

California State Auditor

B U R E A U O F S T A T E A U D I T S

State of California:

*Statement of Securities Accountability
of the State Treasurer's Office
June 30, 1998*

November 1998
98008

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CALIFORNIA STATE AUDITOR

KURT R. SJOBERG
STATE AUDITOR

MARIANNE P. EVASHENK
CHIEF DEPUTY STATE AUDITOR

November 17, 1998

98008

The Governor of California
President pro Tempore of the Senate
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 June 30, 1998.

The statement of securities accountability presents the securities owned by or pledged to the State directly, or under investment agreements, 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. For the statement of securities accountability, the State Treasurer's Office assigns 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 the par or face value, the original face value, the original principal value, the current outstanding principal balance, or a nominal value of \$1 per certificate or note. Therefore, the dollar amounts presented in the statement of securities accountability should not be used to determine the value of investments of, or pledged to, the State. We found that the statement presents fairly the securities accountability of the State Treasurer's Office as of June 30, 1998.

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

Respectfully submitted,

KURT R. SJOBERG
State Auditor

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CALIFORNIA STATE AUDITOR

KURT R. SJOBERG
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CHIEF DEPUTY STATE AUDITOR

Independent Auditors' Report

We have audited the accompanying statement of securities accountability as of June 30, 1998. 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 government auditing standards issued by the Comptroller General of the United States and generally accepted auditing standards. 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 June 30, 1998, 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

ORIGINAL SIGNED BY:

PHILIP J. JELICICH, CPA
Deputy State Auditor

Date: October 19, 1998

Staff: Jeffrey A. Winston, CPA
Linus Li, CPA
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BUREAU OF STATE AUDITS

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**STATE OF CALIFORNIA
STATEMENT OF SECURITIES ACCOUNTABILITY
OF THE STATE TREASURER'S OFFICE
JUNE 30, 1998**

Account Title	Securities and Investment Agreements in STO's Vault	Securities on Deposit With Banks and Trust Companies	Total
Pooled Money Investment Account			
Securities (Note 2)		\$28,523,578,881.32	\$ 28,523,578,881.32
Individual State Investment Accounts			
California Housing Finance Agency	\$ 30,067,374.12	18,302,315.91	48,369,690.03
California State University Dormitory—Refunding		172,625,541.00	172,625,541.00
Central Valley Project Water System		79,942,000.00	79,942,000.00
Central Valley Project Water System—Series L Escrow		615,076,156.00	615,076,156.00
East Bay State Building Authority—Escrow		50,204,838.00	50,204,838.00
General Obligation Refunding—Escrow		1,345,118,432.00	1,345,118,432.00
Los Angeles State Office Building Authority		2,700,000.00	2,700,000.00
San Francisco Bay Bridge Northern Unit Account		24,250,294.00	24,250,294.00
Special Deposit Fund—Alice Burch Trust Fund		18,000.00	18,000.00
State Compensation Insurance Fund	65,579,450.93	5,777,469,691.49	5,843,049,142.42
State Controller's Office		220,000.00	220,000.00
State Lottery Fund		4,447,827,000.00	4,447,827,000.00
State Public Works Board—High Technology Revenue Bond Fund		399,002,542.00 ^a	399,002,542.00 ^a
State Public Works Board		1,585,243,722.00	1,585,243,722.00
State Water Resources Board—Linked Deposit	1,600,000.00		1,600,000.00
Toll Bridge Construction Fund		19,863,129.00	19,863,129.00
Veterans Debenture Revenue Fund		6,513,000.00	6,513,000.00
Veterans Farm and Home Building Fund of 1943		363,985,812.00	363,985,812.00
Veterans Societe Generale BG/BH/BK/BL Proceeds		194,843,193.03	194,843,193.03
Veterans Societe Generale BG/BH/BK/BL Revenue Account		13,994,148.57	13,994,148.57
Veterans Societe Generale Section 143		229,751,897.97	229,751,897.97
Veterans Societe Generale Series BJ		300,785,151.93	300,785,151.93
Veterans Societe Generale 1997 Series A/B		5,272,661.59	5,272,661.59
Veterans Societe Generale 1997 Series C		100,209,591.99	100,209,591.99
Total Individual State Investment Accounts	97,246,825.05	15,753,219,118.48	15,850,465,943.53
Collateral to Secure Deposits in Banks			
Agency bank deposits	14,619,035.00	200,916,030.00	215,535,065.00
State Treasurer's Office custodian	14,000,000.00		14,000,000.00
State Treasurer's Office demand deposits	6,723,700.00	1,242,790,199.92	1,249,513,899.92
State Treasurer's Office fiscal agents		1,000,000.00	1,000,000.00
State Treasurer's Office time deposits	182,720,879.00	2,137,039,987.99	2,319,760,866.99
State Water Resources Board—Linked Deposit		29,377,830.00	29,377,830.00
Total Collateral to Secure Deposits in Banks	218,063,614.00	3,611,124,047.91	3,829,187,661.91

^aAmount does not include \$9,764,542 for securities that were released by banks and trust companies before June 30, 1998, for payment on the July 1, 1998, maturity date.

The accompanying notes are an integral part of this statement.

Account Title	Securities and Investment Agreements in STO's Vault	Securities on Deposit With Banks and Trust Companies	Total
Pledges Received by State Agencies			
Consumer Affairs, Department of	15,903,386.39	10,000.00	15,913,386.39
Corporations, Department of	2,010,000.00		2,010,000.00
Deposit Officer Pending		51,197.64	51,197.64
Employment Development Department	103,093,740.21	1,462,100.00	104,555,840.21
Financial Institutions, Department of	20,400,000.00	43,770,805.26	64,170,805.26
Industrial Relations, Department of	66,058,872.00	180,376,000.00	246,434,872.00
Insurance, Department of	550,505,169.00	837,814,000.00	1,388,319,169.00
Local Agency Security	8,500,000.00		8,500,000.00
Real Estate, Department of	25,000.00		25,000.00
State Lands Commission	11,548,638.76	12,000.00	11,560,638.76
Transportation, Department of	10,837,400.00	18,046,200.00	28,883,600.00
Trustees of California State University	5,201,267.88	400,000.00	5,601,267.88
Water Resources Control Board	177,000.00		177,000.00
Total Pledges Received by State Agencies	794,260,474.24	1,081,942,302.90	1,876,202,777.14
General Safekeeping			
Developmental Services, Department of	3,667.00	1,100,000.00	1,103,667.00
Education, Department of	12,897.00	32,000.00	44,897.00
Quimby Island Reclamation District	156.00		156.00
Rehabilitation, Department of	466.00		466.00
State Treasurer's Office—			
Bearer bond stock	1,210,955,000.00		1,210,955,000.00
Trust accounts	98,451,962.50		98,451,962.50
Trustees of California State University	3,500.00		3,500.00
Water Resources, Department of		162,000.00	162,000.00
Total General Safekeeping	1,309,427,648.50	1,294,000.00	1,310,721,648.50
Total Securities	\$2,418,998,561.79	\$48,971,158,350.61	\$51,390,156,912.40

The accompanying notes are an integral part of this statement.

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 (STO) 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 STO 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, to guarantee contractor performance, and to ensure payment of obligations, such as disability benefits and state taxes.
- General safekeeping amounts, which consist of securities held on behalf of state agencies or other organizations.

Valuation of Securities

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. Instead, for ease of accountability, the STO values securities as follows:

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

- Bonds, commercial paper, certificates of deposit, and surety bonds are valued at par value or face value.
- Stock certificates are valued at \$1 per share.
- Small Business Administration certificates are valued at original face value.
- Real estate mortgage notes held as investments of individual state accounts are valued at \$1 per note.
- Real estate mortgage notes held as pledges to secure bank and savings and loan deposits are valued at their original principal balances.
- Investment agreements held as investments of individual state accounts are valued at their current outstanding balances.

Securities on Deposit With Banks and Trust Companies

- Bonds, commercial paper, certificates of deposit, pledged cash, surety bonds, Federal National Mortgage Association certificates (except participation certificates held at the master custodian), and Federal Home Loan Mortgage Corporation certificates (except participation certificates held at the master custodian) are valued at par value or face value.
- Federal National Mortgage Association participation certificates, Federal Home Loan Mortgage Corporation participation certificates, and Small Business Administration participation certificates held at the master custodian are valued at their current outstanding principal balances.
- Government National Mortgage Association book entry certificates held at the master custodian are valued at their current outstanding principal balances.
- Real estate mortgage notes held as pledges to secure bank and savings and loan deposits are valued at their original principal balances.
- Real estate mortgage notes held as pledges to secure court and private trusts are valued at their current outstanding principal balances.

Note 2

Pooled Money Investment Account—Securities

The STO reported a total value of \$28,523,578,881.32 for the securities in the PMIA at June 30, 1998. In its statement of cash accountability for June 30, 1998, the STO reported a total value of \$28,219,621,231.50 for these same securities. The difference between the two values results because the STO 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 STO. The following table lists entities having personal property in the vault as of June 30, 1998.

Entity	Number of Items
Deposit Officer Pending	84
Developmental Services, Department of	102
Emergency Stock—Agency Trust Checks	10
Motor Vehicles, Department of	1,691
Personnel Administration, Department of	1
State Controller's Office	264
State Treasurer's Office	1,065
Total	3,217

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.