



State of California

Statement of Securities Accountability
of the State Treasurer's Office
December 31, 2013

Report 2014-008

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June 12, 2014

2014-008

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 audit report of the State Treasurer's Office statement of securities accountability as of December 31, 2013.

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, 2013.

We conducted this audit 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 Auditor's Report

We have audited the accompanying statement of securities accountability of the State of California's State Treasurer's Office as of December 31, 2013, and the related notes.

Management's Responsibility for the Statement

The State Treasurer's Office is responsible for the preparation and fair presentation of this statement. The State Treasurer's Office is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with generally accepted government auditing 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 statement is free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013, in conformity with the basis of accounting described in Note 1.

Basis of Presentation and Valuation of Securities

We draw attention to Note 1 to the statement, which describes the basis of presentation and the valuation of securities. The statement was prepared by the State Treasurer's Office for the purpose of providing information required by Section 13299.1 of the California Government Code and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Restriction on Use

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

Handwritten signature of John F. Collins II in black ink, written in a cursive style with a long horizontal flourish at the end.

JOHN F. COLLINS II, CPA
Deputy State Auditor

Date: June 9, 2014

Staff: Jim Sandberg-Larsen, CPA, CPFO
Tim Jones
Brian Dunn

**State of California
Statement of Securities Accountability
of the State Treasurer's Office
December 31, 2013**

ACCOUNT TITLE	SECURITIES IN THE STATE TREASURER'S OFFICE VAULT	SECURITIES ON DEPOSIT WITH BANKS AND TRUST COMPANIES	TOTALS
Pooled Money Investment Account (Note 2)	\$0.00	\$46,584,954,552	\$46,584,954,552
Individual State Investment Accounts			
California Housing Finance Agency	\$0.00	\$383	\$383
California State University, Dormitory Construction Fund	0.00	415,525,548	415,525,548
Central Valley Water Project Construction Fund	0.00	332,442,726	332,442,726
Central Valley Water Project Revenue Fund	0.00	69,628,830	69,628,830
General Obligation Refunding Escrow	0.00	2,014,680,960	2,014,680,960
High Tech Education Revenue Bond Fund, Public Building Construction Fund	0.00	24,105,000	24,105,000
Public Buildings Construction Fund	0.00	2,833,567,034	2,833,567,034
State Compensation Insurance Fund*	0.00	16,286,764,432	16,286,764,432
State Lottery Fund	0.00	980,799,000	980,799,000
Total Individual State Investment Accounts	\$0.00	\$22,957,513,913	\$22,957,513,913
Collateral to Secure Deposits or Investments Held in Banks			
Agency Bank Deposits	\$0.00	\$651,821,857	\$651,821,857
Employment Development Department—Escrow	0.00	28,484	28,484
Personnel Administration, Department of—Deferred Compensation	0.00	7,873,097	7,873,097
State Treasurer's Office—Fiscal Agents	0.00	29,386,575	29,386,575
State Treasurer's Office—Time Deposits	785,452,198	4,643,594,438	5,429,046,636
State Treasurer's Office—Demand Deposits	0.00	2,566,382,826	2,566,382,826
Total Collateral to Secure Deposits or Investments Held in Banks	\$785,452,198	\$7,899,087,277	\$8,684,539,475
Pledges Received by State Agencies			
Consumer Affairs, Department of	\$19,880,295	\$0.00	\$19,880,295
Employment Development Department	213,477,540	0.00	213,477,540
Business Oversight, Department of †	519,103,000	72,481,949	591,584,949
Industrial Relations, Department of	150,000	6,690,000	6,840,000
Insurance, Department of	272,573,933	8,376,789,000	8,649,362,933
State Lands Commission	9,037,639	0.00	9,037,639
Total Pledges Received by State Agencies	\$1,034,222,407	\$8,455,960,949	\$9,490,183,356

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ACCOUNT TITLE	SECURITIES IN THE STATE TREASURER'S OFFICE VAULT	SECURITIES ON DEPOSIT WITH BANKS AND TRUST COMPANIES	TOTALS
General Safekeeping[‡]			
Developmental Services, Department of	\$0.00	\$50,000	\$50,000
Water Resources, Department of	0.00	162,000	162,000
Total General Safekeeping	\$0.00	\$212,000	\$212,000
TOTAL SECURITIES	\$1,819,674,605	\$85,897,728,691	\$87,717,403,296

Note: The accompanying notes beginning on page 5 are an integral part of this statement.

* In 2013 the board of directors of the State Compensation Insurance Fund began investing in common stock under new authority granted by Chapter 839, Statutes of 2012. Because the State Treasurer's Office accounts for these items based on their number rather than their value, these items are excluded from the statement of securities accountability as described in Note 5.

† A portion of the pledges contained in the State's vault matured prior to December 31, 2013. According to the Division of Financial Institutions within the Department of Business Oversight, these pledges hold full value for claims related to prior periods that are made after the maturity date.

‡ 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 consist 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 \$46,584,954,552 for the securities in the PMIA as of December 31, 2013. In its statement of cash accountability as of December 31, 2013, the State Treasurer’s Office reported a total value of \$46,602,586,990 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, 2013.

ENTITY	NUMBER OF ITEMS
Motor Vehicles, Department of	2,144
State Controller’s Office	1,253
State Treasurer’s Office	361
Total	3,758

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 and Bond Documents

In addition to securities the State Treasurer’s Office holds in the vault related to individual investment accounts, collateral requirements, and pledges, it also separately holds certain securities and bond documents in the vault for general safekeeping. The securities consist of preferred and 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 under 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 preferred and 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, 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, 2013.

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	5,533
State Treasurer’s Office—Bearer Bond Stock	3,448
State Treasurer’s Office—FAST Bond Program	3,768
Total	16,678

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, 2013, outside depositories held 14,307,325 shares of common stock for the State Compensation Insurance Fund.