



**Clifton  
Gunderson LLP**  
Certified Public Accountants & Consultants

**FLORIDA SURPLUS ASSET FUND TRUST**  
**Orlando, Florida**

**FINANCIAL STATEMENTS**  
**As of and for the Years Ended December 31, 2010 and 2009**

## TABLE OF CONTENTS

|  | <b>PAGE</b> |
|--|-------------|
| <b>INDEPENDENT AUDITOR'S REPORT .....</b>        | <b>1</b>    |
| <b>MANAGEMENT'S DISCUSSION AND ANALYSIS.....</b> | <b>2</b>    |
| <b>BASIC FINANCIAL STATEMENTS</b>                |             |
| Statements of Net Assets .....                   | 5           |
| Statements of Operations .....                   | 6           |
| Statements of Changes in Net Assets .....        | 7           |
| Notes to Financial Statements .....              | 8           |
| FLSAFE Board of Trustees.....                    | 18          |

## Independent Auditor's Report

Board of Trustees  
Florida Surplus Asset Fund Trust  
Orlando, Florida

We have audited the accompanying statements of net assets of Florida Surplus Asset Fund Trust ("FLSAFE") as of December 31, 2010 and 2009, and the related statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of FLSAFE's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FLSAFE as of December 31, 2010 and 2009, and the results of its operations and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Clifton Gunderson LLP*

Denver, Colorado  
March 31, 2011

**FLORIDA SURPLUS ASSET FUND TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2010 and 2009**

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

FLSAFE is overseen by a Board of Trustees comprised of Florida local government officials. All of the local government assets entrusted to FLSAFE are held in a trust custody account at U.S. Bank N.A. Clifton Gunderson, LLP serves as the independent auditor to FLSAFE. Davidson Fixed Income Management, Inc., an investment adviser registered with the U.S. Securities and Exchange Commission, serves as FLSAFE's investment adviser and administrator.

FLSAFE operates to provide daily liquidity for Florida government entities. Authorized FLSAFE participants include school districts, higher education institutions, counties, municipalities and special districts. In addition, FLSAFE 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. FLSAFE reports to S&P on a weekly basis and is subject to an annual rating review.

**FINANCIAL HIGHLIGHTS**

- FLSAFE's net assets totaled \$183.3 million for the year ended December 31, 2010, down from \$197.1 million on December 31, 2009. Much of the decrease in assets was the result of falling market yields. The credit watch issued by Standard & Poor's Corporation was removed on February 2, 2010.
- Throughout the year, the composition of security investments shifted to a greater portion of floating rate note securities. During the year, the percentage of assets in terms of commercial paper increased and in terms of money markets decreased. As of December 31, 2010, approximately 1.2% of FLSAFE's assets were invested in U.S. fixed rate agency securities, 18.5% in U.S. floating rate agency securities, 29.1% in commercial paper, 31.1% in collateralized bank deposits and 20.1% in AAAM rated money market funds.
- Net investment income declined \$0.33 million in 2010 compared to 2009, totaling \$0.2 million. The decrease in investment income from 2009 through 2010 was primarily the result of lower market interest rates. The net yield of an investment in FLSAFE was 0.49% in 2009 and 0.10% in 2010.
- FLSAFE received eight distributions from the Reserve Primary money market fund of its September 15, 2008 investment balance, representing approximately 99.04% of its assets in that fund.

**FLSAFE Asset Summary**

The changes in FLSAFE's net assets are the result of investment earnings, combined with purchases and redemptions of shares by participants. Assets as of the year ended December 31, 2010 and 2009 were down 7% and 16%, respectively, from the prior year. FLSAFE

**FLORIDA SURPLUS ASSET FUND TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2010 and 2009**

primarily invests in certificates of deposit, U.S. treasury securities, U.S. agency securities, highly rated commercial paper, bank deposits, repurchase agreements and AAAM rated money market funds.

By following the AAAM rating guidelines of Standard & Poor's Corporation, FLSAFE maintained a per share value of \$1.00 per share throughout 2009 and 2010. Shown below is a summary of the net assets of FLSAFE.

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

|   | <u>2010</u>      | <u>2009</u>      | <u>2008</u>      |
|---|------------------|------------------|------------------|
| <b>ASSETS</b>                               |                  |                  |                  |
| Investments                                 |                  |                  |                  |
| U.S. Government agency securities           | \$ 36.27         | \$ 18.01         | \$ 5.00          |
| Bank certificates of deposit                | -                | 7.00             | -                |
| Commercial paper                            | <u>53.29</u>     | <u>7.98</u>      | <u>21.66</u>     |
| Total investments                           | 89.56            | 32.99            | 26.66            |
| Cash  | 93.88            | 164.18           | 208.19           |
| Other assets                                |                  |                  |                  |
| Accrued interest                            | <u>0.04</u>      | <u>0.15</u>      | <u>0.42</u>      |
| Total assets                                | <u>183.48</u>    | <u>197.32</u>    | <u>235.27</u>    |
| <b>LIABILITIES</b>                          |                  |                  |                  |
| Accrued expenses                            | 0.03             | 0.04             | 0.03             |
| Deposit by investment advisor               | <u>0.10</u>      | <u>0.20</u>      | <u>-</u>         |
| Total liabilities                           | <u>0.13</u>      | <u>0.24</u>      | <u>0.03</u>      |
| Net assets applicable to shares outstanding | <u>\$ 183.35</u> | <u>\$ 197.08</u> | <u>\$ 235.24</u> |
| Net asset value per share                   | <u>\$ 1.00</u>   | <u>\$ 1.00</u>   | <u>\$ 1.00</u>   |

FLSAFE's ending net assets are the result of investment earnings combined with purchases and redemptions of shares by participants. Changes in net assets for the year ended December 31, 2010 were mostly the result of participant transactions comprised of \$91.9 million of purchases, \$105.9 million of redemptions and \$0.3 million of net investment income resulting in net assets of \$183.3 million. FLSAFE's net assets decreased by \$13.7 million as of December 31, 2010 compared to December 31, 2009. Changes in net assets for the year ended December 31, 2009 were mostly the results of participant transactions comprised of \$237.8 million of purchases and \$276.5 million of redemptions, as well as \$0.5 million of net investment income resulting in net assets of \$197.1 million. FLSAFE's net assets decreased by \$38.2 million as of December 31, 2009 compared to December 31, 2008.

**FLORIDA SURPLUS ASSET FUND TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2010 and 2009**

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

|  | <b>2010</b>             | <b>2009</b>             | <b>2008</b>             |
|--|-------------------------|-------------------------|-------------------------|
| Increase in net assets attributed to operations - net income | \$ 0.31                 | \$ 0.53                 | \$ 3.98                 |
| Share transactions   |                         |                         |                         |
| Net proceeds from sale of shares                             | 91.86                   | 237.82                  | 398.99                  |
| Cost of shares redeemed                                      | <u>(105.90)</u>         | <u>(276.51)</u>         | <u>(167.73)</u>         |
| Net increase in net assets derived from share transactions   | <u>(14.04)</u>          | <u>(38.69)</u>          | <u>231.26</u>           |
| Net increase (decrease) in net assets                        | (13.73)                 | (38.16)                 | 235.24                  |
| Net assets at beginning of year                              | <u>197.08</u>           | <u>235.24</u>           | <u>-</u>                |
| <b>Net assets at end of year</b>                             | <u><b>\$ 183.35</b></u> | <u><b>\$ 197.08</b></u> | <u><b>\$ 235.24</b></u> |

**Currently Known Facts, Decisions or Conditions**

Because FLSAFE operates in a fiduciary capacity on behalf of various Florida government entities, changes in interest rates, changes in the number of participating governments and investment decisions of those Florida government entities are the primary drivers of FLSAFE's net assets and changes in net assets.

**Requests for Information**

This financial report is designed to provide a general overview of FLSAFE'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 FLSAFE, 1600 Broadway, Suite 1100, Denver, Colorado 80202.

**FLORIDA SURPLUS ASSET FUND TRUST (FLSAFE)**  
**STATEMENTS OF NET ASSETS**  
**December 31, 2010 and 2009**

|   | <b>2010</b>    | <b>2009</b>    |
|---|----------------|----------------|
| <b>ASSETS</b>                               |                |                |
| Investments in securities                   |                |                |
| US government agency securities             | \$ 36,268,587  | \$ 18,009,864  |
| Commercial paper                            | 53,288,760     | 7,979,547      |
| Total investments in securities             | 89,557,347     | 25,989,411     |
| Bank certificates of deposit                | -              | 7,000,000      |
| Total investments                           | 89,557,347     | 32,989,411     |
| Cash and cash equivalents                   | 93,880,134     | 164,176,084    |
| Other assets                                |                |                |
| Accrued interest                            | 45,794         | 153,372        |
| Total assets                                | 183,483,275    | 197,318,867    |
| <b>LIABILITIES</b>                          |                |                |
| Accrued expenses                            | 33,050         | 35,884         |
| Deposit by investment advisor               | 97,002         | 200,000        |
| Total liabilities                           | 130,052        | 235,884        |
| Net assets applicable to shares outstanding | \$ 183,353,223 | \$ 197,082,983 |
| <b>NET ASSET VALUE PER SHARE</b>            | <b>\$ 1.00</b> | <b>\$ 1.00</b> |

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

**FLORIDA SURPLUS ASSET FUND TRUST (FLSAFE)**  
**STATEMENTS OF OPERATIONS**  
**Years Ended December 31, 2010 and 2009**

|  | <b>2010</b>       | <b>2009</b>       |
|--|-------------------|-------------------|
| <b>INVESTMENT INCOME</b>   |                   |                   |
| Interest   | \$ 650,897        | \$ 1,548,511      |
| Gain (loss) on investments   | 63,441            | (539,701)         |
| Total investment income  | 714,338           | 1,008,810         |
| <b>Expenses</b>  |                   |                   |
| Audit  | 28,350            | 27,000            |
| Activity and transaction fees  | 8,357             | 7,790             |
| Advisory fees  | 294,543           | 319,091           |
| Custodian fees   | 24,739            | 40,594            |
| Filing fees  | 765               | 850               |
| Insurance  | 26,581            | 49,392            |
| Internet   | 8,581             | 6,484             |
| Legal  | 6,798             | 18,375            |
| Standard & Poor's fee  | 8,500             | 8,000             |
| Miscellaneous  | 1,068             | 212               |
| Board expenses   | 295               | -                 |
| Total expenses   | 408,577           | 477,788           |
| <b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS - NET INCOME</b> | <b>\$ 305,761</b> | <b>\$ 531,022</b> |

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

**FLORIDA SURPLUS ASSET FUND TRUST (FLSAFE)**  
**STATEMENTS OF CHANGES IN NET ASSETS**  
**Years Ended December 31, 2010 and 2009**

|  | <b>2010</b>                  | <b>2009</b>                  |
|--|------------------------------|------------------------------|
| <b>Increase in net assets attributed to</b>                              |                              |                              |
| Operations - net income  | \$ 305,761                   | \$ 531,022                   |
| Share transactions   |                              |                              |
| Net proceeds from sales of shares  | 91,864,484                   | 237,815,697                  |
| Cost of shares redeemed  | <u>(105,900,005)</u>         | <u>(276,504,876)</u>         |
| Net increase (decrease) in net assets<br>derived from share transactions | <u>(14,035,521)</u>          | <u>(38,689,179)</u>          |
| Net increase (decrease) in net assets                                    | (13,729,760)                 | (38,158,157)                 |
| <b>NET ASSETS, BEGINNING OF YEAR</b>                                     | <u>197,082,983</u>           | <u>235,241,140</u>           |
| <b>NET ASSETS, END OF YEAR</b>   | <u><u>\$ 183,353,223</u></u> | <u><u>\$ 197,082,983</u></u> |

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

**FLORIDA SURPLUS ASSET FUND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010 and 2009**

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

The Florida Surplus Asset Fund Trust (“FLSAFE”) was established under authority of, and in conformity with, Florida Statutes §163-01, *et seq.* FLSAFE began operations on February 5, 2008. FLSAFE was formed by and for Florida local governmental entities as a means of investing funds. FLSAFE operates as a liquid money market fund with each share equal in value to \$1.00. FLSAFE is not registered with the U.S. Securities and Exchange Commission.

Following is a summary of significant accounting policies consistently applied by FLSAFE 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**

FLSAFE 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*, FLSAFE 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*, FLSAFE is an external investment pool and reports its investments at amortized cost. In accordance with GASB Standards on *Deposit and Investment Risk Disclosures*, FLSAFE 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 FLSAFE 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**

During 2009, FLSAFE changed custodians from Regions Bank to US Bank pursuant to a custody agreement. The custodian is responsible for the safekeeping of all securities, cash and cash equivalents and trust accounting. All cash accounts owned by FLSAFE remain at Regions Bank and securities and money market funds are held by US Bank.

**Valuation of Investments**

FLSAFE’s investments are stated at amortized cost.

**FLORIDA SURPLUS ASSET FUND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010 and 2009**

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

**Net Asset Valuation**

For the purpose of calculating FLSAFE's net asset value per share, the securities held by FLSAFE are valued weekly as follows: securities for which market quotations are readily available are valued at the most recent bid price or yield equivalent as obtained from the custodian except that any such securities maturing within 60 days of the valuation date may be valued at cost, plus or minus any amortized discount or premium.

The result of this calculation will be a per-share value, which is rounded to the nearest penny. Accordingly, the price at which portfolio shares are sold and redeemed will not reflect net realized or unrealized gains or losses on portfolio securities which amount to less than \$.005 per share.

FLSAFE will endeavor to minimize the amount of such gains or losses. However, if net realized or unrealized gains or losses should exceed \$.005 per share, the portfolio's net asset value per share may change from \$1.00 or be maintained at \$1.00 per share by reducing on a pro rata basis each participant's shares in the event of losses, or by a distribution of additional shares in the event of gains.

There has been no involuntary participation (required by legal provisions) in FLSAFE.

**Investment Income**

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

**Income Taxes**

FLSAFE 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.

**FLORIDA SURPLUS ASSET FUND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010 and 2009**

**NOTE 2 – CASH DEPOSITS AND INVESTMENTS**

**Custodial Credit Risk**

The custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, a government 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, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Securities are held in trust with US Bank for safekeeping; as such, management believes there is no custodial credit risk for FLSAFE's assets.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. FLSAFE's investment policy calls for diversifying the investment portfolio, according to the AAAM rating guidelines, so that the impact of potential losses from any one type of security or from any one individual issuer will be contained. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this disclosure requirement. As of December 31, 2010, the investment in Federal Home Loan Mortgage Corp FRN, due April 12, 2011 for \$14,994,191 represented 8% of FLSAFE's total assets. As of December, 31, 2009, there were no individually significant assets that represented 5% or more of FLSAFE's total assets. The following non exempt assets represent 5% or more of FLSAFE's investments in securities, excluding cash and cash equivalents:

| <u>Security</u>  | <u>December 31, 2010</u> |  |
|--|--------------------------|--|
|  | <u>Amortized Value</u>   | <u>% of FLSAFE's Investments in Securities</u> |
| Toyota Motor Credit Corporation due June 14, 2011      | \$ 6,981,664             | 8%   |
| Societe General North America due June 13, 2011        | 5,977,275                | 7%   |
| National Bank of Canada due June 17, 2011              | 5,979,750                | 7%   |
| Credit Agricole North America due June 24, 2011        | 5,473,796                | 6%   |
| General Electric Capital Corporation due July 15, 2011 | 6,979,000                | 8%   |
| National Rural Utilities due January 7, 2011           | 4,998,590                | 6%   |
| Federal Home Loan Mortgage Corp FRN due Aril 12, 2011  | 14,994,191               | 17%  |
| Federal Home Loan Bank FRN due May 27, 2011            | 5,000,000                | 6%   |
| Federal Home loan Bank FRN due June 13, 2011           | 6,000,000                | 7%   |

**FLORIDA SURPLUS ASSET FUND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2010 and 2009

**NOTE 2 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)**

| <u>Security</u>                                  | <u>December 31, 2009</u> |  |
|--|--------------------------|--|
|  | <u>Amortized Value</u>   | <u>% of FLSAFE's Investments in Securities</u> |
| FCAR Owner Trust due June 24, 2010               | \$ 1,994,067             | 8%   |
| FCAR Owner Trust due June 25, 2010               | 3,988,067                | 15%  |
| Federal Home Loan Bank due February 2, 2010      | 5,000,000                | 19%  |
| Federal Farm Credit Banks due September 15, 2010 | 3,000,000                | 12%  |
| Federal Home Loan Bank due October 29, 2010      | 5,000,000                | 19%  |
| Federal Farm Credit Banks due January 1, 2010    | 2,009,864                | 8%   |
| Federal Home Loan Bank due October 28, 2010      | 3,000,000                | 12%  |

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. FLSAFE attempts to mitigate its interest rate risk by limiting the maturities of its investments. Investment maturities are shown using the specific identification method.

FLSAFE's cash and investments at December 31, 2010 consisted of the following:

| <u>Descriptions</u>               | <u>Investment Maturities (in years)</u> |                              |                             |
|-----------------------------------|---|------------------------------|-----------------------------|
|                                   | <u>Amortized Cost</u>                   | <u>Less than 1</u>           | <u>1-5</u>                  |
| Bank certificates of deposit      | \$ -                                    | \$ -                         | \$ -                        |
| Collateralized bank deposits      | 56,984,077                              | 56,984,077                   | -                           |
| Money market funds                | 36,896,057                              | 36,896,057                   | -                           |
| U.S. government agency securities | 36,268,587                              | 21,274,396                   | 14,994,191                  |
| Commercial paper                  | 53,288,760                              | 53,288,760                   | -                           |
| <b>Total cash and investments</b> | <b><u>\$ 183,437,481</u></b>            | <b><u>\$ 168,443,290</u></b> | <b><u>\$ 14,994,191</u></b> |

FLSAFE's cash and investments at December 31, 2009 consisted of the following:

| <u>Descriptions</u>               | <u>Investment Maturities (in years)</u> |                              |                    |
|-----------------------------------|---|------------------------------|--------------------|
|                                   | <u>Amortized Cost</u>                   | <u>Less than 1</u>           | <u>1-5</u>         |
| Bank certificates of deposit      | \$ 7,000,000                            | \$ 7,000,000                 | \$ -               |
| Collateralized bank deposits      | 39,621,622                              | 39,621,622                   | -                  |
| Money market funds                | 124,554,462                             | 124,554,462                  | -                  |
| U.S. government agency securities | 18,009,864                              | 18,009,864                   | -                  |
| Commercial paper                  | 7,979,547                               | 7,979,547                    | -                  |
| <b>Total cash and investments</b> | <b><u>\$ 197,165,495</u></b>            | <b><u>\$ 197,165,495</u></b> | <b><u>\$ -</u></b> |

**FLORIDA SURPLUS ASSET FUND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010 and 2009**

**NOTE 2 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)**

FLSAFE maintains a controlled disbursement account for the use of its participants. Participants can use the account as a demand deposit account and may make withdrawals in amounts up to their share account total. FLSAFE maintains an operating checking account for payment of operating expenses.

**Deposits**

At December 31, 2010 and 2009, FLSAFE's collateralized bank deposits, included as cash and cash equivalents totaled \$56,984,077 and \$39,621,622, respectively. All deposits are covered by Federal insurance or the State's collateral pool pursuant to Chapter 280, Florida Statutes. Chapter 280, Florida Statute, generally requires public funds to be deposited in a bank or savings association designated by the Chief Financial Officer (CFO) as authorized to receive deposits in the State and that meets the collateral requirements as set forth in Chapter 280, Florida Statutes.

The CFO determines the collateral requirements and collateral pledging level for each Qualified Public Depository following the guidelines outlined in the Department of Financial Services Rules, Chapter 69C-2, Florida Administrative Code, and Section 280.04, Florida Statutes. Eligible collateral includes Federal, federally-guaranteed, state and local government obligations, corporate bonds and letters of credit issued by a Federal Home Loan Bank. Other collateral may be eligible with the CFO's permission.

**Investments in Securities**

Pursuant to its investment policy, FLSAFE 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 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.

As discussed in Note 1, FLSAFE's investments in securities are held by US Bank. The custodian's internal records identify the specific investments owned by FLSAFE.

Pursuant to the Indenture of Trust, FLSAFE may not borrow money or incur indebtedness with the intent to purchase investments, except as a temporary measure to facilitate withdrawal requests that would otherwise require selling investments before their maturity.

**FLORIDA SURPLUS ASSET FUND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010 and 2009**

**NOTE 2 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)**

Investments in U.S. government agency securities rated A-1+ at December 31, 2010, were as follows:

| <u>Face<br/>Amount</u> | <u>Security</u>                         | <u>Yield</u> | <u>Carrying<br/>Value-<br/>Amortized<br/>Cost</u> | <u>Market<br/>Value</u>    |
|------------------------|---|--------------|---|----------------------------|
| \$2,250,000            | FHLMC callable note due January 7, 2011 | .35%         | \$ 2,273,625                                      | \$ 2,266,851               |
| \$4,000,000            | FFCB callable note due March 21, 2011   | .20%         | \$ 4,000,371                                      | \$ 3,999,579               |
| \$4,000,000            | FHLB callable note due May 3, 2011      | .27%         | 4,000,400   | 4,000,932                  |
| \$6,000,000            | FHLB callable note due June 13, 2011    | .36%         | 6,000,000   | 6,002,503                  |
| \$5,000,000            | FHLB callable note due May 27, 2011     | .28%         | 5,000,000   | 5,000,920                  |
| \$15,000,000           | FHLMC callable note due April 3, 2012   | .26%         | <u>14,994,191</u>                                 | <u>14,995,459</u>          |
| <b>Total</b>           |   |              | <u><b>\$36,268,587</b></u>                        | <u><b>\$36,266,244</b></u> |

Investments in U.S. government agency securities rated A-1+ at December 31, 2009, were as follows:

| <u>Face<br/>Amount</u> | <u>Security</u>                           | <u>Yield</u> | <u>Carrying<br/>Value-<br/>Amortized<br/>Cost</u> | <u>Market<br/>Value</u>    |
|------------------------|---|--------------|---|----------------------------|
| \$2,000,000            | FFCB callable note due January 1, 2010    | .71%         | \$ 2,009,864                                      | \$ 2,017,031               |
| \$5,000,000            | FHLB callable note due February 5, 2010   | 1.00%        | 5,000,000   | 5,023,205                  |
| \$3,000,000            | FFCB callable note due September 15, 2010 | .54%         | 3,000,000   | 3,004,793                  |
| \$3,000,000            | FHLB callable note due October 28, 2010   | .25%         | 3,000,000   | 3,001,336                  |
| \$5,000,000            | FHLB callable note due October 29, 2010   | .50%         | <u>5,000,000</u>                                  | <u>5,003,438</u>           |
| <b>Total</b>           |   |              | <u><b>\$18,009,864</b></u>                        | <u><b>\$18,049,803</b></u> |

**FLORIDA SURPLUS ASSET FUND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010 and 2009**

**NOTE 2 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)**

Investments in commercial paper rated A-1+ at December 31, 2010, were as follows:

| <u>Face<br/>Amount</u> | <u>Security</u>   | <u>Yield</u> | <u>Carrying<br/>Value-<br/>Amortized<br/>Cost</u> | <u>Market<br/>Value</u>    |
|------------------------|---|--------------|---|----------------------------|
| \$1,780,000            | FCAR Owner Trust due July 8, 2011                         | .61%         | \$ 1,771,887                                      | \$ 1,774,482               |
| \$7,000,000            | Toyota Motor Credit due June 14, 2011                     | .41%         | 6,981,664   | 6,983,200                  |
| \$2,770,000            | FCAR Owner Trust due February 1, 2011                     | .50%         | 2,763,806   | 2,769,446                  |
| \$3,000,000            | FCAR Owner Trust due February 2, 2011                     | .50%         | 2,993,333   | 2,999,100                  |
| \$2,000,000            | Credit Agricole North America due<br>May 27, 2011         | .59%         | 1,991,258   | 1,996,200                  |
| \$5,500,000            | Credit Agricole North America due<br>June 24, 2011        | .64%         | 5,473,796   | 5,485,700                  |
| \$7,000,000            | General Electric Capital Corporation due<br>July 15, 2011 | .40%         | 6,979,000   | 6,977,600                  |
| \$1,400,000            | FCAR Owner Trust due August 1, 2011                       | .60%         | 1,394,027   | 1,395,100                  |
| \$3,000,000            | Toyota Motor Credit due May 2, 2011                       | .35%         | <u>2,995,625</u>                                  | <u>2,995,800</u>           |
| <b>Total</b>           |   |              | <b><u>\$33,344,396</u></b>                        | <b><u>\$33,376,628</u></b> |

Investments in commercial paper rated A-1 at December 31, 2010, were as follows:

| <u>Face<br/>Amount</u> | <u>Security</u>                                    | <u>Yield</u> | <u>Carrying<br/>Value-<br/>Amortized<br/>Cost</u> | <u>Market<br/>Value</u>    |
|------------------------|--|--------------|---|----------------------------|
| \$6,000,000            | Societe General North America due<br>June 13, 2011 | .51%         | \$ 5,977,275                                      | \$ 5,985,600               |
| \$6,000,000            | National Bank of Canada due<br>June 17, 2011       | .45%         | 5,979,750   | 5,985,000                  |
| \$3,000,000            | Societe General North America<br>due July 15, 2011 | .50%         | 2,988,750   | 2,990,400                  |
| \$5,000,000            | National Rural Utilities<br>due January 7, 2011    | .29%         | <u>4,998,589</u>                                  | <u>5,000,000</u>           |
| <b>Total</b>           |  |              | <b><u>\$19,944,364</u></b>                        | <b><u>\$19,961,000</u></b> |

**FLORIDA SURPLUS ASSET FUND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010 and 2009**

**NOTE 2 – CASH DEPOSITS AND INVESTMENTS (CONTINUED)**

Investments in commercial paper rated A-1+ at December 31, 2009, were as follows:

| <u>Face<br/>Amount</u> | <u>Security</u>                        | <u>Yield</u> | <u>Carrying<br/>Value-<br/>Amortized<br/>Cost</u> | <u>Market<br/>Value</u> |
|------------------------|--|--------------|---|-------------------------|
| \$1,000,000            | FCAR Owner Trust due February 25, 2010 | .45%         | \$ 999,262  | \$ 999,750              |
| \$1,000,000            | FCAR Owner Trust due April 28, 2010    | .55%         | 998,151   | 999,161                 |
| \$2,000,000            | FCAR Owner Trust due June 24, 2010     | .60%         | 1,994,067   | 1,996,533               |
| \$4,000,000            | FCAR Owner Trust due June 25, 2010     | .60%         | <u>3,988,067</u>                                  | <u>3,993,067</u>        |
| Total                  |  |              | <u>\$ 7,979,547</u>                               | <u>\$ 7,988,511</u>     |

FLSAFE's investments in institutional money market funds included as cash and cash equivalents as of December 31, 2010 and 2009, totaled \$36,896,057 and \$124,554,462, respectively, and are rated 'AAAm' by Standard & Poor's.

**NOTE 3 – INVESTMENT ADVISORY AND ADMINISTRATIVE FEES**

Davidson Fixed Income Management, Inc. ("DFIM") provides investment advisory services to FLSAFE. Fees for such services are calculated daily and paid monthly, at a rate of .15% of the average daily net assets up to \$500 million, 0.12% of the average daily net assets up to \$1 billion, 0.10% of the average daily net assets up to \$4 billion, and 0.08% of the average daily net assets in excess of \$4 billion. Fees paid in 2010 and 2009 totaled \$294,543 and \$319,091, respectively.

**NOTE 4 – ADDITIONAL INFORMATION**

Selected data for each share outstanding at December 31, 2010 and 2009 is as follows:

|                              | <u>2010</u>        | <u>2009</u>        |
|------------------------------|--------------------|--------------------|
| Investment income            | \$ 0.003323        | \$ 0.007077        |
| Expenses                     | <u>0.002086</u>    | <u>0.002183</u>    |
| <b>Net investment income</b> | <u>\$ 0.001237</u> | <u>\$ 0.004894</u> |

**FLORIDA SURPLUS ASSET FUND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010 and 2009**

**NOTE 4 – ADDITIONAL INFORMATION (CONTINUED)**

Additional data on the investment portfolio as of December 31, 2010 and 2009 is as below:

|                                   | <b>2010</b> | <b>2009</b> |
|-----------------------------------|-------------|-------------|
| Weighted-average maturity in days | 43          | 28          |

FLSAFE's net average yield for the year ended December 31, 2010 was 0.12%. For example, \$1,000 invested in FLSAFE on January 1, 2010, would have been worth \$1,001 at December 31, 2010. FLSAFE's net average yield for the year ended December 31, 2009 was .49%. For example, \$1,000 invested in FLSAFE on January 1, 2009 would have been worth \$1,005 at December 31, 2009. For 2010 and 2009, the realized gain (loss) on investments is excluded from the above calculations, because it did not affect participant earnings per share through December 31, 2010. Beginning in 2011, the net loss will be amortized to participants (see Note 5).

**NOTE 5 – RESERVE PRIMARY MONEY MARKET FUND (IN LIQUIDATION)**

FLSAFE 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. An initial estimated loss of \$539,701 was recognized in 2009 due to the Reserve Fund investment. An adjustment to this estimated loss was recorded in 2010. This adjustment is a net gain of \$63,441, due to \$102,998 of support as noted below. FLSAFE does not expect any further distributions from the Reserve Primary fund to be significant.

On December 11, 2008, FLSAFE entered into a Standby Capital Agreement with Davidson Fixed Income Management, Inc. ("DFIM") under which DFIM agreed to contribute an amount necessary to bring the FLSAFE NAV to \$0.9975 per share, subject to a maximum of \$200,000, when any loss from the Reserve Fund investment is finally determined. In order to maintain an AAAM rating from S&P, the net asset value must be \$0.9975.

Pursuant to the Standby Capital Agreement, DFIM deposited \$200,000 with FLSAFE to be held as collateral for its contribution commitment. This deposit is recorded in cash and cash equivalents.

As of December 31, 2010, \$102,998 was recorded by FLSAFE as the estimated amount due from DFIM pursuant to the Standby Capital Agreement, which reduced the loss associated with the Reserve Fund Investment. The \$97,002 excess, which equals the \$200,000 deposit held by FLSAFE minus the \$102,998 estimated contribution commitment, is recorded as a deposit by investment advisor liability. As of December 31, 2009, the estimated amount due from DFIM to support a \$0.9975 NAV was zero, so the whole \$200,000 deposit included in cash and cash equivalents was offset by a \$200,000 deposit by investment advisor liability. The net loss associated with the Reserve Fund is \$476,260. This net loss will be amortized in accordance with the FLSAFE Revenue Recognition Policy adopted November 14, 2008 over a period of 8 years as a reduction to participant earnings beginning in 2011.

**FLORIDA SURPLUS ASSET FUND TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2010 and 2009**

**NOTE 6 – CURRENT ECONOMIC CONDITIONS**

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

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 assets.

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

**Florida Surplus Asset Fund Trust (“FLSAFE”)**

**FLSAFE Board of Trustees**

**as of December 31, 2010**

**Dr. Henry Fishkind, Chairman**

**Jim Anderson, Vice Chairman**

**Mark Mason, Secretary/Treasurer**

**Jerry Boop, Board Member**

**Don Moore, Board Member**

**Linda Senne, Board Member**