

**REPORT  
 HIGHLIGHTS**  
**FINANCIAL STATEMENT AUDIT**

**Subject**

The Arizona State Treasurer's Office provides financial services to state agencies, counties, community college districts, tribal governments, cities, and towns by safekeeping investments, investing monies on deposit with the Treasurer, and distributing monies, as necessary, to these entities. The Treasurer is responsible for preparing annual financial statements, maintaining strong internal controls, and demonstrating accountability for custody of public monies. As the auditors, our job is to determine whether the Treasurer's Office has met its responsibilities.

**Our Conclusion**

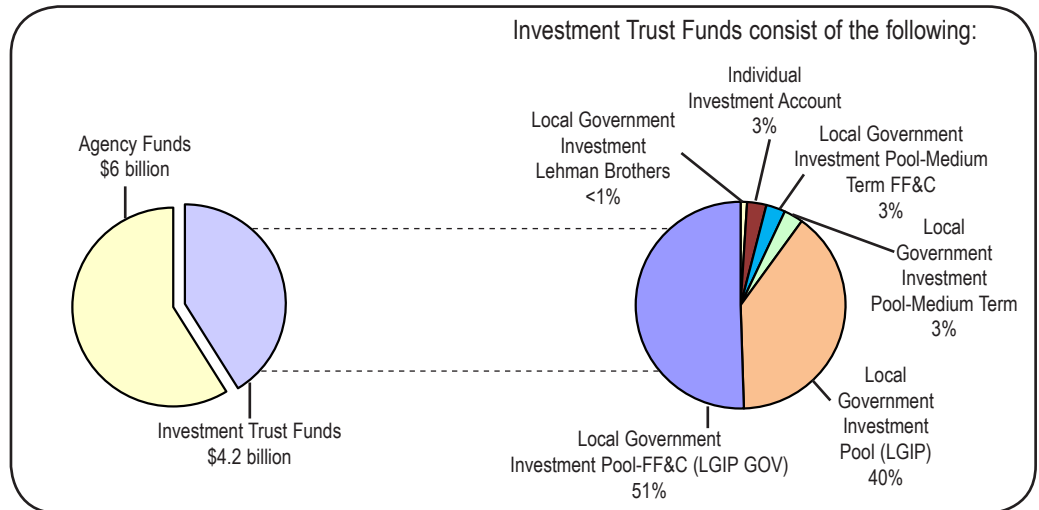
The information in the Treasurer's financial statements is reliable. The financial statements present the fiscal year-end balances of investments purchased by the Treasurer's Office on behalf of the State and other governmental entities and assets held for state agencies, commissions, boards, and other governments in an agency capacity.



2010

Year Ended June 30, 2010

**Treasurer's Office Manages the State's  
 and Local Governments' Investments**



As of June 30, 2010, the Treasurer's Office had investments totaling \$10.2 billion; 41.2 percent was held in investment trusts, and 58.8 percent was held in an agency capacity. In addition, the Treasurer's Office had securities lending collateral investments totaling \$835 million, or \$119 million and \$716 million in the investment trust funds and agency funds, respectively, as of June 30, 2010. The investment trust funds account for pooled and nonpooled assets held and invested by the Treasurer on behalf of state agencies and local governments. The funds consist of five investment pools and one individual investment account, as follows:

- *The Local Government Investment Pool (LGIP)* accounts for over \$1.7 billion in investments.
- *The Local Government Investment Pool—Full Faith and Credit (FF&C)*, also referred to as LGIP GOV, accounts for over \$2.1 billion in investments. This pool was established under the same administrative rules as the LGIP, but pooled investments are limited to those securities that carry the full faith and credit of the U.S. government.

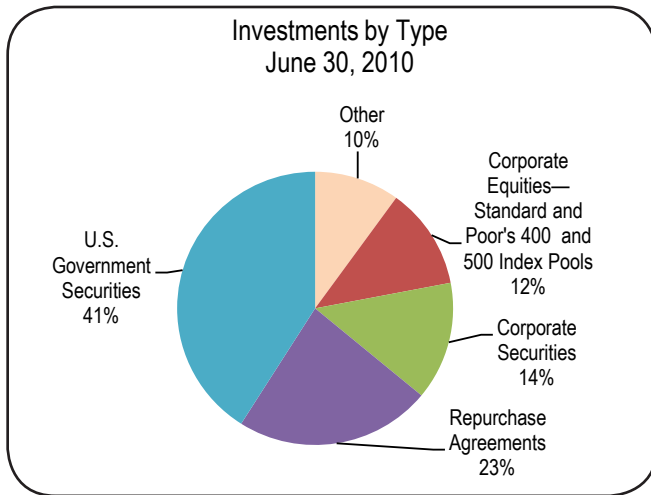
- *The Local Government Investment Pool—Medium Term* accounts for over \$112 million invested for longer-term investment needs.
- *Local Government Investment Pool—Medium Term FF&C* accounts for over \$115 million invested in longer-term securities that carry the full faith and credit of the United States government.
- *Local Government Investment Lehman Brothers* accounts for \$7.7 million in Lehman Brothers investments transferred from the LGIP to a separate pool during fiscal year 2009 to provide for the decrease in fair value.
- *The Individual Investment Account* accounts for over \$135 million in investments purchased on behalf of the Central Arizona Water Conservation District.

Agency Funds are custodial in nature and do not present results of operations. These funds are used to account for assets that the Treasurer holds and invests for state departments, agencies, commissions, boards, and other governments in an agency capacity.

## Treasurer Diversifies Security Types to Reduce Risk

Arizona law allows the Treasurer to invest only in certain types of securities, as described below. As shown in the figure below, the Treasurer's Office invests primarily in U.S. government securities,

repurchase agreements, and corporate stocks and securities, which at June 30, 2010, represented over \$9.2 billion, or 90 percent, of the \$10.2 billion in investments that the Treasurer manages.



TO OBTAIN MORE INFORMATION

A copy of the full report can be obtained by calling (602) 553-0333



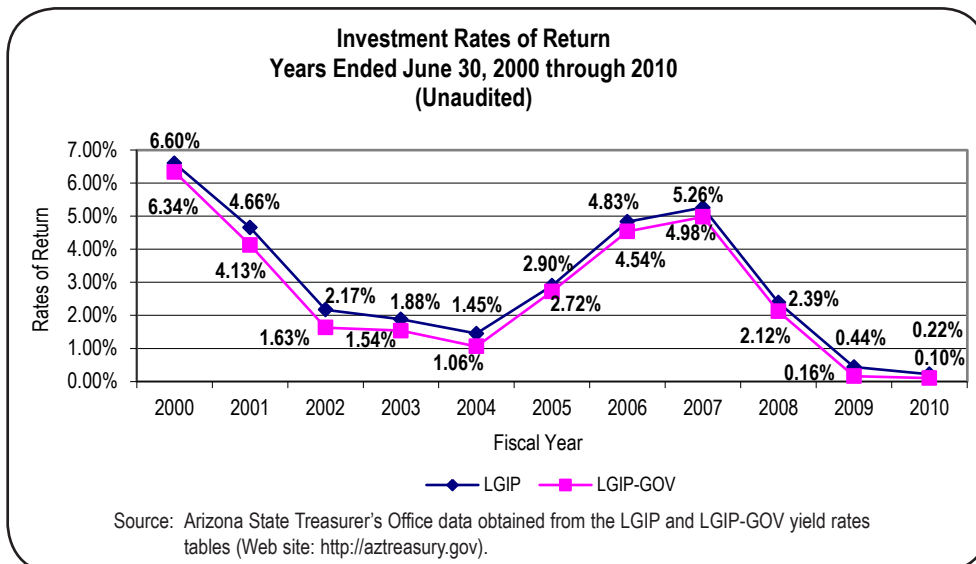
or by visiting our Web site at: [www.azauditor.gov](http://www.azauditor.gov)

Contact person for this report: Kathleen Wood

## Investment Rates of Return Declined in Fiscal Year 2010

The figure below shows the Treasurer's rates of return for the Local Government Investment Pool (LGIP) and Local Government Investment Pool—FF&C (LGIP-GOV) for the years

ended June 30, 2000 through 2010. The investment rates of return have continued to decline as interest rates have declined due to the weakness in the U.S. economy during fiscal year 2010.



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