

## State of California

Statement of Securities Accountability  
of the State Treasurer's Office  
December 31, 2011

July 2012 Report 2012-008



Independent NONPARTISAN  
TRANSPARENT Accountability

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Elaine M. Howle  
State Auditor  
Doug Cordiner  
Chief Deputy

# CALIFORNIA STATE AUDITOR

## Bureau of State Audits

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Sacramento, CA 95814

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July 31, 2012

2012-008

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 California State Auditor presents this audit report of the State Treasurer's Office statement of securities accountability as of December 31, 2011.

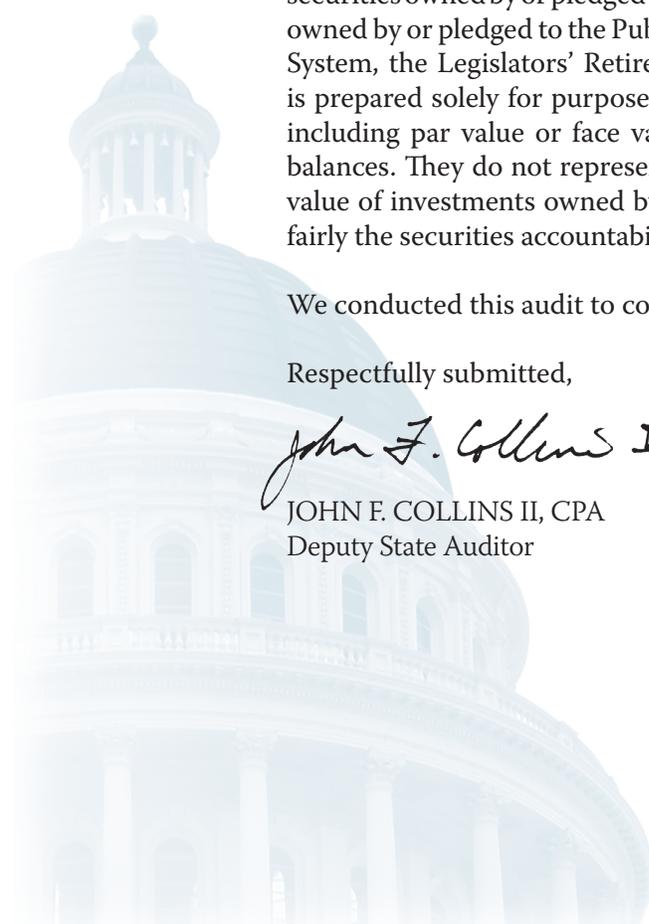
The statement of securities accountability presents securities owned by or pledged to the State directly, and securities held for safekeeping. The State Treasurer's Office is responsible for the safekeeping of all securities held in the treasury or other depositories. It is not responsible for securities 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. The statement is prepared solely for purposes of accountability. The dollar amounts represent various values, including par value or face value, original principal value, and current outstanding principal balances. They do not represent cost or market value and 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, 2011.

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

Respectfully submitted,



JOHN F. COLLINS II, CPA  
Deputy State Auditor



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Elaine M. Howle  
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### Independent Auditor's Report

We have audited the accompanying statement of securities accountability as of December 31, 2011. This statement is the responsibility of the State Treasurer's Office. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with generally accepted government auditing 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. 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. 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 accounting principles generally accepted in the United States of America.

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, 2011, 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.

CALIFORNIA STATE AUDITOR



JOHN F. COLLINS II, CPA  
Deputy State Auditor

Date: July 31, 2012

Staff: Jim Sandberg-Larsen, CPA, CPFO  
John Lewis, MPA  
Sarah Bragonje, MPA

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**State of California  
Statement of Securities Accountability  
of the State Treasurer's Office  
December 31, 2011**

ACCOUNT TITLE	SECURITIES IN THE STATE TREASURER'S OFFICE VAULT	SECURITIES ON DEPOSIT WITH BANKS AND TRUST COMPANIES	TOTALS
<b>Pooled Money Investment Account (Note 2)</b>	\$0.00	\$51,012,918,527.26	\$51,012,918,527.26
<b>Individual State Investment Accounts</b>			
California Housing Finance Agency	\$16,708.60	\$991.86	\$17,700.46
Central Valley Water Project Construction Fund	0.00	53,257,647.00	53,257,647.00
Central Valley Water Project Revenue Fund	0.00	18,485,000.00	18,485,000.00
Dormitory Construction Fund, California State University	0.00	216,346,553.00	216,346,553.00
Electric Power Fund, Department of Water Resources	0.00	3,851,895,924.00	3,851,895,924.00
General Obligation Refunding Escrow	0.00	3,107,953,681.00	3,107,953,681.00
High Tech Education Revenue Bond Fund, Public Building Construction Fund	0.00	8,701,000.00	8,701,000.00
Public Buildings Construction Fund	0.00	17,740,000.00	17,740,000.00
State Compensation Insurance Fund	0.00	18,647,693,194.99	18,647,693,194.99
State Lottery Fund	0.00	1,218,033,000.00	1,218,033,000.00
<b>Total Individual State Investment Accounts</b>	<b>\$16,708.60</b>	<b>\$27,140,106,991.85</b>	<b>\$27,140,123,700.45</b>
<b>Collateral in Banks to Secure Deposits or Investments</b>			
Agency Bank Deposits	\$0.00	\$57,932,655.68	\$57,932,655.68
Employment Development Department—Escrow	0.00	70,634.52	70,634.52
Personnel Administration, Department of—Deferred Compensation	0.00	3,723,156.63	3,723,156.63
State Treasurer's Office—Fiscal Agents	0.00	31,903,582.85	31,903,582.85
State Treasurer's Office—Time Deposits	772,878,023.58	4,030,973,932.33	4,803,851,955.91
Veterans' Bond Funds	0.00	16,600,000.00	16,600,000.00
<b>Total Collateral in Banks to Secure Deposits or Investments</b>	<b>\$772,878,023.58</b>	<b>\$4,141,203,962.01</b>	<b>\$4,914,081,985.59</b>
<b>Pledges Received by State Agencies</b>			
California State University—California Polytechnic State University, San Luis Obispo	\$0.00	\$1,178,000.00	\$1,178,000.00
California State University—Dominguez Hills	2,529,877.00	0.00	2,529,877.00
Consumer Affairs, Department of	21,702,295.42	0.00	21,702,295.42
Corporations, Department of	1,845,387.13	0.00	1,845,387.13
Employment Development Department	241,943,625.00	0.00	241,943,625.00
Financial Institutions, Department of	243,977,000.00	63,899,338.61	307,876,338.61
Industrial Relations, Department of	150,000.00	23,398,000.00	23,548,000.00
Insurance, Department of	301,705,362.66	7,211,760,768.00	7,513,466,130.66
Real Estate, Department of	12,500.00	0.00	12,500.00
State Lands Commission	9,085,138.76	0.00	9,085,138.76
<b>Total Pledges Received by State Agencies</b>	<b>\$822,951,185.97</b>	<b>\$7,300,236,106.61</b>	<b>\$8,123,187,292.58</b>

continued on next page ...

ACCOUNT TITLE	SECURITIES IN THE STATE TREASURER'S OFFICE VAULT	SECURITIES ON DEPOSIT WITH BANKS AND TRUST COMPANIES	TOTALS
<b>General Safekeeping *</b>			
Developmental Services, Department of	\$0.00	\$550,000.00	\$550,000.00
Water Resources, Department of	0.00	162,000.00	162,000.00
<b>Total General Safekeeping</b>	<b>\$0.00</b>	<b>\$712,000.00</b>	<b>\$712,000.00</b>
<b>TOTAL SECURITIES</b>	<b>\$1,595,845,918.15</b>	<b>\$89,595,177,587.73</b>	<b>\$91,191,023,505.88</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 at 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 securities owned by or pledged to the State directly, and 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), which consists of securities that are purchased with money from various state and local funding sources. California Government Code, Section 16480.1, authorizes the State's Pooled Money Investment Board to designate the amount of money available 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 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 securities that are purchased for state funds other than the PMIA.
- Collateral in banks to secure deposits or investments, which consists of securities pledged by banks to protect holdings that the State has on deposit with them.
- Pledges held for 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.
- General safekeeping, which consists 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 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.

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

- Bills, notes, bonds, strips, commercial paper, and certificates of deposit, are valued at par value or face value.
- Asset-backed securities 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 accounting principles generally accepted in the United States of America.

### **Note 2**

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

The State Treasurer's Office reported a total value of \$51,012,918,527.26 for the securities in the PMIA on December 31, 2011. In its statement of cash accountability for December 31, 2011, the State Treasurer's Office reported a total value of \$50,953,765,476.26 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 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, 2011.

ENTITY	NUMBER OF ITEMS
California Housing Finance Agency	6
Motor Vehicles, Department of	2,139
Personnel Administration, Department of	1
State Controller’s Office	959
State Treasurer’s Office	323
<b>Total</b>	<b>3,428</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 the State Treasurer’s Office holds in the vault related to individual investment accounts, collateral requirements and pledges, it also separately holds certain securities and bond documents in the vault for general safekeeping. The securities consist of preferred and 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 under 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 preferred and 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, these items are excluded from the statement of securities accountability.

The following table lists entities having items on deposit for general safekeeping in the State Treasurer’s Office vault as of December 31, 2011.

ENTITY	NUMBER OF ITEMS
California State Library—Preferred and Common Stock	3,659
Developmental Services, Department of—Common Stock	270
Education, Department of—Preferred and Common Stock	10,274
State Treasurer’s Office—Bearer Bond Stock	5,022
State Treasurer’s Office—FAST Bond Program	3,816
<b>Total</b>	<b>23,041</b>

cc: Members of the Legislature  
Office of the Lieutenant Governor  
Little Hoover Commission  
Department of Finance  
Attorney General  
State Controller  
State Treasurer  
Legislative Analyst  
Senate Office of Research  
California Research Bureau  
Capitol Press