

# **State of California:**

*Statement of Securities Accountability  
of the State Treasurer's Office  
December 31, 1998*

June 1999  
99008

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# CALIFORNIA STATE AUDITOR

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KURT R. SJOBERG  
STATE AUDITOR

MARIANNE P. EVASHENK  
CHIEF DEPUTY STATE AUDITOR

June 22, 1999

99008

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 December 31, 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 December 31, 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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**BUREAU OF STATE AUDITS**

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# CALIFORNIA STATE AUDITOR

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KURT R. SJOBERG  
STATE AUDITOR

MARIANNE P. EVASHENK  
CHIEF DEPUTY STATE AUDITOR

## Independent Auditor's Report

We have audited the accompanying statement of securities accountability as of December 31, 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 December 31, 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

*Philip Jelicich*  
PHILIP J. JELICICH, CPA  
Deputy State Auditor

Date: May 25, 1999

Staff: Jeff Winston, CPA  
Kenneth Cools

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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  
DECEMBER 31, 1998**

Account Title	Securities and Investment Agreements in STO's Vault	Securities on Deposit With Banks and Trust Companies	Total
<b>Pooled Money Investment Account</b>			
Securities (Note 2)		\$30,805,268,237.12	\$30,805,268,237.12
<b>Individual State Investment Accounts</b>			
California Housing Finance Agency	\$ 9,200,316.91	17,934,227.83	27,134,544.74
California State University Dormitory—Refunding		166,575,175.00	166,575,175.00
California Veterans		200,278,196.00	200,278,196.00
Central Valley Project Water System		79,942,000.00	79,942,000.00
Central Valley Project Water System—Series L Escrow		692,666,653.00	692,666,653.00
East Bay State Building Authority—Escrow		50,115,647.00	50,115,647.00
General Obligation Refunding Escrow		1,685,324,233.00	1,685,324,233.00
Los Angeles State Office Building Authority		2,700,000.00	2,700,000.00
State Compensation Insurance Fund	59,165,450.93	5,864,809,741.93	5,923,975,192.86
State Lottery Fund		4,419,842,000.00	4,419,842,000.00
State Public Works Board—High Technology Revenue Bond Fund		379,464,000.00	379,464,000.00
State Public Works Board—Public Buildings		1,698,705,157.00	1,698,705,157.00
State Water Resources Board—Linked Deposit	550,000.00		550,000.00
Toll Bridge Construction Fund #0500		21,757,609.00	21,757,609.00
Toll Bridge Construction Fund #0586		15,666,403.00	15,666,403.00
Veterans' Debenture Revenue Fund		6,513,000.00	6,513,000.00
Veterans' Societe General BG/BH/BK/BL Proceeds		131,651,919.38	131,651,919.38
Veterans' Societe General BG/BH/BK/BL Revenue Account		7,611,681.43	7,611,681.43
Veterans' Societe General Section 143		220,339,448.93	220,339,448.93
Veterans' Societe General Series B1		299,461,039.20	299,461,039.20
Veterans' Societe General 1997 Series A/B		5,121,447.72	5,121,447.72
Veterans' Societe General 1997 Series C		100,797,621.90	100,797,621.90
Veterans' Societe General 97/98 Revenue Account		1,078,426.47	1,078,426.47
<b>Total Individual State Investment Accounts</b>	<b>68,915,767.84</b>	<b>16,068,355,627.79</b>	<b>16,137,271,395.63</b>
<b>Collateral to Secure Deposits in Banks</b>			
Agency bank deposits	12,380,660.00	194,430,230.00	206,810,890.00
Employment Development Department escrow		300,000.00	300,000.00
State Treasurer's Office custodian	16,000,000.00		16,000,000.00
State Treasurer's Office demand deposits	6,631,100.00	871,493,164.00	878,124,264.00
State Treasurer's Office fiscal agents		1,000,000.00	1,000,000.00
State Treasurer's Office time deposits	184,399,966.45	2,995,523,671.07	3,179,923,637.52
State Water Resources Board—Linked Deposit		29,377,830.00	29,377,830.00
<b>Total Collateral to Secure Deposits in Banks</b>	<b>219,411,726.45</b>	<b>4,092,124,895.07</b>	<b>4,311,536,621.52</b>

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
<b>Pledges Received by State Agencies</b>			
Consumer Affairs, Department of	15,941,886.39	10,000.00	15,951,886.39
Corporations, Department of	1,815,000.00		1,815,000.00
California State University—San Jose	484,000.00		484,000.00
California State University—Sonoma	295,195.67		295,195.67
Deposit Officer Pending		51,197.64	51,197.64
Employment Development Department	89,953,856.21	1,324,200.00	91,278,056.21
Financial Institutions, Department of	23,750,000.00	48,577,915.84	72,327,915.84
Industrial Relations, Department of	59,081,293.00	185,856,000.00	244,937,293.00
Insurance, Department of	491,680,169.00	903,107,002.00	1,394,787,171.00
Local Agency Security	8,011,000.00		8,011,000.00
Real Estate, Department of	25,000.00		25,000.00
State Lands Commission	11,530,638.76	12,000.00	11,542,638.76
Transportation, Department of	17,810,000.00	12,964,000.00	30,774,000.00
Trustees of California State University	3,756,427.32	570,000.00	4,326,427.32
Water Resources Control Board	175,000.00		175,000.00
<b>Total Pledges Received by State Agencies</b>	<b>724,309,466.35</b>	<b>1,152,472,315.48</b>	<b>1,876,781,781.83</b>
<b>General Safekeeping</b>			
California Health Facilities Financing Authority	8,826.00		8,826.00
Developmental Services, Department of	3,667.00	900,000.00	903,667.00
Education, Department of	12,903.00		12,903.00
Quimby Island Reclamation District	156.00		156.00
Rehabilitation, Department of	466.00		466.00
State Treasurer's Office—			
Bearer bond stock	1,091,400,000.00		1,091,400,000.00
Trust accounts	98,451,989.24		98,451,989.24
Water Resources, Department of		162,000.00	162,000.00
<b>Total General Safekeeping</b>	<b>1,189,878,007.24</b>	<b>1,062,000.00</b>	<b>1,190,940,007.24</b>
<b>Total Securities</b>	<b>\$2,202,514,967.88</b>	<b>\$52,119,283,075.46</b>	<b>\$54,321,798,043.34</b>

The accompanying notes are an integral part of this statement.

# Notes to the Statement of Securities Accountability

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## Note 1

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### *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 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 \$30,805,268,237.12 for the securities in the PMIA at December 31, 1998. In its statement of cash accountability for December 31, 1998, the STO reported a total value of \$30,133,606,033.77 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 December 31, 1998.

Entity	Number of Items
Deposit Officer Pending	77
Developmental Services, Department of	102
Emergency Stock—Agency Trust Checks	6
Motor Vehicles, Department of	1,669
Personnel Administration, Department of	1
State Controller's Office—Unclaimed Property	230
State Treasurer's Office—Bond Trustee	72
<b>Total</b>	<b>2,157</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.

cc: Members of the Legislature  
Office of the Lieutenant Governor  
Attorney General  
State Controller  
Legislative Analyst  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
Capitol Press Corps