



**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

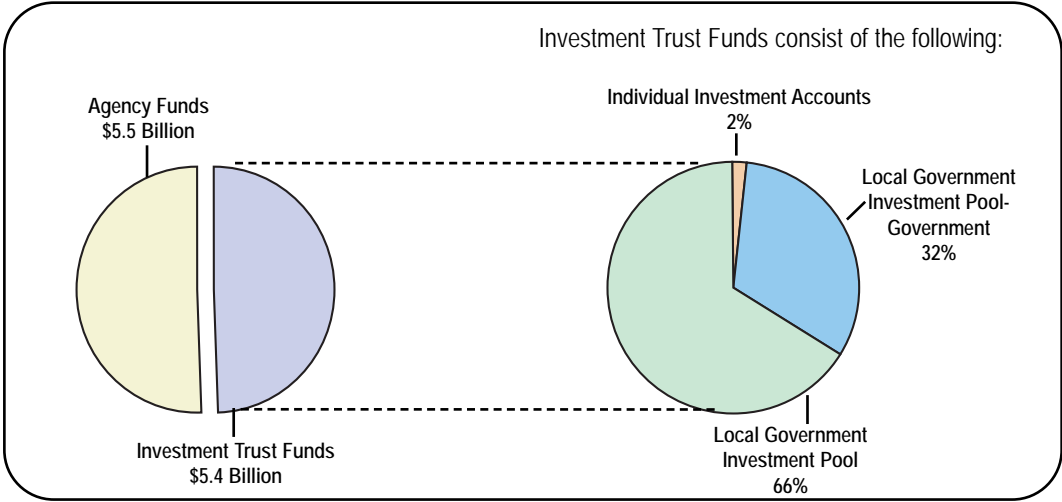
The information in the Treasurer's financial statements is reliable. The financial statements present the fiscal year-end balances of investments purchased by the Treasurer's Office on behalf of the State and other governmental entities and assets held for state agencies, commissions, boards, and other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



2006

Year Ended June 30, 2006

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



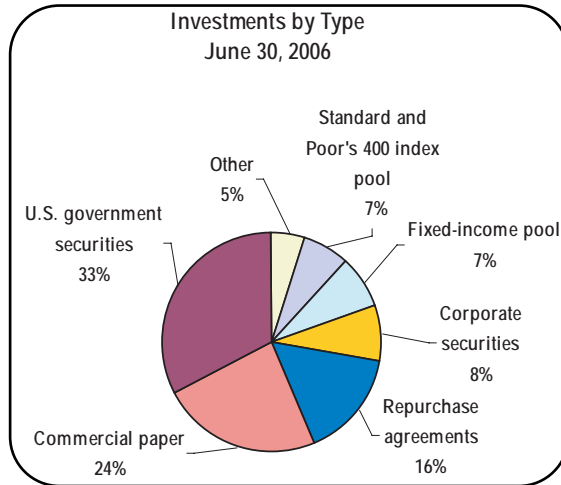
As of June 30, 2006, the Treasurer's Office had investments totaling \$10.9 billion; 49.7 percent was held in investment trusts and 50.3 percent was held in an agency capacity. Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the Treasurer holds for state departments, agencies, commissions, boards, and other governments in an agency capacity. Investment Trust Funds account for pooled and nonpooled assets held and invested by the Treasurer on behalf of state agencies and other governmental entities using the economic resources measurement focus. The investment trust funds consist of three investment pools and two individual investment accounts which have been grouped as follows:

- *The Local Government Investment Pool (LGIP) and Local Government Investment Pool Long-Term* were the largest with over \$3.6 billion combined. They account for monies that Arizona cities, towns, counties, and political subdivisions have asked the Treasurer to invest for them, as well as investments of state monies.
- *The Local Government Investment Pool—Government* accounts for over \$1.7 billion invested for Arizona local government entities and state monies. This pool was established under the same administrative rules as the LGIP, but pool investments are limited to those securities that carry the full faith and credit of the United States government.
- *Individual Investment Accounts* include more than \$120 million in investments purchased on behalf of the Central Arizona Water Conservation District and the Greater Arizona Development Authority.

Treasurer Diversifies Security Types to Reduce Risk

Arizona law only allows the Treasurer to invest in certain types of securities. These investments are permitted under these laws. As shown in the figure below, the Treasurer's Office invests primarily in U.S. government securities, commercial paper,

repurchase agreements, and corporate securities, which, at June 30, 2006, represented \$8.8 billion, or 82 percent, of the \$10.9 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



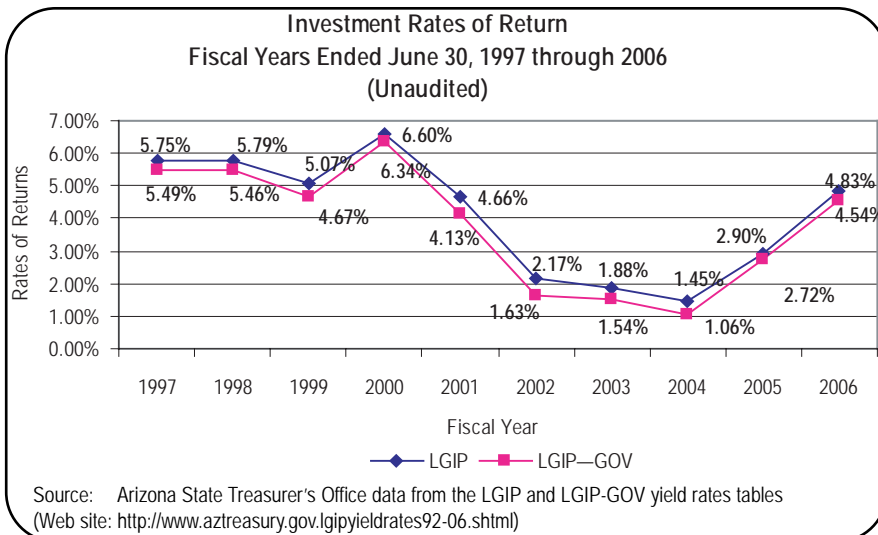
or by visiting our Web site at:
www.azauditor.gov

Contact person for this report:
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Investment Rates of Return Have Rebounded

The figure below shows the Treasurer's rates of return for the Local Government Investment Pool (LGIP) and Local Government Investment Pool—Government (LGIP—GOV) for the years ended June 30, 1997 through 2006. The LGIP earned its highest rate of return of 6.6 percent in fiscal year 2000 and its lowest of 1.45 percent in fiscal year 2004.

The LGIP-GOV also had its highest rate of return of 6.34 percent in fiscal year 2000 and its lowest of 1.06 percent in fiscal year 2004. The LGIP—GOV has been expected to and has earned lower rates of return than the LGIP because of the decreased credit risk associated with governmental securities.



Source: Arizona State Treasurer's Office data from the LGIP and LGIP-GOV yield rates tables (Web site: <http://www.aztreasury.gov.lgipyieldrates92-06.shtml>)

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Year Ended June 30, 2006