the quarterly consumption component of GDP.

Source: Bloomberg

Real Estate Market Still Under Pressure

- Prior to the housing boom and following recession, monthly supply of new single family homes hovered around a reading of 4. After the new homes supply peaked in January 2009 at 12.2, supply has fluctuated but gradually declined to 6.6 in July 2011. The monthly supply of existing homes, however, surged from 7.5 to 8.9 this year, due to an increase in foreclosures and short sales. The total count of non-current delinquent homes rose 1.3% from the prior month to 6,538,100 in July. The average number of days for delinquent homes to reach foreclosure increased to 599 days from 587 days in June. The delay in processing foreclosures and the increase in delinquencies indicate that there will be more foreclosures coming down the pipeline and adding pressure on the housing sector.





Housing Starts represent the number of privately owned new houses on which construction has been started in a given period. This data is divided into three types: single-family houses, townhouses or small condos, and apartment buildings with five or more units.

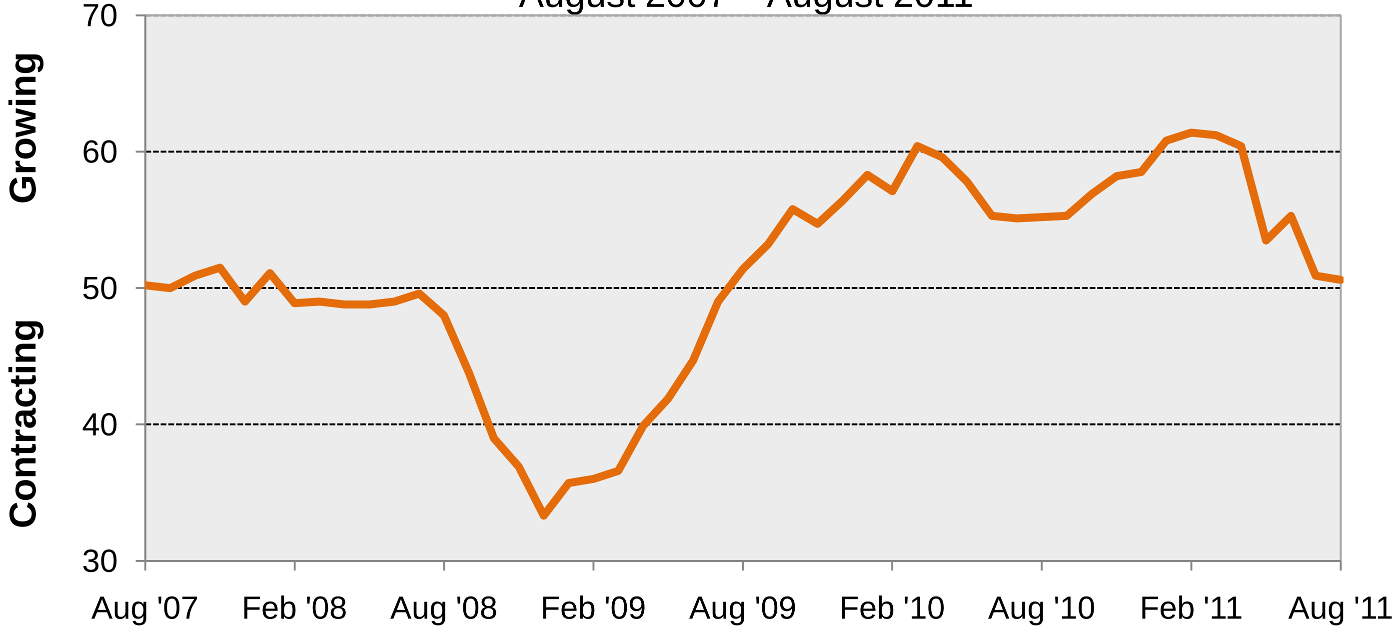
Source: Bloomberg

Manufacturing Expands At A Slow Rate

- Manufacturing in the U.S. expanded in August, beating the forecast of 48.5. The ISM's manufacturing index dropped to 50.6 from the 50.9 in the previous month. The reading for August still indicates expansion, though at a slower rate than in July. The index was pulled back by high unemployment and a decline in production. On the positive side, lower commodity prices reduced the pressure on the manufacturing sector. New orders rose a modest four tenths to 49.2 from July, which is a plus in this report, given the shocks in August.

ISM Manufacturing Composite Index

August 2007 – August 2011



ISM manufacturing is created from a qualitative survey of manufacturing firms covering new orders, production, employment, supplier deliveries, and inventories. Historically, readings of 50 or above are associated with an expanding manufacturing sector and healthy GDP growth. Readings below 50 indicate a contracting manufacturing sector, but GDP growth is still positive until the ISM index falls below 42.7.

Source: Bloomberg

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