

REPORT HIGHLIGHTS FINANCIAL STATEMENT AUDIT

Our Conclusion

The State of Arizona Office of the Treasurer is responsible for preparing annual financial statements, maintaining effective internal controls, and being accountable for its use of public monies. Our Office is responsible for auditing the Treasurer's financial statements annually. The information in the Treasurer's financial statements will also be incorporated in the State of Arizona's Comprehensive Annual Financial Report. Information about the investments the Treasurer manages is presented in these report highlights.

Based on our audit, we issued a report that included our opinion on the Treasurer's financial statements and a report on its internal control and compliance. The information in the Treasurer's fiscal year 2012 financial statements is reliable. Our report on internal control and compliance did not include any reported deficiencies in the Treasurer's internal control or compliance over financial reporting.



2012

Year Ended June 30, 2012

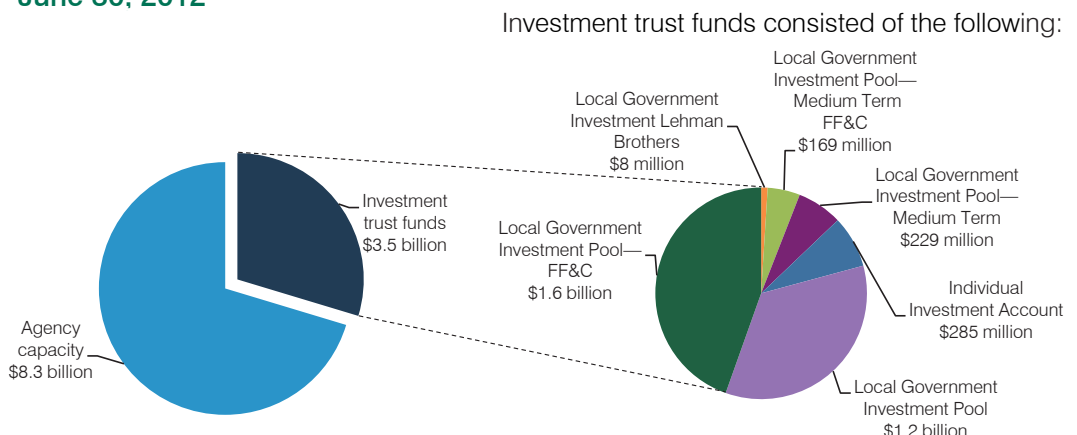
Treasurer's Office manages the State's and local governments' investments

As of June 30, 2012, the Treasurer's Office had investments totaling \$11.8 billion. Approximately 30 percent was held in investment trust funds, and approximately 70 percent was held in an agency capacity. The investment trust funds account for pooled and nonpooled monies held in trust and invested by the Treasurer on behalf of state agencies and local governments. The Treasurer's financial statements show the investment trust funds' changes in net assets as a result of investing. Those funds consist of five investment pools and one individual investment account, as follows and as shown in the figure below:

- The *Local Government Investment Pool—Full Faith and Credit (FF&C)*, also referred to as LGIP-GOV, accounts for over \$1.6 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 (LGIP)* accounts for over \$1.2 billion in investments.
- The *Individual Investment Account* accounts for over \$285 million in investments purchased on behalf of the Central Arizona Water Conservation District.
- The *Local Government Investment Pool—Medium Term*, also referred to as LGIP-MT, accounts for over \$229 million invested for longer terms.
- The *Local Government Investment Pool—Medium Term FF&C*, also referred to as LGIP-MT GOV, accounts for nearly \$169 million invested in longer-term securities that carry the full faith and credit of the U.S. government.
- The *Local Government Investment Lehman Brothers* accounts for over \$8 million in Lehman Brothers' investments transferred from the LGIP to a separate pool during fiscal year 2009 to provide for its decrease in fair value.

Monies held in an agency capacity are purely custodial in nature and reported in agency funds. They include monies that the Treasurer holds and invests for state departments, agencies, commissions, boards, and other governments; however, investment earnings are not reported for monies held in this capacity.

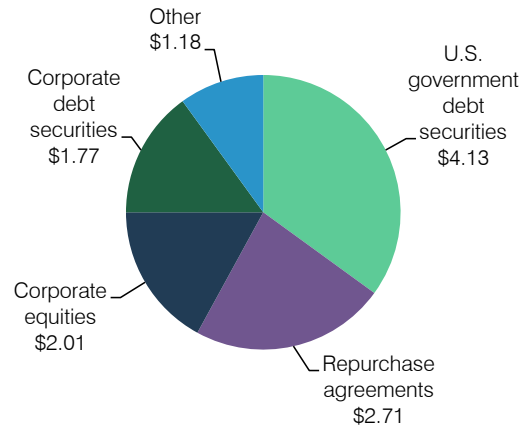
Total investments of \$11.8 billion June 30, 2012



Treasurer diversifies security types to reduce risk

Arizona law allows the Treasurer to invest only in certain types of securities. As shown in the figure below, the Treasurer's Office invested in U.S. government debt securities, repurchase agreements, corporate equities, corporate debt securities, and other allowable investments, which at June 30, 2012, totaled \$11.8 billion.

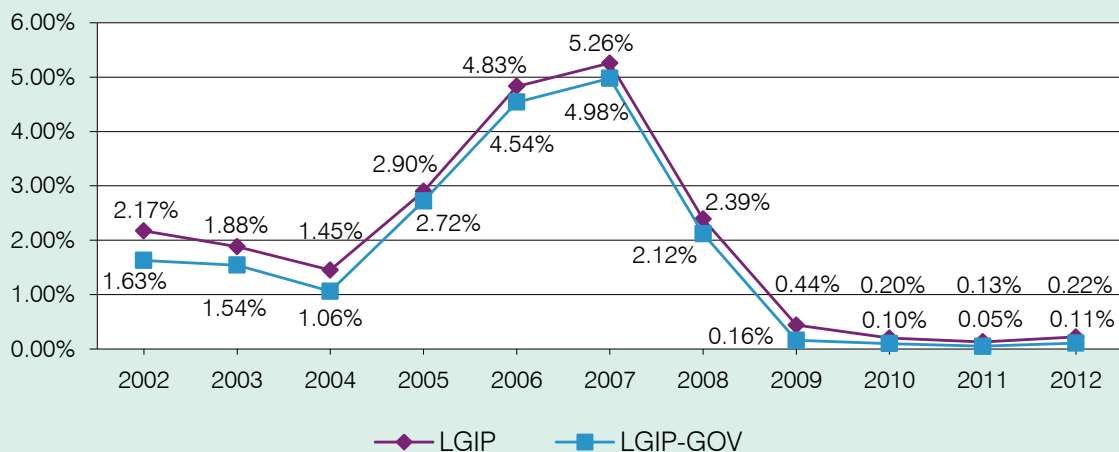
**Total investments by type totaling \$11.8 billion
June 30, 2012
(In billions)**



Investment yields increased slightly in fiscal year 2012

The figure below shows the Treasurer's yields for the Local Government Investment Pool (LGIP) and Local Government Investment Pool—FF&C (LGIP-GOV) for fiscal years 2002 through 2012. The investment yields increased slightly at the end of fiscal year 2012 because of the stabilization of the U.S. economy since the recession that began in fiscal year 2008.

**Investment yields
Fiscal years 2002 through 2012
(Unaudited)**



Source: Auditor General staff summary of information obtained from <http://aztreasury.gov>.