

# 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, 2002*



September 2003  
2003-008

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# CALIFORNIA STATE AUDITOR

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ELAINE M. HOWLE  
STATE AUDITOR

STEVEN M. HENDRICKSON  
CHIEF DEPUTY STATE AUDITOR

September 3, 2003

2003-008

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, 2002.

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, 2002.

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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BUREAU OF STATE AUDITS

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# CALIFORNIA STATE AUDITOR

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ELAINE M. HOWLE  
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, 2002. 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 with 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, 2002, 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: July 29, 2003

Staff: Jeffrey A. Winston, CPA  
Theresa Gartner, CPA  
Pam Immordino

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**STATE OF CALIFORNIA  
STATEMENT OF SECURITIES ACCOUNTABILITY  
OF THE STATE TREASURER'S OFFICE  
DECEMBER 31, 2002**

| Account Title   | Securities and<br>Investment<br>Agreements in the<br>STO's Vault | Securities on<br>Deposit With<br>Banks and Trust<br>Companies | Totals                     |
|---|--|---|----------------------------|
| <b>Pooled Money Investment Account (Note 2)</b>               | —  | <b>\$44,795,436,192.78</b>                                    | <b>\$44,795,436,192.78</b> |
| <b>Individual State Investment Accounts</b>                   |  |   |                            |
| California Housing Finance Agency                             | \$ 5,162,719.27  | 12,664,778.05   | 17,827,497.32              |
| California State University Dormitory—Refunding               | —  | 23,071,267.00   | 23,071,267.00              |
| Central Valley Project Water System                           | —  | 45,971,000.00   | 45,971,000.00              |
| Central Valley Project Water System—Series L Escrow           | —  | 373,587,066.00  | 373,587,066.00             |
| General Obligation Refunding Escrow                           | —  | 2,175,843,818.00  | 2,175,843,818.00           |
| Los Angeles State Office Building Authority                   | —  | 5,232,000.00  | 5,232,000.00               |
| State Compensation Insurance Fund                             | 7,525,000.00   | 8,760,263,462.15  | 8,767,788,462.15           |
| State Lottery Fund  | —  | 3,528,508,000.00  | 3,528,508,000.00           |
| State Public Works Board—High Technology Revenue<br>Bond Fund | —  | 26,441,000.00   | 26,441,000.00              |
| State Public Works Board—Public Buildings                     | —  | 754,480,142.00  | 754,480,142.00             |
| State Water Resources Control Board—Linked Deposit            | 27,038.80  | —   | 27,038.80                  |
| Toll Bridge Construction Fund # 0500                          | —  | 10,544,630.00   | 10,544,630.00              |
| Veterans' Debenture Revenue Fund                              | —  | 6,513,000.00  | 6,513,000.00               |
| Veterans' FGIC 2000 Series A Revenue Account                  | —  | 3,311,000.78  | 3,311,000.78               |
| Veterans' Societe General 1997 Series A/B                     | —  | 9,020,211.78  | 9,020,211.78               |
| Veterans' Societe General 1997-98 Revenue Account             | —  | 14,996,775.93   | 14,996,775.93              |
| Veterans' Societe General BG/BH/BK/BL Revenue<br>Account      | —  | 131,882,341.67  | 131,882,341.67             |
| Veterans' W L 1997 Series C Reserve                           | —  | 5,837,914.74  | 5,837,914.74               |
| Veterans' W L 1997 Series C Revenue Account                   | —  | 1,178,237.03  | 1,178,237.03               |
| Veterans' W L 1999 A/B Bond Reserve                           | —  | 9,693,367.94  | 9,693,367.94               |
| Veterans' W L Series BJ 11/12 Revenue Account                 | —  | 8,345,157.01  | 8,345,157.01               |
| Veterans' W L Recycling BT/BU                                 | —  | 10,274,656.09   | 10,274,656.09              |
| Veterans' W L Series BT/BU GO Bond Revenue Account            | —  | 10,460,503.88   | 10,460,503.88              |
| <b>Total Individual State Investment Accounts</b>             | <b>12,714,758.07</b>   | <b>15,928,120,330.05</b>                                      | <b>15,940,835,088.12</b>   |

The accompanying notes are an integral part of this statement.

*continued on next page*

| Account Title   | Securities and Investment Agreements in the STO's Vault | Securities on Deposit With Banks and Trust Companies | Totals                  |
|---|---|--|-------------------------|
| <b>Collateral to Secure Deposits in Banks</b>                 |   |  |                         |
| Agency Bank Deposits  | —   | 100,862,514.57                                       | 100,862,514.57          |
| Employment Development Department—Escrow                      | —   | 300,000.00   | 300,000.00              |
| Personnel Administration, Department of—Deferred Compensation | —   | 35,579,490.91  | 35,579,490.91           |
| State Treasurer's Office—Custodian                            | 40,000,000.00   | —  | 40,000,000.00           |
| State Treasurer's Office—Demand Deposits                      | —   | 1,061,948,555.59                                     | 1,061,948,555.59        |
| State Treasurer's Office—Fiscal Agents                        | —   | 43,175,077.88  | 43,175,077.88           |
| State Treasurer's Office—Time Deposits                        | 386,512,155.00  | 6,403,044,473.01                                     | 6,789,556,628.01        |
| <b>Total Collateral to Secure Deposits in Banks</b>           | <b>426,512,155.00</b>                                   | <b>7,644,910,111.96</b>                              | <b>8,071,422,266.96</b> |
| <b>Pledges Received by State Agencies</b>                     |   |  |                         |
| California State University—Chico                             | —   | 30,000.00  | 30,000.00               |
| California State University—Dominguez Hills                   | 1,389,000.00  | —  | 1,389,000.00            |
| California State University—Fullerton                         | 1,395,000.00  | —  | 1,395,000.00            |
| California State University—Humboldt                          | —   | 500,000.00   | 500,000.00              |
| California State University—Long Beach                        | —   | 120,000.00   | 120,000.00              |
| California State University—Sacramento                        | 450,000.00  | —  | 450,000.00              |
| California State University—San Bernardino                    | 568,122.67  | 1,023,000.00   | 1,591,122.67            |
| California State University—San Francisco                     | 181,308.75  | —  | 181,308.75              |
| California State University—San Jose                          | 392,500.00  | —  | 392,500.00              |
| California State University—San Luis Obispo                   | 646,337.94  | 342,000.00   | 988,337.94              |
| California State University—San Marcos                        | 1,389,000.00  | —  | 1,389,000.00            |
| California State University—Sonoma                            | 1,900,000.00  | —  | 1,900,000.00            |
| Consumer Affairs, Department of                               | 16,521,386.39   | 4,000.00   | 16,525,386.39           |
| Corporations, Department of                                   | 1,695,000.00  | —  | 1,695,000.00            |
| Employment Development Department                             | 125,510,955.00  | 3,958,650.00   | 129,469,605.00          |
| Financial Institutions, Department of                         | 39,870,000.00   | 54,300,336.67  | 94,170,336.67           |
| Industrial Relations, Department of                           | 229,389,529.00  | 194,143,000.00                                       | 423,532,529.00          |
| Insurance, Department of                                      | 138,039,131.00  | 3,107,997,500.00                                     | 3,246,036,631.00        |
| Real Estate, Department of                                    | 12,500.00   | —  | 12,500.00               |
| State Lands Commission  | 14,949,138.76   | 68,000.00  | 15,017,138.76           |
| State Water Resources Control Board                           | 37,000.00   | —  | 37,000.00               |
| Transportation, Department of                                 | 21,620,000.00   | 16,380,000.00  | 38,000,000.00           |
| <b>Total Pledges Received by State Agencies</b>               | <b>595,955,909.51</b>                                   | <b>3,378,866,486.67</b>                              | <b>3,974,822,396.18</b> |

The accompanying notes are an integral part of this statement.

| Account Title                                    | Securities and Investment Agreements in the STO's Vault | Securities on Deposit With Banks and Trust Companies | Totals                      |
|--|---|--|-----------------------------|
| <b>General Safekeeping</b>                       |   |  |                             |
| California Health Facilities Financing Authority | 8,826.00  | —  | 8,826.00                    |
| California State Library                         | 3,659.00  | —  | 3,659.00                    |
| Developmental Services, Department of            | —   | 900,000.00   | 900,000.00                  |
| Education, Department of                         | 9,301.00  | —  | 9,301.00                    |
| State Treasurer's Office—Bearer Bond Stock       | 589,265,000.00  | —  | 589,265,000.00              |
| State Treasurer's Office—FAST Program            | 54,293,186,000.00                                       | —  | 54,293,186,000.00           |
| Water Resources, Department of                   | —   | 162,000.00   | 162,000.00                  |
| <b>Total General Safekeeping</b>                 | <b>54,882,472,786.00</b>                                | <b>1,062,000.00</b>                                  | <b>54,883,534,786.00</b>    |
| <b>TOTAL SECURITIES</b>                          | <b>\$55,917,655,608.58</b>                              | <b>\$71,748,395,121.46</b>                           | <b>\$127,666,050,730.04</b> |

The accompanying notes are an integral part of this statement.

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# 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, 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 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 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 bank and savings and loan deposits are valued at their original principal balances.

## Note 2

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### *Pooled Money Investment Account—Securities*

The STO reported a total value of \$44,795,436,192.78 for the securities in the PMIA at December 31, 2002. In its statement of cash accountability for December 31, 2002, the STO reported a total value of \$44,871,984,949.96 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.

## Note 3

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### *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, 2002.

| Entity  | Number of Items |
|---|-----------------|
| Deposit Officer Pending                                       | 86              |
| Developmental Services, Department of                         | 346             |
| Emergency Stock—Agency Trust Checks                           | 29              |
| Motor Vehicles, Department of                                 | 1,475           |
| Personnel Administration, Department of—Deferred Compensation | 1               |
| Scholarshare Investment Board                                 | 3               |
| State Controller's Office—Unclaimed Property                  | 355             |
| State Treasurer's Office—Bond Trustee                         | 138             |
| State Treasurer's Office—Revolving Fund Check Stock           | 19,000          |
| <b>Total</b>  | <b>21,433</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  
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  
California Research Bureau  
Capitol Press