Report of Independent Auditors and Financial Statements

Veterans' Farm and Home Purchase Program
of the Department of Veterans Affairs,
State of California (Veterans Farm and Home
Building Fund of 1943, Veterans Debenture
Revenue Fund and Pooled Self-Insurance Fund)

June 30, 2015 and 2014

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

California Veterans Board
State of California

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Veterans' Farm and Home Purchase Program of the Department of Veterans Affairs, State of California (the Program), which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements. We have also audited the financial statements of the Veterans Farm and Home Building Fund of 1943 (the 1943 Fund), Veterans Debenture Revenue Fund (the VDRF), and Pooled Self-Insurance Fund (the PIF) presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying combining fund financial statements as of and for the year ended June 30, 2015 and June 30, 2014 as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 financial statements 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 financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Veterans' Farm and Home Purchase Program of the Department of Veterans Affairs, State of California, as of June 30, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the 1943 Fund, VDRF, and PIF as of June 30, 2015 and 2014, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The financial statements represent only the business activities of the Veterans' Farm and Home Purchase Program of the Department of Veterans Affairs, State of California, and are not intended to present the financial position of the Department of Veterans Affairs, State of California and the results of its operations and its cash flows. The financial statements referred to above are included in the financial statements of the State of California as the State represents the primary government and has ultimate oversight responsibility for the Program.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13, the schedules of changes in the net pension liability and related ratios on page 42, and the schedule of plan contributions on page 43, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Moss Adams LLP

Sacramento, California
September 18, 2015

INTRODUCTION

The Department of Veterans Affairs (the Department), is a separate legal entity and a cabinet-level agency of the State of California. A seven-member California Veterans Board (the Board) has policy oversight of the operations of the Department, all of whom are appointed by the Governor, subject to confirmation by the State Senate.

The Department began making low interest rate farm and home financing available to veterans after World War I, following the enactment by the California Legislature of the Veterans' Farm and Home Purchase Act of 1921. In 1943, the Legislature enacted the Veterans Farm and Home Purchase Act of 1943 to meet new needs of California's veterans. The 1943 Act established in the state treasury the Veterans Farm and Home Building Fund of 1943 (the 1943 Fund), which is the principal fund utilized for the Veterans' Farm and Home Purchase Program (the Program). Financing is provided as installment loans, which are referred to as Contracts of Purchase.

Financing for Contracts of Purchase are derived from: the sales of Home Purchase Revenue Bonds, Veterans General Obligations Bonds, principal prepayments of Contracts of Purchase, and other Program revenues not needed to meet 1943 Fund operating costs and debt service requirements of the bond portfolio. Expenditures are primarily for debt service and administration of the Program.

The revenue bond resolution giving the Department authority to issue Revenue Bonds requires a reserve fund in an amount equal to no less than 3% of the aggregate outstanding principal of all revenue bonds with interest rates fixed to maturity. The Veterans Debenture Revenue Fund (VDRF) was established to segregate the bond reserve requirements.

The Department operates a Pooled Self-Insurance Fund (PIF), which provides segregation of insurance risk from the Program. In accordance with California state law, the Department is required to pay all insurance claims from the PIF. California state law further provides that each of the Department's insurance reserves be self-sufficient and adequately maintained.

The PIF has combined cash reserves of $28.1 million as of June 30, 2015, which is divided into the following sub accounts:

a. The Disaster Indemnity Fund, covering earthquake and flood risks
b. The Fire and Hazard Insurance Fund
c. The CalVet Legacy Self-Insurance and Disability Fund
d. The CalVet Primary Mortgage Insurance Fund

The following financial analysis of the Program includes the condensed consolidated information of the 1943 Fund, the VDRF, and the PIF.

FINANCIAL ANALYSIS

Condensed statements of net position – The following table presents the condensed statements of net position for the Program as of June 30, 2015, 2014, and 2013 (in thousands).

	2015	2014	2013
ASSETS			
Cash, cash equivalents, and investments	$ 167,824	$ 126,883	$ 214,451
Receivables under contracts of purchase – net	814,383	829,508	921,296
Other receivables and assets	8,627	10,958	22,778
TOTAL ASSETS	990,834	967,349	1,158,525
Deferred outflows of resources	3,334	2,113	2,370
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 994,168	$ 969,462	$ 1,160,895
LIABILITIES AND NET POSITION			
LIABILITIES			
Bonds payable	$ 824,888	$ 805,220	$ 1,004,312
Other payables and liabilities	31,059	13,360	14,284
Total liabilities	855,947	818,580	1,018,596
DEFERRED INFLOWS OF RESOURCES	2,440	-	-
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	858,387	818,580	1,018,596
NET POSITION – RESTRICTED	135,781	150,882	142,299
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 994,168	$ 969,462	$ 1,160,895

FINANCIAL ANALYSIS (CONTINUED)

Total assets and deferred outflows of resources – Total assets and deferred outflows of resources increased by $24.7 million from $969.5 million at June 30, 2014 to $994.2 million at June 30, 2015. This increase consisted primarily of the following items:

Total cash, cash equivalents, and investments increased by $40.9 million from $126.9 million at June 30, 2014 to $167.8 million at June 30, 2015. This increase was primarily due to the Department's issuance of State of California Veterans General Obligation Bonds Series CJ (the Series CJ Bonds) in the aggregate principal amount of $110 million. A portion of the proceeds of the bond issuance were used to fund loans while excess revenues from prepayments of Contracts of Purchase were held for future needs and to call approximately $90.4 million of higher rate Veterans G.O. Bonds and Revenue Bonds. Additionally, the increase in total cash and investments was due principal repayments of contracts of purchase of $160.6 million offset by payments made for new Contracts of Purchase (i.e., origination of new Contracts of Purchase) in the approximate amount of $144.1 million with portions of the Series CJ Bonds.

Net receivables under contracts of purchase decreased $15.1 million, from $829.5 million at June 30, 2014, to $814.4 million at June 30, 2015. The decrease was a function of repayments of contracts of purchase offsetting the volume of new contracts originated due to the continued low interest rate environment which accelerated repayments of contracts of purchase during the year ended June 30, 2015.

Other receivables and assets decreased by $2.3 million from $10.9 million at June 30, 2014 to $8.6 million at June 30, 2015. Other real estate owned balances have declined due to increased sales of repossessed properties and less contracts of purchase being foreclosed and transferred to other real estate owned. This was offset by increases in due from other funds.

Deferred outflows of resources increased by $1.2 million from $2.1 million at June 30, 2014 to $3.3 million at June 30, 2015. The increase in deferred outflows of resources was primarily driven by the implementation of Governmental Accounting Standards Board (GASB) Standard No. 68.

Total assets decreased by approximately $191 million from $1.16 billion at June 30, 2013 to $967 million at June 30, 2014. This decrease consisted primarily of the following items:

Total cash, cash equivalents, and investments decreased by approximately $87.5 million from $214.4 million at June 30, 2013 to $126.9 million at June 30, 2014. The decrease is due to maturities and special redemptions of bonds of $199.3 million and payments made for new contracts of purchase of $73.5 million, which was offset by principal repayments of contracts of purchase of $178.7 million, and approximately $6.6 million from other costs related to operating the Program.

FINANCIAL ANALYSIS (CONTINUED)

Total assets and deferred outflows of resources (continued) – Net receivables under contracts of purchase decreased $91.8 million, from $921.3 million at June 30, 2013, to $829.5 million at June 30, 2014. The decrease was a function of repayments of contracts of purchase outpacing the origination of new contracts due to limited demand stemming from the interest rate environment during the fiscal year June 30, 2014.

All other receivables and assets decreased by $11.8 million from $22.8 million at June 30, 2013 to $11 million at June 30, 2014. The decrease in other receivables and assets was primarily driven by a decrease in interest receivable related to fewer outstanding contracts of purchase and investment balances.

Additionally, other real estate owned balances have declined due to increased sales of repossessed properties and less contracts of purchase being foreclosed and transferred to other real estate owned.

Liabilities, deferred inflows of resources, and net position – Total liabilities and deferred inflows of resources increased by approximately $39.8 million from $818.6 million at June 30, 2014 to $858.4 million at June 30, 2015. This increase was primarily due to a net increase in Veterans G.O. Bonds and Revenue Bonds payable of approximately $19.7 million and the recognition of a GASB 68 net pension liability of approximately $13.1 million.

Accordingly, for the year ended June 30, 2015, the net position decreased by $15.1 million from approximately $150.9 million at June 30, 2014 to approximately $135.8 million at June 30, 2015. This decrease was due to the GASB 68 implementation of approximately $14.6 million and a deficiency of revenues over expenses of approximately $512 thousand.

Total liabilities decreased by approximately $200 million from $1.02 billion at June 30, 2013, to $818.6 million at June 30, 2014, principally due to bond calls. The net position increased by approximately $8.6 million from $142.3 million at June 30, 2013, to $150.9 million at June 30, 2014. The increase in net position was due to net operating income of $8.6 million for the year ended June 30, 2014.

FINANCIAL ANALYSIS (CONTINUED)

Condensed statements of revenues and expenses – The following table presents condensed statements of revenues and expenses for the Program for fiscal years ended June 30, 2015, 2014, and 2013 (in thousands).

	2015	2014	2013
PROGRAM OPERATIONS			
Revenues:			
Contracts of purchase of properties	$ 43,307	$ 47,461	$ 58,970
Investments and other	2,372	1,150	2,753
Insurance revenue and claim reimbursements	6,562	10,245	6,140
Total program operating revenues	52,241	58,856	67,863
Expenses:			
Interest expense	33,726	37,639	47,879
(Reversal of) provision for program losses	(46)	(3,586)	3,936
Insurance premiums and claims paid	4,028	4,032	4,204
	37,708	38,085	56,019
Excess of program operations revenues over program operations expenses	14,533	20,771	11,844
PROGRAM ADMINISTRATION			
Total program administration revenues	5,455	2,805	2,122
Total program administration expenses	20,009	14,992	13,832
Deficiency of program administration revenues over program administration expenses	(14,554)	(12,187)	(11,710)
Net operating (loss) income	(21)	8,584	134
Loss on sale and write down of repossessed property	(491)	(1)	(4,305)
(Deficiency) excess of revenues over expenses	$ (512)	$ 8,583	$ (4,171)

FINANCIAL ANALYSIS (CONTINUED)

Program operations – The program operations revenues over program operations expenses decreased by approximately $6.3 million from $20.8 million for the year ended June 30, 2014 to $14.5 million for the year ended June 30, 2015, due to the following:

Interest revenues from contracts of purchase decreased by approximately $4.2 million from $47.5 million for the year ended June 30, 2014 to $43.3 million for the year ended June 30, 2015, primarily due to a decrease in the average balance of contracts of purchase outstanding during the year.

Interest revenues on investments and other increased by approximately $1.2 million from $1.2 million for the year ended June 30, 2014 to $2.4 million for the year ended June 30, 2015. The increase in interest revenues on investments and other is due to the overall positive experience during the year for the Experienced Rating Refund (ERR).

Insurance revenue and claim reimbursements decreased by approximately $3.6 million from $10.2 million for the year ended June 30, 2014 to $6.6 million for the year ended June 30, 2015. The decrease in insurance revenue and claim reimbursements is primarily due to a reduction in the collection of insurance proceeds related to Contracts of Purchase insured by Radian due to a reduction in cancelled contracts of purchase. The Program met their deductible during 2014 and is now receiving proceeds for reimbursable losses related to this insurance program.

Interest expense decreased by approximately $3.9 million from $37.6 million for the year ended June 30, 2014 to $33.7 million for the year ended June 30, 2015. The decrease in interest expense was attributable to the special redemptions of higher paying bonds during the year being replaced with new bonds at lower rates.

The (reversal of) provision for program losses decreased by approximately $3.6 million from a reversal of provision (revenue) of $3.6 million for the year ended June 30, 2014 to a reversal of provision (revenue) of $46 thousand for the year ended June 30, 2015. The decrease was a function of credit quality stabilizing in the portfolio associated with the contracts of purchase.

Insurance premiums and claims paid remained fairly consistent at $4 million for the years ended June 30, 2014 and 2015.

FINANCIAL ANALYSIS (CONTINUED)

Program operations (continued) – The program operations revenues over program operations expenses increased by approximately $9.0 million from $11.8 million for the year ended June 30, 2013 to $20.8 million for the fiscal year ended June 30, 2014, due to the following:

Interest revenues from contracts of purchase decreased by approximately $11.5 million from $59 million for the year ended June 30, 2013 to $47.5 million for the year ended June 30, 2014, primarily due to a decrease in the average balance of contracts of purchase outstanding during the year.

Interest revenues on investments and other decreased by approximately $1.6 million from $2.7 million for the year ended June 30, 2013 to $1.1 million for the year ended June 30, 2014. The decrease in interest revenues on investments and other is due to the decrease in the average balance of investments outstanding during the year.

Insurance revenue and claim reimbursements increased by approximately $4.1 million from $6.1 million for the year ended June 30, 2013 to $10.2 million for the year ended June 30, 2014. The increase in insurance revenue and claim reimbursements is due to reimbursements of $5.0 million for insured losses on high loan to value contracts of purchase. The Program met their deductible during 2014 and is now receiving proceeds for reimbursable losses related to this insurance program.

Interest expense decreased by approximately $10.3 million from $47.9 million for the year ended June 30, 2013 to $37.6 million for the year ended June 30, 2014. The decrease in interest expense was a function of a decrease in the average balance of bonds outstanding during the year.

The (reversal of) provision for program losses decreased by approximately $7.5 million from an expense of $3.9 million for the year ended June 30, 2013 to a reversal of provision (revenue) of $3.6 million for the year ended June 30, 2014. The decrease was a function of improved credit quality associated with the contracts of purchase portfolio.

Insurance premiums and claims paid decreased by approximately $200 thousand from a $4.2 million for the year ended June 30, 2013 to $4 million for the year ended June 30, 2014. The decrease was due to fewer outstanding contracts of purchase.

Program administration – Total program administration revenues include loan origination fees paid to the Program, fees for late payments on contracts of purchase, and rent received on a property owned by the Program. Total program administration revenues increased by approximately $2.7 million from $2.8 million for the year ended June 30, 2014, to $5.5 million for the year ended June 30, 2015. Total program administration revenues increased by approximately $0.7 million from $2.1 million for the year ended June 30, 2013, to $2.8 million for the year ended June 30, 2014.

Total program administration expenses increased by $5 million from $15 million for the year ended June 30, 2014, to $20 million for the year ended June 30, 2015. This is due to an increase of payroll and other support expenditures. Total program administration expenses increased by $1.2 million from $13.8 million for the year ended June 30, 2013, to $15 million for the year ended June 30, 2014. This is due to an increase of payroll and other support expenditures.

FINANCIAL ANALYSIS (CONTINUED)

Total (deficiency) excess of revenues over expenses – Total excess of revenues over expenses decreased $9.1 million from a net excess of $8.6 million for the year ended June 30, 2014 to a net deficiency of $0.5 million for the year ended June 30, 2015. The total excess of revenues over expenses decreased due to the reasons noted above, in addition to the following:

> Loss on sale and write down of repossessed property resulted in a loss of $491 thousand for the year ended June 30, 2015, compared to a loss of $1 thousand for the year ended June 30, 2014. The Program's holdings of repossessed properties, net of allowances for losses, decreased from $3.1 million as of June 30, 2014 to $1.3 million as of June 30, 2015.

Total excess (deficiency) of revenues and transfers over expenses increased $12.8 million from a net deficiency of $4.2 million for the year ended June 30, 2013, to a net excess of $8.6 million for the year ended June 30, 2014. The total excess (deficiency) of revenues over expenses increased due to the reasons noted above, in addition to the following:

> Loss on sale and write down of repossessed property resulted in a loss of $4.3 million for the year ended June 30, 2013, compared to a loss of $1 thousand for the year ended June 30, 2014. The reduction in losses and write downs were a function of the improved credit quality associated with the contracts of purchase portfolio and increases in real estate values in the markets the Program operates in. The Program's holdings of repossessed properties, net of allowances for losses, decreased from $13 million as of June 30, 2013 to $3.1 million as of June 30, 2014.

OVERVIEW OF LOAN PORTFOLIO

Single family home loans/condominiums/farm loans – The Department makes loans to veterans for the purchase of individual residences. Approximately 96% of the dollar volume of the Department's loans is for home loans as of June 30, 2015. Currently, the maximum loan amount ranges from $521,250 to $718,875 ($625,250 to $938,250 for farms) depending on the county, which represents 125% to 172% of the maximum loan limit for a single family home set by the Federal National Mortgage Association (Fannie Mae).

Loans are made after an underwriting process that includes, but is not limited to, a review of credit history, verifiable income, and the amount and source of down payment. In general, credit scores of approved applicants are above the average. Loans are required to be insured, either through private mortgage insurance, upfront mortgage insurance funding fee or through the guarantee program of the United States Department of Veterans Affairs (USDVA). Loans with a LTV of 97% or greater are required to be insured through the USDVA guarantee program. Under the USDVA guarantee program, the Program is insured for the first 25% of loss in the event that they are required to foreclose on a property and need to sell that property for less than the outstanding loan balance.

OVERVIEW OF LOAN PORTFOLIO (CONTINUED)

Single family home loans/condominiums/farm loans (continued) – Interest rates for loans are determined when the loan is originated. As of June 30, 2015, interest rates on loans outstanding ranged from 3.50% to 9.75%. While the Program has the limited ability to adjust the interest rates, post-1999 through December 2010 loans can be adjusted by 0.5% if needed and pre-1999 loans can be adjusted with no rate cap, the policy of the Program has been to leave the interest rate fixed at the rate in effect when the loan was originated. Beginning on January 1, 2011 all contracts of purchase are issued with fixed interest rates.

Mobile homes – The Program makes loans to veterans for the purchase of mobile homes. Approximately 3.13% of the dollar volume of the Program's loans is for home loans as of June 30, 2015. The terms of the loans for mobile homes are substantially the same as loans made to finance the purchase of single family homes. In certain circumstances, the interest rate of a mobile home loan may be 1% higher than an equivalent loan on a single family home.

Home improvement loans – The Program makes a limited amount of home improvement loans. Approximately 0.40% of the dollar volume of the Program's loans is for home loans as of June 30, 2015. These loans typically have a LTV of lower than 90%.

Allowances for uncollectible contracts – The allowance for uncollectible contracts are established through a provision charged to operations. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing contracts and commitments to extend credit, based on evaluations of the collectability and prior loss experience of contracts and commitments to extend credit. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, specific problem contracts, commitments, and current and anticipated economic conditions that may affect the borrowers' ability to repay the obligation. Management updates its estimates periodically to take into account changes in the economic environment. The allowance for uncollectible contracts was $5.0 million and $6.1 million as of June 30, 2015 and 2014, respectively.

OVERVIEW OF LOAN PORTFOLIO (CONTINUED)

Other real estate owned – Real estate acquired by the Program by repossession is recorded at the lower of estimated fair value less estimated selling costs or the carrying value of the related loan at the date of foreclosure. After repossession, the value of the underlying contract is written down through the allowance for uncollectible contracts to the estimated fair value of the real estate, if necessary. Any subsequent write-downs or gains on sales of foreclosures are charged against non-operating expenses. Operating expenses of such properties, net of any related income, are included in other expenses. Operating costs on foreclosed real estate are expensed as incurred. Costs incurred for physical improvements to foreclosed real estate are capitalized if the value is recoverable through future sale.

Higher-risk loans (excluding home equity loans) – The Program's higher risk loans, designated by having a loan-to-value ratio of 97% or greater, are evenly dispersed throughout the state. The LTV was determined by dividing the current loan balance by the initial purchase price of the property. As of June 30, 2015, the Program had 5,802 active loans in its portfolio, of which 7.07% were determined to have a high LTV. As of June 30, 2015, 6.97% of the total portfolio has a high LTV and is insured with USDVA, and 0.10% of the total portfolio has a high LTV and is uninsured. The Program believes these factors adequately mitigate the risks inherent with loans which are considered to have a high LTV.

Mitigating factors – The following features of the Program are designed to mitigate and protect the Program from the negative effects of market downturns:

The Program does not provide variable rate loans.

The Program requires that Program participants reside in the home purchased under the Contracts of Purchase for the term of the loan.

The Program's underwriting requirements, according to an internal unaudited survey by the Department, have resulted in an average borrower FICO credit score in excess of 700 for transactions originated during the last five years.

Certain of the Program's Contracts of Purchase are guaranteed through the USDVA guarantee program.

Since 2009, all new Contracts of Purchase require a minimum 1.25% funding fee.

The Program cannot predict whether disruptions in the housing and financial markets or difficulties in the national or California economies will continue and, if so, whether the Program's finances will be adversely impacted.

ECONOMIC FACTORS FACING FARM AND HOME PURCHASE PROGRAM

At June 30, 2015, the Program's gross receivables under contracts of purchase were $819.4 million, a decrease of $16.3 million, or 1.9%, from $835.6 million at June 30, 2014. During the fiscal year, cash and investments increased $40.9 million, or 32.2%, from a balance of $126.9 million to $167.8 million. Bonds payable increased $19.7 million, or 2.4%, from $805.2 million at June 30, 2014, to $824.9 million at June 30, 2015. Bond ratings for the Department's G.O. Bonds are AA, Aa2, and AA- by rating agencies Standard & Poor's, Moody's, and Fitch, respectively. Bond ratings for the Department's revenue bonds are AA, Aa3, and AA- by Standard & Poor's, Moody's, and Fitch, respectively.

Program outlook – The ability of the Program to maintain an excess of revenues over expenses in future periods and the financial performance of the Program depends upon a variety of factors, including, among others:

Loan portfolio performance – Significant factors include uncertainties, disruption, or volatility in the financial markets, generally, and the market prices that can be achieved upon the sale of repossessed properties relative to the then-outstanding Contract of Purchase balances. The Program has recognized losses on the disposition of repossessed property. For the fiscal years ended June 30, 2013, 2014, and 2015 the Program recognized losses on repossessions of $4.3 million, $1 thousand, and $491 thousand, respectively. The Program believes that this downward trend of losses is indicative of an improving housing market.

Cost of bond portfolio – The Program has strategically used principal proceeds from contracts of purchase to fund special and optional redemption to minimize the overall cost of outstanding debt. Principal repayments of contracts of purchase for the years ended June 30, 2015 and 2014 have been $160.6 million and $178.7 million, respectively, while special and optional redemption over the same period were $90.4 million and $199.2 million, respectively. The Program will continue to look for strategic opportunities to issue additional Veterans G.O. Bonds or Revenue Bonds.

Overall program administration – The Program's financial performance is driven by the successful origination and maintenance of outstanding balances of contracts of purchases and the related maintenance of a net interest margin adequate to satisfy the Program's administrative expense obligations. Contracts of purchase represent the Programs highest yielding assets and the income generated from these assets are the primary means used to satisfy the Program's administrative expense obligations and its debt service obligations associated with outstanding Veteran's G.O. Bonds and Revenue Bonds.

FINANCIAL STATEMENTS

VETERANS' FARM AND HOME PURCHASE PROGRAM
DEPARTMENT OF VETERANS AFFAIRS, STATE OF CALIFORNIA
STATEMENTS NET POSITION
(In Thousands)

ASSETS

	JUNE 30, 2015	JUNE 30, 2014
CURRENT ASSETS		
Cash in the state treasury	$ 8,729	$ 12,288
State of California Surplus Money Investment Fund	141,126	89,393
Total cash and cash equivalents	149,855	101,681
Current portion of receivables under contracts of purchase – net of allowance for uncollectible contracts	27,194	27,663
Due from other funds	10	-
Interest receivable	4,350	4,496
Total current assets	181,409	133,840
NONCURRENT ASSETS		
Investments:		
Guaranteed investment contracts	1,327	10,327
Taxable municipal securities and other investments	16,642	14,875
Total investments	17,969	25,202
Receivables under contracts of purchase – net of allowance for uncollectible contracts	787,189	801,845
Other real estate owned – net of valuation allowances of $0 and $190 at June 30, 2015 and 2014, respectively	1,280	3,153
Capital assets – net	735	876
Other noncurrent assets	2,252	2,433
Total noncurrent assets	809,425	833,509
TOTAL ASSETS	990,834	967,349
DEFERRED OUTFLOWS OF RESOURCES	3,334	2,113
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 994,168	$ 969,462

(In Thousands)

LIABILITIES AND NET POSITION

	JUNE 30, 2015	JUNE 30, 2014
CURRENT LIABILITIES		
Bonds payable – current portion	$ 20,900	$ -
Accrued interest and other liabilities	11,831	10,975
Due to other funds	257	198
Total current liabilities	32,988	11,173
NONCURRENT LIABILITIES		
Bonds payable – noncurrent portion	803,988	805,220
Insurance claims reserves	443	623
Other postemployment benefits	5,435	1,564
Net pension liability	13,093	-
Total noncurrent liabilities	822,959	807,407
Total liabilities	855,947	818,580
DEFERRED INFLOWS OF RESOURCES	2,440	-
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	858,387	818,580
NET POSITION – RESTRICTED	135,781	150,882
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 994,168	$ 969,462

VETERANS' FARM AND HOME PURCHASE PROGRAM
DEPARTMENT OF VETERANS AFFAIRS, STATE OF CALIFORNIA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(In Thousands)

	YEARS ENDING JUNE 30, 2015	2014
PROGRAM OPERATIONS		
Revenues:		
Contracts of purchase of properties	$ 43,307	$ 47,461
Investments and other	2,372	1,150
Insurance revenue and claim reimbursements	6,562	10,245
Total program operating revenues	52,241	58,856
Expenses:		
Interest expense	33,726	37,639
(Reversal of) provision for program loan losses	(46)	(3,586)
Insurance premiums and claims paid	4,028	4,032
	37,708	38,085
Excess of program operations revenues over program operations expenses	14,533	20,771
PROGRAM ADMINISTRATION		
Revenues:		
Fees	2,014	1,220
Other revenue	3,441	1,585
Total program administration revenues	5,455	2,805
Expenses:		
Payroll and related costs	12,443	8,457
General and administrative expenses	7,566	6,535
Total program administration expenses	20,009	14,992
Deficiency of program administration revenues over program administration expenses	(14,554)	(12,187)
NET OPERATING (LOSS) INCOME	(21)	8,584
NONOPERATING REVENUE (EXPENSE)		
Loss on sale and write down of repossessed property	(491)	(1)
(Deficiency) excess of revenues over expenses	(512)	8,583
NET POSITION		
Beginning of year	150,882	142,299
Restatement due to GASB 68 implementation	(14,589)	-
(Deficiency) excess of revenues over expenses	(512)	8,583
End of year	$ 135,781	$ 150,882

 See accompanying notes

STATEMENTS OF CASH FLOWS

VETERANS' FARM AND HOME PURCHASE PROGRAM
DEPARTMENT OF VETERANS AFFAIRS, STATE OF CALIFORNIA
STATEMENTS OF CASH FLOWS
(In Thousands)

	YEARS ENDING JUNE 30, 2015	YEARS ENDING JUNE 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from contract holders	$ 160,608	$ 178,708
Interest received	45,825	50,517
Interest payments	(33,726)	(37,639)
Payments made for services and supplies	(15,466)	(15,300)
Payments made for new contracts of purchase	(144,055)	(73,508)
Insurance revenue and claim reimbursements	6,562	10,245
Insurance premiums and claims paid	(4,028)	(4,032)
Other receipts	5,636	2,905
Net cash provided by operating activities	21,356	111,896
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investment securities	(3,000)	(4,512)
Proceeds from maturities of investment securities	10,233	2,011
Net cash provided by (used in) investing activities	7,233	(2,501)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Maturities of bonds payable	-	(100)
Proceeds from issuance of bonds	110,000	-
Early redemption of bonds payable	(90,415)	(199,235)
Net cash provided by (used in) noncapital financing activities	19,585	(199,335)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of land, buildings, and equipment	-	(128)
Net cash used in capital and related financing activities	-	(128)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	48,174	(90,068)
CASH AND CASH EQUIVALENTS		
Beginning of year	101,681	191,749
End of year	$ 149,855	$ 101,681

(In Thousands)

	YEARS ENDING JUNE 30, 2015	YEARS ENDING JUNE 30, 2014
RECONCILIATION OF OPERATIONS EXCESS OF REVENUES OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating (loss) income	$ (21)	$ 8,584
Adjustments to reconcile to net cash in operating activities:		
Bond amortization	280	501
(Reversal of) provision for program losses related to uncollectible contracts	(46)	(3,586)
Depreciation	141	115
Effect of changes in assets and liabilities:		
Decrease in interest receivable	146	1,906
Decrease in receivables under contracts of purchase and other real estate owned	16,553	105,200
Decrease in other assets	181	98
Increase (decrease) in accrued interest payable and other liabilities	856	(1,253)
Change in deferred inflows and outflows of resources related to pension	1,022	-
Change in net pension liability	(1,496)	-
Change in insurance claims reserves	(180)	54
Change in due to other funds	49	27
Increase in other postretirements benefits	3,871	250
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 21,356	$ 111,896
NON-CASH ACTIVITIES		
Increase to net pension liability beginning balance due to GASB 68 implementation	$ 14,589	$ -
Transfers of contracts of purchase to other real estate owned	3,977	13,395

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and description – The California Department of Veterans Affairs (the Department) is a separate legal entity and a cabinet-level agency of the State of California. A seven-member California Veterans Board (the Board) has policy oversight of the operations of the Department, all of whom are appointed by the Governor, subject to confirmation by the State Senate.

The Veterans' Farm and Home Purchase Program oversees the Veterans Farm and Home Building Fund of 1943 (the 1943 Fund). The 1943 Fund was established under the authority of the California Constitution to provide low-interest, long-term farm and home mortgage loan contracts to veterans living in California. The 1943 Fund is administered by the Veterans' Farm and Home Purchase Program and the contract loan program has been continuous since 1922. Proceeds from the sale of general obligation bonds, periodically authorized by the vote of the people of California, and revenue bonds authorized by the legislature are used for contract loans to veterans. Expenses are primarily for debt service and administration of the 1943 Fund. The 1943 Fund is tax exempt.

The Department established the Veterans Debenture Revenue Fund (VDRF) and the Pooled Self-Insurance Fund (PIF) to provide ancillary support for the 1943 Fund. These funds are also managed by the Veterans' Farm and Home Purchase Program of the California Department of Veterans Affairs. Notes 5 and 8 provide disclosures related to these funds.

The financial statements represent only the business-type activities of the Veterans' Farm and Home Purchase Program of the California Department of Veterans Affairs, which include the 1943 Fund, the VDRF, and the PIF (collectively, the Program), and are not intended to present the financial position of the Department and the results of its operations and its cash flows of its other proprietary funds. The financial statements of the Program are included in the financial statements of the State of California as the state represents the primary government and has ultimate oversight responsibility for the Program.

Basis of accounting – The Program has been classified as a proprietary fund for accounting purposes, and the financial statements are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting standards – The Program follows the standards of governmental accounting and financial reporting, as promulgated by the Governmental Accounting Standards Board (GASB).

For the year ended June 30, 2014, the Program adopted GASB Statement No. 66 (GASB 66), *Technical Corrections – 2012 – Amendment of GASB Statements No. 10 and No. 62.* GASB 66 was issued to resolve conflicting guidance that was previously issued by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. The requirements of the statement are effective for financial statement periods beginning after December 15, 2012. For the Program, adopting GASB 66 had no impact on these financial statements.

For the year ended June 30, 2015, the Program adopted GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27. The statement revised and established new financial reporting requirements for most governments that provide their employees with pension benefits, including the State. GASB 68, among other things, requires governments providing defined benefit pensions to recognize the difference between pension plans' Fiduciary Net Position and their long-term obligation for pension benefits as a liability (Net Pension Liability), and provides greater guidance on measuring such obligation, including specific guidelines on projecting benefit payments, use of discount rates and use of the "entry age" actuarial cost method. GASB 68 also addresses accountability and transparency through revised and new note disclosures and required supplementary information.

As a result of the adoption of GASB 68, the Program recognized a net pension liability of $14.6 million as a restatement of the Program's net position beginning balance as of June 30, 2015.

Additionally, for the year ended June 30, 2014, the Program adopted GASB Statement No. 70 (GASB 70), *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Some governments extend financial guarantees for the obligations of another government, a not-for-profit organization, a private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The requirements of the statement are effective for financial statement periods beginning after June 15, 2013. The general obligation bonds of the Program are guaranteed by the State of California. See Note 5.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting standards (continued) – In November 2013, the GASB issued Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of this Statement is to address an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. GASB 71 is effective for fiscal years beginning after June 15, 2014 and was implemented by the Program for the year ended June 30, 2015. Please see Note 7 for contribution amounts made after the measurement date reported as deferred outflows.

In February 2015, the GASB issued Statement No. 72 (GASB 72), *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. GASB 72 is effective for fiscal years beginning after June 15, 2015 and does not impact the Program for the period ending June 30, 2015.

In June 2015, the GASB issued Statement No. 74 (GASB 74), *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. GASB 74 is effective for fiscal years beginning after June 15, 2016 and does not affect the Program for the period ending June 30, 2015. In June 2015, the GASB issued Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The purpose of this statement is similar to GASB 74; however, it improves accounting and financial reporting by state and local governments for OPEB. GASB 75 is effective for fiscal years beginning after June 15, 2017 and does not impact the Program for the period ending June 30, 2015.

In June 2015, the GASB issued Statement No. 76 (GASB 76), *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify the hierarchy of Generally Accepted Accounting Principles (GAAP) which consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB 76 is effective for reporting periods beginning after June 15, 2015 and does not impact the Program for the period ending June 30, 2015.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of estimates in the preparation of financial statements – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Restrictions on net position – The proceeds of the General Obligation and Revenue bonds are restricted by the State of California Military and Veterans Code for the purpose of providing farm and home aid for veterans in accordance with the Veterans' Farm and Home Purchase Act of 1974 and of all acts amendatory thereof and supplemental thereto.

Cash and cash equivalents – The Program considers all cash and highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents. At June 30, 2015 and 2014, cash equivalents consisted of the State of California Surplus Money Investment Fund (the SMIF) and the California State Treasury (the Treasury), carried at cost, which approximates fair value.

Investments – The Program reports all investments at fair value except for certain nonparticipating fixed-interest investment contracts, which are valued at cost. The fair value of investments is based on published market prices and quotations from major investment brokers.

Receivables under contracts of purchase – Receivables under contracts of purchase consist of the remaining contract principal balance net of the allowance for uncollectible contracts.

Allowance for uncollectible contracts – The allowance for uncollectible contracts is established through a provision charged to operations. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing contracts and commitments to extend credit, based on evaluations of the collectability and prior loss experience of contracts and commitments to extend credit. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, specific problem contracts, commitments, and current and anticipated economic conditions that may affect the borrowers' ability to repay the obligation. The allowance for uncollectible contracts was approximately $5.0 million and $6.1 million as of June 30, 2015 and 2014, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract guarantees and primary mortgage insurance – The Program collects a contract guarantee fee on all contracts with down payments less than 20% of purchase price. Such contracts are classified as high loan-to-value (HLTV) contracts. For eligible borrowers, the fee is used to purchase contract guarantees from the U.S. Department of Veterans Affairs (USDVA) or primary mortgage insurance (PMI). The contract guarantee is forwarded to the PIF, where it is recognized as revenue when received. Prior to March 31, 2008, for certain HLTV contracts not eligible for USDVA guarantees, the Program purchased PMI from Radian Guaranty Inc., formerly, the Commonwealth Mortgage Assurance Company. The PMI provides lifetime coverage on the HLTV contracts, not covered by USDVA guarantees, subject to an aggregate 2% deductible. The Program is responsible for any losses not covered by the USDVA guarantees or the PMI. Estimates of these losses are included in the allowance for uncollectible contracts.

Other real estate owned – Real estate acquired by the Program by repossession is recorded at the lower of estimated fair value, less estimated selling costs, or the carrying value of the related loan at the date of foreclosure. After repossession, the value of the underlying contract is written down to the estimated fair value of the real estate, if necessary. Any subsequent write-downs or gains on sales of foreclosed properties are charged against non-operating expenses. Operating expenses of such properties, net of any related income, are included in other expenses. Operating costs on foreclosed real estate are expensed as incurred. Costs incurred for physical improvements to foreclosed real estate are capitalized if the value is recoverable through future sale.

Capital assets – Capital assets are stated at cost less accumulated depreciation and reflect assets with an estimated useful life in excess of one year. Depreciation is provided for in amounts sufficient to relate the cost of capital assets over their estimated service lives using the straight-line method. Building improvements and equipment have an estimated useful life of five years.

Deferred inflows and deferred outflows – Revenues that are earned and measurable, but applicable to future reporting periods are reported as deferred inflows of resources in the funds until such time the revenue becomes available. Deferred outflows of resources are the consumption of assets that are applicable to future reporting periods. The increases (decreases) in the Program's net pension liability, that are not included in pension expense, are reported as either deferred inflows or outflows of resources. The Program's bond refunding gains and losses are amortized over the life of the bonds and are recognized as deferred outflows of resources.

Amortization of bond premiums and discounts – Premiums and discounts arising from the issuance of bonds are capitalized and amortized using the monthly amortization method, which approximates the interest method.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition – Interest is recognized as revenue when earned according to the terms of the loans. Interest accrual is only discontinued at the point of physical property repossession.

Classification of operating revenues and expenses – Revenues and expenses are classified as operating as they relate to the administration of the Program. Operating revenues include interest income, insurance fees, loan fees, and other fees received related to the origination and collection of contracts of purchase. Operating expenses include provisions for program loan losses, interest expense associated with the issuance of bonds payable, insurance premiums and claims paid, and general and administrative expenses, including payroll, associated with the administration the Program's objectives. Nonoperating revenues and expenses include gains or losses incurred in the disposition of repossessed property.

Reclassifications – Certain prior year amounts have been reclassified to conform to the current year presentation. There was no effect on operations or net position as a result of reclassifications.

NOTE 2– CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Program's cash, cash equivalents, and investments held at cost as of June 30, 2015 and 2014 were as follows (in thousands):

	JUNE 30,	
	2015	2014
Cash in the state treasury	$ 8,729	$ 12,288
State of California Surplus Money Investment Fund (SMIF)	141,126	89,393
Cash and cash equivalents	149,855	101,681
Guaranteed investment contracts (at cost)	1,327	10,327
Taxable municipal securities and other investments	16,642	14,875
Investments	17,969	25,202
Total cash, cash equivalents, and investments	$ 167,824	$ 126,883

NOTE 2– CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Cash in state treasury – Cash in the state treasury represents amounts held in the Program's general operating accounts with the state treasury. These monies are pooled with the monies of other state agencies and invested by the state treasurer's office. These assets are not individually identifiable. For a complete description of the risks related to cash in state treasury, refer to the State of California Comprehensive Annual Financial Report (CAFR).

SMIF – Cash in the SMIF represents the value of the deposits in the state treasurer's pooled investment program, which is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2015 and 2014, this difference was immaterial to the valuation of the program. The pool is run with "dollar-in, dollar-out" participation. There are no share-value adjustments to reflect changes in fair value. For a complete description of the risks related to this program, refer to the CAFR that includes information about the state's pooled investment program.

Investments – Investments from proceeds of bond issuances are restricted by applicable California law and the various bond resolutions associated with each issuance, generally, to certain types of investments. These investments include direct obligations of the U.S. government and its agencies and investment agreements with financial institutions or insurance companies rated within the top two ratings of a nationally recognized rating service. The investments with the insurance administrator, held as a deposit in accordance with a master agreement for the remaining active life and disability insurance program for disabled contract holders, are authorized by California law. The Program monitors the creditworthiness of all companies that hold investments of the Program.

The Program's investments include amounts held in trust by insurance administrators and also amounts held by the State of California which are invested in guaranteed investment contracts (GICs) with an insurance company. The investments held by the insurance administrator include taxable municipal securities and money market funds. The GICs are collateralized by investments held by the State of California on behalf of the Program. Additionally, the Program only invests in investment agreements issued by highly rated insurance companies, and management regularly monitors the credit rating of the insurance companies issuing such investment agreements as part of monitoring the Program's exposure to credit risk.

Investment risk factors – Many factors can affect the value of investments. Some, such as credit risk, custodial credit risk, concentration of credit risk, and interest rate risk, may affect both equity and fixed-income securities. Equity and debt securities respond to factors, such as economic conditions, individual company earnings performance, and market liquidity, while fixed-income securities are particularly sensitive to credit risks and changes in interest rates. It is the investment policy of the Program to invest substantially all of its funds within SMIF and the remainder in investment contracts or with insurance administrators to limit the Program's exposure to most types of investment risk.

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Investment risk factors (continued)

Credit risk – Fixed-income securities are subject to credit risk, which is the chance that an issuer will fail to pay interest or principal in a timely manner or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed-income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. At June 30, 2015, the investments held are all considered investment grade and are rated equal to or greater than Aa3 by Moody's.

Custodial credit risk – Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. At June 30, 2015, the Program did not have any investments exposed to custodial credit risk. The GIC is held by the State of California in a separate account on behalf of the Program. The investments held by the insurance administrator are held in trust for the benefit of the Department.

Concentration of credit risk – Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the Program to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. At June 30, 2015, the Program does not have a significant concentration of credit risk.

Interest rate risk – Interest rate risk is the risk that the value of fixed-income securities will decline due to decreasing interest rates. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. There is only one remaining GIC as of June 30, 2015, with an interest rate fixed at 5.37%. The GIC expires in 2029. The interest rates on the underlying taxable municipal securities reflected as investments with insurance administrators range from 1.30% to 3.39% and mature from 2018 to 2024. The weighted average interest rate for the municipal securities at June 30, 2015 is 2.65% and the weighted average maturity date is 5.27 years.

NOTE 3 – RECEIVABLES UNDER CONTRACTS OF PURCHASE

The Program retains title to all real property subject to contracts of purchase until the contract is satisfied. The veterans' contracts have original terms of 25 to 30 years and bear interest at rates of 3.50% to 9.75%, depending on the age and type of contract and the classification of the contract holder. Receivables under contracts of purchase, net of allowance for uncollectible contracts as of June 30, 2015 and 2014, were as follows (in thousands):

	JUNE 30, 2015	JUNE 30, 2014
Receivables under contracts of purchase	$ 819,346	$ 835,611
Less allowance for uncollectible contracts of purchase	(4,963)	(6,103)
Total, net	814,383	829,508
Less current portion, net	(27,194)	(27,663)
Noncurrent receivables under contracts of purchase, net	$ 787,189	$ 801,845

NOTE 4 – LAND, BUILDINGS, AND EQUIPMENT

The changes in capital assets during the year ended June 30, 2015 were as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
NON-DEPRECIABLE				
Land	$ 443	$ -	$ -	$ 443
Total non-depreciable	443	-	-	443
DEPRECIABLE				
Buildings	12,876	-	-	12,876
Equipment	3,384	-	-	3,384
Total depreciable	16,260	-	-	16,260
ACCUMULATED DEPRECIATION				
Buildings	(12,609)	(93)	-	(12,702)
Equipment	(3,218)	(48)	-	(3,266)
Total accumulated depreciation	(15,827)	(141)	-	(15,968)
Total capital assets being depreciated	433	(141)	-	292
Total capital assets, net of depreciation	$ 876	$ (141)	$ -	$ 735

NOTE 4 – LAND, BUILDINGS, AND EQUIPMENT (CONTINUED)

The changes in capital assets during the year ended June 30, 2014 were as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
NON-DEPRECIABLE				
Land	$ 443	$ -	$ -	$ 443
Total non-depreciable	443	-	-	443
DEPRECIABLE				
Buildings	12,876	-	-	12,876
Equipment	3,256	128	-	3,384
Total depreciable	16,132	128	-	16,260
ACCUMULATED DEPRECIATION				
Buildings	(12,516)	(93)	-	(12,609)
Equipment	(3,197)	(21)	-	(3,218)
Total accumulated depreciation	(15,713)	(114)	-	(15,827)
Total capital assets being depreciated	419	14	-	433
Total capital assets, net of depreciation	$ 862	$ 14	$ -	$ 876

NOTE 5 – BONDS PAYABLE

The Veterans General Obligation bonds are general obligations of the State of California to which the full faith and credit of the state is pledged. Because the debt service requirements on the Veterans General Obligation bonds are payable first from the 1943 Fund of the Program, the bonds are included as obligations of the Program when the proceeds from the bond sales are received by the Program. To the extent that the 1943 Fund is not able to service the debt, the secondary repayment source would come from the General Fund of the state Treasury. The Program has been able to service all debt requirements and there have been no amounts paid by the state through the General Fund.

The Program has outstanding general obligation bonds payable with fixed annual interest rates ranging from 0.40% to 5.37% due in varying installments through 2042 and subject to varying redemption provisions. In November 2000, California voters approved the Veterans Bond Act of 2000 (2000 Bond Act) totaling $500 million. In November 2008, California voters approved the Veterans Bond Act of 2008 (2008 Bond Act) totaling $900 million. In October 2013, Assembly Bill 639, Veterans Housing and Homeless Prevention Act of 2014, reduced the voter authorized amount from $900 million to $300 million. The total authorized and unissued bonds under the 2000 Bond Act and the 2008 Bond Act were $428.6 million and $538.6 million at June 30, 2015 and 2014, respectively. As of June 30, 2015 and 2014, no bonds have been issued under the 2008 Bond Act.

NOTE 5 – BONDS PAYABLE (CONTINUED)

Home purchase revenue bonds are generally used to fund contracts of purchase and represent special obligations of the Department payable solely from, and by a pledge of, an undivided interest in the assets and net revenues of the Program. The amount of the pledge is equal to the remaining principal and interest requirements associated with the outstanding revenue bonds and the term of the pledge coincides with the remaining term of the revenue bonds. The undivided interest in the net revenues of the Program is secondary and subordinate to any interest or right in the Program of the people of the State of California and of the holders of general obligation veterans bonds. The net revenues pledged represent the total net revenues of the Program. At any point in time, authorized and unissued revenue bonds equal the $1.5 billion ceiling authorized in 1987, less revenue bonds outstanding at that time. At June 30, 2015 and 2014, authorized and unissued revenue bonds were $1.1 billion.

In December 1997, the Program amended the revenue bond resolution provision regarding the Bond Reserve Account in the VDRF. The revenue bond resolution requires the establishment and maintenance of a Bond Reserve Account in an amount not less than 3% of the aggregate outstanding principal amount of all Revenue Bonds with interest rates fixed to maturity. Amounts in the Bond Reserve Account shall be used solely for the purposes of paying the principal of and the interest on the Revenue Bonds and for making Mandatory Sinking Account Payments on Revenue Bonds. Amounts on deposit in the Bond Reserve Account in excess of the bond reserve requirement may be transferred out of the VDRF to the 1943 Fund at the request of the Program. Investment earnings of the VDRF are transferred to the 1943 Fund. The total amounts in the Bond Reserve Account were $11.7 million and $13.7 million at June 30, 2015 and 2014, respectively and were held in the State of California Surplus Money Investment Fund.

NOTE 5 – BONDS PAYABLE (CONTINUED)

The activity for bonds payable for the year ended June 30, 2015, is as follows (in thousands):

	Outstanding July 1, 2014	Issued	Matured / Redeemed During Year	Outstanding June 30, 2015	Due Within One Year
General Obligation Bonds	$ 433,645	$ 110,000	$ 77,455	$ 466,190	$ 20,900
Home Purchase					
Revenue Bonds	372,705	-	12,960	359,745	-
Total	806,350	110,000	90,415	825,935	20,900
Less					
Discounts	(1,292)	-	90	(1,202)	-
Premium	162	-	(7)	155	-
Total	$ 805,220	$ 110,000	$ 90,498	$ 824,888	$ 20,900

The activity for bonds payable for the year ended June 30, 2014, is as follows (in thousands):

	Outstanding July 1, 2013	Issued	Matured / Redeemed During Year	Outstanding June 30, 2014	Due Within One Year
General Obligation Bonds	$ 585,360	$ -	$ 151,715	$ 433,645	$ -
Home Purchase					
Revenue Bonds	420,325	-	47,620	372,705	-
Total	1,005,685	-	199,335	806,350	-
Less					
Discounts	(1,550)	-	258	(1,292)	-
Premium	177	-	(15)	162	-
Total	$ 1,004,312	$ -	$ 199,578	$ 805,220	$ -

NOTE 5 – BONDS PAYABLE (CONTINUED)

A summary of debt service requirements for the next five years and to maturity as of June 30, 2015 is as follows (in thousands):

FISCAL YEARS ENDING JUNE 30	PRINCIPAL	INTEREST
2016	$ 20,900	$ 30,911
2017	29,380	30,241
2018	29,045	29,593
2019	29,775	29,072
2020	22,970	28,583
2021 – 2025	197,100	125,727
2026 – 2030	194,415	88,384
2031 – 2035	150,850	50,238
2036 – 2040	117,120	21,119
2041 – 2045	34,380	1,691
Total	$ 825,935	$ 435,559

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Commitments – As of June 30, 2015 and 2014, the Program had loan commitments to veterans for the purchase of properties under contracts of sale of approximately $47 million and $18.4 million, respectively.

The Program leases a building that was formerly used to administer the affairs of the Program. The building is not currently being utilized. However, the Program is still subject to minimum lease requirements through the expiration of the lease agreement. Rent expense for the years ended June 30, 2015 and 2014, was $30,000 and $73,000, respectively. Minimum annual rent under the operating lease as of June 30, 2015 is as follows (in thousands):

FISCAL YEARS ENDING JUNE 30	
2016	$ 33
2017	33
2018	33
2019	33
2020	33
Total	$ 165

Contingencies – The Program is subject to a variety of legal actions arising out of the normal course of business. Based upon information available to the Program, its review of such lawsuits and consultation with legal counsel, the Program believes the liability relating to these actions, if any, would not have a material adverse effect on the Program's financial statements.

NOTE 7 – EMPLOYEE BENEFIT PLANS

Public Employees' Retirement Fund (PERF)

Plan description – All of the employees of the Program are paid by the 1943 Fund. All qualified permanent and probationary employees of the 1943 Fund are eligible to participate in the separate Miscellaneous Plan (the Plan), an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by state statute. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website. While the 1943 Fund participates in an agent-multiple employer defined benefit pension plan, guidance pertaining to cost sharing employer defined benefit pension plans is followed for financial reporting due to the total pensionable amounts being reported among several components of the State of California.

Benefits provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	1.1% to 2.5%	1.0% to 2.5%
Required employee contribution rates	0.05	0.08
Required employer contribution rates	20.503%-20.457%	21.203%-21.355%

NOTE 7 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Contributions **–** Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The 1943 Fund is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Collective net pension liability **–** The net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The 1943 Fund's proportionate share of the net pension liability is 0.05191% which was calculated using the 1943 Fund's share of the pensionable compensation as compared to the total pensionable compensation amounts for the Plan. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial assumptions **–** The total pension liabilities in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	30-Jun-13
Measurement Date	30-Jun-14
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) Derived using CalPERS' membership data for all Funds

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website at www.calpers.ca.gov.

NOTE 7 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Discount rate – The discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2018 fiscal year.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

NOTE 7 – EMPLOYEE BENEFIT PLANS (CONTINUED)

***Discount rate (continued)* –** The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses:

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 [(a)]	Real Return Years 11+ [(b)]
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sens itive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Es tate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

***Changes in the collective net pension liability* –** The changes in the collective net pension liability for the Miscellaneous Plan are as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2013	$ 90,277,023,739	$ 60,017,619,683	$ 30,259,404,056
Changes in the year:			
Service cost	1,523,858,640	-	1,523,858,640
Interest on the total pension liability	6,646,247,819	-	6,646,247,819
Contributions from the employer	-	2,156,311,702	(2,156,311,702)
Contributions from employees	-	766,896,202	(766,896,202)
Net investment income	-	10,284,365,135	(10,284,365,135)
Benefit payments, including refunds of employee contributions	(4,844,630,941)	(4,844,630,941)	-
Net changes	3,325,475,518	8,362,942,098	(5,037,466,580)
Balance at June 30, 2014	$ 93,602,499,257	$ 68,380,561,781	$ 25,221,937,476

NOTE 7 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Plan's collective net pension liability	$ 36,715,293,777	$ 25,221,937,476	$ 15,600,727,438

Pension expenses and deferred outflows/inflows of resources related to pensions – For the year ended June 30, 2015, the 1943 Fund recognized pension expense of $944,000. At June 30, 2015, the 1943 Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 1,417,000	$ -
Net differences between projected and actual earnings on plan investments	-	(2,440,435)
Total	$ 1,417,000	$ (2,440,435)

$1,417,000 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

YEAR ENDED JUNE 30	
2016	$ (610,109)
2017	(610,109)
2018	(610,109)
2019	(610,109)
2020	-
Thereafter	-
	$ (2,440,435)

NOTE 7 – EMPLOYEE BENEFIT PLANS (CONTINUED)

State of California Other Postemployment Benefit Plan (SCOPEB)

Plan description – Plan benefits are approved by the CalPERS board of directors. The Program contributes to the SCOPEB as part of the State of California, the primary government. The SCOPEB is a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the State of California and CalPERS. CalPERS provides retirement, death, disability, and postretirement health care benefits to members as established by state statute. CalPERS issues a publicly available CAFR that includes financial statements and required supplementary information for the SCOPEB. A copy of that report may be obtained from CalPERS, Central Supply, P.O. Box 942715, Sacramento, CA 95229-2715 or via the CalPERS website.

Funding policy – CalPERS sets the employer contribution rate based on the annual required contribution (the ARC) of the employers, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed 30 years. Based on estimates provided by the State Controller's Office (the SCO), the Program's estimated other postemployment benefit liability was $5.4 million and $1.6 million for the years ended June 30, 2015 and 2014, respectively. For the years ended June 30, 2015 and 2014, the Program estimated an accrual of $3,869,000 and $250,000 related to other postemployment benefits for the years ended June 30, 2015 and 2014, respectively. The SCO determined that the Program's actual expense was $3,897,000 and $222,000 for the years ended June 30, 2015 and 2014, respectively.

The Program has expensed the above amounts in the appropriate fiscal years and a reserve has been established. The Program has fully funded its other postemployment benefit costs by setting aside 100% of the established amounts to fund this expense.

NOTE 8 – POOLED SELF-INSURANCE FUND

Effective July 1, 2010, pursuant to legislation enacted by the California State Legislature, the Department established a Pooled Self-Insurance Fund (the PIF). The PIF was established to help ensure that each of the Department's insurance programs, which include Fire and Reserve Hazard, Primary Mortgage, Disaster, and Life and Disability, is self-sufficient and adequately maintained for the benefit of the contract purchasers. The Program manages the PIF, and allocates the PIF related payroll expenses which the 1943 Fund incurs on its behalf.

NOTE 8 – POOLED SELF-INSURANCE FUND (CONTINUED)

The 1943 Fund is not legally bound to make any further advances to the PIF, although it is not precluded from doing so if circumstances warrant. The net position for the PIF was $26.8 million and $25.6 million as of June 30, 2015 and 2014, respectively. During the prior year, it was determined that repayment of the net position to the 1943 Fund was not expected within a reasonable time. As a result, the interfund balance was reduced and the amount not expected to be repaid was reported as a transfer from the 1943 Fund to the PIF as of June 30, 2014.

NOTE 9 – RISK MANAGEMENT

The Program is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters for which the Program established the PIF and carries commercial insurance.

There have been no significant reductions in insurance coverage or settlements in excess of insurance coverage for the years ended June 30, 2015 and 2014.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent to June 30, 2015, the Program is in the process of offering approximately $445.7 million of general obligation bonds.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Measurement period: July 1, 2013 to June 30, 2014

TOTAL PENSION LIABILITY	
Service cost	$ 1,523,858,640
Interest on total pension liability	6,646,247,819
Differences between expected and actual experienc	-
Changes in assumptions	-
Changes in benefits	-
Benefit payments, including refunds of employee contributions	(4,844,630,941)
Net change in total pension liability	3,325,475,518
Total pension liability - beginning	90,277,023,739
Total pension liability - ending	$ 93,602,499,257
PLAN FIDUCIARY NET POSITION	
Contributions - employer	$ 2,156,311,702
Contributions - employee	766,896,202
Net investment income	10,284,365,135
Benefit payments	(4,844,630,941)
Net change in plan fiduciary net position	8,362,942,098
Plan fiduciary net position - beginning	60,017,619,683
Plan fiduciary net position - ending	$ 68,380,561,781
NET PENSION LIABILITY - ENDING	$ 25,221,937,476
Plan fiduciary net position as a percentage of the total pension liability	73.05%
Covered - employee payroll	$ 9,722,356,807
Net pension liability as a percentage of covered employee payroll	259.42%

	YEAR ENDING June 30, 2014
Actuarial determined contribution [1]	$ 2,147,011,718
Contributions in relation to the actuarially determined contribution [2]	- (2,156,311,702)
Contributions deficiency (excess)	(9,299,984)
Covered - employee payroll [3, 4]	$ 9,722,356,807
Contributions as a percentage of covered employee payroll	22.18%

[1] The actuarially determined contribution is based on the actuarially required employer contribution rate and the total contribution rate found in the June 30, 2012 actuarial valuation report.

[2] The actual contribution amount is based on the statutorily required contribution as outlined in Government Code Section 20683.2, which dictates that any excess employer contributions due to increased employee contributions must be allocated to the unfunded liability.

[3] Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of the employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

[4] Payroll from prior year $9,439,181,366 was assumed to increase by the 3.00 percent payroll growth assumption.

VETERANS' FARM AND HOME PURCHASE PROGRAM
DEPARTMENT OF VETERANS AFFAIRS, STATE OF CALIFORNIA
COMBINING STATEMENTS OF NET POSITION
(In Thousands)

ASSETS

	June 30, 2015			
	Veterans Farm and Home Building Fund of 1943	Veterans Debenture Revenue Fund	Pooled Self-Insurance Fund	Total
CURRENT ASSETS				
Cash in the state treasury	$ 8,071	$ 1	$ 657	$ 8,729
State of California Surplus Money Investment Fund	101,918	11,741	27,467	141,126
Total cash and cash equivalents	109,989	11,742	28,124	149,855
Current portion of receivables under contracts of purchase – net of allowance for uncollectible contracts	27,194	-	-	27,194
Due from other funds	1,356	(8)	(1,338)	10
Interest receivable	4,323	8	19	4,350
Total current assets	142,862	11,742	26,805	181,409
NONCURRENT ASSETS				
Investments:				
Guaranteed investment contracts	1,327	-	-	1,327
Taxable municipal securities and other investments	16,642	-	-	16,642
Total investments	17,969	-	-	17,969
Receivables under contracts of purchase – net of allowance for uncollectible contracts	787,189	-	-	787,189
Other real estate owned	1,280	-	-	1,280
Capital assets – net	735	-	-	735
Other noncurrent assets	2,244	-	8	2,252
Total noncurrent assets	809,417	-	8	809,425
TOTAL ASSETS	952,279	11,742	26,813	990,834
DEFERRED OUTFLOWS OF RESOURCES	3,334	-	-	3,334
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 955,613	$ 11,742	$ 26,813	$ 994,168

(In Thousands)

LIABILITIES AND NET POSITION

	June 30, 2015			
	Veterans Farm and Home Building Fund of 1943	Veterans Debenture Revenue Fund	Pooled Self-Insurance Fund	Total
CURRENT LIABILITIES				
Bonds payable – current portion	$ 20,900	$ -	$ -	$ 20,900
Accrued interest and other liabilities	10,757	-	1,074	11,831
Due to other funds	257	-	-	257
Total current liabilities	31,914	-	1,074	32,988
NONCURRENT LIABILITIES				
Bonds payable – noncurrent portion	803,988	-	-	803,988
Insurance claims reserves	-	-	443	443
Other postemployment benefits	5,435	-	-	5,435
Net pension liability	13,093			13,093
Total noncurrent liabilities	822,516	-	443	822,959
Total liabilities	854,430	-	1,517	855,947
DEFERRED INFLOWS OF RESOURCES	2,440	-	-	2,440
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	856,870	-	1,517	858,387
NET POSITION – RESTRICTED	98,743	11,742	25,296	135,781
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 955,613	$ 11,742	$ 26,813	$ 994,168

(In Thousands)

ASSETS

	June 30, 2014			
	Veterans Farm and Home Building Fund of 1943	Veterans Debenture Revenue Fund	Pooled Self-Insurance Fund	Total
CURRENT ASSETS				
Cash in the state treasury	$ 11,633	$ 1	$ 654	$ 12,288
State of California Surplus Money Investment Fund	49,764	13,741	25,888	89,393
Total cash and cash equivalents	61,397	13,742	26,542	101,681
Current portion of receivables under contracts of purchase – net of allowance for uncollectible contracts	27,663	-	-	27,663
Due from other funds	951	(8)	(943)	-
Interest receivable	4,473	8	15	4,496
Total current assets	94,484	13,742	25,614	133,840
NONCURRENT ASSETS				
Investments:				
Guaranteed investment contracts	10,327	-	-	10,327
Taxable municipal securities and other investments	14,875	-	-	14,875
Total investments	25,202	-	-	25,202
Receivables under contracts of purchase – net of allowance for uncollectible contracts	801,845	-	-	801,845
Other real estate owned – net of valuation allowance	3,153	-	-	3,153
Capital assets – net	876	-	-	876
Other noncurrent assets	2,424	-	9	2,433
Total noncurrent assets	833,500	-	9	833,509
TOTAL ASSETS	927,984	13,742	25,623	967,349
DEFERRED OUTFLOWS OF RESOURCES	2,113	-	-	2,113
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 930,097	$ 13,742	$ 25,623	$ 969,462

(In Thousands)

LIABILITIES AND NET POSITION

	June 30, 2014			
	Veterans Farm and Home Building Fund of 1943	Veterans Debenture Revenue Fund	Pooled Self-Insurance Fund	Total
CURRENT LIABILITIES				
Bonds payable – current portion	$ -	$ -	$ -	$ -
Accrued interest and other liabilities	10,535	-	440	10,975
Due to other funds	198	-	-	198
Total current liabilities	10,733	-	440	11,173
NONCURRENT LIABILITIES				
Bonds payable – noncurrent portion	805,220	-	-	805,220
Insurance claims reserves	-	-	623	623
Other postemployment benefits	1,564	-	-	1,564
Total noncurrent liabilities	806,784	-	623	807,407
Total liabilities	817,517	-	1,063	818,580
DEFERRED INFLOWS OF RESOURCES	-	-	-	-
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	817,517	-	1,063	818,580
NET POSITION – RESTRICTED	112,580	13,742	24,560	150,882
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 930,097	$ 13,742	$ 25,623	$ 969,462

VETERANS' FARM AND HOME PURCHASE PROGRAM
DEPARTMENT OF VETERANS AFFAIRS, STATE OF CALIFORNIA
COMBINING STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(In Thousands)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30, 2015			
	Veterans Farm and Home Building Fund of 1943	Veterans Debenture Revenue Fund	Pooled Self-Insurance Fund	Total
PROGRAM OPERATIONS				
Revenues:				
Contracts of purchase of properties	$ 43,307	$ -	$ -	$ 43,307
Investments and other	2,273	30	69	2,372
Insurance revenue and claim reimbursements	1,583	-	4,979	6,562
Total program operating revenues	47,163	30	5,048	52,241
Expenses:				
Interest expense	33,726	-	-	33,726
(Reversal of) provision for program loan losses	(46)	-	-	(46)
Insurance premiums and claims paid	-	-	4,028	4,028
	33,680	-	4,028	37,708
Excess of program operations revenues over program operations expenses	13,483	30	1,020	14,533
PROGRAM ADMINISTRATION				
Revenues:				
Fees	1,589	-	425	2,014
Other revenue	3,441	-	-	3,441
Total program administration revenues	5,030	-	425	5,455
Expenses:				
Payroll and related costs	12,443	-	-	12,443
General and administrative expenses	6,857	-	709	7,566
Total program administration expenses	19,300	-	709	20,009
Deficiency of program administration revenues over program administration expenses	(14,270)	-	(284)	(14,554)
NET OPERATING (LOSS) INCOME	(787)	30	736	(21)
NONOPERATING REVENUE (EXPENSE)				
Loss on sale and write down of repossessed property	(491)	-	-	(491)
Transfers	2,030	(2,030)	-	-
(Deficiency) excess of revenues over expenses	752	(2,000)	736	(512)
NET POSITION				
Beginning of year	112,580	13,742	24,560	150,882
Restatement due to GASB 68 implementation	(14,589)	-	-	(14,589)
Excess (deficiency) of revenues over expenses	752	(2,000)	736	(512)
End of year	$ 98,743	$ 11,742	$ 25,296	$ 135,781

(CONTINUED) (In Thousands)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30, 2014			
	Veterans Farm and Home Building Fund of 1943	Veterans Debenture Revenue Fund	Pooled Self-Insurance Fund	Total
PROGRAM OPERATIONS				
Revenues:				
Contracts of purchase of properties	$ 47,461	$ -	$ -	$ 47,461
Investments and other	1,051	36	63	1,150
Insurance revenue and claim reimbursements	4,982		5,263	10,245
Total program operating revenues	53,494	36	5,326	58,856
Expenses:				
Interest expense	37,639	-	-	37,639
Provision for program loan losses	(3,586)	-	-	(3,586)
Insurance premiums and claims paid	-	-	4,032	4,032
	34,053	-	4,032	38,085
Excess of program operations revenues over program operations expenses	19,441	36	1,294	20,771
PROGRAM ADMINISTRATION				
Revenues:				
Fees	914	-	306	1,220
Other revenue	1,585	-	-	1,585
Total program administration revenues	2,499	-	306	2,805
Expenses:				
Payroll and related costs	8,457	-	-	8,457
General and administrative expenses	5,691	-	844	6,535
Total program administration expenses	14,148	-	844	14,992
Deficiency of program administration revenues over program administration expenses	(11,649)	-	(538)	(12,187)
NET OPERATING INCOME	7,792	36	756	8,584
NONOPERATING REVENUE (EXPENSE)				
Loss on sale and write down of repossessed property	(1)	-	-	(1)
Transfers	(38,078)	13,706	24,372	-
(Deficiency) excess of revenues over expenses	(30,287)	13,742	25,128	8,583
NET POSITION				
Beginning of year	142,867	-	(568)	142,299
(Deficiency) excess of revenues over expenses	(30,287)	13,742	25,128	8,583
End of year	$ 112,580	$ 13,742	$ 24,560	$ 150,882