

Financial Statements and Report of
Independent Certified Public Accountants
Colorado Surplus Asset Fund Trust (CSAFE)
December 31, 2004 and 2003

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REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Colorado Surplus Asset Fund Trust (CSAFE)

We have audited the accompanying statements of net assets of the Colorado Surplus Asset Fund Trust (CSAFE) as of December 31, 2004 and 2003, and the related statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of the Trust'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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the Colorado Surplus Asset Fund Trust (CSAFE) as of December 31, 2004 and 2003, 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.



Denver, Colorado
January 28, 2005

Financial Statements

Colorado Surplus Asset Fund Trust (CSAFE)

STATEMENTS OF NET ASSETS

December 31,

| | <u>2004</u> | <u>2003</u> |
|---|------------------------------|------------------------------|
| ASSETS | | |
| Investment in securities (note B) | | |
| U.S. government agency securities | \$ 193,861,792 | \$ 154,265,528 |
| Repurchase agreements (note C) | <u>401,625,000</u> | <u>473,941,000</u> |
| Total investment in securities | 595,486,792 | 628,206,528 |
| Cash (note B) | 227,532,315 | 2,762,205 |
| Other assets | | |
| Accrued interest | <u>2,261,455</u> | <u>982,161</u> |
| Total assets | 825,280,562 | 631,950,894 |
| LIABILITIES | | |
| Accrued expenses | <u>125,753</u> | <u>104,977</u> |
| Net assets applicable to shares outstanding | <u><u>\$ 825,154,809</u></u> | <u><u>\$ 631,845,917</u></u> |
| Net assets value per share | <u><u>\$1.00</u></u> | <u><u>\$1.00</u></u> |

The accompanying notes are an integral part of these statements.

Colorado Surplus Asset Fund Trust (CSAFE)

STATEMENTS OF OPERATIONS

Year ended December 31,

| | <u>2004</u> | <u>2003</u> |
|--------------------------------|---------------------|---------------------|
| Investment income | | |
| Interest | \$ 11,358,246 | \$ 9,223,213 |
| Expenses | | |
| Advisory fees (note D) | 1,178,669 | 1,123,079 |
| Custodian fees | 88,096 | 92,339 |
| Client statements | 37,043 | 30,843 |
| Insurance | 13,101 | 12,907 |
| Transfer fees | 33,502 | 26,952 |
| Standard and Poor's fee | 25,568 | 25,750 |
| Accounting and auditing | 21,758 | 11,849 |
| Miscellaneous | 6,470 | 10,594 |
| Trustee board meeting expenses | 9,839 | 8,836 |
| | <u>1,414,046</u> | <u>1,343,149</u> |
| Total expenses | | |
| | <u>\$ 9,944,200</u> | <u>\$ 7,880,064</u> |
| NET INVESTMENT INCOME | | |

The accompanying notes are an integral part of these statements.

Colorado Surplus Asset Fund Trust (CSAFE)

STATEMENTS OF CHANGES IN NET ASSETS

Year ended December 31,

| | <u>2004</u> | <u>2003</u> |
|---|------------------------------|------------------------------|
| Increase in net assets attributed to: | | |
| Operations | | |
| Net investment income | <u>\$ 9,944,200</u> | <u>\$ 7,880,064</u> |
| Share transactions | | |
| Net proceeds from sale of shares | 3,041,865,251 | 2,498,254,780 |
| Cost of shares redeemed | <u>(2,858,500,559)</u> | <u>(2,385,756,570)</u> |
| Net increase in net assets derived from share transactions | <u>183,364,692</u> | <u>112,498,210</u> |
| NET INCREASE IN NET ASSETS | 193,308,892 | 120,378,274 |
| Net assets at beginning of year | <u>631,845,917</u> | <u>511,467,643</u> |
| Net assets at end of year | <u><u>\$ 825,154,809</u></u> | <u><u>\$ 631,845,917</u></u> |

The accompanying notes are an integral part of these statements.

Colorado Surplus Asset Fund Trust (CSAFE)

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Colorado Surplus Asset Fund Trust (CSAFE) was established under authority of and in conformity with Part 6 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.

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).

1. *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.

2. *Security Valuation*

Investments are stated at amortized cost, which approximates market value.

3. *Net Asset Valuation*

For the purpose of calculating CSAFE's net asset value per share, the securities held by CSAFE are valued 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.

Colorado Surplus Asset Fund Trust (CSAFE)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2004 and 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. *Security Transactions*

No realized gains or losses from security transactions occurred during the periods and all investments had terms of less than one year.

5. *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.

6. *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.

7. *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.

8. *Reclassifications*

Certain amounts have been reclassified in the prior year for comparative purposes.

NOTE B – CASH DEPOSITS AND INVESTMENTS

CSAFE's cash and investments at December 31, 2004 and 2003 consisted of the following:

| | <u>2004</u> | <u>2003</u> |
|-----------------------------------|-----------------------|-----------------------|
| Deposits | \$ 227,532,315 | \$ 2,762,205 |
| U.S. government agency securities | 193,861,792 | 154,265,528 |
| Repurchase agreements | <u>401,625,000</u> | <u>473,941,000</u> |
| Total | <u>\$ 823,019,107</u> | <u>\$ 630,968,733</u> |

Colorado Surplus Asset Fund Trust (CSAFE)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2004 and 2003

NOTE B – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

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.

Deposits are categorized as follows: Category 1 includes deposits that are insured; Category 2 includes collateralized deposits held by the pledging institution's trust department or agent in the Trust's name; and Category 3 includes uncollateralized, uninsured deposits.

CSAFE's cash deposits at December 31, 2004 and 2003 had a carrying value of \$227,532,315 and \$2,762,205, respectively. Corresponding bank balances are as follows:

| | <u>2004</u> | <u>2003</u> |
|---------------------|-----------------------|---------------------|
| Category 1 deposits | \$ 400,000 | \$ 500,437 |
| Category 2 deposits | <u>226,775,864</u> | <u>3,584,206</u> |
| Total deposits | \$ <u>227,175,864</u> | \$ <u>4,084,643</u> |

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.

Colorado Surplus Asset Fund Trust (CSAFE)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2004 and 2003

NOTE B – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments in Securities

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

Government accounting standards require that all securities be categorized as either: (1) insured or registered for which the securities are held by CSAFE or the custodian bank in CSAFE's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in CSAFE's name, or (3) uninsured and unregistered for which the securities are held by the broker or dealer or by its trust department or agent but not in CSAFE's name. Such categorization provides an indication of the credit risk assumed by CSAFE related to the ownership and custody of the securities.

As discussed in note A1, 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. Therefore, all investment securities held by CSAFE at December 31, 2004 and 2003 are considered to be Category 1.

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 (CONTINUED)

December 31, 2004 and 2003

NOTE B – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments in Securities (Continued)

Investments in U.S. government agency securities at December 31, 2004, were as follows:

| <u>Face amount</u> | <u>Security</u> | <u>Yield</u> | <u>Carrying amount</u> | <u>Market value</u> |
|--------------------|--|--------------|------------------------|-----------------------|
| \$ 15,000,000 | FNMA callable note due April 19, 2005 | 1.300% | \$ 15,000,000 | \$ 14,952,000 |
| 10,000,000 | FHLMC discount note due January 6, 2005 | 1.230% | 9,909,000 | 9,999,000 |
| 10,000,000 | FNMA discount note due February 4, 2005 | 1.260% | 9,895,139 | 9,989,000 |
| 10,000,000 | FMC discount note due March 8, 2005 | 1.300% | 9,880,317 | 9,962,000 |
| 15,000,000 | FNMA callable note due May 9, 2005 | 1.500% | 15,000,000 | 14,950,500 |
| 15,000,000 | FNMA callable note due May 16, 2005 | 1.650% | 15,000,000 | 14,956,500 |
| 10,000,000 | FNMA discount note due April 29, 2005 | 1.860% | 9,817,100 | 9,930,000 |
| 15,000,000 | FHLB callable note due June 7, 2005 | 1.860% | 15,000,000 | 14,956,500 |
| 10,000,000 | FHLB discount note due June 13, 2005 | 2.120% | 9,792,122 | 9,900,000 |
| 15,550,000 | FHLB coupon note due August 15, 2005 | 2.160% | 15,689,281 | 15,567,105 |
| 10,000,000 | FMC discount note due August 26, 2005 | 2.140% | 9,788,833 | 9,836,000 |
| 11,590,000 | FHLB callable note due September 29, 2005 | 2.375% | 11,590,000 | 11,547,117 |
| 15,000,000 | FHLB callable note due November 2, 2005 | 2.500% | 15,000,000 | 14,953,500 |
| 15,000,000 | FHLB callable note due November 29, 2005 | 2.550% | 15,000,000 | 14,944,500 |
| 7,500,000 | FHLB callable note due November 28, 2005 | 2.700% | 7,500,000 | 7,482,750 |
| 10,000,000 | FHLB callable note due December 30, 2005 | 2.875% | <u>10,000,000</u> | <u>9,988,000</u> |
| | | | <u>\$ 193,861,792</u> | <u>\$ 193,914,472</u> |

Colorado Surplus Asset Fund Trust (CSAFE)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2004 and 2003

NOTE B – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments in Securities (Continued)

Investments in U.S. government agency securities at December 31, 2003, were as follows:

| <u>Face amount</u> | <u>Security</u> | <u>Yield</u> | <u>Carrying amount</u> | <u>Market value</u> |
|--------------------|--|--------------|------------------------|-----------------------|
| \$ 7,500,000 | FNMA callable note due July 24, 2004 | 1.180% | \$ 7,500,000 | \$ 7,497,675 |
| 15,000,000 | FHLMC callable note due August 10, 2004 | 1.140% | 15,000,000 | 14,992,500 |
| 15,000,000 | FNMA callable note due August 23, 2004 | 1.200% | 15,000,000 | 14,995,350 |
| 15,000,000 | FNMA discount note due August 20, 2004 | 1.330% | 14,802,550 | 14,893,500 |
| 7,500,000 | FHLMC discount note due June 1, 2004 | 1.220% | 7,432,500 | 7,467,000 |
| 7,500,000 | FHLMC discount note due June 16, 2004 | 1.250% | 7,426,969 | 7,464,000 |
| 7,500,000 | FHLMC discount note due July 15, 2004 | 1.290% | 7,417,575 | 7,455,750 |
| 7,500,000 | FHLMC discount note due August 31, 2004 | 1.340% | 7,401,477 | 7,443,750 |
| 15,000,000 | FHLMC callable note due November 3, 2004 | 1.350% | 14,999,250 | 14,998,200 |
| 10,000,000 | FNMA discount note due March 10, 2004 | 1.070% | 9,960,469 | 9,981,000 |
| 10,000,000 | FNMA discount note due April 21, 2004 | 1.120% | 9,945,556 | 9,969,000 |
| 10,000,000 | FNMA discount note due May 5, 2004 | 1.120% | 9,947,111 | 9,965,000 |
| 10,000,000 | FHLB callable note due December 24, 2004 | 1.500% | 10,000,000 | 10,003,100 |
| 7,500,000 | FNMA discount note due September 17, 2004 | 1.200% | 7,432,071 | 7,437,750 |
| 10,000,000 | FNMA callable note due January 18, 2005 | 1.151% | <u>10,000,000</u> | <u>10,000,000</u> |
| | | | <u>\$ 154,265,528</u> | <u>\$ 154,563,575</u> |

Colorado Surplus Asset Fund Trust (CSAFE)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2004 and 2003

NOTE B – CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Investments in Securities (Continued)

CSAFE periodically invests in institutional, AAA rated, money market funds. 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, 2004 and 2003 related to these money market funds ranged between .11% and .17% for each year. These fees are in addition to the fees paid by CSAFE participants to the trust's advisor.

NOTE C – REPURCHASE AGREEMENTS

Funds are released by CSAFE for repurchase agreements only when collateral valued at 102% of the repurchase amount has been wired to the custodian bank. There were no uncollateralized repurchase agreements outstanding at December 31, 2004 and 2003. Market values are not presented since market value approximates cost and there is no active secondary market for the repurchase agreements.

Repurchase agreements owned by CSAFE and the related collateral securities at December 31, 2004 were as follows:

| <u>Principal amount</u> | <u>Yield</u> | <u>Maturity date</u> | <u>Collateral description</u> | <u>Market value of collateral</u> |
|-------------------------|--------------|----------------------|-------------------------------|-----------------------------------|
| \$ 195,000,000 | 2.28% | 1/3/2005 | FGPC, FNMS | \$ 198,900,758 |
| <u>206,625,000</u> | 2.28% | 1/3/2005 | FMAR, FNAR | <u>210,758,494</u> |
| \$ <u>401,625,000</u> | | | | \$ <u>409,659,252</u> |

Repurchase agreements owned by CSAFE and the related collateral securities at December 31, 2003 were as follows:

| <u>Principal amount</u> | <u>Yield</u> | <u>Maturity date</u> | <u>Collateral description</u> | <u>Market value of collateral</u> |
|-------------------------|--------------|----------------------|-------------------------------|-----------------------------------|
| \$ 153,941,000 | 1.00% | 01/02/04 | TINT, TPRN, FIPR | \$ 157,020,438 |
| 160,000,000 | 1.06% | 01/02/04 | FGPC, FNMS | 163,202,265 |
| <u>160,000,000</u> | 1.01% | 01/05/04 | FNST | <u>163,202,898</u> |
| \$ <u>473,941,000</u> | | | | \$ <u>483,425,601</u> |

Colorado Surplus Asset Fund Trust (CSAFE)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2004 and 2003

NOTE D – INVESTMENT ADVISORY AND ADMINISTRATIVE FEES

Kirkpatrick Pettis 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 2004 and 2003 totaled \$1,178,669 and \$1,123,079, respectively.

In addition, the Administrator accrued 0.04% and 0.027% of average daily net assets of the Trust in 2004 and 2003, respectively, to meet administrative and custodial expenses.

NOTE E – ADDITIONAL INFORMATION

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

| | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|-----------------------|-------------------|------------------|------------------|------------------|------------------|
| Investment income | \$.015065 | \$.01274 | \$.01903 | \$.04034 | \$.06329 |
| Expenses | <u>.001876</u> | <u>.00186</u> | <u>.00198</u> | <u>.00198</u> | <u>.00222</u> |
| Net investment income | \$ <u>.013189</u> | \$ <u>.01088</u> | \$ <u>.01705</u> | \$ <u>.03836</u> | \$ <u>.06107</u> |

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

| | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Weighted average maturity in days | 46 | 57 | 9 | 41 | 17 |

The Trust's net average yield for 2004 and 2003 was 1.319% and 1.088%, respectively. For example, \$1,000 invested in the Trust on January 1, 2004 would have been worth \$1,013.19 at December 31, 2004, and \$1,000 invested on January 1, 2003 would have been worth \$1,010.88 at December 31, 2003.

Colorado Surplus Asset Fund Trust (CSAFE)

CSAFE BOARD OF TRUSTEES

YOUR CSAFE BOARD OF TRUSTEES

George Turtle, Chairman

Foothills Park & Recreation District

John Sjursen, Vice Chairman

Jefferson County School District, R-1

Joseph Subialka, Secretary/Treasurer

Lewis Palmer School District #38

Jim Malone, Director

Wheat Ridge Water District

Gerry Schulte, Director

Evergreen Metropolitan District

Christina Whitmer, Director

Grand County Treasurer

Greg Demko, Director

City and County of Broomfield

Sharon Jones, Director

Douglas County Treasurer

Scott Murphy, Director

Littleton Public Schools