



State of California:

Statement of Securities Accountability of the
State Treasurer's Office
December 31, 2006

July 2007 Report 2007-008



CALIFORNIA STATE AUDITOR

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July 24, 2007

2007-008

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 Bureau of State Audits presents its audit report of the State Treasurer's Office statement of securities accountability as of December 31, 2006.

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 these 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 various values, including the par or face value, the original principal value, or the current outstanding principal balance. Therefore, the dollar amounts presented in the statement of securities accountability should not be used to determine the value of investments owned by, or pledged to, the State. Additionally, the State Treasurer's Office recently changed the way it accounts for securities held in the vault for general safekeeping. Before September 2006 the State Treasurer's Office accounted for common stock shares at \$1 per share and accounted for bond documents at par value. Now, the State Treasurer's Office has chosen to account for these items based on their number rather than their value. As a result, these items are no longer included in the statement of securities accountability, but are disclosed in Note 4 of this report. The effect of the State Treasurer's Office's change decreased the value of securities reported on the statement of securities accountability by \$66.3 billion. We found that the statement presents fairly the securities accountability of the State Treasurer's Office as of December 31, 2006.

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

Respectfully submitted,



ELAINE M. HOWLE
State Auditor

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Independent Auditor's Report

We have audited the accompanying statement of securities accountability as of December 31, 2006. 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 auditing standards generally accepted in the United States of America and with applicable 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 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, 2006, 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 15, 2007

Staff: John Baier, CPA, Audit Principal
Barbara Henderson, CPA
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STATE OF CALIFORNIA
STATEMENT OF SECURITIES ACCOUNTABILITY
OF THE STATE TREASURER'S OFFICE
DECEMBER 31, 2006

	ACCOUNT TITLE	SECURITIES AND INVESTMENT AGREEMENTS IN THE STATE TREASURER'S OFFICE VAULT	SECURITIES ON DEPOSIT WITH BANKS AND TRUST COMPANIES	TOTALS	
	Pooled Money Investment Account (Note 2)		\$41,089,210,538.48	\$41,089,210,538.48	
	California Housing Finance Agency	\$ 8,885,401.04	1,245,115.02	10,130,516.06	
	California State University, Dormitory Construction Fund		142,716,908.00	142,716,908.00	
	Central Valley Water Project Construction Fund		2,789,842,262.00	2,789,842,262.00	
	Central Valley Water Project Revenue Fund		176,213,000.00	176,213,000.00	
	General Obligation Refunding Escrow		4,106,353,897.19	4,106,353,897.19	
	High Tech Education Revenue Bond Fund, PBCF		8,701,000.00	8,701,000.00	
	Oakland State Building Authority Fund		38,178,678.00	38,178,678.00	
	Public Building Construction Fund		119,631,696.00	119,631,696.00	
	State Compensation Insurance Fund	7,047,000.00	19,479,034,958.30	19,486,081,958.30	
	State Lottery Fund		2,480,739,000.00	2,480,739,000.00	
Individual State Investment Accounts	Veterans' (SG) 1997-98 Series A/B Revenue Bond, Reserve Account		7,614,333.46	7,614,333.46	
	Veterans' (SG) 1997-98 Series A/B Revenue Bond, Revenue and Restricted Recoveries Accounts		10,277,677.07	10,277,677.07	
	Veterans' (SG) BG/BH/BK/BL General Obligation Bond, Revenue Account		13,000,000.00	13,000,000.00	
	Veterans' (WL) 1997 Series C Revenue Bond, Reserve Account		5,866,307.78	5,866,307.78	
	Veterans' (WL) 1997 Series C Revenue Bond, Revenue Account		1,123,986.33	1,123,986.33	
	Veterans' (WL) 1997 Series C Revenue Bond, Restricted Recoveries Account		768,687.03	768,687.03	
	Veterans' (WL) 1999 Series A/B Revenue Bond, Reserve Account		10,120,510.55	10,120,510.55	
	Veterans' (WL) Series BJ 11/12 General Obligation Bond, Recycling Account		101,059.92	101,059.92	
	Veterans' (WL) Series BJ 11/12 General Obligation Bond, Revenue Account		4,323,324.74	4,323,324.74	
	Veterans' (WL) Series BT/BU General Obligation Bond, Recycling Account		1,511,546.47	1,511,546.47	
	Veterans' (WL) Series BT/BU General Obligation Bond, Revenue Account		134,693.78	134,693.78	
	Total Individual State Investment Accounts	15,932,401.04	29,397,498,641.64	29,413,431,042.68	
	Collateral to Secure Deposits in Banks	Agency Bank Deposits		143,293,418.37	143,293,418.37
		Employment Development Department—Escrow		217,146.35	217,146.35
		Personnel Administration, Department of—Deferred Compensation		35,740,000.00	35,740,000.00
		State Treasurer's Office—Custodian	6,660,000.00		6,660,000.00
State Treasurer's Office—Demand Deposits			596,053,973.44	596,053,973.44	
State Treasurer's Office—Fiscal Agents			37,833,573.45	37,833,573.45	
State Treasurer's Office—Time Deposits		651,292,047.24	10,029,736,700.39	10,681,028,747.63	
Total Collateral to Secure Deposits in Banks		657,952,047.24	10,842,874,812.00	11,500,826,859.24	

The accompanying notes are an integral part of this statement.

continued on the next page

	ACCOUNT TITLE	SECURITIES AND INVESTMENT AGREEMENTS IN THE STATE TREASURER'S OFFICE VAULT	SECURITIES ON DEPOSIT WITH BANKS AND TRUST COMPANIES	TOTALS
Pledges Received by State Agencies	California State University-California Polytechnic State University, San Luis Obispo	250,000.00	2,145,000.00	2,395,000.00
	California State University-Dominguez Hills	1,389,500.00		1,389,500.00
	California State University-Monterey County	473,500.00		473,500.00
	California State University-Sacramento		1,700,000.00	1,700,000.00
	California State University-Stanislaus	1,955,000.00		1,955,000.00
	Consumer Affairs, Department of	19,846,354.92	4,000.00	19,850,354.92
	Corporations, Department of	2,079,540.21		2,079,540.21
	Employment Development Department	170,265,680.00	3,375,300.00	173,640,980.00
	Financial Institutions, Department of	128,275,000.00	70,883,722.95	199,158,722.95
	Industrial Relations, Department of	221,470,631.48	40,608,000.00	262,078,631.48
	Insurance, Department of	230,690,775.10	6,500,012,679.00	6,730,703,454.10
	Real Estate, Department of	12,500.00		12,500.00
	State Lands Commission	20,128,138.76	178,000.00	20,306,138.76
	State Water Resources Control Board	2,000.00		2,000.00
	Transportation, Department of	33,000,000.00	4,825,000.00	37,825,000.00
Total Pledges Received by State Agencies	829,838,620.47	6,623,731,701.95	7,453,570,322.42	
General Safekeeping*	Developmental Services, Department of		800,000.00	800,000.00
	Water Resources, Department of		162,000.00	162,000.00
	Total General Safekeeping	0.00	962,000.00	962,000.00
TOTAL SECURITIES		\$1,503,723,068.75	\$87,954,277,694.07	\$89,458,000,762.82

* 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.

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

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 State Treasurer's Office values securities as follows:

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

- Bonds, certificates of deposit, and surety bonds are valued at par value or face value.
- Real estate mortgage notes held as pledges to secure deposits of financial institutions 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, Federal National Mortgage Association certificates (except participation certificates), and Federal Home Loan Mortgage Corporation certificates (except participation certificates) 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 are valued at their current outstanding principal balances.
- Government National Mortgage Association book entry certificates are valued at their current outstanding principal balances.
- Real estate mortgage notes held as pledges to secure deposits of financial institutions are valued at their original principal balances.

NOTE 2

Pooled Money Investment Account—Securities

The State Treasurer's Office reported a total value of \$41,089,210,538.48 for the securities in the PMIA at December 31, 2006. In its statement of cash accountability for December 31, 2006, the State Treasurer's Office reported a total value of \$40,800,496,815.76 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 depositing 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, 2006.

ENTITY	NUMBER OF ITEMS
Governor's Scholarship Program	4
Motor Vehicles, Department of	2,140
Personnel Administration, Department of	1
State Controller's Office	1,020
State Treasurer's Office	14,289
Total	17,454

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 & Bond Documents

In addition to securities and investment agreements the State Treasurer's Office holds in the vault, it also separately holds certain securities and bond documents in the vault for general safekeeping. The securities consist of 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 for 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 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, it excludes these items from the statement of securities accountability. Before September 2006 the State Treasurer's Office accounted for the common stock shares at \$1 per share and accounted for the bond documents at par value. The effect of the State Treasurer's Office's change in its method of accounting for these items decreased the value of securities reported on the statement of securities accountability by \$66.3 billion.

The following table lists entities having these items on deposit for general safekeeping in the State Treasurer's Office vault as of December 31, 2006.

ENTITY	NUMBER OF ITEMS
California State Library—Common Stock	3,659
Developmental Services, Department of—Common Stock	270
Education, Department of—Common Stock	10,420
State Treasurer's Office—Bearer Bond Stock	91,466
State Treasurer's Office—FAST Bond Program	3,748
Total	109,563

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
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Capitol Press