

FLORIDA SURPLUS ASSET FUND TRUST
Orlando, Florida

FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2012 and 2011



CliftonLarsonAllen

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Florida Surplus Asset Fund Trust
Orlando, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Florida Surplus Asset Fund Trust ("FL SAFE"), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FL SAFE as of December 31, 2012 and 2011, and the results of operations and the changes in net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

Denver, Colorado
April 26, 2013

**FLORIDA SURPLUS ASSET FUND TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012 and 2011**

Florida Surplus Asset Fund Trust ("FL SAFE") is a local government investment pool ("LGIP") trust fund which began operations on February 5, 2008. FL SAFE is organized under Florida Statutes §163-01, *et seq.* As such a LGIP trust, FL SAFE pools and invests the funds of its Florida local government participants within the Investment Policy, established by the FL SAFE Board, and limitations set forth in FL SAFE's Indenture of Trust and Florida Statutes §218-415, *et seq.*

FL SAFE is overseen by a Board of Trustees comprised of Florida local government officials, who are themselves participants in FL SAFE as the investment officer or designee for their own local government. Investment securities are held in a trust custody account at BMO Harris N.A. CliftonLarsonAllen LLP serves as the independent auditor to FL SAFE. Davidson Fixed Income Management, Inc. ("DFIM") provided investment advisory and operational services to FL SAFE until October 31, 2011. DFIM also provided administration services to FL SAFE until May 31, 2011. Effective June 1, 2011, Florida Management and Administration Services, LLC ("FMAS") serves as FL SAFE's Administrator. Effective November 1, 2011, Prudent Man Advisors, Inc., an investment adviser registered with the U.S. Securities and Exchange Commission, serves as FL SAFE's investment adviser. Also effective November 1, 2011, PMA Financial Network, Inc. serves as FL SAFE's operational manager and PMA Securities, Inc. serves as the distributor.

The primary objectives of FL SAFE are to provide safety, liquidity, transparency and yield for Florida government entities. Eligible FL SAFE participants include all Florida governments, including but not limited to, school districts, higher education institutions, counties, municipalities and special districts. In addition, FL SAFE is rated AAAM by the Standard & Poor's Corporation ("S&P"). S&P has requirements that further govern the composition of investments, the average maturity of the investments and the types of investments. FL SAFE reports to S&P on a weekly basis and is subject to an annual rating review.

FINANCIAL HIGHLIGHTS

- FL SAFE's net position totaled \$150.04 million as of December 31, 2012, up from \$141.25 million on December 31, 2011. The increase is attributed to participant subscriptions in excess of withdrawals for the year.
- The composition of investments shifted from floating rate U.S. government agency securities and uncollateralized bank deposits to bankers acceptances, a repurchase agreement and a greater concentration of collateralized bank deposits. As of December 31, 2012, approximately 4.9% of FL SAFE's assets were invested in fixed rate U.S. government agency securities, 15.4% in floating rate U.S. government agency securities, 4.8% in bankers acceptances, 15.3% in commercial paper, 6.7% in a repurchase agreement, 38.9% in collateralized bank deposits and 14.1% in uncollateralized bank deposits.
- Net investment income decreased in 2012 compared to 2011, totaling \$0.17 million. The average net yield of an investment in FL SAFE was 0.10% for 2012 and 0.11% for 2011.

**FLORIDA SURPLUS ASSET FUND TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012 and 2011**

FL SAFE Asset Summary

The changes in FL SAFE's net position are the result of investment earnings, combined with purchases and redemptions of shares by participants. Assets as of the year ended December 31, 2012 were up 6% from 2011 which were down 23%, from the prior year. FL SAFE primarily invests in U.S. agency securities, highly rated commercial paper, bank deposits, repurchase agreements and bankers acceptances.

FL SAFE maintained a per share value of \$1.00 per share throughout 2011 and 2012. Shown below is a summary of the net position of FL SAFE.

**Table 1
Net Position
(in Millions)**

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|---|------------------|------------------|------------------|
| ASSETS | | | |
| Investments | | | |
| US government agency securities | \$ 30.32 | \$ 35.03 | \$ 36.27 |
| Bankers acceptances | 7.15 | - | - |
| Bank certificates of deposit | - | - | - |
| Commercial paper | 22.99 | 27.23 | 53.29 |
| Repurchase agreement | 10.00 | - | - |
| Total investments | 70.46 | 62.26 | 89.56 |
| Cash and cash equivalents | 79.64 | 79.18 | 93.88 |
| Other assets | | | |
| Accrued interest | 0.17 | 0.03 | 0.04 |
| Prepaid Expenses | 0.02 | - | - |
| Total assets | <u>150.29</u> | <u>141.47</u> | <u>183.48</u> |
| LIABILITIES | | | |
| Accrued expenses | 0.05 | 0.02 | 0.03 |
| Deposit by investment advisor | 0.20 | 0.20 | 0.10 |
| Total liabilities | <u>0.25</u> | <u>0.22</u> | <u>0.13</u> |
| Net position applicable to shares outstanding | <u>\$ 150.04</u> | <u>\$ 141.25</u> | <u>\$ 183.35</u> |
| Net asset value per share | <u>\$ 1.00</u> | <u>\$ 1.00</u> | <u>\$ 1.00</u> |

FL SAFE's ending net position are the result of investment earnings combined with purchases and redemptions of shares by participants. Changes in net position for the year ended December 31, 2012 were mostly the result of participant transactions comprised of \$94.99

**FLORIDA SURPLUS ASSET FUND TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012 and 2011**

million of purchases, \$86.37 million of redemptions and \$0.17 million of net investment income resulting in net position of \$150.04 million. FL SAFE's net position increased by \$8.79 million as of December 31, 2012 compared to December 31, 2011. Changes in net position for the year ended December 31, 2011 were mostly the result of participant transactions comprised of \$84.03 million of purchases, \$126.46 million of redemptions and \$0.33 million of net investment income resulting in net position of \$141.25 million. FL SAFE's net position increased by \$42.1 million as of December 31, 2011 compared to December 31, 2010.

**Table 2
Changes in Net Position
(in Millions)**

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|---|-------------------------|-------------------------|-------------------------|
| Increase in net assets attributed to operations - net income | \$ 0.17 | \$ 0.33 | \$ 0.31 |
| Share transactions | | | |
| Net proceeds from sale of shares | 94.99 | 84.03 | 91.86 |
| Cost of shares redeemed | <u>(86.37)</u> | <u>(126.46)</u> | <u>(105.90)</u> |
| Net increase (decrease) in net position derived from share transactions | <u>8.62</u> | <u>(42.43)</u> | <u>(14.04)</u> |
| Net increase (decrease) in net position | 8.79 | (42.10) | (13.73) |
| Net position at beginning of year | <u>141.25</u> | <u>183.35</u> | <u>197.08</u> |
| Net position at end of year | <u>\$ 150.04</u> | <u>\$ 141.25</u> | <u>\$ 183.35</u> |

Currently Known Facts, Decisions or Conditions

Changes in interest rates, changes in the number of participating governments and investment decisions of those Florida government entities are the primary drivers of FL SAFE's net position and changes in net position.

Requests for Information

This financial report is designed to provide a general overview of FL SAFE's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Jeffrey T. Larson, President, Florida Management and Administrative Services, Administrator, FL SAFE, 10151 University Blvd., #227, Orlando, Florida 32817.

FLORIDA SURPLUS ASSET FUND TRUST (FL SAFE)
STATEMENTS OF NET POSITION
December 31, 2012 and 2011

| | 2012 | 2011 |
|---|----------------|----------------|
| ASSETS | | |
| Investments in securities | | |
| US government agency securities | \$ 23,010,052 | \$ 35,026,792 |
| US government agency securities - long term | 7,311,517 | - |
| Bankers acceptances | 7,153,149 | - |
| Commercial paper | 22,985,129 | 27,229,909 |
| Repurchase agreement | 10,000,000 | - |
| Total investments in securities | 70,459,847 | 62,256,701 |
| Cash and cash equivalents | 79,646,157 | 79,184,740 |
| Other assets | | |
| Accrued interest | 166,760 | 31,970 |
| Prepaid expenses | 16,946 | - |
| Total assets | 150,289,710 | 141,473,411 |
| LIABILITIES | | |
| Accrued expenses | 45,248 | 24,221 |
| Deposit by investment advisors | 200,000 | 200,000 |
| Total liabilities | 245,248 | 224,221 |
| Net position applicable to shares outstanding | \$ 150,044,462 | \$ 141,249,190 |
| SHARES OUTSTANDING | 150,321,180 | 141,568,512 |
| NET ASSET VALUE PER SHARE | \$ 1.00 | \$ 1.00 |

The accompanying notes are an integral part of the basic financial statements.

FLORIDA SURPLUS ASSET FUND TRUST (FL SAFE)
STATEMENTS OF OPERATIONS
Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|--|-------------------|-------------------|
| CONTRIBUTIONS & INVESTMENT INCOME | | |
| Investment income | \$ 391,351 | \$ 570,799 |
| Contributions | 16,446 | 97,002 |
| Gain on investments | 849 | - |
| Total income | 408,646 | 667,801 |
| Fees and expenses | | |
| Audit fees | 43,056 | 42,020 |
| Advisory and operational fees | 42,963 | 129,684 |
| Administrator fees | 89,854 | 53,394 |
| Cash management expense | 8,757 | 11,286 |
| Custodian expense | 17,786 | 27,112 |
| Filing fees | - | 775 |
| Insurance expense | 15,671 | 27,087 |
| Internet expense | - | 7,624 |
| Legal fees | 10,566 | 26,009 |
| Ratings expense | 9,102 | 9,943 |
| Miscellaneous expenses | 1,517 | 1,501 |
| Board expenses | 1,940 | 2,597 |
| Total fees and expenses | 241,212 | 339,032 |
| NET INCREASE IN NET POSITION RESULTING FROM OPERATIONS - NET INCOME | | |
| | \$ 167,434 | \$ 328,769 |

The accompanying notes are an integral part of the basic financial statements.

FLORIDA SURPLUS ASSET FUND TRUST (FL SAFE)
STATEMENTS OF CHANGES IN NET POSITION
Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|--|-----------------------|-----------------------|
| Increase in net position attributed to | | |
| Operations - net income | \$ 167,434 | \$ 328,769 |
| Share transactions | | |
| Net proceeds from sales of shares | 94,993,311 | 84,033,382 |
| Cost of shares redeemed | <u>(86,365,473)</u> | <u>(126,466,184)</u> |
| Net increase (decrease) in net position derived from share transactions | <u>8,627,838</u> | <u>(42,432,802)</u> |
| Net increase (decrease) in net position | 8,795,272 | (42,104,033) |
| NET POSITION, BEGINNING OF YEAR | <u>141,249,190</u> | <u>183,353,223</u> |
| NET POSITION, END OF YEAR | <u>\$ 150,044,462</u> | <u>\$ 141,249,190</u> |

The accompanying notes are an integral part of the basic financial statements.

FLORIDA SURPLUS ASSET FUND TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Florida Surplus Asset Fund Trust (“FL SAFE”) is a local government investment pool (“LGIP”) trust fund which began operations on February 5, 2008. FL SAFE is organized under Florida Statutes §163-01, *et seq.* As such a LGIP trust, FL SAFE pools and invests the funds of its Florida local government participants within the Investment Policy, established by the FL SAFE Board, and limitations set forth in FL SAFE’s Indenture of Trust and Florida Statutes §218-415, *et seq.*

Following is a summary of significant accounting policies consistently applied by FL SAFE in the preparation of its financial statements. The policies are in conformity with accounting principles generally accepted in the United States of America (“US GAAP”).

Measurement Focus

FL SAFE prepares its financial statements as a special-purpose government entity in conformity with applicable pronouncements of Governmental Accounting Standards Board (GASB). Pursuant to GASB Standards on *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, FL SAFE has elected to apply the provisions of all relevant standards of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, to the extent they do not conflict with or contradict GASB standards.

In accordance with GASB Standards on *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, FL SAFE is an external investment pool and reports its investments at amortized cost. In accordance with GASB Standards on *Deposit and Investment Risk Disclosures*, FL SAFE discloses certain information regarding credit risk, concentration of credit risk, interest rate risk and custodial credit risk of its deposits and investments. As provided for in GASB standards, the financial statements of FL SAFE are presented as a fiduciary fund type-investment trust fund. The accompanying financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting which is required by GASB.

Custodian

BMO Harris Bank N.A. is the custodian for FL SAFE. The custodian is responsible for the safekeeping of all securities.

Valuation of Investments

For the purpose of calculating FL SAFE’s net asset value per share, portfolio securities are valued at amortized cost, which approximates market value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium. The market values of the securities held by FL SAFE are determined on at least a weekly basis using prices supplied from an independent pricing service. These values are then compared to the amortized cost of

FLORIDA SURPLUS ASSET FUND TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the securities. In the event that the difference between the aggregate market price and aggregate amortized cost of the portfolio securities exceeds .25%, the FL SAFE Operations Manager will notify the FL SAFE Administrator, who will consider, in consultation with the FL SAFE Board, what action, if any, should be initiated.

Investment Income

Investment income is recognized on an accrual basis. Distributions from net investment income are declared daily and paid monthly.

Income Taxes

FL SAFE was organized to provide pooling of public funds for local governmental entities in Florida, which are exempt from federal and state income taxation. Accordingly, no provision for income or other taxes is required in the accompanying financial statements.

Use of Estimates

In preparing financial statements in conformity with US GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Pronouncement

The GASB has approved Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. This statement establishes guidance for reporting deferred outflows of resources and deferred inflow of resources. The Statement also discusses how net position – no longer net assets – should be displayed. The provisions for this statement became effective for financial statement reporting period beginning January 1, 2012 and have changed the presentation of the 2012 audited financial statements.

NOTE 2 – CASH DEPOSITS AND INVESTMENTS

Investment Risk Factors

There are many factors that can affect the value of investments, including custodial credit risk, concentration of credit risk and interest rate risk. FL SAFE has established investment policies to provide the basis for the management of a prudent investment program appropriate to maintain a net asset value per share (“NAV”) of \$1.00 and a AAAM rating by Standard and Poors.

FLORIDA SURPLUS ASSET FUND TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits

At December 31, 2012, FL SAFE had \$58,452,913 in deposit accounts that were at least fully collateralized by US Treasury and municipal securities. In addition, FL SAFE had \$21,193,244 in uncollateralized deposits at highly rated banks. Uncollateralized deposits are only utilized within the allowable limits of the Standard & Poor's rating guidelines for the maintenance of the AAAM rating, and per the Board authorized Investment Policy. At December 31, 2011, FL SAFE had \$28,271,438 in deposit accounts that were at least fully collateralized by U.S. government agency securities and \$50,913,302 in uncollateralized deposits at highly rated banks.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, FL SAFE will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, FL SAFE will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. FL SAFE investment securities are held at BMO Harris N.A. for safekeeping; as such, management believes there is minimal custodial credit risk for FL SAFE's investments.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. FL SAFE's investment policy calls for diversifying the investment portfolio according to the Standard & Poor's AAAM rating guidelines, so the impact of potential losses from any one type of security or from any one individual issuer will be contained.

The schedule of investments below shows the concentration of each investment held by FL SAFE.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. FL SAFE attempts to mitigate its interest rate risk by limiting the maturities of its investments.

The maturities of all investments held by FL SAFE are shown in the investment schedule below by specific identification.

Investments in Securities

Pursuant to its Investment Policy, FL SAFE may invest in U.S. government treasury securities, U.S. government agency securities, commercial paper, repurchase agreements collateralized with securities valued in excess of the repurchase agreement amount, certificates of deposit and other evidences of deposit with approved financial institutions, obligations of state and local governments and public authorities rated in the two highest rating tiers by a nationally recognized rating agency, and money market mutual funds regulated by the Securities and

FLORIDA SURPLUS ASSET FUND TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Exchange Commission and whose portfolios consist only of dollar-denominated securities. With the exception of U.S. government agency securities, the maximum maturity allowed for any investment is 397 days.

Investments at December 31, 2012 were as follows:

| Face Amount | Security | Due Date | Percent of Total | Yield | Rating | Carrying Value- Amortized Cost | Market Value |
|-------------------------------|-------------------------------|----------|------------------------|-------|--------|---|-----------------------------|
| US Government Agencies | | | | | | | |
| 15,000,000 | FFCB FRN | 06/14/13 | 21.30% | 0.18% | A-1+ | \$ 15,006,058 | \$ 15,012,855 |
| 8,000,000 | FHLB FRN | 12/27/13 | 11.36% | 0.20% | A-1+ | 8,003,994 | 8,003,200 |
| 7,000,000 | FHLMC | 01/15/14 | 10.38% | 0.20% | A-1+ | 7,311,517 | 7,310,940 |
| Bankers Acceptances | | | | | | | |
| 139,000 | JP Morgan Chase | 01/03/13 | 0.20% | 0.33% | A-1 | 138,998 | 138,998 |
| 340,000 | JP Morgan Chase | 01/18/13 | 0.48% | 0.33% | A-1 | 339,948 | 339,966 |
| 165,000 | JP Morgan Chase | 01/22/13 | 0.23% | 0.33% | A-1 | 164,970 | 164,980 |
| 261,150 | US Bank | 01/25/13 | 0.37% | 0.29% | A-1+ | 261,099 | 261,114 |
| 173,000 | JP Morgan Chase | 01/28/13 | 0.25% | 0.33% | A-1 | 172,959 | 172,973 |
| 234,613 | US Bank | 01/28/13 | 0.33% | 0.56% | A-1+ | 234,516 | 234,576 |
| 188,000 | JP Morgan Chase | 02/04/13 | 0.27% | 0.30% | A-1 | 187,947 | 187,958 |
| 187,000 | JP Morgan Chase | 02/11/13 | 0.27% | 0.31% | A-1 | 186,936 | 186,942 |
| 237,000 | JP Morgan Chase | 03/04/13 | 0.34% | 0.31% | A-1 | 236,878 | 236,841 |
| 500,721 | US Bank | 03/18/13 | 0.71% | 0.35% | A-1+ | 500,362 | 500,245 |
| 526,835 | US Bank | 04/01/13 | 0.75% | 0.30% | A-1+ | 526,440 | 526,165 |
| 180,000 | JP Morgan Chase | 04/15/13 | 0.26% | 0.27% | A-1 | 179,860 | 179,711 |
| 274,674 | US Bank | 04/17/13 | 0.39% | 0.41% | A-1+ | 274,350 | 274,219 |
| 284,552 | US Bank | 04/22/13 | 0.40% | 0.35% | A-1+ | 284,254 | 284,045 |
| 203,852 | US Bank | 04/29/13 | 0.29% | 0.36% | A-1+ | 203,618 | 203,450 |
| 1,020,195 | US Bank | 05/06/13 | 1.45% | 0.32% | A-1+ | 1,019,097 | 1,017,981 |
| 245,000 | JP Morgan Chase | 05/07/13 | 0.35% | 0.27% | A-1 | 244,769 | 244,462 |
| 236,652 | US Bank | 05/17/13 | 0.34% | 0.34% | A-1+ | 236,357 | 236,060 |
| 1,062,295 | US Bank | 05/20/13 | 1.51% | 0.35% | A-1+ | 1,060,900 | 1,059,540 |
| 700,000 | US Bank | 06/05/13 | 0.99% | 0.38% | A-1+ | 698,891 | 697,839 |
| Commercial Paper | | | | | | | |
| 6,000,000 | Bank of Nova Scotia NY | 01/07/13 | 7.10% | 0.36% | A-1 | 4,999,708 | 4,999,884 |
| 5,000,000 | General Electric Capital Crop | 02/25/13 | 7.09% | 0.32% | A-1+ | 4,997,632 | 4,999,184 |
| 5,000,000 | Toronto Dominion Holding Corp | 03/28/13 | 7.09% | 0.32% | A-1+ | 4,996,297 | 4,997,704 |
| 3,000,000 | JP Morgan Chase | 05/15/13 | 4.25% | 0.28% | A-1 | 2,996,873 | 2,998,763 |
| 5,000,000 | Union Bank | 06/05/13 | 7.09% | 0.25% | A-1 | 4,994,619 | 4,990,467 |
| Repurchase Agreement | | | | | | | |
| 10,000,000 | Goldman Sachs | 01/07/13 | 14.19% | 0.21% | A-1 | <u>10,000,000</u> | <u>10,000,000</u> |
| Total Investments | | | | | | <u>\$ 70,459,847</u> | <u>\$ 70,461,062</u> |

FLORIDA SURPLUS ASSET FUND TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments at December 31, 2011 were as follows:

| Face Amount | Security | Due Date | Percent of Total | Yield | Rating | Carrying Value- Amortized Cost | Market Value |
|--------------------------|-------------------------------|----------|------------------------|-------|--------|---|----------------------|
| U.S. Agencies | | | | | | | |
| 15,000,000 | FHLMC FRN | 04/03/12 | 24.09% | 0.28% | A-1+ | \$ 14,998,848 | \$ 15,003,315 |
| 5,000,000 | FNMA | 06/22/12 | 8.07% | 0.25% | A-1+ | 5,023,746 | 5,026,330 |
| 15,000,000 | FNMA FRN | 12/03/12 | 24.10% | 0.24% | A-1+ | 15,004,198 | 15,011,145 |
| Commercial Paper | | | | | | | |
| 6,000,000 | Bank of Nova Scotia NY | 05/10/12 | 9.62% | 0.43% | A-1+ | 5,990,900 | 5,992,520 |
| 6,000,000 | FCAR A-1+ | 01/17/12 | 9.64% | 0.40% | A-1+ | 5,998,934 | 5,999,595 |
| 2,000,000 | General Electric Capital Corp | 02/27/12 | 3.21% | 0.21% | A-1+ | 1,999,336 | 1,999,741 |
| 4,000,000 | General Electric Capital Corp | 05/07/12 | 6.42% | 0.37% | A-1+ | 3,994,779 | 3,996,660 |
| 500,000 | General Electric Capital Corp | 05/21/12 | 0.80% | 0.38% | A-1+ | 499,275 | 499,436 |
| 6,000,000 | Natl Australia Fdg DE | 02/01/12 | 9.63% | 0.34% | A-1+ | 5,998,243 | 5,999,846 |
| 2,750,000 | National Bank of Canada NY | 03/09/12 | 4.41% | 0.30% | A-1 | 2,748,442 | 2,747,610 |
| Total Investments | | | | | | \$ 62,256,701 | \$ 62,276,198 |

NOTE 3 – INVESTMENT ADVISORY AND ADMINISTRATIVE FEES

Davidson Fixed Income Management, Inc. (“DFIM”) provided investment advisory and operational services to FL SAFE until October 31, 2011. DFIM also provided administration services to FL SAFE until May 31, 2011. Fees for such services were calculated daily and paid monthly at a rate of 0.15% of the average daily net position up to \$500 million, 0.12% of the average daily net position up to \$1 billion, 0.10% of the average daily net position up to \$4 billion, and 0.08% of the average daily net position in excess of \$5 billion. Fees paid to DFIM in 2011 totaled \$118,168. Fees paid to DFIM for administration services are included in advisory and operational fees on the statements of operations.

Florida Management and Administration Services LLC. (“FMAS”) provides administration services to FL SAFE. Fees for such services are accrued daily and paid monthly in the amount of a base administrative fee of \$7,500 per month. Additional fees may be paid if the daily average net position is above \$200 million. These amounts will be calculated at a rate of 0.05% of the average daily net position over \$200 million up to \$500 million, 0.04% of the average daily net position up to \$1 billion, 0.03% of the average daily net position up to \$5 billion, and 0.02% of the average daily net position in excess of \$5 billion. Fees paid to FMAS were \$89,854 and \$53,394 for the years ended December 31, 2012 and 2011, respectively.

Prudent Man Advisors, Inc., PMA Financial Network, Inc. and PMA Securities, Inc. (collectively “PMA”) provide investment advisory, operational management and distribution services to FL SAFE. Fees for the investment advisory services are calculated daily and paid monthly, at a rate of 0.07% of the average daily net position up to \$500 million, and 0.0525% of the average daily net position over \$500 million. Investment advisory fees paid in 2012 and 2011 totaled \$42,963 and \$11,516. Fees for the operational services and distributor services are calculated at 0.13% on the first \$500 million of assets and 0.0975% for assets in excess of \$500 million, and were waived for 2012 and 2011.

FLORIDA SURPLUS ASSET FUND TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 4 – ADDITIONAL INFORMATION

Selected data for each share outstanding at December 31, 2012 and 2011 is as follows:

| | <u>2012</u> | <u>2011</u> |
|--|--------------------|--------------------|
| Investment income | \$ 0.002994 | \$ 0.003508 |
| Amortization of losses | (0.000200) | (0.000368) |
| Expenses | <u>(0.001841)</u> | <u>(0.002084)</u> |
| Net investment income distributed | <u>\$ 0.000953</u> | <u>\$ 0.001056</u> |

Additional data on the investment portfolio as of December 31, 2012 and 2011 is as below:

| | <u>2012</u> | <u>2011</u> |
|-----------------------------------|-------------|-------------|
| Weighted-average maturity in days | 38 | 22 |

FL SAFE's net average yields were 0.10% and 0.11% for the years ended December 31, 2012 and 2011, respectively. As such, \$1,000 invested in FL SAFE on January 1, 2012 or 2011 would have been worth \$1,001 at December 31, 2012 or 2011. See Note 6 for net losses amortized to participants.

NOTE 5 – STAND BY CAPITAL SUPPORT AGREEMENT

Effective November 1, 2011, FL SAFE entered into a Standby Capital Support Agreement with PMA Financial Network, Inc. under which PMA provided \$200,000 in a deposit account, currently at BMO Harris Bank N.A., under FL SAFE's name. The amounts held in this account are to be used as contributions as necessary to bring the FL SAFE's NAV to \$0.9975 per share. There have been no contributions necessary from the Standby Capital Support Agreement with PMA during 2011 or 2012.

NOTE 6 – RESERVE PRIMARY MONEY MARKET FUND

FL SAFE held shares in the Reserve Fund which incurred solvency issues in 2008 due to its holding of debt securities issued by Lehman Brothers Holdings, Inc., which filed for bankruptcy protection in 2008. Losses associated with the Reserve Fund were \$39,557 and \$539,701 in 2010 and 2009 for a total loss of \$579,258.

On December 11, 2008, FL SAFE entered into a Standby Capital Agreement with DFIM under which DFIM agreed to contribute amounts, as necessary, to bring the FL SAFE's NAV to \$0.9975 per share, subject to a maximum of \$200,000. Under this agreement, DFIM contributed \$102,998 in 2010 and an additional \$97,002 during 2011.

FLORIDA SURPLUS ASSET FUND TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 6 – RESERVE PRIMARY MONEY MARKET FUND (CONTINUED)

Under the Revenue Recognition Policy adopted by FL SAFE on November 14, 2008, the shortfall from the net loss associated with the Reserve Fund was to be amortized over no more than 8 years as a reduction of participant earnings. Per Board action, this amortization began on January 1, 2011. The amortization will also be affected by revenue from the Royalty Agreement described in Note 7 below. A schedule of the shortfall and amortization to participants through December 31, 2012 is as follows:

| | |
|---|---------------------|
| Total loss associated with the Reserve Fund as of December 31, 2010 | \$ (579,258) |
| Standby Capital Agreement contributions from DFIM during 2010 | 102,998 |
| Standby Capital Agreement contributions from DFIM during 2011 | 97,002 |
| Amortization of loss and other items | <u>102,540</u> |
| Shortfall as of December 31, 2012 to be amortized over the next six years | <u>\$ (276,718)</u> |

NOTE 7 – ROYALTY AGREEMENT

Effective November 1, 2011, FL SAFE entered into a Royalty Agreement with PMA Financial Network, Inc. and PMA Securities, Inc. (PMA) under which PMA may work with the Board and the Administrator to market the PMA Fixed Income Investment Program and other specific PMA FL SAFE value added service and investment programs to FL SAFE participants. Royalty fees are paid to FL SAFE of 20% of the total gross revenue earned by PMA from sales to FL SAFE participants. Of the royalty revenue paid to FL SAFE at least 50% shall be used to amortize the loss associated with the Reserve Fund (see Note 6). Upon full amortization of the shortfall, the royalty fee shall be reduced to 15% of the total gross revenue earned by PMA for sale of the programs to FL SAFE participants. Sales made by PMA to FL SAFE participants during 2012 resulted in deposits of \$16,446 into FL SAFE and were used to amortize the loss.

NOTE 8 – CURRENT ECONOMIC CONDITIONS

The current economic environment presents local government investment pool trust funds with challenging circumstances, which in some cases have resulted in large declines in the fair value of investments, declines in net position from increased share redemptions, constraints on liquidity and reduced investment earnings. The financial statements have been prepared using values and information currently available to FL SAFE.

Current economic and financial market conditions could adversely affect activities in future periods. The current instability in the financial markets may reduce the amount of funds Florida local governmental entities have available for investment in the trust, which in turn would have an impact on funds available for investment and total net position.

This information is an integral part of the accompanying basic financial statements.

Florida Surplus Asset Fund Trust (“FL SAFE”)

FL SAFE Board of Trustees

as of December 31, 2012

Mark C. Mason, CPA, Chairman

Linda Senne, CPA, Vice Chairman

Jerry Boop, CPA, CGFO, Board Member

Robert Clinger, CPA, Board Member

Nancy Duggan, Board Member