



REPORT HIGHLIGHTS

FINANCIAL STATEMENT AUDIT

Subject

The Arizona State Treasurer's Office provides financial services to state agencies, counties, 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.



2004

Year Ended June 30, 2004

Treasurer's Office Authorized To Establish Long-Term Investment Pools

During fiscal year 2004, House Bill 2365 was passed authorizing the Treasurer's Office to establish long-term investment pools for the benefit of participating local governments, including Arizona cities, towns, counties, and tribal governments, and political subdivisions of the State. Prior to the passage of House Bill 2365, the Treasurer's Office was only allowed to maintain investment pools for participating governments that were designed to meet their relatively short-term needs. The Treasurer's Office

is currently looking into establishing two long-term investment pools with varying investment durations. The Treasurer's Office expects these new pools to be available to participants in late fiscal year 2005. In addition, the Treasurer's Office is authorized to charge participants of the new long-term investment pools a management fee that will be restricted for payment of personnel and operating expenses of the Office related to technology and investment activities.

Bill Passed to Address the Global Security Risks of Investments

Arizona passed Senate Bill 1343 during fiscal year 2004 that will require the State Treasurer's Office to report the economic impact of global security risks of its investments to the Legislature semiannually. The report must include a listing of companies that the Treasurer's Office holds in its investment portfolio and that have or that are reasonably known to support international terrorism, a description of these companies' business activities and the total amount invested, and an assessment of the global security risk attributable to those investments.

The Treasurer's Office is currently exploring the purchase of a software package that compiles a list of companies supporting terrorism that can be compared against the Treasurer's portfolios. The first report will be due on January 10, 2005.

The Treasurer's Investments at June 30, 2004

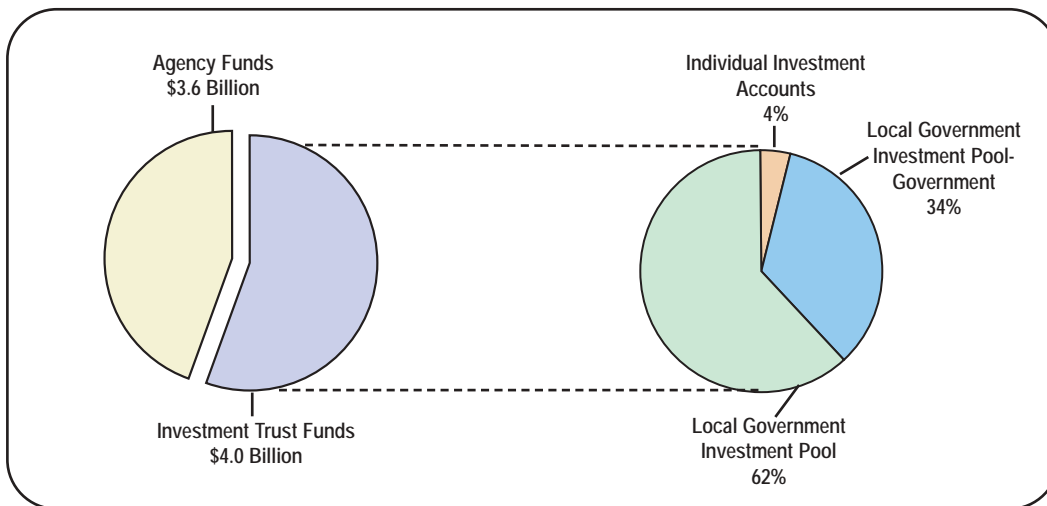
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Contact person for
this report:
Doug Haywood



As of June 30, 2004, the Treasurer had investments totaling \$7.6 billion; 47 percent was held in an agency capacity and 53 percent was held in investment trusts. The investment trusts consist of two investment pools and three individual investment accounts described below.

- *The Local Government Investment Pool (LGIP)* was the largest with over \$2.4 billion. It accounts 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 \$1.3 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 \$163 million in investments purchased on behalf of the Central Arizona Water Conservation District medium and long-term pools and the Greater Arizona Development Authority.

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