Summary of Economic Conditions

• Economic activity in the U.S. appears to be “leveling out.” Signs of improvement in the economy include:
  – GDP is growing
  – Manufacturing sector is expanding
  – Home sales are stronger; prices stabilizing
  – Economy is slowly adding jobs
  – Stock markets have led the way, sort of

• Significant challenges remain, meaning recovery will be relatively slow compared to past business cycles. These “headwinds” include:
  – High unemployment
  – Weak consumer spending
  – Rising mortgage delinquencies
  – Reduced availability of credit
Gross Domestic Product

Fourth Quarter 2004 – First Quarter 2011 (projected)

Source: Bloomberg
Recovery Hindered by Unemployment

Unemployment Rate vs. Average Weekly Hours Worked
April 2002 – April 2010

Source: Bloomberg
Fed Funds Are Expected To Stay Low…

Federal Funds Target Rate

Source: Bloomberg
As Are Treasury Yields

2-Year U.S. Treasury Note Yield

Source: Bloomberg
Strategies for Enhancing Returns
Strategies Should Be Prudent & Comprehensive

| Short-term Funds          | • Utilize high-quality money fund for liquidity and flexibility  
                          | • Safely maximize earnings for short-term cash needs  
                          | • Consider likelihood of future interest rate risk  |
|---------------------------|-----------------------------------------------------------------|
| “Core” Funds              | • Take advantage of steepness in yield curve  
                          | • Employ active management strategies  
                          | • Manage credit exposure carefully  |
Short-Term Funds: Money Market Fund Yields Lag the Market

Average Monthly Yields
May 2002 – May 2010

- 3-Month Treasury Bill
- S&P LGIP Index - Net

Source: Bloomberg
Core Funds: Yield Curve Is Exceptionally Steep

U.S. Treasury Yield Curve
June 1, 2009 versus June 1, 2010

<table>
<thead>
<tr>
<th>Maturity</th>
<th>June 1, 2010</th>
<th>Pick up Over 3 Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 month</td>
<td>0.15%</td>
<td>-</td>
</tr>
<tr>
<td>6 month</td>
<td>0.21%</td>
<td>+0.07%</td>
</tr>
<tr>
<td>1 year</td>
<td>0.31%</td>
<td>+0.17%</td>
</tr>
<tr>
<td>2 year</td>
<td>0.77%</td>
<td>+0.62%</td>
</tr>
<tr>
<td>3 year</td>
<td>1.21%</td>
<td>+1.06%</td>
</tr>
<tr>
<td>5 year</td>
<td>2.06%</td>
<td>+1.91%</td>
</tr>
<tr>
<td>10 year</td>
<td>3.26%</td>
<td>+3.11%</td>
</tr>
<tr>
<td>30 year</td>
<td>4.18%</td>
<td>+4.03%</td>
</tr>
</tbody>
</table>

Source: Bloomberg
Depository Opportunities

- Above-market ECR (Earnings Credit Rate)
- TAGP (Transaction Account Guarantee Program)
  - Unlimited FDIC insurance on certain bank accounts
  - Many banks have dropped out due to changing participation requirements:
    - Non-Interest Bearing Transactions accounts (rate of less than 0.50% through June 30, 2010)
    - Non-Interest Bearing Transactions accounts (rate of less than 0.25% through December 31, 2010)
- Aggressive CD Rates
  - Collateralization/insurance important
  - Understand the basis for rates
Broker / Dealers as a Resource

- Ready source of market information
- Many specialize in a market sector
- Buys for and sells from “house” inventory
- Extremely beneficial to maintain multiple broker/dealer relationships

### Sample Trade on May 15, 2008
Buy: FHLMC, coupon 4.75%, November 3, 2009, par $10,000,000

<table>
<thead>
<tr>
<th>Broker</th>
<th>Offered Yield</th>
<th>Offered Price</th>
<th>Principal</th>
<th>Difference Over Low Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broker A</td>
<td>2.68%</td>
<td>102.951</td>
<td>$10,295,117</td>
<td>$17,277</td>
</tr>
<tr>
<td>Broker B</td>
<td>2.72%</td>
<td>102.892</td>
<td>$10,289,298</td>
<td>$11,459</td>
</tr>
<tr>
<td>Broker C</td>
<td>2.76%</td>
<td>102.834</td>
<td>$10,283,485</td>
<td>$5,645</td>
</tr>
<tr>
<td>Broker D</td>
<td><strong>2.80%</strong></td>
<td><strong>102.778</strong></td>
<td>$10,277,840</td>
<td><strong>$0</strong></td>
</tr>
</tbody>
</table>
Investment Advisor

- Discretionary and non-discretionary services
- No “house” inventory – must competitively shop for every security
- Ready source of market information
- Assist clients with the development of cash flow forecasts, investment strategies and investment policy
- Fiduciary responsibility to clients
Cash Flow Forecast

Analysis of Core Portfolio

- Highly liquid
- Stable returns
- Low market risk
- Flexible
- Longer-term investments
- Higher returns over time

Historical Short-term Portfolio
Historical Core
Projected Short-term Portfolio
Projected Core
Benchmarking

- Longer investment strategies can achieve higher returns but expose the portfolio to more volatility

<table>
<thead>
<tr>
<th>Merrill Lynch Index</th>
<th>Duration</th>
<th>Overall Return</th>
<th>Cumulative Value of $20,000,000</th>
<th>Quarters With Negative Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market Mutual Fund</td>
<td>0.00 Years</td>
<td>3.08%</td>
<td>$27,092,325</td>
<td>0 out of 20</td>
</tr>
<tr>
<td>3-Month Treasury Bill</td>
<td>0.23 Years</td>
<td>2.84%</td>
<td>$26,477,942</td>
<td>0 out of 40</td>
</tr>
<tr>
<td>6-Month Treasury Bill</td>
<td>0.48 Years</td>
<td>3.25%</td>
<td>$27,543,328</td>
<td>0 out of 40</td>
</tr>
<tr>
<td>1 Year Treasury Index</td>
<td>0.99 Years</td>
<td>3.69%</td>
<td>$28,752,958</td>
<td>3 out of 40</td>
</tr>
<tr>
<td>1-3 Year Treasury Index</td>
<td>1.92 Years</td>
<td>4.42%</td>
<td>$30,832,276</td>
<td>4 out of 40</td>
</tr>
<tr>
<td>1-5 Year Treasury Index</td>
<td>2.65 Years</td>
<td>4.93%</td>
<td>$32,382,776</td>
<td>10 out of 40</td>
</tr>
<tr>
<td>1-10 Year Treasury Index</td>
<td>3.94 Years</td>
<td>5.39%</td>
<td>$33,813,574</td>
<td>11 out of 40</td>
</tr>
<tr>
<td>3-5 Year Treasury Index</td>
<td>3.88 Years</td>
<td>5.96%</td>
<td>$35,696,762</td>
<td>14 out of 40</td>
</tr>
</tbody>
</table>

Source: Bloomberg – Merrill Lynch Indices
Create Customized, Comprehensive Investment Program for AAPA

Branded Investment Program

Money Market Fund
- Liquidity
- Checking account sweep
- Cash management services
- Online transactions

Managed Portfolios
- Individual investments
- Structured to investment policy and liquidity needs
- Earnings/maturities to pool account

CD Purchase Program
- FDIC-insured CDs
- Opportunity for enhanced yield
- Fixed terms from 60 days to one year

Purchasing Card
- Streamlined purchases
- Rebates on spending
- Enhanced reporting

High quality securities
Open to operating funds and bond proceeds
Sponsorship fee back to association
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