

# **Colorado Surplus Asset Fund Trust (CSAFE)**

Accountants' Report and Financial Statements

December 31, 2009 and 2008

# Colorado Surplus Asset Fund Trust (CSAFE)

December 31, 2009 and 2008

## Table of Contents

<b>Independent Accountants' Report on Financial Statements and Supplementary Information.....</b>	<b>1</b>
<b>Management's Discussion and Analysis .....</b>	<b>2</b>
<b>Financial Statements</b>	
Statements of Net Assets .....	6
Statements of Operations.....	7
Statements of Changes in Net Asset.....	8
Notes to Financial Statements .....	9
CSAFE Board of Trustees .....	18

## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees  
Colorado Surplus Asset Fund Trust  
Denver, Colorado

We have audited the accompanying statements of net assets of Colorado Surplus Asset Fund Trust (CSAFE) as of December 31, 2009 and 2008, and the related statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of CSAF'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 audit 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 Colorado Surplus Asset Fund Trust as of December 31, 2009 and 2008, 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.

BKD, LLP

March 12, 2010

# Colorado Surplus Asset Fund Trust (CSAFE)

## Management's Discussion and Analysis

(Unaudited)

December 31, 2009 and 2008

Colorado Surplus Asset Fund Trust ("CSAFE") is a local government investment pool trust fund organized under C.R.S. §24-75-701, *et seq.*, registered as such with the Colorado Securities Commissioner pursuant to the Local Government Investment Pool Trust Fund Administration and Enforcement Act, C.R.S. §11-51-901, *et seq.* As such a trust, CSAFE pools and invests the funds of its Colorado local government participants within the investment policies and limitations set forth in CSAFE's Indenture of Trust and C.R.S. §24-75-601, *et seq.*

CSAFE is overseen by a nine-member Board of Trustees predominately comprised of Colorado local government officials. All of the assets entrusted to CSAFE are held by its Custodian, U.S. Bank. BKD, LLP serves as the independent auditor to CSAFE. Davidson Fixed Income Management, Inc., an investment adviser registered with the U.S. Securities and Exchange Commission, serves as CSAFE's investment adviser and administrator.

CSAFE operates to provide daily liquidity for Colorado government entities. CSAFE participants include school districts, counties, municipalities and special districts. In addition, CSAFE is rated AAAM by the Standard & Poor's Corporation (S&P). S&P has strict requirements that further govern the composition of investments, the average maturity of the investments and the types of investments. CSAFE reports to S&P on a weekly basis and is subject to an annual rating review.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to CSAFE's basic financial statements. In accordance with Governmental Accounting Standards Board (GASB) Statements, including GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, CSAFE presents a statement of net assets and a statement of changes in net assets prepared on the economic resources measurement focus and the accrual basis of accounting. Additionally, CSAFE presents a statement of operations in its basic statements. All applicable GASB pronouncements are applied in these financial statements.

The statement of net assets presents information on all of CSAFE's assets and liabilities, with the difference between the two reported as net assets applicable to shares outstanding.

The statement of changes in net assets presents information showing how CSAFE's net assets changed during the fiscal years presented. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The statement of operations reports a detail of the changes in net assets resulting from operations, or net investment income, which is included in the statements of changes in net assets.

The notes to the financial statements are required to be presented in accordance with accounting principles generally accepted in the United States of America and provide information about CSAFE's significant accounting policies used in the preparation of its basic financial statements as well as other explanatory information about amounts included in the basic financial statements. The notes to the financial statements should be read in connection with the basic financial statements.

# Colorado Surplus Asset Fund Trust (CSAFE)

## Management's Discussion and Analysis

(Unaudited)

December 31, 2009 and 2008

### **Financial Highlights**

- CSAFE's net assets totaled \$610.6 million as of December 31, 2009, a decrease of 39.9% over the prior year. Much of the drop in assets was the result of falling market yields and the imposition of credit watch by Standard & Poor's Corporation on February 27, 2009, which led to an increase in redemptions. The credit watch was removed on February 2, 2010 and CSAFE's AAAM credit rating was affirmed.
- In the fourth quarter of 2009, the composition of investments shifted to more securities and less in cash and cash equivalents. Approximately 14.3% of CSAFE's total assets were invested in U.S. government agency securities, 5.7% in bank certificates of deposit, 1.3% in commercial paper, 1.7% in corporate fixed notes, 48.4% in collateralized bank deposits, excluding certificates of deposit, and 28.0% in money market funds. The remaining .6% of CSAFE's total assets is comprised of accrued interest and contributions receivable.
- Net investment income declined \$48.8 million in 2009 compared to 2008, totaling \$1.3 million. The decrease in investment income from 2008 through 2009 was primarily the result of a) falling market interest rates and b) decreased asset levels. The net yield of an investment in CSAFE was 5.1% in 2007, 2.7% in 2008 and 0.42% in 2009.
- CSAFE received five distributions from the Reserve Primary money market fund of its September 15, 2008 investment balance, representing approximately 92% of its assets in that fund. A sixth distribution was received on January 29, 2010 bringing the total received to 98.6%. It is anticipated that a final distribution from the Reserve Primary fund to CSAFE will be received in 2010, bringing the total amount received in excess of 99% of its September 15, 2008 balance.

### **CSAFE Asset Summary**

From 2008 to 2009 CSAFE recorded a decline in net assets. Year-end net assets declined from \$1.494 billion in 2007, to \$1.017 billion in 2008 and to \$610.6 million in 2009. CSAFE invests primarily in U.S. government agency securities, highly rated commercial paper, highly rated corporate bonds, bank deposits, repurchase agreements and AAAM rated money market funds.

By following the AAAM rating guidelines of Standard & Poor's Corporation, CSAFE maintained a per share value of \$1.00 per share in 2007, 2008 and 2009.

# Colorado Surplus Asset Fund Trust (CSAFE)

## Management's Discussion and Analysis

(Unaudited)

December 31, 2009 and 2008

*Shown below is a three-year summary of the net assets of CSAFE as of December 31, 2009, 2008 and 2007:*

**Table 1: Condensed Statements of Net Assets  
(in Millions)**

	2009	2008	2007
<b>Assets</b>			
Investments in securities			
U.S. government agency securities	\$ 87.2	\$ 67.0	\$ 70.0
Commercial paper	8.0	-	221.7
Corporate fixed note	10.4	-	-
Total investments in securities	105.6	67.0	291.7
Certificates of deposit	35.0	-	-
Total investments	140.6	67.0	291.7
Cash and cash equivalents	466.7	949.3	1,198.5
Other assets			
Related party contribution receivable	2.8	-	-
Accrued interest	0.6	0.6	3.8
Total other assets	3.4	0.6	3.8
Total assets	610.7	1,016.9	1,494.0
<b>Liabilities</b>			
Accrued expenses	0.1	0.2	0.3
Net assets applicable to shares outstanding	\$ 610.6	\$ 1,016.7	\$ 1,493.7
Net asset value per share	\$ 1.00	\$ 1.00	\$ 1.00

# Colorado Surplus Asset Fund Trust (CSAFE)

## Management's Discussion and Analysis

(Unaudited)

December 31, 2009 and 2008

*Shown below is a three-year summary of changes in net assets of CSAFE for the years ended December 31, 2009, 2008 and 2007:*

**Table 2: Condensed Statements of Changes in Net Assets (in Millions)**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Increase in net assets attributed to			
Operations – net investment income	<u>\$ 1.2</u>	<u>\$ 50.0</u>	<u>\$ 70.2</u>
Share transactions			
Net proceeds from sales of shares	2,447.8	5,930.2	3,980.3
Cost of shares redeemed	<u>(2,855.1)</u>	<u>(6,457.2)</u>	<u>(3,629.6)</u>
Net increase (decrease) in net assets derived from share transactions	<u>(407.3)</u>	<u>(527.0)</u>	<u>350.7</u>
Net increase (decrease) in net assets	(406.1)	(477.0)	420.9
Net assets at beginning of year	<u>1,016.7</u>	<u>1,493.7</u>	<u>1,072.8</u>
Net assets at end of year	<u>\$ 610.6</u>	<u>\$ 1,016.7</u>	<u>\$ 1,493.7</u>

### ***Currently Known Facts, Decisions or Conditions***

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

### ***Requests for Information***

This financial report is designed to provide a general overview of CSAFE's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Chris Blackwood, Portfolio Manager and Fund Administrator, 1600 Broadway, Suite 1100, Denver, Colorado 80202.

# Colorado Surplus Asset Fund Trust (CSAFE)

## Statements of Net Assets

December 31,

### Assets

	<u>2009</u>	<u>2008</u>
Investments		
Investments in securities		
U.S. government agency securities	\$ 87,214,896	\$ 67,000,000
Commercial paper	7,990,111	-
Corporate fixed note	10,378,489	-
Total investments in securities	105,583,496	67,000,000
Certificates of deposit	35,000,000	-
Total investments	140,583,496	67,000,000
Cash and cash equivalents	466,712,901	949,307,386
Other assets		
Related party contribution receivable	2,830,585	-
Accrued interest	649,632	624,009
Total other assets	3,480,217	624,009
Total assets	610,776,614	1,016,931,395

### Liabilities

Accrued expenses	137,922	180,337
Net assets applicable to shares outstanding	\$ 610,638,692	\$ 1,016,751,058
Net assets value per share	\$ 1.00	\$ 1.00



# Colorado Surplus Asset Fund Trust (CSAFE)

## Statements of Operations Years Ended December 31,

	<u>2009</u>	<u>2008</u>
Revenues		
Investment income		
Interest	\$ 5,174,089	\$ 52,901,510
Realized loss on investment	(5,042,400)	-
	<u>131,689</u>	<u>52,901,510</u>
Total investment income		
Contribution revenue	2,830,585	-
	<u>2,962,274</u>	<u>52,901,510</u>
Total revenues		
Expenses		
Advisory fees	1,288,481	2,355,476
Custodian fees	91,775	150,217
Client statements	-	13,580
Insurance	15,128	15,137
Activity and transaction fees	34,782	54,681
Legal fees	184,635	165,140
Rating agency fee	27,500	36,500
Accounting and auditing	28,300	32,390
Miscellaneous	3,618	(2,994)
Trustee board meeting expenses	8,844	18,675
Internet/Web page	13,889	1,174
	<u>1,696,952</u>	<u>2,839,976</u>
Total expenses		
Net increase in net assets resulting from operations – net investment income	<u>\$ 1,265,322</u>	<u>\$ 50,061,534</u>

**Colorado Surplus Asset Fund Trust (CSAFE)**  
**Statements of Changes in Net Assets**  
**Years Ended December 31,**

	<u>2009</u>	<u>2008</u>
Increase in net assets attributed to		
Operations – net investment income	\$ 1,265,322	\$ 50,061,534
Share transactions		
Net proceeds from sales of shares	2,447,764,920	5,930,168,377
Cost of shares redeemed	<u>(2,855,142,608)</u>	<u>(6,457,216,839)</u>
Net decrease in net assets derived from share transactions	<u>(407,377,688)</u>	<u>(527,048,462)</u>
Net decrease in net assets	(406,112,366)	(476,986,928)
Net assets at beginning of year	<u>1,016,751,058</u>	<u>1,493,737,986</u>
Net assets at end of year	<u>\$ 610,638,692</u>	<u>\$ 1,016,751,058</u>

# Colorado Surplus Asset Fund Trust (CSAFE)

## Notes to Financial Statements

December 31, 2009 and 2008

### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

The Colorado Surplus Asset Fund Trust (CSAFE or the Trust) was established under authority of, and in conformity with, Part 7 of Article 75 of Title 24 of the Colorado Revised Statutes. CSAFE began operations on October 3, 1988. The Trust was formed by and for Colorado local governmental entities as a means of investing funds. CSAFE operates as a liquid money market fund with each share equal in value to \$1.00. The State of Colorado provides regulatory oversight over CSAFE and CSAFE is not registered with the U.S. Securities and Exchange Commission.

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

The accompanying financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Earnings on investments are recognized as revenue in the period in which they are earned and administrative costs are recognized as expense when incurred, regardless of the timing of related cash flows.

CSAFE prepares its financial statements as a special-purpose government in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, CSAFE has elected to apply the provisions of all relevant pronouncements 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 pronouncements.

#### ***Custodian***

U.S. Bank Trust Department serves as custodian for CSAFE pursuant to a custody agreement. The custodian is responsible for the safekeeping of all securities and trust accounting. All securities owned by CSAFE are held by the Federal Reserve Bank in the account maintained for the U.S. Bank Trust Department.

#### ***Cash Equivalents***

CSAFE considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2009 and 2008, cash equivalents consisted of money market and bank deposits, excluding certificates of deposit.

# **Colorado Surplus Asset Fund Trust (CSAFE)**

## **Notes to Financial Statements**

**December 31, 2009 and 2008**

### ***Security Valuation***

Securities are reported at amortized cost.

### ***Net Asset Valuation***

For the purpose of calculating CSAFE's net asset value per share, the securities held by CSAFE 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 one or more market makers for such securities, 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.

CSAFE 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, a 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 the pool.

### ***Investment Income***

Investment income is recognized on an accrual basis. Distributions from net investment income are declared and payable on a daily basis. It is currently the policy of CSAFE not to invest in securities to realize capital gains.

### ***Income Taxes***

CSAFE was organized to provide pooling of public funds for local governmental entities in Colorado, 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.

# Colorado Surplus Asset Fund Trust (CSAFE)

## Notes to Financial Statements

December 31, 2009 and 2008

### 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.

CSAFE's deposits are either covered by depository insurance or are collateralized under the Colorado Public Deposit Protection Act and are therefore not deemed to be exposed to custodial credit risk.

None of CSAFE's investments are deemed to be exposed to custodial credit risk as they are either considered open-ended money market mutual funds (i.e. a fund that does not have restrictions on the number of shares it can issue) or are insured and held in CSAFE's name by the trust.

#### ***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.

Investments issued or explicitly guaranteed by the U.S. government are excluded from this disclosure requirement.

Commercial paper of \$7,990,111 and corporate securities of \$10,378,489 represent 7.6% and 9.8%, respectively, of CSAFE's total investments in securities as of December 31, 2009, and have maturities ranging from February 26, 2010 to December 1, 2010. There was no commercial paper or corporate securities outstanding as of December 31, 2008.

#### ***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. CSAFE's investments as of December 31, 2009, all mature within one year of that date.

# Colorado Surplus Asset Fund Trust (CSAFE)

## Notes to Financial Statements

December 31, 2009 and 2008

CSAFE's cash and investments at December 31, 2009 and 2008, consisted of the following:

	<b>2009</b>	<b>2008</b>
Deposits	\$ 330,705,924	\$ 365,530,574
Money market funds	171,006,977	583,776,812
U.S. government agency securities	87,214,896	67,000,000
Commercial paper	7,990,111	-
Corporate fixed note	10,378,489	-
Total	<u>\$ 607,296,397</u>	<u>\$ 1,016,307,386</u>

### **Deposits**

Colorado statutes require that local governments use eligible public depositories as defined by the Public Deposit Protection Act (PDPA) of 1989. Under the Act, the depository is required to pledge eligible collateral having a market value at all times equal to at least 102% of the aggregate public deposits held by the depository not insured by the Federal Deposit Insurance Corporation. Eligible collateral as defined by the Act primarily includes obligations of, or guarantees by, the U.S. government, the State of Colorado or any political subdivision thereof and obligations evidenced by notes secured by first lien mortgages or deeds of trust on real property.

CSAFE's deposits of cash and certificates of deposit held in PDPA eligible public depositories at December 31, 2009 and 2008 had a bank value of \$330,785,666 and \$366,064,768, respectively and a carrying value of \$330,705,924 and \$365,530,574, respectively.

CSAFE 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.

### **Investments**

Pursuant to the Trust investment policy, CSAFE may invest in U.S. government treasury securities, U.S. government agency securities, commercial paper, corporate fixed notes and repurchase agreements collateralized with securities valued in excess of the repurchase agreement amount. The maximum maturity allowed for any investment is 397 days.

As discussed in Note 1, CSAFE's investments in securities are held by the Federal Reserve Bank in the account maintained for the custodian. The custodian's internal records identify the specific investments owned by CSAFE.

Pursuant to the Indenture of Trust, CSAFE 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.

# Colorado Surplus Asset Fund Trust (CSAFE)

## Notes to Financial Statements

December 31, 2009 and 2008

Investments in U.S. government agency securities at December 31, 2009, were as follows:

Face Amount	Security	Yield	Carrying Value – Amortized Cost	Market Value
\$ 20,000,000	1.000% FHLB note due February 5, 2010	1.000%	\$ 20,000,000	\$ 20,092,822
5,000,000	0.160% FMC discount note due March 11, 2010	0.160%	4,998,467	4,997,967
5,000,000	0.183% FMC discount note due April 13, 2010	0.183%	4,997,450	4,995,951
7,000,000	4.125% FNMA note due May 15, 2010	0.220%	7,100,618	7,133,069
5,000,000	4.250% FHLB note due June 11, 2010	0.310%	5,086,895	5,125,638
10,000,000	0.540% FFCEB callable note due September 15, 2010	0.540%	10,000,000	10,015,978
7,000,000	0.250% FHLB note due October 28, 2010	0.250%	7,000,000	7,003,116
20,000,000	0.500% FHLB note due October 29, 2010	0.500%	20,000,000	20,013,753
8,000,000	0.710% FFCEB float note due November 12, 2010	0.260%	8,031,466	8,068,123
			\$ 87,214,896	\$ 87,446,417

## Colorado Surplus Asset Fund Trust (CSAFE)

### Notes to Financial Statements

December 31, 2009 and 2008

Investments in commercial paper rated A-1+ by Standard & Poor's at December 31, 2009, were as follows:

Face Amount	Security	Yield	Carrying Value – Amortized Cost	Market Value
\$ 4,000,000	Ford Credit Auto Owner Trust due February 26, 2010	0.450%	\$ 3,997,200	\$ 3,999,000
4,000,000	Ford Credit Auto Owner Trust due April 27, 2010	0.551%	<u>3,992,911</u>	<u>3,996,644</u>
			<u>\$ 7,990,111</u>	<u>\$ 7,995,644</u>

Investments in corporate securities rated A-1+ by Standard & Poor's at December 31, 2009, were as follows:

Face Amount	Security	Yield	Carrying Value – Amortized Cost	Market Value
\$ 9,975,000	GE Capital Services Corp due December 1, 2010	0.559%	<u>\$ 10,378,489</u>	<u>\$ 10,394,861</u>
			<u>\$ 10,378,489</u>	<u>\$ 10,394,861</u>

Investments in certificates of deposit at December 31, 2009, were as follows:

Face Amount	Security	Yield	Carrying Value – Amortized Cost	Market Value
\$ 15,000,000	JP Morgan due February 27, 2010	0.760%	\$ 15,000,000	\$ 15,066,838
10,000,000	BBVA Compass due March 2, 2010	1.15%	10,000,000	10,066,164
10,000,000	BBVA Compass due June 2, 2010	1.31%	<u>10,000,000</u>	<u>10,074,795</u>
			<u>\$ 35,000,000</u>	<u>\$ 35,207,797</u>



# Colorado Surplus Asset Fund Trust (CSAFE)

## Notes to Financial Statements

December 31, 2009 and 2008

Investments in U.S. government agency securities at December 31, 2008, were as follows:

Face Amount	Security	Yield	Carrying Value – Amortized Cost	Market Value
\$ 40,000,000	2.700% FHLB callable note due March 17, 2009	2.700%	\$ 40,000,000	\$ 40,491,123
27,000,000	2.450% FHLB callable note due April 21, 2008	2.450%	<u>27,000,000</u>	<u>27,164,682</u>
			<u>\$ 67,000,000</u>	<u>\$ 67,655,805</u>

CSAFE's investments in institutional money market funds are rated AAAM by Standard & Poor's. These investments are made principally when the net rate of the money market fund exceeds the rate that can be obtained on a repurchase agreement. Money market management fees for the years ended December 31 2009 and 2008, related to these money market funds ranged between 0.15% and 0.23% for each year. These fees are in addition to the fees paid by CSAFE participants to the trust's advisor.

CSAFE holds shares in the Reserve Primary money market fund, which as of December 31, 2009 totaled \$42,442,140 prior to the recording of the realized loss of \$5,042,400 (Note 7). Reserve Primary fund incurred liquidity issues in 2008 due to its holding of debt securities issued by Lehman Brothers Holdings, Inc., which filed for bankruptcy protection in 2008. As of December 31, 2009 CSAFE had received distributions representing approximately 92% of its assets in the fund. As of February 1, 2010, CSAFE had received 98.6% of its assets in the fund. CSAFE's remaining investment is anticipated to be distributed to CSAFE in 2010, under the federal court order (Note 4 and Note 7).

### Note 3: Investment Advisory and Administrative Fees

Davidson Fixed Income Management, Inc. provides investment advisory services to CSAFE. Fees for such services are calculated daily and paid monthly, at a rate equal to .18% of the average daily net assets up to \$200 million, and .15% of the average daily net assets in excess of \$200 million. Fees paid in 2009 and 2008 totaled \$1,288,481 and \$2,355,476, respectively.

In addition, the Administrator accrued 0.04% of average daily net assets of the Trust in both 2009 and 2008, to meet administrative and custodial expenses.

# Colorado Surplus Asset Fund Trust (CSAFE)

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 4: Standby Capital Agreement

On December 11, 2008, CSAFE entered into a Standby Capital Agreement (Agreement) with Davidson Fixed Income Management, Inc. (“DFIM”) whereby DFIM placed into escrow with US Bank (CSAFE’s custodian) \$3 million to fund potential losses related to the Reserve Primary money market fund (Note 2). On January 22, 2010, the Agreement was amended and restated with the “Amended and Restated Standby Capital Agreement” (Amended Agreement). The Amended Agreement was amended on February 2, 2010. The Amended Agreement, as subsequently amended provides for the following:

- The establishment by CSAFE of an Escrowed Fees Account used to accrue fees otherwise payable to DFIM under the Advisory Agreement (Note 3) for the period December 4, 2008 until the earlier of (i.) the amount equals \$3.4 million, or (ii.) DFIM has made a contribution to CSAFE equal to the amount, if any, to be covered by DFIM under the Amended Agreement to bring the CSAFE NAV to \$0.9975, subject to a maximum dollar cap of \$3.4 million.

### Note 5: Significant Estimates and Concentrations

#### *Current Economic Conditions*

The current protracted economic decline continues to present local government investment pool trust funds with difficult circumstances and challenges, which in some cases has 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 CSAFE.

Current economic and financial market conditions could adversely affect our activities in future periods. The current instability in the financial markets may reduce the amount of funds Colorado 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.

# Colorado Surplus Asset Fund Trust (CSAFE)

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 6: Additional Information

Selected data for each share outstanding at December 31 for each of the last five years is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Investment income	\$ 0.006304	\$ 0.028893	\$ 0.052760	\$ 0.050104	\$ 0.033136
Expenses	<u>0.002068</u>	<u>0.001551</u>	<u>0.001709</u>	<u>0.001847</u>	<u>0.001881</u>
Net investment income	<u>\$ 0.004236</u>	<u>\$ 0.027342</u>	<u>\$ 0.051051</u>	<u>\$ 0.048257</u>	<u>\$ 0.031255</u>

Additional data on the investment portfolio as of December 31, for each of the last five years is as below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Weighted-average maturity in days	36	7	29	27	38
Number of shares	612,850,507	1,016,420,022	1,493,737,986	1,072,816,606	761,964,361
Net asset value	1.00	1.00	1.00	1.00	1.00

The Trust's net average yield for 2009 and 2008 was 0.42% and 2.73%, respectively. For example, \$1,000 invested in the Trust on January 1, 2009, would have been worth \$ 1,004.24 at December 31, 2009 and \$1,000 invested on January 1, 2008 would have been worth \$1,027.34 at December 31, 2008. For 2009 and 2008 the unamortized portion of realized losses on investments is excluded from the above calculations, because it did not impact participant valuation calculations.

### Note 7: Subsequent Event

In a November 25, 2009 Memorandum Opinion issued by the United States District Court for the Southern District of New York, it was determined that the remaining assets of the Reserve Primary Fund be liquidated and distributed on a pro rata basis to all Primary Fund shareholders who had not received \$1 per share owned on or after September 15, 2008, less a holdback for indemnified expenses. On December 11, 2009 a Court Order was issued by the same court to distribute \$3.4 billion of the \$3.5 billion remaining in the Primary Fund to investors by the week of January 25, 2010. CSAFE received \$35,257,629 on January 29, 2010 from the Reserve Primary Fund. CSAFE estimates its realized loss relating to this investment to be \$5,042,400 which creates an estimated net asset value of \$0.9927. In order to maintain an AAAM rating from S&P, the Net Asset Value must be \$0.9975, thus CSAFE will receive a contribution of approximately \$2,830,600 from Davidson Fixed Income Management, Inc. in accordance with the Standby Capital Agreement (Note 4). Under US GAAP, CSAFE has treated the loss as a recognized event and has therefore recorded the realized loss and contribution receivable in its 2009 financial statements.

## Colorado Surplus Asset Fund Trust (CSAFE)

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Pursuant to Article IX of CSAFE's Indenture of Trust, as amended, a majority of Trustees must be members of the Board of Participants (treasurers of the respective participants) and any non-treasurer trustee must be appointed or elected as a non-treasurer trustee.