

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
December 31, 1999*



May 2000
2000-008

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CALIFORNIA STATE AUDITOR

MARY P. NOBLE
ACTING STATE AUDITOR

STEVEN M. HENDRICKSON
CHIEF DEPUTY STATE AUDITOR

May 11, 2000

2000-008

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, 1999.

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 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 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, 1999.

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

Respectfully submitted,

A handwritten signature in black ink that reads "Mary P. Noble".

MARY P. NOBLE
Acting State Auditor

BUREAU OF STATE AUDITS

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CALIFORNIA STATE AUDITOR

MARY P. NOBLE
ACTING STATE AUDITOR

STEVEN M. HENDRICKSON
CHIEF DEPUTY STATE AUDITOR

Independent Auditor's Report

We have audited the accompanying statement of securities accountability as of December 31, 1999. 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, 1999, 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 J. JELICICH, CPA
Deputy State Auditor

Date: April 12, 2000

Staff: Jeff Winston, CPA
Gayatri Patel

BUREAU OF STATE AUDITS

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**STATE OF CALIFORNIA
STATEMENT OF SECURITIES ACCOUNTABILITY
OF THE STATE TREASURER'S OFFICE
DECEMBER 31, 1999**

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)	\$ 29,802,870,040.06		\$ 29,802,870,040.06
Individual State Investment Accounts			
California Housing Finance Agency	\$ 8,575,349.05	16,642,168.31	25,217,517.36
California State University Dormitory—Refunding		152,104,062.00	152,104,062.00
California Veterans		160,370,016.00	160,370,016.00
Central Valley Project Water System		79,942,000.00	79,942,000.00
Central Valley Project Water System—Series L Escrow		575,249,838.00	575,249,838.00
East Bay State Building Authority—Escrow		49,926,578.00	49,926,578.00
General Obligation Refunding Escrow		1,739,543,888.00	1,739,543,888.00
Los Angeles State Office Building Authority—Escrow		7,932,000.00	7,932,000.00
State Compensation Insurance Fund	12,860,450.93	6,178,685,337.08	6,191,545,788.01
State Lottery Fund		4,202,173,000.00	4,202,173,000.00
State Public Works Board—High Technology Revenue Bond Fund		359,915,000.00	359,915,000.00
State Public Works Board—Public Buildings		1,842,051,863.00	1,842,051,863.00
State Water Resources Control Board—Linked Deposit	145,000.00		145,000.00
Toll Bridge Construction Fund #0500		19,203,304.00	19,203,304.00
Toll Bridge Construction Fund #0586		11,475,934.00	11,475,934.00
Veterans' Debenture Revenue Fund		6,513,000.00	6,513,000.00
Veterans' Natwest 1997 Series C Proceeds		109,043,134.61	109,043,134.61
Veterans' Societe General BG/BH/BK/BL Proceeds		18,077,591.96	18,077,591.96
Veterans' Societe General BG/BH/BK/BL Revenue Account		6,738,534.88	6,738,534.88
Veterans' Societe General Section 143		156,626,641.88	156,626,641.88
Veterans' Societe General 1997 Series A/B		5,874,504.59	5,874,504.59
Veterans' Societe General 1997-98 Revenue Account		4,347,962.29	4,347,962.29
Veterans' WL 1999 A/B Bond Reserve		9,420,562.20	9,420,562.20
Total Individual State Investment Accounts	21,580,799.98	15,711,856,920.80	15,733,437,720.78
Collateral to Secure Deposits in Banks			
Agency bank deposits	9,276,410.00	149,428,444.00	158,704,854.00
Employment Development Department escrow		300,000.00	300,000.00
State Treasurer's Office custodian	14,000,000.00	47,500,000.00	61,500,000.00
State Treasurer's Office demand deposits	14,274,700.00	1,589,657,664.71	1,603,932,364.71
State Treasurer's Office fiscal agents		1,000,000.00	1,000,000.00
State Treasurer's Office time deposits	194,738,540.08	4,937,652,527.42	5,132,391,067.50
State Water Resources Control Board—Linked Deposit		7,930,500.00	7,930,500.00
Total Collateral to Secure Deposits in Banks	232,289,650.08	6,733,469,136.13	6,965,758,786.21

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			
California State University—Cal Poly, San Luis Obispo	130,000.00		130,000.00
California State University—Chico		1,130,000.00	1,130,000.00
California State University—Sacramento	500,000.00		500,000.00
California State University—San Francisco	403,000.00		403,000.00
California State University—San Jose	125,000.00		125,000.00
California State University—Sonoma	1,688,332.92		1,688,332.92
Consumer Affairs, Department of	14,950,386.39	4,000.00	14,954,386.39
Corporations, Department of	1,740,000.00		1,740,000.00
Deposit Officer Pending		51,197.64	51,197.64
Employment Development Department	90,428,065.21	1,228,000.00	91,656,065.21
Financial Institutions, Department of	25,340,000.00	53,895,141.72	79,235,141.72
Industrial Relations, Department of	14,262,591.00	150,712,000.00	164,974,591.00
Insurance, Department of	452,225,311.00	1,283,519,000.00	1,735,744,311.00
Local Agency Security	15,050,000.00		15,050,000.00
Real Estate, Department of	2,500.00		2,500.00
State Lands Commission	10,877,638.76	12,000.00	10,889,638.76
State Water Resources Control Board	59,000.00		59,000.00
Transportation, Department of	16,620,000.00	15,084,000.00	31,704,000.00
Trustees of California State University	217,500.00	1,155,000.00	1,372,500.00
Total Pledges Received by State Agencies	644,619,325.28	1,506,790,339.36	2,151,409,664.64
General Safekeeping			
California Health Facilities Financing Authority	8,826.00		8,826.00
Developmental Services, Department of	3,055.00	1,000,000.00	1,003,055.00
Education, Department of	12,993.00		12,993.00
Fish and Game, Department of		200,000.00	200,000.00
Quimby Island Reclamation District	157.00		157.00
Rehabilitation, Department of	466.00		466.00
State Treasurer's Office— Bearer Bond Stock	908,715,000.00		908,715,000.00
Water Resources, Department of		162,000.00	162,000.00
Total General Safekeeping	908,740,497.00	1,362,000.00	910,102,497.00
Total Securities	\$1,807,230,272.34	\$53,756,348,436.35	\$55,563,578,708.69

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 consist 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 \$29,802,870,040.06 for the securities in the PMIA at December 31, 1999. In its statement of cash accountability for December 31, 1999, the STO reported a total value of \$28,913,934,085.66 for these 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.

In addition, in its statement of securities accountability, the STO included \$470 million in securities that it temporarily transferred to financial institutions in exchange for cash. As part of these transfers, the STO has agreed to repay the cash plus interest in exchange for the same securities in the future. In its statement of cash accountability, the STO does not report securities under such agreements.

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, 1999.

Entity	Number of Items
Deposit Officer Pending	115
Developmental Services, Department of	102
Emergency Stock—Agency Trust Checks	12
Motor Vehicles, Department of	1,515
Personnel Administration, Department of—Deferred Compensation	1
State Controller’s Office—Unclaimed Property	266
State Treasurer’s Office—Bond Trustee	86
State Treasurer’s Office—Revolving Fund Check Stock	4,000
Total	6,097

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.