

**REPORT
HIGHLIGHTS**
FINANCIAL STATEMENT AUDIT

Subject

The Arizona State Treasurer's Office provides financial services to state agencies, counties, 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. It reports the investments the Treasurer's Office made on behalf of other governmental entities and the assets held for state agencies, commissions, boards, and other governments in an agency capacity.

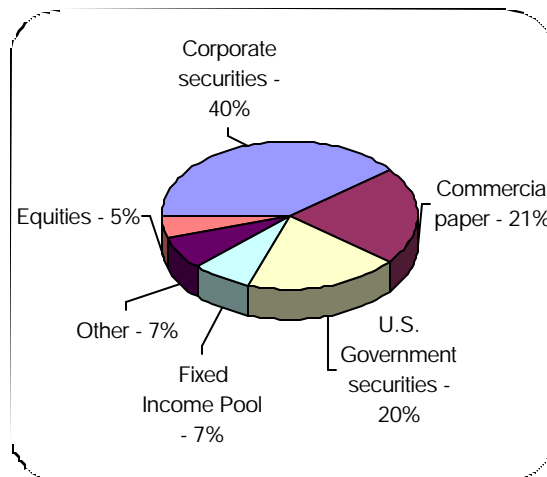


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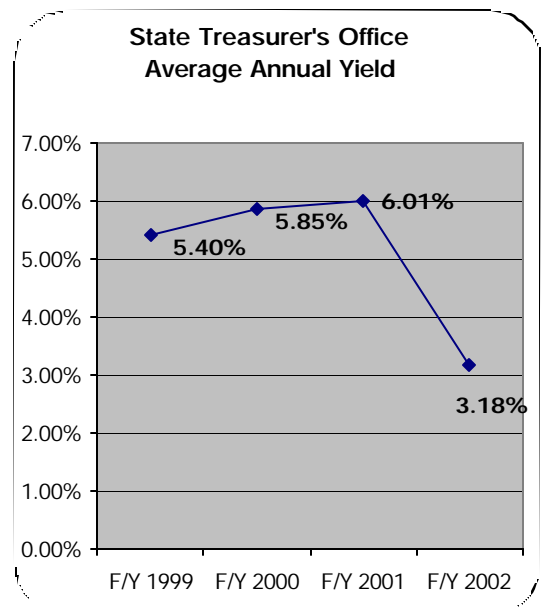
Year Ended June 30, 2002

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

The Treasurer's Office manages investments totaling \$8.1 billion, as of June 30, 2002, for the state and participating local governments. In addition to investing the state general fund's and other agencies' idle monies, the Treasurer's Office manages investments for local governments. These governments may choose to participate in one of two investment pools—the Local Government Investment Pool and the Local Government Investment Pool-Gov (a Pool that invests only in U.S. Government Securities), as well as the Permanent Endowment Funds. As shown in the figure below, the Treasurer's Office invests primarily in corporate securities, commercial paper, and U.S. Government securities.



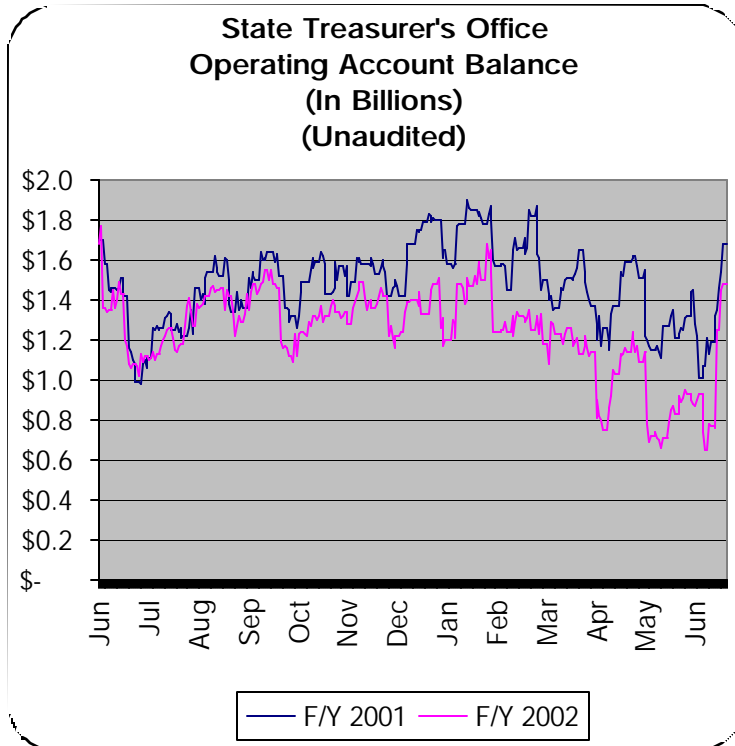
It is the Treasurer's Office responsibility to monitor investments daily to take advantage of market opportunities to enhance its portfolios returns, increase yield, and reduce risk. A weakened national economy resulted in significant interest rate declines over the past year. The figure below shows the Treasurer's Office average annual yield over the past four years. The average annual yield represents the percentage of investments returned as interest during a year.



Treasurer's Office Maintains the State's Operating Account

The Treasurer's Office maintains the State's operating account, which consists of general fund and other state agencies' uninvested monies. The account is monitored daily by the Treasurer's Office, and is a general indicator of the State's ability to pay its bills.

As shown in the figure below, the State's operating account has decreased in fiscal year 2002 when compared to fiscal year 2001. If the operating account falls below \$200 million, or if the operating account balance averages less than \$800 million during any six-month period, the Arizona Department of Transportation Board may be required to repay \$200 million in Board Funding Obligations secured by the State's operating account. During fiscal year 2002, the operating accounting balance ranged from a high of \$1.6 billion to a low of \$650 million.



TO OBTAIN MORE INFORMATION

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