



# State of California

Statement of Securities Accountability  
of the State Treasurer's Office  
December 31, 2015

Report 2016-008



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July 28, 2016

2016-008

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 examination report of the State Treasurer's Office's statement of securities accountability as of December 31, 2015.

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, 2015.

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

Respectfully submitted,



JOHN F. COLLINS II, CPA  
Deputy State Auditor

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## Independent Accountant's Report

We have examined the accompanying statement of securities accountability of the State of California's State Treasurer's Office as of December 31, 2015, and the related notes. The State Treasurer's Office is responsible for the statement. Our responsibility is to express an opinion on the statement based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and accordingly, included examining evidence supporting the statement of securities accountability and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the statement referred to above presents fairly, in all material respects, the securities accountability of the State of California's State Treasurer's Office as of December 31, 2015 in conformity with the basis of accounting described in Note 1.

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

CALIFORNIA STATE AUDITOR



JOHN F. COLLINS II, CPA  
Deputy State Auditor

Date: July 22, 2016

Staff: Jim Sandberg-Larsen, CPA, Audit Principal  
Nasir Ahmadi, CPA  
Sarah Hartstrom  
Jay Patel

**State of California**  
**Statement of Securities Accountability**  
**of the State Treasurer's Office**  
**December 31, 2015**

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>	-	\$56,350,940,565	\$56,350,940,565
<b>Individual State Investment Accounts</b>			
California State University, Dormitory Construction Fund	-	\$82,310,000	\$82,310,000
Central Valley Water Project Construction Fund	-	769,501,443	769,501,443
Central Valley Water Project Revenue Fund	-	70,322,000	70,322,000
Department of Water Resources Electric Power Fund	-	917,140,000	917,140,000
General Obligation Refunding Escrow	-	4,082,991,827	4,082,991,827
Oakland State Building Authority Fund	-	75,033,258	75,033,258
Public Buildings Construction Fund	-	1,671,217,874	1,671,217,874
State Compensation Insurance Fund*	-	17,198,797,703	17,198,797,703
State Lottery Fund	-	1,033,714,000	1,033,714,000
<b>Total Individual State Investment Accounts</b>		<b>\$25,901,028,105</b>	<b>\$25,901,028,105</b>
<b>Collateral to Secure Deposits or Investments Held in Banks</b>			
Agency Bank Deposits	-	\$623,792,725	\$623,792,725
Employment Development Department—Escrow	-	15,215	15,215
Human Resources, Department of—Deferred Compensation	-	2,258,170	2,258,170
State Treasurer's Office—Demand Deposits	1,869,000,000	530,671,038	2,399,671,038
State Treasurer's Office—Fiscal Agents	-	26,822,515	26,822,515
State Treasurer's Office—Time Deposits	2,164,685,441	4,589,664,628	6,754,350,069
<b>Total Collateral to Secure Deposits or Investments Held in Banks</b>	<b>\$4,033,685,441</b>	<b>\$5,773,224,291</b>	<b>\$9,806,909,732</b>
<b>Pledges Received by State Agencies<sup>†</sup></b>			
Business Oversight, Department of—Division of Corporations	\$1,381,000	-	\$1,381,000
Business Oversight, Department of—Division of Financial Institutions	638,327,000	\$57,279,300	695,606,300
Consumer Affairs, Department of	17,947,295	-	17,947,295
Employment Development Department	222,764,400	-	222,764,400
Industrial Relations, Department of	-	1,325,000	1,325,000
Insurance, Department of	265,368,179	10,145,955,051	10,411,323,230
State Lands Commission	1,593,639	-	1,593,639
<b>Total Pledges Received by State Agencies</b>	<b>\$1,147,381,513</b>	<b>\$10,204,559,351</b>	<b>\$11,351,940,864</b>
<b>General Safekeeping<sup>‡</sup></b>			
Water Resources, Department of	-	\$162,000	\$162,000
<b>Total General Safekeeping</b>	-	162,000	162,000
<b>TOTAL SECURITIES</b>	<b>\$5,181,066,954</b>	<b>\$98,229,914,312</b>	<b>\$103,410,981,266</b>

Note: The accompanying notes beginning on page 3 are an integral part of this statement.

\* The board of directors of the State Compensation Insurance Fund invests in common stock and the State Treasurer's Office accounts for these items based on their number rather than their value. Thus, these items are excluded from the statement of securities accountability as described in Note 5.

<sup>†</sup> A portion of the pledges contained in the State's vault matured prior to December 31, 2015. In certain cases these may still hold value.

<sup>‡</sup> 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 consists of securities that are purchased for state funds other than the PMIA.
- Collateral to secure deposits or investments held in banks, which consists of securities pledged by banks to protect holdings 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.
- 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 State Treasurer's Office Vault*

- Bonds, 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 fair 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 \$56,350,940,565 for the securities in the PMIA as of December 31, 2015. In its statement of cash accountability as of December 31, 2015, the State Treasurer's Office reported a total value of \$56,300,064,782 for these securities. The difference between the two values results because the State Treasurer's Office values the PMIA securities in the statement of securities accountability according to the methods described in Note 1, but it values 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, 2015.

ENTITY	NUMBER OF ITEMS
Motor Vehicles, Department of	2,132
State Controller's Office	1,430
State Treasurer's Office	208
<b>Total</b>	<b>3,770</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***

In addition to securities the State Treasurer's Office holds in the vault related to collateral requirements and pledges, it also separately holds certain securities in the vault for general safekeeping. The securities consist of preferred and common stock shares that departments deposit with the State Treasurer's Office.

Each preferred and common stock share 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, 2015.

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	5,463
<b>Total</b>	<b>9,392</b>

**Note 5*****Common Stock Held in Outside Depositories***

Each common stock share held by outside depositories 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. As of December 31, 2015, outside depositories held 12,670,415 shares of common stock for the State Compensation Insurance Fund.