



# State of California:

Statement of Securities Accountability of the  
State Treasurer's Office  
December 31, 2007

July 2008 Report 2008-008



CALIFORNIA  
STATE AUDITOR

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Elaine M. Howle  
State Auditor  
Doug Cordiner  
Chief Deputy

# CALIFORNIA STATE AUDITOR

## Bureau of State Audits

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July 24, 2008

2008-008

The Governor of California  
The Honorable President pro Tempore of the Senate  
The Honorable Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

The Bureau of State Audits presents its audit report of the State Treasurer's Office statement of securities accountability as of December 31, 2007.

The statement of securities accountability presents the securities owned by or pledged to the State directly, or under investment agreements, and those securities held for safekeeping. The State Treasurer's Office is responsible for the safekeeping of all these securities held in the treasury or other depositories. It is not responsible for securities owned by or pledged to the University of California, or for securities in other depositories owned by or pledged to the Public Employees' Retirement System, the State Teachers' Retirement System, the Legislators' Retirement System, or the Judges' Retirement System. For the statement of securities accountability, the State Treasurer's Office assigned dollar amounts to each security for ease of accountability rather than for purposes of valuing securities at cost or market. The dollar amounts assigned represent various values, including the par or face value, the original principal value, or the current outstanding principal balance. Therefore, the dollar amounts presented in the statement of securities accountability should not be used to determine the value of investments owned by, or pledged to, the State. We found that the statement presents fairly the securities accountability of the State Treasurer's Office as of December 31, 2007.

We conducted this audit to comply with the California Government Code, Section 13299.1.

Respectfully submitted,



ELAINE M. HOWLE  
State Auditor

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Elaine M. Howle  
State Auditor  
Doug Cordiner  
Chief Deputy

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### Independent Auditor's Report

We have audited the accompanying statement of securities accountability as of December 31, 2007. This statement of securities accountability is the responsibility of the State Treasurer's Office. Our responsibility is to express an opinion on the statement of securities accountability based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with applicable standards contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the accompanying statement of securities accountability is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of securities accountability. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement of securities accountability. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of securities accountability was prepared for the purpose of providing information required by Section 13299.1 of the California Government Code as discussed in Note 1 and is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the statement of securities accountability referred to above presents fairly, in all material respects, the securities accountability of the State Treasurer's Office as of December 31, 2007, in conformity with the basis of accounting described in Note 1.

This report is intended solely for the purpose of providing information required by Section 13299.1 of the California Government Code and should not be used for any other purpose.

BUREAU OF STATE AUDITS



JOHN F. COLLINS II, CPA

Deputy State Auditor

Date: July 7, 2008

Staff: John Baier, CPA, Audit Principal  
Nasir Ahmadi, CPA  
Carol Hand

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July 2008

**State of California  
Statement of Securities Accountability  
of the State Treasurer's Office  
December 31, 2007**

ACCOUNT TITLE	SECURITIES AND INVESTMENT AGREEMENTS IN THE STATE TREASURER'S OFFICE VAULT	SECURITIES ON DEPOSIT WITH BANKS AND TRUST COMPANIES	TOTALS
<b>Pooled Money Investment Account (Note 2)</b>		<b>\$44,759,347,943.73</b>	<b>\$44,759,347,943.73</b>
<b>Individual State Investment Accounts</b>			
California Housing Finance Agency	\$8,650,918.46	\$1,244,960.57	\$9,895,879.03
California State University, Dormitory Construction Fund	0.00	96,362,705.00	96,362,705.00
Central Valley Water Project Construction Fund	0.00	2,697,951,955.00	2,697,951,955.00
Central Valley Water Project Revenue Fund	0.00	70,197,000.00	70,197,000.00
General Obligation Refunding Escrow	0.00	8,771,455,186.00	8,771,455,186.00
High Tech Education Revenue Bond Fund, PBCF	0.00	8,701,000.00	8,701,000.00
Oakland State Building Authority Fund	0.00	37,670,783.00	37,670,783.00
Public Building Construction Fund	0.00	117,903,764.00	117,903,764.00
State Compensation Insurance Fund	7,000,000.00	19,490,045,084.71	19,497,045,084.71
State Lottery Fund	0.00	2,247,514,000.00	2,247,514,000.00
Veterans' (SG) 1997-98 Series A/B Revenue Bond, Reserve Account	0.00	6,575,882.71	6,575,882.71
Veterans' (SG) 1997-98 Series A/B Revenue Bond, Revenue and Restricted Recoveries Accounts	0.00	6,229,911.22	6,229,911.22
Veterans' (SG) BG/BH/BK/BL General Obligation Bond, Revenue Account	0.00	3,896,402.85	3,896,402.85
Veterans' (WL) 1997 Series C Revenue Bond, Reserve Account	0.00	6,064,382.89	6,064,382.89
Veterans' (WL) 1997 Series C Revenue Bond, Revenue Account	0.00	2,630,043.92	2,630,043.92
Veterans' (WL) 1997 Series C Revenue Bond, Restricted Recoveries Account	0.00	904,946.38	904,946.38
Veterans' (WL) 1999 Series A/B Revenue Bond, Reserve Account	0.00	10,379,222.35	10,379,222.35
Veterans' (WL) Series BJ 11/12 General Obligation Bond, Recycling Account	0.00	3,980.95	3,980.95
Veterans' (WL) Series BJ 11/12 General Obligation Bond, Revenue Account	0.00	513,346.45	513,346.45
Veterans' (WL) Series BT/BU General Obligation Bond, Recycling Account	0.00	720,200.61	720,200.61
Veterans' (WL) Series BT/BU General Obligation Bond, Revenue Account	0.00	1,428,089.35	1,428,089.35
<b>Total Individual State Investment Accounts</b>	<b>\$15,650,918.46</b>	<b>\$33,578,392,847.96</b>	<b>\$33,594,043,766.42</b>
<b>Collateral to Secure Deposits in Banks</b>			
Agency Bank Deposits	0.00	124,406,361.40	124,406,361.40
Employment Development Department—Escrow	0.00	185,652.46	185,652.46
Personnel Administration, Department of—Deferred Compensation	0.00	31,929,465.14	31,929,465.14
State Treasurer's Office—Custodian	6,660,000.00	0.00	6,660,000.00
State Treasurer's Office—Demand Deposits	0.00	638,422,274.34	638,422,274.34
State Treasurer's Office—Fiscal Agents	0.00	36,753,292.56	36,753,292.56
State Treasurer's Office—Time Deposits	1,088,059,653.26	10,264,165,201.22	11,352,224,854.48
<b>Total Collateral to Secure Deposits in Banks</b>	<b>\$1,094,719,653.26</b>	<b>\$11,095,862,247.12</b>	<b>\$12,190,581,900.38</b>

continued on next page

ACCOUNT TITLE	SECURITIES AND INVESTMENT AGREEMENTS IN THE STATE TREASURER'S OFFICE VAULT	SECURITIES ON DEPOSIT WITH BANKS AND TRUST COMPANIES	TOTALS
<b>Pledges Received by State Agencies</b>			
California State University—California Polytechnic State University, San Luis Obispo	\$950,000.00	\$8,979,000.00	\$9,929,000.00
California State University—Dominguez Hills	1,267,000.00	0.00	1,267,000.00
California State University—Monterey County	2,900,000.00	0.00	2,900,000.00
California State University—Sacramento	0.00	495,000.00	495,000.00
California State University—Stanislaus	151,000.00	0.00	151,000.00
California State University—Humboldt	0.00	1,760,000.00	1,760,000.00
Consumer Affairs, Department of	23,938,795.42	0.00	23,938,795.42
Corporations, Department of	2,059,540.21	0.00	2,059,540.21
Employment Development Department	150,799,325.00	2,761,000.00	153,560,325.00
Financial Institutions, Department of	148,875,000.00	65,068,032.33	213,943,032.33
Industrial Relations, Department of	189,225,107.65	24,958,000.00	214,183,107.65
Insurance, Department of	545,470,221.10	6,604,494,399.00	7,149,964,620.10
Real Estate, Department of	12,500.00	0.00	12,500.00
State Lands Commission	9,215,138.76	0.00	9,215,138.76
Transportation, Department of	37,150,000.00	5,315,000.00	42,465,000.00
<b>Total Pledges Received by State Agencies</b>	<b>\$1,112,013,628.14</b>	<b>\$6,713,830,431.33</b>	<b>\$7,825,844,059.47</b>
<b>General Safekeeping*</b>			
Developmental Services, Department of	0.00	800,000.00	800,000.00
Water Resources, Department of	0.00	162,000.00	162,000.00
<b>Total General Safekeeping</b>	<b>\$0.00</b>	<b>\$962,000.00</b>	<b>\$962,000.00</b>
<b>TOTAL SECURITIES</b>	<b>\$2,222,384,199.86</b>	<b>\$96,148,395,470.14</b>	<b>\$98,370,779,670.00</b>

Note: The accompanying notes beginning on page 5 are an integral part of this statement.

\* General safekeeping items listed here are on deposit with banks and trust companies. For general safekeeping items held in the vault of the State Treasurer's Office, see Note 4.



## NOTES TO THE STATEMENT OF SECURITIES ACCOUNTABILITY

### Note 1

#### Summary of Significant Accounting Policies

##### *Basis of Presentation*

The accompanying statement of securities accountability was prepared for the purpose of providing information required by Section 13299.1 of the California Government Code. This statement presents the securities owned by or pledged to the State directly, or under investment agreements, and those securities held for safekeeping. The State Treasurer's Office must account for all securities held in the treasury or other depositories. It does not account for securities owned by or pledged to the University of California, or for securities in other depositories owned by or pledged to the Public Employees' Retirement System, the State Teachers' Retirement System, the Legislators' Retirement System, or the Judges' Retirement System. The securities for which the State Treasurer's Office is accountable are categorized as follows:

- Pooled Money Investment Account (PMIA) securities, which consist of investments with financial institutions. The investments are purchased with available money from various funding sources. The California Government Code, Section 16480.1, authorizes the State's Pooled Money Investment Board to designate the amount of available money to make such investments. In addition, Section 16480.2 expresses the intent that such investments realize the maximum return consistent with safe and prudent treasury management. Earnings on the PMIA securities are credited to the State's General Fund, the Surplus Money Investment Fund, the Local Agency Investment Fund, the Fish and Game Preservation Fund, the Public Employees' Retirement Fund, and the State Teachers' Retirement Fund.
- Individual state investment accounts, which consist of investments with financial institutions that are not invested through the PMIA.
- Collateral to secure deposits in banks, which consists of securities pledged by the banks to protect the money that the State has on deposit with them.
- Pledges received by state agencies, which consist of securities pledged to the State by certain businesses to protect consumers, guarantee contractor performance, and ensure payment of obligations, such as disability benefits and state taxes.
- General safekeeping amounts, which consist of securities held on behalf of state agencies.

### ***Valuation of Securities***

For the purpose of the statement of securities accountability, the State Treasurer's Office values securities as follows:

#### ***Securities and Investment Agreements in the Vault of the State Treasurer's Office***

- Bonds, notes, letters of credit, certificates of deposit, money transmitter bonds, and surety bonds are valued at par value or face value.
- Real estate mortgage notes are valued at the original principal balances.
- Investment agreements are valued at the current outstanding balances.

#### ***Securities on Deposit With Banks and Trust Companies***

- Bills, notes, bonds, strips, commercial paper, certificates of deposit, and pledged cash are valued at par value or face value.
- Federal National Mortgage Association participation certificates, Federal Home Loan Mortgage Corporation participation certificates, Government National Mortgage Association participation certificates, and Student Loan Marketing Association participation certificates are valued at the outstanding principal balances.
- Small Business Administration Pools are valued at the outstanding principal balances.
- Real estate mortgage notes are valued at the original principal balances.

The accompanying statement of securities accountability is not intended to report securities at either book value or market value in accordance with generally accepted accounting principles.

## **Note 2**

### ***Pooled Money Investment Account—Securities***

The State Treasurer's Office reported a total value of \$44,759,347,943.73 for the securities in the PMIA at December 31, 2007. In its statement of cash accountability for December 31, 2007, the State Treasurer's Office reported a total value of \$44,413,608,501.14 for these securities. The difference between the two values results because the State Treasurer's Office valued the PMIA securities in the statement of securities accountability according to the methods described in Note 1, but it valued the same securities at book value for the statement of cash accountability.

**Note 3**

***Personal Property***

In addition to depositing securities, state agencies deposit personal property in the vault of the State Treasurer’s Office. The following table lists entities having personal property in the vault as of December 31, 2007.

ENTITY	NUMBER OF ITEMS
Governor’s Scholarship Program	4
Motor Vehicles, Department of	2,182
Office of Systems Integration	1
Personnel Administration, Department of	1
State Controller’s Office	624
State Treasurer’s Office	293
<b>Total</b>	<b>3,105</b>

Each item or sealed package of personal property is counted individually. However, because personal property items are not securities, they are excluded from the statement of securities accountability.

**Note 4**

***General Safekeeping Securities and Bond Documents***

In addition to securities and investment agreements the State Treasurer’s Office holds in the vault, it also separately holds certain securities and bond documents in the vault for general safekeeping. The securities consist of common stock shares that departments deposit with the State Treasurer’s Office. The bond documents consist of bearer bond stock that bondholders of registered bonds can exchange for if they desire, and bond certificates for the Fast Automated Securities Transfer (FAST) bond program, for which the State Treasurer’s Office holds the certificates while the Depository Trust & Clearing Corporation electronically records the bonds. Each common stock share or bond document in general safekeeping is counted individually. Because the State Treasurer’s Office has chosen to account for these items based on their number rather than their value, it excludes these items from the statement of securities accountability.

The following table lists entities having these items on deposit for general safekeeping in the State Treasurer’s Office vault as of December 31, 2007.

ENTITY	NUMBER OF ITEMS
California State Library—Common Stock	3,659
Developmental Services, Department of—Common Stock	270
Education, Department of—Common Stock	10,420
State Treasurer’s Office—Bearer Bond Stock	71,964
State Treasurer’s Office—FAST Bond Program	3,963
<b>Total</b>	<b>90,276</b>

cc: Members of the Legislature  
Office of the Lieutenant Governor  
Milton Marks Commission on California State  
Government Organization and Economy  
Department of Finance  
Attorney General  
State Controller  
State Treasurer  
Legislative Analyst  
Senate Office of Research  
California Research Bureau  
Capitol Press