



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.



2005

Year Ended June 30, 2005

Treasurer's Office Implements New Financial Reporting Standard

During fiscal year 2005, the Treasurer's Office implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This reporting standard requires disclosure in the notes to the financial statements of investment policies and investment and deposit risks related to credit risk, concentration of credit risk, and interest rate risk. The deposits and investments held by the Treasurer are subject to these risks, which are described in greater detail below.

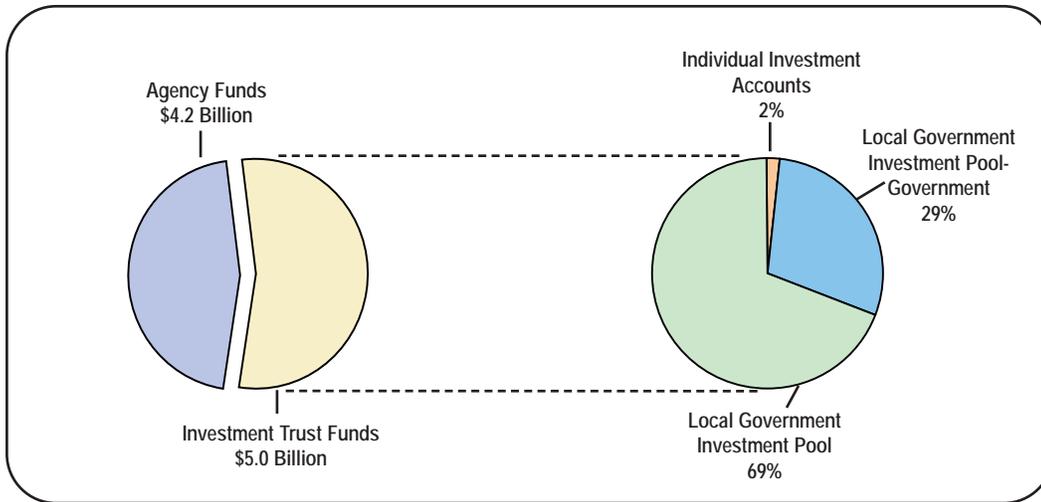
Credit risk: The risk that an issuer of a debt security or other counterparty will not make principal and interest payments when due. Governments must disclose the credit quality rating of investments in most debt securities. Investments in debt securities issued by, or explicitly guaranteed by, the U.S. government are not subject to this disclosure requirement. The Treasurer's Office obtained credit quality ratings from Fitch Incorporated, Moody's Investors Service, and Standard and Poor's Ratings Service and disclosed the rating indicative of the greatest degree of risk.

Concentration of credit risk: The risk of loss attributed to the magnitude of a government's investment in a single issuer of debt securities. Governments must disclose, by amount and issuer,

investments in any one issuer that represents 5 percent or more of total investments. Investments in debt securities issued by, or explicitly guaranteed by, the U.S. government or mutual funds and pools invested in debt securities are not subject to this disclosure requirement. At June 30, 2005, the Treasurer's Office had approximately \$2.6 billion, or 28 percent, invested in U.S. agency securities implicitly guaranteed by the U.S. government.

Interest rate risk: The risk that changes in interest rates will adversely affect the value of an investment in debt securities. Generally, when interest rates rise, the value of an investment in debt securities declines, and when interest rates decline, the value of an investment in debt securities rises. The Treasurer's Office uses the weighted average maturity (WAM) of its debt securities to display interest rate risk. The WAM for all debt securities purchased by the Treasurer's Office and held at June 30, 2005, was 2.46 years. In addition, governments must disclose the terms of debt securities with values that are highly sensitive to changes in interest rates. At June 30, 2005, the Treasurer's Office had approximately \$1.6 billion, or 19.3 percent, of investments in debt securities that were highly sensitive to changes in interest rates.

The Treasurer's Investments as of June 30, 2005



As of June 30, 2005, the Treasurer had investments totaling \$9.2 billion; 46 percent was held in an agency capacity, and 54 percent was held in investment trusts. The investment trusts consist of three investment pools; the Local Government Investment Pool and Local Government Investment Pool Long Term are reported as a single pool, and two individual investment accounts described below;

- *The Local Government Investment Pool (LGIP) and Local Government Investment Pool Long Term* were the largest with over \$3.4 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 \$1.4 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.

TO OBTAIN MORE INFORMATION

A copy of the full report
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Year Ended June 30, 2005