NEW ISSUES - BOOK-ENTRY ONLY

RATINGS: **Moody's: "Aa2"**
S&P: "AA"
Fitch: "AA-"
(See "RATINGS" herein)

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State of California (the "State"), under existing statutes and court decisions and assuming continuing compliance with certain tax covenants, (i) interest on the Offered Veterans G.O. Bonds (as defined below) is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Federal Tax Code"); (ii) interest on the Series CK Bonds (as defined below) is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Federal Tax Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations; (iii) interest on the Series CL Bonds (as defined below) is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Federal Tax Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax; and (iv) interest on the Series CM Bonds (as defined below) is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Federal Tax Code. In the opinion of Bond Counsel to the State, under State law, interest on the Offered Veterans G.O. Bonds is exempt from State personal income taxes. See "TAX MATTERS."

$445,700,000
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS

$152,295,000	$128,610,000	$164,795,000
Series CK (Non-AMT)	**Series CL (Non-AMT)**	**Series CM (AMT)**

Dated: Date of Delivery **Due: As shown on the inside cover page**

This offering consists of the State of California Veterans General Obligation Bonds, Series CK (the "Series CK Bonds"), the State of California Veterans General Obligation Bonds, Series CL (the "Series CL Bonds"), and the State of California Veterans General Obligation Bonds, Series CM (the "Series CM Bonds") as described and listed above (collectively, the "Offered Veterans G.O. Bonds") authorized by the voters of the State. The Offered Veterans G.O. Bonds will mature in the years and bear interest at the rates set forth on the inside cover page hereof.

Interest is payable on June 1 and December 1 of each year, commencing December 1, 2015. The Offered Veterans G.O. Bonds may be purchased in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof. See APPENDIX C – "DTC AND THE BOOK-ENTRY SYSTEM." The Offered Veterans G.O. Bonds are subject to redemption prior to maturity. See "THE OFFERED VETERANS G.O. BONDS – Redemption."

The Offered Veterans G.O. Bonds are general obligations of the State to which the full faith and credit of the State is pledged. Debt service on the Offered Veterans G.O. Bonds is payable first from moneys required under the California Military and Veterans Code (the "Veterans Code") to be transferred from the Veterans' Farm and Home Building Fund of 1943 (the "1943 Fund") to the Veterans' Bonds Payment Fund (as defined herein) and second, if the moneys transferred from the 1943 Fund to the Veterans' Bonds Payment Fund are less than debt service then due and payable, the balance is payable from the General Fund of the State (the "General Fund"). The principal of and interest on all State general obligation bonds, including the Offered Veterans G.O. Bonds (as described above), are payable from moneys in the General Fund, subject under State law only to the prior application of such moneys to the support of the public school system and public institutions of higher education. The 1943 Fund is required to transfer to the General Fund, as soon as it becomes available, an amount equal to the amount paid by the General Fund, if any, together with interest thereon from the remittance date until paid, at the same rate of interest as borne by the applicable Veterans G.O. Bonds (as defined herein), compounded semiannually. The Veterans Code does not grant any lien on the 1943 Fund or the moneys therein to the holders of any Veterans G.O. Bonds (including the Offered Veterans G.O. Bonds). See "AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS."

This cover page contains certain information for quick reference only. It is not a summary of the security or terms of the Offered Veterans G.O. Bonds. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES OR YIELDS AND CUSIPS
(See inside front cover)

The Offered Veterans G.O. Bonds are offered when, as and if issued and received by the Underwriters, subject to certain conditions, including the receipt of certain legal opinions of the Honorable Kamala D. Harris, Attorney General of the State of California, and of Hawkins Delafield & Wood LLP, Bond Counsel to the State. In connection with the issuance of the Offered Veterans G.O. Bonds, Polsinelli LLP is serving as Disclosure Counsel to the State, and Orrick, Herrington & Sutcliffe LLP and Stradling Yocca Carlson & Rauth, a Professional Corporation, are serving as Co-Disclosure Counsel to the State regarding APPENDIX A. Certain matters will be passed upon for the Underwriters by their counsel, Sidley Austin LLP. Montague DeRose and Associates, LLC is serving as Financial Advisor to the State. The Offered Veterans G.O. Bonds will be available for delivery through the facilities of The Depository Trust Company on or about October 29, 2015.

Honorable John Chiang

Treasurer of the State of California

BofA Merrill Lynch
(Joint Senior Manager)

Drexel Hamilton LLC
(Co-Senior Manager)

FTN Financial Capital Markets
Great Pacific Securities
RH Investment Corporation
Stifel Nicolaus & Co., Inc.

Academy Securities, Inc.
(Joint Senior Manager)

Mischler Financial Group, Inc.
(Co-Senior Manager)

Goldman, Sachs & Co.
Morgan Stanley
Stern Brothers & Co.
Wulff, Hansen & Co.

Official Statement Dated: October 8, 2015.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES OR YIELDS AND CUSIPS†

$152,295,000
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CK (Non-AMT)

Maturity Date (December 1)	Principal Amount	Interest Rate	Price/ Yield	CUSIP† (13063C)	Maturity Date (December 1)	Principal Amount	Interest Rate	Price/ Yield	CUSIP† (13063C)
2016	$ 775,000	0.450%	100%	WG1	2024	$ 200,000	2.450%	100%	WN6
2017	840,000	0.750	100	WH9	2026	100,000	2.700	100	WP1
2020	970,000	1.550	100	WJ5	2027	950,000	3.000	100	WQ9
2021	1,050,000	1.800	100	WK2	2028	950,000	3.000	3.18	WR7
2022	100,000	2.050	100	WL0	2029	2,525,000	4.500	3.24[C]	WV8
2023	100,000	2.300	100	WM8	2033	3,120,000	5.000	3.31[C]	WW6

$9,630,000 Series CK Term Bonds Due December 1, 2030, at 3.500%, Yield 3.57%, CUSIP† 13063CWS5
$50,670,000 Series CK Term Bonds Due December 1, 2035, at 3.750%, Yield 3.83%, CUSIP† 13063CWT3
$80,315,000 Series CK Term Bonds Due December 1, 2040, at 4.000%, Price 100%, CUSIP† 13063CWU0

$128,610,000
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CL (Non-AMT)

Maturity Date (December 1)	Principal Amount	Interest Rate	Price/ Yield	CUSIP† (13063C)	Maturity Date (December 1)	Principal Amount	Interest Rate	Price/ Yield	CUSIP† (13063C)
2016	$ 2,270,000	0.300%	100%	WX4	2019	$ 12,435,000	1.350%	100%	XA3
2017	3,315,000	0.750	100	WY2	2028	13,590,000	3.000	3.18	XD7
2018	4,065,000	1.050	100	WZ9	2031	6,500,000	5.000	3.20[C]	XE5

$53,220,000 Series CL Term Bonds Due December 1, 2030, at 3.500%, Yield 3.57%, CUSIP† 13063CXB1
$33,215,000 Series CL Term Bonds Due December 1, 2034, at 3.750%, Yield 3.80%, CUSIP† 13063CXC9

$164,795,000
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CM (AMT)

Maturity Date (December 1)	Principal Amount	Interest Rate	Price	CUSIP† (13063C)	Maturity Date (December 1)	Principal Amount	Interest Rate	Price	CUSIP† (13063C)
2016	$ 430,000	0.600%	100%	XF2	2023	$ 4,180,000	2.750%	100%	XL9
2017	470,000	0.950	100	XG0	2024	4,425,000	2.900	100	XM7
2020	10,005,000	2.000	100	XH8	2026	16,595,000	3.150	100	XN5
2021	10,595,000	2.250	100	XJ4	2036	8,415,000	4.125	100	XR6
2022	9,510,000	2.500	100	XK1					

$19,560,000 Series CM Term Bonds Due December 1, 2030, at 3.875%, Price 100%, CUSIP† 13063CXP0
$52,455,000 Series CM (PAC) Term Bonds Due December 1, 2031, at 2.450%, Price 100%, CUSIP† 13063CXS4
$28,155,000 Series CM Term Bonds Due December 1, 2032, at 4.000%, Price 100%, CUSIP† 13063CXQ8

C Priced to the par call date of December 1, 2024.

† Copyright 2015, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau, managed on behalf of the American Bankers Association by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the State or the Department and are included solely for the convenience of the registered owners of the applicable Offered Veterans G.O. Bonds. Neither the State, the Department nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Offered Veterans G.O. Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Offered Veterans G.O. Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Offered Veterans G.O. Bonds.

No dealer, broker, salesperson or other person has been authorized by the State, the Department or the Underwriters to give any information or to make any representations with respect to the State or the Department or the Offered Veterans G.O. Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with, and may be obtained from the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access ("EMMA") website of the MSRB, currently located at http://emma.msrb.org. The information contained on such website is not part of this Official Statement and is not incorporated herein.

This Official Statement is not to be construed as a contract with the purchasers of the Offered Veterans G.O. Bonds.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the Federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE OFFERED VETERANS G.O. BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE OFFERED VETERANS G.O. BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PRICES OR YIELDS STATED ON THE INSIDE FRONT COVER PAGE HEREOF, AND SAID PRICES OR YIELDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THE OFFERED VETERANS G.O. BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE OFFERED VETERANS G.O. BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE OFFERED VETERANS G.O. BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY, AND THE FOREGOING AUTHORITIES HAVE NEITHER REVIEWED NOR CONFIRMED THE ACCURACY OF THIS OFFICIAL STATEMENT.

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OFFICIAL STATEMENT

$445,700,000
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS

$152,295,000	$128,610,000	$164,795,000
Series CK (Non-AMT)	Series CL (Non-AMT)	Series CM (AMT)

INTRODUCTION

This Introduction contains only a brief summary of the terms of the State of California Veterans General Obligation Bonds, Series CK (the "Series CK Bonds"); Veterans General Obligation Bonds, Series CL (the "Series CL Bonds"); and Veterans General Obligation Bonds, Series CM (the "Series CM Bonds," and together with the Series CK Bonds and the Series CL Bonds, the "Offered Veterans G.O. Bonds") and a brief description of this Official Statement. A full review should be made of the entire Official Statement, including Appendices. Summaries of provisions of the Constitution and laws of the State of California (the "State") or any other documents referred to in this Official Statement do not purport to be complete and such summaries are qualified in their entirety by references to the respective complete provisions.

Description of the Offered Veterans G.O. Bonds

The issuance of veterans general obligation bonds and commercial paper notes ("Veterans G.O. Bonds") is authorized by various general obligation bond acts, as amended (collectively, the "Bond Acts") approved by the voters of the State and by resolutions of the Veterans' Finance Committee of 1943 (the "Veterans' Finance Committee"). The Offered Veterans G.O. Bonds are authorized by specific Bond Acts to finance or to refinance obligations that were issued to provide funds for the financing of contracts ("Contracts of Purchase") for the purchase of homes and farms for California military veterans under the Farm and Home Purchase Program (the "Program") of the Department of Veterans Affairs of the State (the "Department"). See "—Plan of Finance" below.

The Offered Veterans G.O. Bonds will be registered in the name of a nominee of The Depository Trust Company, New York, New York ("DTC") which will act as securities depository for the Offered Veterans G.O. Bonds. Beneficial interests in the Offered Veterans G.O. Bonds may be purchased in book-entry form only, in denominations of $5,000 or any integral multiple thereof. The Offered Veterans G.O. Bonds will be dated the date of their delivery (the "Dated Date") and will mature on the respective dates and in the respective amounts set forth on the inside cover page hereof. Interest on the Offered Veterans G.O. Bonds will accrue from the Dated Date at the respective rates shown on the inside cover page of this Official Statement, will be payable on June 1 and December 1 in each year (each, an "Interest Payment Date") commencing December 1, 2015, and will be calculated on the basis of a 360-day year comprised of twelve 30-day months. See APPENDIX C – "DTC AND THE BOOK-ENTRY SYSTEM."

Security for and Sources of Payment of Veterans G.O. Bonds

The Offered Veterans G.O. Bonds are general obligations of the State to which the full faith and credit of the State is pledged. The Military and Veterans Code (the "Veterans Code") requires that, with respect to Veterans G.O. Bonds, on the dates when funds are to be remitted to

bondholders for the payment of debt service on such Veterans G.O. Bonds, there shall be transferred to a revolving special fund in the State Treasury (the "Veterans' Bonds Payment Fund") to pay the debt service on such Veterans G.O. Bonds, all of the money in the Veterans' Farm and Home Building Fund of 1943 (the "1943 Fund") (but not in excess of the amount of debt service then due and payable). Debt service on the Offered Veterans G.O. Bonds is payable first from moneys required under the Veterans Code to be transferred from the 1943 Fund to the Veterans' Bonds Payment Fund and second, if the moneys transferred from the 1943 Fund to the Veterans' Bonds Payment Fund are less than debt service then due and payable, the balance is payable from the General Fund of the State (the "General Fund"). The principal of and interest on all State general obligation bonds, including the Offered Veterans G.O. Bonds (as described above), are payable from moneys in the General Fund, subject under State law only to the prior application of such moneys to the support of the public school system and public institutions of higher education. The 1943 Fund is required to transfer to the General Fund, as soon as it becomes available, an amount equal to the amount paid by the General Fund, if any, together with interest thereon from the remittance date until paid, at the same rate of interest as borne by the applicable Veterans G.O. Bonds, compounded semiannually. The Veterans Code does not grant any lien on the 1943 Fund or the moneys therein to the holders of any Veterans G.O. Bonds (including the Offered Veterans G.O. Bonds). Each Bond Act authorizing the Offered Veterans G.O. Bonds provides that the State shall collect annually, in the same manner and at the same time as it collects other State revenues, a sum of money, in addition to the ordinary revenues of the State, sufficient to pay the principal of and interest on the respective Offered Veterans G.O. Bonds authorized under such Bond Act. See "AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS," APPENDIX A – "THE STATE OF CALIFORNIA – STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES – The General Fund" and "—STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – General Obligation Bonds." See also APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND" for a discussion of the Department, the Program and the 1943 Fund.

Redemption

The Offered Veterans G.O. Bonds are subject to special redemption from Unexpended Proceeds (as defined below) and special redemption from Excess Revenues (as defined below) prior to maturity, as described below. In addition, certain Offered Veterans G.O. Bonds are subject to optional redemption, sinking fund redemption, and special mandatory redemption, prior to maturity, as described below. See "THE OFFERED VETERANS G.O. BONDS – Redemption."

Financial Condition of the State General Fund

The following paragraphs present an extremely abbreviated summary of certain fiscal issues relating to the State, all of which are described in more detail in APPENDIX A. All cross references under this heading are to sections of APPENDIX A—"THE STATE OF CALIFORNIA." Capitalized terms used under "—Financial Condition of the State General Fund" and not defined in the forepart to this Official Statement have the meanings ascribed to them in APPENDIX A. Investors should review the whole of APPENDIX A.

The State's fiscal health has significantly improved since the end of the severe recession in 2009. Voters approved Proposition 30 in November 2012, providing increased revenues through December 31, 2018. Voters also approved Proposition 2 in November 2014, which directs specified revenues towards increasing reserves in the Budget Stabilization Account ("BSA"), the State's rainy day fund, and paying down specified debts. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2" and "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES—Budget Reserves—Budget Stabilization Account." In recent years, the State has paid off billions of dollars of budgetary borrowings, debts and deferrals which were accumulated in order to balance budgets during the previous recession and years prior.

By the end of fiscal year 2015-16, the BSA is projected to have a balance of $3.5 billion. Under the Proposition 2 requirements, the 2015 Budget Act directs an additional $1.9 billion to pay off loans from special funds, pay down past liabilities from Proposition 98, and help the University of California reduce its employee pension unfunded liability.

In addition, the 2015-16 Budget repays the remaining $1 billion in budgetary deferrals to schools and community colleges, discharges the last of the $15 billion in Economic Recovery Bonds that were issued to cover budget deficits from as far back as 2002, repays local governments $765 million in mandated reimbursements, and reduces outstanding mandate liabilities owed to schools and community colleges by $3.8 billion.

Despite the recent significant budgetary improvements, there remain a number of budget risks that threaten the State's financial condition, including the significant unfunded liabilities of the two main retirement systems managed by State entities, the California Public Employees' Retirement System ("CalPERS") and the California State Teachers' Retirement System ("CalSTRS"). In recent years, the State has committed to significant increases in annual payments to these systems to reduce the unfunded liabilities. The State also has a significant unfunded liability with respect to other post-employment benefits. See "CURRENT STATE BUDGET—Budget Risks" and "STATE FINANCES—OTHER ELEMENTS—Pension Systems" and "—Retiree Health Care Costs."

In addition, the State's revenues (particularly the personal income tax) can be volatile and correlate to overall economic conditions. See "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue." Under Proposition 2, upswings in personal income taxes derived from capital gains will be deposited in the BSA and used to pay off certain of the State's debts and liabilities. However, during the last recession the State experienced a significant economic downturn and State tax revenues declined precipitously, resulting in budget deficits in the tens of billions of dollars. There can be no assurances that the State will not face fiscal stress and cash pressures again, or that other changes in the State or national economies will not materially adversely affect the financial condition of the State.

Information Related to the Official Statement

All financial and other information presented or incorporated by reference in this Official Statement has been provided by, respectively, the State or the Department from its records, except for information expressly attributed to other sources. The presentation of historical information, including tables of receipts from taxes and other revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the

financial position or other affairs of, respectively, the State or the Department. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements attained to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Any statements made in this Official Statement involving matters of opinion, whether expressly stated or not, are set forth as such and not as representations of fact.

The information set forth in this Official Statement has been obtained from official sources that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions and such summaries are qualified by references to the entire contents of the summarized documents. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made by use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the State or the Department since the date hereof.

A wide variety of other information, including financial information, concerning the State and the Department is available from State agencies, State agency publications and State agency websites. Such information includes websites operated by the Department, the State Department of Finance, the State Controller's Office and the State Treasurer's Office. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement, except as expressly noted.

The information in APPENDIX C – "DTC AND THE BOOK-ENTRY SYSTEM" regarding DTC and its book-entry system has been furnished by DTC and no representation is made by the State or the Department as to the accuracy or completeness of such information.

This Official Statement does not constitute an offer to sell the Offered Veterans G.O. Bonds or the solicitation of an offer to buy, nor shall there be any sale of the Offered Veterans G.O. Bonds, by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction.

Plan of Finance

Under the Program, the Department acquires residential property to be sold to eligible veterans under Contracts of Purchase between the Department and such veterans. Such acquisition is financed principally with the proceeds of Veterans G.O. Bonds and the Revenue Bonds (as defined below) and from other moneys available in the 1943 Fund. The Offered Veterans G.O. Bonds are being issued for the purposes of (i) reimbursing the Department for existing Contracts of Purchase previously funded by the 1943 Fund, (ii) funding Contracts of Purchase to be originated in the future, (iii) refunding certain outstanding Veterans G.O. Bonds, and (iv) paying certain costs of issuance of the Offered Veterans G.O. Bonds. The Contracts of

Purchase financed with proceeds of the Series CL Bonds (the "Series CL Contracts of Purchase"), and the Contracts of Purchase financed with proceeds of the Veterans G.O. Bonds being refunded with proceeds of the Series CK Bonds and the Series CM Bonds that are reallocated for Federal Tax Code purposes to such Offered Veterans G.O. Bonds (the "Series CK and Series CM Reallocated Contracts of Purchase"), are collectively referred to herein as the "Offered Veterans G.O. Bonds Contracts of Purchase." See EXHIBIT 2 to APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments" for information regarding the amount of money currently available and also expected to be made available to finance new Contracts of Purchase following the issuance of the Offered Veterans G.O. Bonds.

Tax Matters

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described in such opinion, (i) interest on the Offered Veterans G.O. Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Federal Tax Code"); (ii) interest on the Series CK Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Federal Tax Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations; (iii) interest on the Series CL Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Federal Tax Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax; and (iv) interest on the Series CM Bonds is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Federal Tax Code. In the opinion of Bond Counsel to the State, under State law, interest on the Offered Veterans G.O. Bonds is exempt from State personal income taxes. See "TAX MATTERS" below, APPENDIX E – "CERTAIN FEDERAL TAX CODE REQUIREMENTS" and APPENDIX G – "PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL TO THE STATE."

Continuing Disclosure

The State Treasurer will agree on behalf of the State to provide annually certain financial information and operating data relating to the State by not later than April 1 of each year in which any Offered Veterans G.O. Bonds are outstanding (the "State's Annual Report"), commencing with the report to be filed on or before April 1, 2016, containing 2014-2015 Fiscal Year financial information, and to provide notice of the occurrence of certain enumerated events.

The Department Secretary will agree to provide annually certain financial information and operating data relating to the Program by not later than April 1 of each year in which any Offered Veterans G.O. Bonds are outstanding (the "Department's Annual Report"), commencing with the report to be filed on or before April 1, 2016, containing the 2014-2015 fiscal year financial information.

The specific nature of the information to be contained in the State's Annual Report, the Department's Annual Report and the notices of events and certain other terms of the continuing

disclosure obligations are set forth in APPENDIX D—"FORMS OF CONTINUING DISCLOSURE CERTIFICATES." The State Treasurer has adopted policies and procedures designed to ensure compliance with its continuing disclosure undertakings. The Department has policies and procedures designed to ensure compliance with its continuing disclosure undertakings.

Certain prior annual reports of the State Treasurer, certain prior reports of financial information and operating data relating to the Program, and other reports and notices are available from the Electronic Municipal Market Access ("EMMA") website (www.emma.msrb.org) operated by the Municipal Securities Rulemaking Board ("MSRB") or on such other website as may be designated by MSRB or the Securities and Exchange Commission. The information contained on any such website is not part of this Official Statement and is not incorporated herein.

AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS

Authorization

The issuance of Veterans G.O. Bonds is authorized by Bond Acts approved by the voters of the State and by resolutions of the Veterans' Finance Committee. The State General Obligation Bond Law (the "Law"), which is set forth in Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the California Government Code as incorporated by reference into each Bond Act, provides for the authorization, sale, issuance, use of proceeds, repayment and refunding of State general obligation bonds, including Veterans G.O. Bonds. The Offered Veterans G.O. Bonds are authorized under the specific Bond Acts identified under "THE OFFERED VETERANS G.O. BONDS – Identification and Authorization of the Offered Veterans G.O. Bonds" and by resolutions adopted by the Veterans' Finance Committee (collectively, the "Resolutions").

As of July 1, 2015, $428,610,000 of Veterans G.O. Bonds are authorized but not issued, there were outstanding approximately $466,190,000 aggregate principal amount of Veterans G.O. Bonds and there were no outstanding commercial paper notes. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND," including EXHIBIT 2 to APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Veterans G.O. Bonds and Revenue Bonds."

Security for and Sources of Payment of Veterans G.O. Bonds

Veterans G.O. Bonds are general obligations of the State. The Veterans Code establishes in the State Treasury the Veterans' Bonds Payment Fund, a revolving special fund, and requires that on the dates when funds are to be remitted to bondholders for the payment of debt service on Veterans G.O. Bonds, there shall be transferred to the Veterans' Bonds Payment Fund to pay the debt service on such Veterans G.O. Bonds all of the money in the 1943 Fund (but not in excess of the amount of debt service then due and payable). Debt service on Veterans G.O. Bonds is payable first from the moneys required under the Veterans Code to be transferred from the 1943 Fund to the Veterans' Bonds Payment Fund and second, if the moneys transferred from the 1943 Fund to the Veterans' Bonds Payment Fund are less than debt service then due and payable, the balance is payable from the General Fund. The principal of and interest on all State general

obligation bonds are payable from moneys in the General Fund, subject under State law only to the prior application of such moneys to the support of the public school system and public institutions of higher education. The 1943 Fund is required to transfer to the General Fund, as soon as it becomes available, an amount equal to the amount paid by the General Fund, if any, together with interest thereon from the remittance date until paid at the same rate of interest as borne by the applicable Veterans G.O. Bonds, compounded semiannually. The Veterans Code does not grant any lien on the 1943 Fund or the moneys therein to the holders of any Veterans G.O. Bonds. The 1943 Fund has always made its payments in a timely manner and in an amount sufficient such that the required debt service payments on Veterans G.O. Bonds have been paid.

The Veterans Code states that moneys in the Veterans' Bonds Payment Fund are (i) required to be used solely to pay debt service when due on Veterans G.O. Bonds, (ii) not considered "surplus money" for the purposes of the California Government Code and (iii) prohibited from being borrowed by, or transferred to, the General Fund or to the General Cash Revolving Fund.

Each of the Bond Acts provides that the State will collect annually in the same manner and at the same time as it collects other State revenues, an amount sufficient to pay principal of and interest on the Veterans G.O. Bonds authorized under such Bond Act in that year. Each of the Bond Acts also contain a continuing appropriation from the General Fund of the sum annually necessary to pay the principal of and the interest on the Veterans G.O. Bonds authorized under such Bond Act as they become due and payable. No further appropriation by the State Legislature is required to pay the principal of and interest on Veterans G.O. Bonds. Under the State Constitution, the appropriation from the General Fund to pay the principal of and interest on Veterans G.O. Bonds as set forth in the related Bond Act cannot be repealed until the principal of and interest on such Veterans G.O. Bonds are paid and discharged.

Each of the Bond Acts provides that the Veterans G.O. Bonds issued thereunder constitute valid and legally binding general obligations of the State, and the full faith and credit of the State is pledged for the punctual payment of the principal of, and interest on, the Veterans G.O. Bonds, as the principal and interest become due and payable. The pledge of the full faith and credit of the State alone does not create a lien on any particular moneys in the General Fund or any other assets of the State, but is an undertaking by the State to be irrevocably obligated in good faith to use its taxing powers as may be required for the full and prompt payment of the principal of and interest on all State general obligation bonds, including the Veterans G.O. Bonds to the extent that the moneys transferred from the 1943 Fund to the Veterans' Bonds Payment Fund are less than debt service then due and payable. The only provision of the State Constitution that creates a higher priority for any State fiscal obligation is a provision directing that from all State revenues, there will first be set apart the moneys to be applied by the State for the support of the public school system and public institutions of higher education. In the past when cash resources in the General Fund have been constrained, State officials have worked within their powers granted by State law to manage cash resources to ensure that payments to schools and universities and for general obligation debt service would be made. On any debt service payment date, all State general obligation bonds, including the Veterans G.O. Bonds, have an equal claim on moneys in the General Fund on that date for payment of debt service. See APPENDIX A – "THE STATE OF CALIFORNIA – STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – General Obligation Bonds."

The 1943 Fund

The Department's principal fund for the Program is the 1943 Fund. As more particularly described herein, the moneys in the 1943 Fund are used to pay the amount of required debt service to the Veterans' Bonds Payment Fund, for payment of principal and interest on Veterans G.O. Bonds, and if necessary, are used to reimburse the General Fund for any amounts paid from the General Fund for debt service on the Veterans G.O. Bonds, including to pay interest thereon to the General Fund from the date of remittance from the General Fund until paid at the same rate of interest as borne by the applicable Veterans G.O. Bonds, compounded semiannually.

The Department also issues Home Purchase Revenue Bonds (the "Revenue Bonds") the debt service on which is payable from the 1943 Fund, pursuant to the Veterans' Revenue Debenture Act of 1970, as amended (the "Act"), a Resolution of Issuance for Department of Veterans Affairs of the State of California Home Purchase Revenue Bonds, adopted March 19, 1980, as amended and supplemented (the "Revenue Bond Resolution"), and separate authorizing resolutions. Revenue Bonds issued by the Department are special obligations of the Department payable solely from, and secured by a pledge of, an undivided interest in the assets of the 1943 Fund (other than proceeds of Veterans G.O. Bonds or any amounts in any rebate account) and any reserve accounts established for the benefit of Revenue Bonds. The Act provides that this undivided interest in the assets of the 1943 Fund of holders of the Revenue Bonds is secondary and subordinate to any interest or right in the assets of the 1943 Fund of the people of the State and of the holders of the Veterans G.O. Bonds. If the transfers required to be made to the Veterans' Bonds Payment Fund for payment of debt service on Veterans G.O. Bonds have been made, no holder or beneficial owner of Veterans G.O. Bonds has any right to restrict disbursements by the Department from the 1943 Fund for any lawful purpose, including payment of debt service on or redemptions and purchases of Revenue Bonds. The 1943 Fund is required to reimburse the General Fund for any debt service payments on the Veterans G.O. Bonds paid by the General Fund to the extent of any shortfalls in transfers from the 1943 Fund to the Veterans' Bonds Payment Fund, including to pay interest thereon to the General Fund as described herein, before the 1943 Fund may make payments on Revenue Bonds (although payments on Revenue Bonds may be made from amounts on deposit in any reserve accounts established for the benefit of Revenue Bonds and, if any, in the loan loss account held in the Veterans Debenture Revenue Fund). As of July 1, 2015, there were approximately $359,745,000 aggregate principal amount of Revenue Bonds outstanding.

For additional information, see APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE 1943 FUND."

Remedies

Under each Resolution it is an event of default of the State to fail to pay or to fail to cause to be paid, when due, principal of or interest or premium on any Offered Veterans G.O. Bond issued pursuant thereto or to declare a moratorium on the payment of or to repudiate any Offered Veterans G.O. Bond authorized under such Resolution.

The Resolutions do not contain any provision providing for the acceleration of the Offered Veterans G.O. Bonds authorized thereunder. Each Resolution states with regard to the Offered Veterans G.O. Bonds authorized by such Resolution that in the case that one or more events of default occurs, then, and in every such case, the registered Bondholder is entitled to

proceed to protect and enforce such registered Bondholder's rights by such appropriate judicial proceeding as such registered Bondholder deems most effectual to protect and enforce any such right, whether by mandamus or other suit or proceeding at law or in equity, for the specific performance of any covenant or agreement contained in such Resolution, or in aid of the exercise of any power granted in such Resolution, or to enforce any other legal or equitable right vested in the Bondholders by such Resolution or by law, as more specifically set forth in such Resolution authorizing the applicable Offered Veterans G.O. Bonds pursuant to the respective Bond Act. Beneficial owners of the Offered Veterans G.O. Bonds (the "Beneficial Owners") cannot protect and enforce such rights except through the registered Bondholder. See "THE OFFERED VETERANS G.O. BONDS – General" and APPENDIX C – "DTC AND THE BOOK–ENTRY SYSTEM."

Since the State has never failed to make a debt service payment on any general obligation bond, including any Veterans G.O. Bonds, when due, the exact steps which would be taken, or the remedies available to Bondholders, have never been tested. There are no cross-default provisions among general obligation bonds, including any Veterans G.O. Bonds, so any default with respect to any particular issue of bonds would not provide any remedy to holders of other bonds which are not affected. *Neither the State nor the Department is eligible to file for protection under the Federal bankruptcy laws.*

THE OFFERED VETERANS G.O. BONDS

General

The Offered Veterans G.O. Bonds will be registered in the name of the nominee of DTC, which will act as securities depository for the Offered Veterans G.O. Bonds. Beneficial interests in the Offered Veterans G.O. Bonds may be purchased in book-entry form only, in denominations of $5,000 or any integral multiple thereof. See APPENDIX C – "DTC AND THE BOOK-ENTRY SYSTEM."

Principal and interest are payable directly to DTC. Upon receipt of payments of principal and interest, it is the responsibility of DTC to in turn remit such principal and interest to the Direct Participants in DTC for disbursement to the Beneficial Owners of the Offered Veterans G.O. Bonds. None of the State Treasurer, the Department nor the Underwriters can give any assurances that DTC will distribute to Direct Participants, or that Participants or others will distribute to the Beneficial Owners, payment of principal of and interest on the Offered Veterans G.O. Bonds or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the State Treasurer, the Department nor the Underwriters is responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Offered Veterans G.O. Bonds or for any error or delay relating thereto.

The Offered Veterans G.O. Bonds will be dated the Dated Date and will mature on the respective dates and in the respective amounts set forth on the inside cover page hereof. Interest on the Offered Veterans G.O. Bonds will accrue from the Dated Date at the respective rates shown on the inside cover page of this Official Statement. Interest on the Offered Veterans G.O. Bonds is payable on each Interest Payment Date commencing December 1, 2015 and shall be calculated on the basis of a 360-day year comprised of twelve 30-day months. The record date for the payment of interest on the Offered Veterans G.O. Bonds is the close of business on the

15th day of the month immediately preceding an Interest Payment Date, whether or not the record date falls on a business day.

The information in APPENDIX C—"DTC AND THE BOOK-ENTRY SYSTEM" regarding DTC and its book-entry system has been furnished by DTC and no representation is made by the State, the Department or the Underwriters as to the accuracy or completeness of such information.

Identification and Authorization of the Offered Veterans G.O. Bonds

The Offered Veterans G.O. Bonds are being issued pursuant to the Bond Acts described below.

Authorization

$200,000 principal amount of Series CK Bonds, authorized under the Veterans' Bond Act of 1988;

$31,820,000 principal amount of Series CK Bonds, authorized under the Veterans' Bond Act of 1996;

$120,275,000 principal amount of Series CK Bonds, authorized under the Veterans' Bond Act of 2000;

$128,610,000 principal amount of Series CL Bonds, authorized under the Veterans' Bond Act of 2000;

$8,060,000 principal amount of Series CM Bonds, authorized under the Veterans' Bond Act of 1986;

$26,095,000 principal amount of Series CM Bonds, authorized under the Veterans' Bond Act of 1988;

$45,810,000 principal amount of Series CM Bonds, authorized under the Veterans' Bond Act of 1990;

$76,415,000 principal amount of Series CM Bonds, authorized under the Veterans' Bond Act of 1996; and

$8,415,000 principal amount of Series CM Bonds, authorized under the Veterans' Bond Act of 2000.

Redemption

Optional Redemption

The Series CK Bonds maturing prior to December 1, 2026 are not subject to optional redemption prior to their respective stated maturity dates. The Series CK Bonds maturing on and after December 1, 2026 are subject to optional redemption prior to their respective stated maturity dates, at the option of the State upon request of the Department, in whole or in part by lot within each maturity, on any date on or after December 1, 2024 from any moneys made available for such purpose, at a redemption price equal to 100% of the principal amount of the Series CK Bonds to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption.

The Series CL Bonds maturing prior to December 1, 2028 are not subject to optional redemption prior to their respective stated maturity dates. The Series CL Bonds maturing on and after December 1, 2028 are subject to optional redemption prior to their respective stated maturity dates, at the option of the State upon request of the Department, in whole or in part by lot within each maturity, on any date on or after December 1, 2024 from any moneys made available for such purpose, at a redemption price equal to 100% of the principal amount of the Series CL Bonds to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption.

The Series CM Bonds maturing prior to December 1, 2026 are not subject to optional redemption prior to their respective stated maturity dates. The Series CM Bonds maturing on and after December 1, 2026 are subject to optional redemption prior to their respective stated maturity dates, at the option of the State upon request of the Department, in whole or in part by lot within each maturity, on any date on or after December 1, 2024 from any moneys made available for such purpose, at a redemption price equal to 100% of the principal amount of the Series CM Bonds to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption.

Sinking Fund Redemption

The Series CK Bonds maturing on December 1, 2030 (the "Series CK Term Bonds – 2030"), are subject to redemption prior to their stated maturity date, in part, by lot, from sinking fund payments, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium, on the respective dates and in the respective amounts shown below.

Mandatory Sinking Fund Payment Dates (December 1)	**Principal Amount Redeemed**
2029	$ 3,160,000
2030†	6,470,000

† Stated Maturity

The Series CK Bonds maturing on December 1, 2035 (the "Series CK Term Bonds – 2035"), are subject to redemption prior to their stated maturity date, in part, by lot, from sinking fund payments, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium, on the respective dates and in the respective amounts shown below.

Mandatory Sinking Fund Payment Dates (December 1)	Principal Amount Redeemed
2031	$ 6,760,000
2032	7,070,000
2033	9,585,000
2034	13,310,000
2035†	13,945,000

† Stated Maturity

The Series CK Bonds maturing on December 1, 2040 (the "Series CK Term Bonds – 2040"), are subject to redemption prior to their stated maturity date, in part, by lot, from sinking fund payments, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium, on the respective dates and in the respective amounts shown below.

Mandatory Sinking Fund Payment Dates (December 1)	Principal Amount Redeemed
2036	$ 14,610,000
2037	15,300,000
2038	16,025,000
2039	16,790,000
2040†	17,590,000

† Stated Maturity

The Series CL Bonds maturing on December 1, 2030 (the "Series CL Term Bonds – 2030"), are subject to redemption prior to their stated maturity date, in part, by lot, from sinking fund payments, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium, on the respective dates and in the respective amounts shown below.

Mandatory Sinking Fund Payment Dates (December 1)	Principal Amount Redeemed
2029	$ 27,415,000
2030†	25,805,000

† Stated Maturity

The Series CL Bonds maturing on December 1, 2034 (the "Series CL Term Bonds – 2034"), are subject to redemption prior to their stated maturity date, in part, by lot, from sinking fund payments, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium, on the respective dates and in the respective amounts shown below.

Mandatory Sinking Fund Payment Dates (December 1)	Principal Amount Redeemed
2031	$ 6,525,000
2032	2,800,000
2033	13,385,000
2034†	10,505,000

† Stated Maturity

The Series CM Bonds maturing on December 1, 2030 (the "Series CM Term Bonds – 2030"), are subject to redemption prior to their stated maturity date, in part, by lot, from sinking fund payments, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium, on the respective dates and in the respective amounts shown below.

Mandatory Sinking Fund Payment Dates (December 1)	Principal Amount Redeemed
2027	$ 7,885,000
2028	3,775,000
2029	3,890,000
2030†	4,010,000

† Stated Maturity

The Series CM Bonds maturing on December 1, 2031 (the "Series CM PAC Term Bonds – 2031" or the "PAC Bonds"), are subject to redemption prior to their stated maturity date, in part, by lot, from sinking fund payments, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium, on the respective dates and in the respective amounts shown below.

Mandatory Sinking Fund Payment Dates (December 1)	Principal Amount Redeemed
2028	$ 13,590,000
2029	13,990,000
2030	14,415,000
2031†	10,460,000

† Stated Maturity

The Series CM Bonds maturing on December 1, 2032 (the "Series CM Term Bonds – 2032," and together with the Series CK Term Bonds – 2030, the Series CK Term Bonds – 2035, the Series CK Term Bonds – 2040, the Series CL Term Bonds – 2030, the Series CL Term Bonds – 2034, the Series CM Term Bonds – 2030 and the Series CM PAC Term Bonds – 2031, the "Term Bonds"), are subject to redemption prior to their stated maturity date, in part, by lot, from sinking fund payments, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium, on the respective dates and in the respective amounts shown below.

Mandatory Sinking Fund Payment Dates (December 1)	**Principal Amount Redeemed**
2031	$ 8,535,000
2032†	19,620,000

† Stated Maturity

If less than all of the Term Bonds of a maturity are purchased or called for redemption (other than in satisfaction of sinking fund payments), the State Treasurer will credit the principal amount of such Term Bonds that are so purchased or redeemed against the remaining sinking fund payments relating to such Term Bonds (including the principal amounts due on the respective maturity dates, as shown above), as requested by the Department; *provided, however*, with respect to the PAC Bonds, the State Treasurer will credit the principal amount of the PAC Bonds so purchased or redeemed on a pro rata basis (as nearly as practicable) against the remaining sinking fund payments for the PAC Bonds.

Special Redemption from Unexpended Proceeds

The Series CL Bonds are subject to special redemption on any date prior to their respective stated maturity dates, in an aggregate principal amount not to exceed $20 million, at the option of the State upon request of the Department, from moneys deposited in the GO Bond Series Proceeds Subaccount with respect to the Series CL Bonds that have not been applied to finance Contracts of Purchase. Any such redemption will be pro rata among outstanding maturities and by lot within such maturity, at the principal amount thereof plus accrued interest to the date fixed for redemption, without premium.

Factors which may affect the demand for Contracts of Purchase and consequently the Department's ability to use all of the proceeds of the Series CL Bonds for the financing of Contracts of Purchase include not only general economic conditions, but also (among other factors) the relationship between alternative mortgage loan interest rates (including rates on mortgage loans insured or guaranteed by agencies of the Federal government, rates on conventional mortgage loans and the rates on other Contracts of Purchase available from the Department), the interest rates being charged on Contracts of Purchase by the Department, the general level of home purchase and construction activity in the State and the demographics of the eligible veterans population. These factors could cause a lack of demand for Contracts of Purchase financed by the Series CL Bonds and could necessitate the exercise by the Department of its right to apply the unexpended proceeds to redeem the Series CL Bonds. See EXHIBIT 2 to APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Originated During the Fiscal Year" for

information regarding the recent rate of originations of Contracts of Purchase, and "— Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds" for the interest rates on Contracts of Purchase originated since January 1, 1990. For additional information, see APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Interest Rates."

From time to time moneys may be or become available through the issuance of Veterans G.O. Bonds and Revenue Bonds and from other moneys available in the 1943 Fund to finance Contracts of Purchase. Since the Department has full discretion, subject to eligibility requirements and the requirements of the Federal Tax Code, in applying the proceeds of all of these bonds and other available moneys in the 1943 Fund to finance the Program, the proceeds of prior and future, if any, Veterans G.O. Bonds and Revenue Bonds and other available moneys in the 1943 Fund may be used to finance Contracts of Purchase before proceeds of the Series CL Bonds are so used. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Qualifying Veteran Status" for information regarding eligibility requirements for different moneys made available by the Department and EXHIBIT 2 to APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments" for information regarding the amount of money currently available and expected to become available to finance Contracts of Purchase upon the issuance of the Offered Veterans G.O. Bonds.

Special Redemption from Excess Revenues

The Offered Veterans G.O. Bonds are subject to special redemption on any date prior to their respective stated maturity dates, at the option of the State upon request of the Department, from Excess Revenues (as defined below) derived from any Veterans G.O. Bonds or any Revenue Bonds, except that, as described below under "—Special Mandatory Redemption of PAC Bonds," certain Prepayments (as defined below) on the Offered Veterans G.O. Bonds Contracts of Purchase must be applied to redeem only the PAC Bonds, and the principal amount of the PAC Bonds redeemed from Prepayments and other Excess Revenues is limited; and, provided, however, that the Series CK Bonds maturing on December 1, 2029 and December 1, 2033 and the Series CL Bonds maturing on December 1, 2031 are not subject to special redemption from Excess Revenues prior to December 1, 2024 unless such special redemption prior to December 1, 2024 would be required to maintain the tax-exempt status of the Offered Veterans G.O. Bonds. Any such special redemption from Excess Revenues may be in whole or in part and of any maturity at the option of the State upon a request of the Department and by lot within such maturity, at the principal amount thereof plus accrued interest to the date fixed for redemption, without premium. "Prepayments" means all moneys received in connection with Contracts of Purchase other than interest and scheduled repayments of principal. Prepayments on Contracts of Purchase include, but are not limited to, principal prepayments, prepayment premiums or prepayment penalties, hazard insurance payments, payments in respect of partial or complete condemnation and recoveries on defaulted Contracts of Purchase.

"Excess Revenues" means, as of any date of calculation, the amount of all Revenues (as defined below) held in the revenue account established under the Revenue Bond Resolution in excess of Accrued Debt Service (as defined below). "Revenues" means all moneys received by

or on behalf of the Department representing (i) principal and interest payments on the Contracts of Purchase including all prepayments representing the same and all prepayment premiums or penalties received by or on behalf of the Department with respect to the Contracts of Purchase, (ii) interest earnings received on the investment of amounts to the extent deposited in the revenue account established under the Revenue Bond Resolution, (iii) amounts transferred to the revenue account from the bond reserve account or the loan loss account established under the Revenue Bond Resolution, and (iv) any other amounts payable by parties executing Contracts of Purchase or private participants in the Program or related to recoveries on defaulted Contracts of Purchase, including origination and commitment fees, servicing acquisition fees, liquidation proceeds, and insurance proceeds, *except* to the extent not included as "Revenues" pursuant to the provisions of any resolution authorizing the issuance of a series of Revenue Bonds. "Accrued Debt Service" means, as of any date of determination and, as the context requires, with respect to all Revenue Bonds and Veterans G.O. Bonds (including the Offered Veterans G.O. Bonds), the sum of: (i) the aggregate amount of scheduled interest and principal (except to the extent principal is otherwise to be redeemed pursuant to clause (ii) or (iii) below) to become due after such date but on or before the end of the current debt service year, *less* the product of (x) the number of whole months remaining in the current debt service year and (y) the Monthly Debt Service Requirement; (ii) the redemption price of bonds for which notice of redemption has been issued, provided such redemption price is to be paid from amounts on deposit in the revenue account created under the Revenue Bond Resolution; and (iii) the redemption price of bonds that the Department will be obligated to redeem prior to the end of the next succeeding debt service year under the terms of any resolution governing Revenue Bonds or Veterans G.O. Bonds, to the extent that such obligation arises on account of amounts on deposit in the revenue account created under the Revenue Bond Resolution. "Monthly Debt Service Requirement" means, as of any date of determination, one-twelfth of the aggregate amount of scheduled interest and principal to become due during the debt service year in which such date falls, as computed on the first day of such debt service year.

Excess Revenues can include Prepayments and repayments on Contracts of Purchase, investment earnings, and Revenues which had been set aside to be recycled into new Contracts of Purchase. All payments on Contracts of Purchase are deposited in the 1943 Fund and applied to pay debt service on the Veterans G.O. Bonds and Revenue Bonds (including mandatory redemptions of Veterans G.O. Bonds and Revenue Bonds), to finance Contracts of Purchase, to pay Program and Department expenses, and to pay certain insurance claims. The Department, subject to applicable bond authorizing resolutions, may apply Excess Revenues to redeem any Veterans G.O. Bonds or Revenue Bonds eligible for redemption. The Department's decision to apply Excess Revenues to redeem bonds, to finance Contracts of Purchase, or for any other permitted purpose depends on many factors, including but not limited to applicable bond authorizing resolution requirements, demand for Contracts of Purchase, debt service cost savings, investment earnings, and Federal Tax Code requirements. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE 1943 FUND – Excess Revenues." See also EXHIBIT 2 to APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2015" and "– Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments."

The Department's actual past prepayment experience for existing Contracts of Purchase is set forth in EXHIBIT 2 to APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience."

For certain qualified mortgage bonds (which include Revenue Bonds, but exclude Veterans G.O. Bonds) issued or to be issued after 1988, the Federal Tax Code prohibits the use of repayments (including prepayments) of principal of Contracts of Purchase financed with the proceeds of an issue of such bonds to make additional Contracts of Purchase after 10 years from the date of issuance of such bonds (or the date of issuance of original bonds in the case of refundings), after which date such amounts must be used to redeem such bonds of the issue, except for a $250,000 *de minimis* amount. See "APPENDIX E – CERTAIN FEDERAL TAX CODE REQUIREMENTS – Other Requirements Imposed by the Federal Tax Code – Required Redemptions."

The Federal Tax Code requires a payment to the United States from certain veterans whose Contracts of Purchase are originated after December 31, 1990 with the proceeds of qualified mortgage bonds. Since such requirement remains in effect with respect to any Contracts of Purchase originated after December 31, 1990 with proceeds of certain Revenue Bonds, for a period ending nine years after the execution of such Contracts of Purchase, the Department is unable to predict what effect, if any, such requirement will have on the origination or prepayment of Contracts of Purchase to which such provision applies.

Special Mandatory Redemption of PAC Bonds

The PAC Bonds are subject to special mandatory redemption from Directed Prepayments (as defined below) at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption. Such mandatory redemptions may occur on any date but, to the extent that there are Directed Prepayments, must occur at least once during each semiannual period ending on a June 1 or December 1, commencing with the period ending June 1, 2016. Such redemptions may be made, at the option of the State as requested by the Department, from sources other than Directed Prepayments to the extent Directed Prepayments are not sufficient to satisfy the mandatory redemption. Any such redemption from Directed Prepayments or other sources must not result in the aggregate principal amount of the PAC Bonds outstanding following such redemption to be less than the related PAC Bonds Outstanding Amount for the related semiannual period as set forth in the table below. The PAC Bonds Outstanding Amounts set forth in the table below may be adjusted as described below due to a redemption of Series CL Bonds from unexpended proceeds as described under "—Special Redemption from Unexpended Proceeds" above (as so adjusted, the "Applicable Outstanding Amount").

"Directed Prepayments" means, with respect to any semiannual period, an amount equal to all Prepayments on Offered Veterans G.O. Bonds Contracts of Purchase, provided, however, that such Prepayments are actually received by the Department and are not otherwise required by law or under the applicable bond resolutions to pay debt service on Veterans G.O. Bonds or Revenue Bonds.

Semiannual Period Ending	PAC Bonds Outstanding Amounts
6/1/2016	$49,975,000
12/1/2016	47,045,000
6/1/2017	43,660,000
12/1/2017	39,845,000
6/1/2018	35,620,000
12/1/2018	31,205,000
6/1/2019	26,950,000
12/1/2019	22,870,000
6/1/2020	18,960,000
12/1/2020	15,215,000
6/1/2021	11,630,000
12/1/2021	8,200,000
6/1/2022	4,920,000
12/1/2022	1,785,000
6/1/2023	0

If the Series CL Bonds are redeemed from unexpended proceeds as described in "— Special Redemption from Unexpended Proceeds" above, then each PAC Bonds Outstanding Amount within each applicable semiannual period will be recalculated to reflect revised assumptions regarding the Offered Veterans G.O. Bonds Contracts of Purchase due to the reduction in the amount of proceeds that will finance such Offered Veterans G.O. Bonds Contracts of Purchase. The revised assumptions include a reduction in the aggregate principal amount of Offered Veterans G.O. Bonds Contracts of Purchase, the timing of their acquisition and their interest rates. In the event the PAC Bonds Outstanding Amounts are recalculated as a result of special redemption(s) of the Series CL Bonds from unexpended proceeds, the expected weighted average life of the PAC Bonds may differ from the original expected weighted average life. See "— Weighted Average Lives of PAC Bonds" below. None of the State, the Department nor the Underwriters provides any assurances that any such recalculation will not be materially adverse to holders of the PAC Bonds.

Directed Prepayments in excess of the amount of such payments that must be applied in any semiannual period to redeem PAC Bonds, or that are received after the payment in full of the PAC Bonds, may be applied for any authorized purpose under the Resolutions authorizing Veterans G.O. Bonds or the resolutions authorizing Revenue Bonds, including the redemption of other Offered Veterans G.O. Bonds, Veterans G.O. Bonds and Revenue Bonds.

Assumptions Used in Calculating the PAC Bonds Outstanding Amounts

The PAC Bonds Outstanding Amounts set forth in the table above (subject to adjustment as described above) have been calculated based upon assumptions (the "PAC Bonds Assumptions") that include, among other assumptions, that all proceeds of the Series CL Bonds

available to purchase Contracts of Purchase are utilized for such purchases (as described further below), and that the Directed Prepayments are received at a rate equal to 75% of Securities Industry and Financial Markets Association ("SIFMA") (formerly the Public Securities Association) standard prepayment model for 30-year mortgage loans ("PSA"), as further described below. Since Prepayments on Contracts of Purchase cannot be predicted, the actual principal amount of and characteristics of the Offered Veterans G.O. Bonds Contracts of Purchase may differ from such assumptions.

The PAC Bonds Assumptions, including those regarding the expected rate of receipt of Directed Prepayments, may differ from the assumptions contained in the Cash Flow Statement (as described in APPENDIX B) required under the Revenue Bond Resolution to be delivered in connection with the issuance of the Offered Veterans G.O. Bonds. The State, the Department and the Underwriters make no representation that actual experience will conform to the PAC Bonds Assumptions. Age and interest rates of Contracts of Purchase are factors that can affect the speeds at which Contracts of Purchase are prepaid.

PSA Model

Prepayments on mortgage loans, including obligations such as the Contracts of Purchase, are commonly measured relative to a prepayment standard or model. The model represents an assumed monthly rate of prepayment of the then-outstanding principal balance of a pool of new 30-year mortgage loans, and does not purport to be either a historical description of the prepayment experience of any pool of mortgage loans or a prediction of the anticipated rate of prepayment of any pool of mortgage loans, including the Offered Veterans G.O. Bonds Contracts of Purchase.

One hundred percent PSA assumes prepayment rates of 0.2 percent per year of the then-unpaid principal balance of such pool of mortgage loans in the first month of the life of such mortgage loans and an additional 0.2 percent per year in each month thereafter (for example, 0.4 percent per year in the second month) until the 30th month. Beginning in the 30th month and in each month thereafter during the life of the mortgage loans in such pool, 100 percent PSA assumes a constant prepayment rate of the mortgage loans in such pool of six percent per year. Multiples will be calculated from this prepayment rate sequence; e.g., 200 percent PSA assumes prepayment rates will be 0.4 percent per year in month one, 0.8 percent per year in month two, reaching 12 percent per year in the 30th month and remaining constant at 12 percent per year thereafter.

Weighted Average Lives of PAC Bonds

The weighted average life of a bond refers to the average of the length of time that will elapse from the date of issuance of such bond to the date each installment of principal is paid, weighted by the amount of such installment. The weighted average life of the PAC Bonds will be influenced by, among other factors, the rate at which Prepayments on Offered Veterans G.O. Bonds Contracts of Purchase are received.

Set forth in the following table are the projected weighted average lives (in years) of the PAC Bonds based upon various rates of receipt of Directed Prepayments expressed as percentages of PSA. The State and the Department have made no projections as to the weighted average lives of the PAC Bonds at rates of receipt of Directed Prepayments exceeding 500% of PSA. The table below assumes for each rate of receipt of Directed Prepayments that, inter alia:

(i) approximately $102,900,000 of Series CK and Series CM Reallocated Contracts of Purchase will be reallocated to the Series CK Bonds and Series CM Bonds for Federal Tax Code purposes on or before December 1, 2015,

(ii) approximately $128,610,000 of Series CL Contracts of Purchase will be acquired before January 1, 2016,

(iii) all Offered Veterans G.O. Bonds Contracts of Purchase will be prepaid at the percentage of PSA indicated in the table,

(iv) all scheduled principal repayments and scheduled interest payments on the Offered Veterans G.O. Bonds Contracts of Purchase will be timely received and the Department will experience no foreclosure losses on the Offered Veterans G.O. Bonds Contracts of Purchase,

(v) if Directed Prepayments are not sufficient to redeem the PAC Bonds up to the PAC Bonds Outstanding Amount for the applicable semiannual period described above, there will be no redemption of the PAC Bonds from other sources as described above under this "—Special Mandatory Redemption of PAC Bonds," and

(vi) there will be no special redemption of the Series CL Bonds from unexpended proceeds as described above under "—Special Redemption from Unexpended Proceeds."

Notwithstanding such assumptions, the State (upon request of the Department) may redeem the PAC Bonds pursuant to the provisions described under this "—Special Mandatory Redemption of PAC Bonds" from sources other than Directed Prepayments. Some or all of the assumptions used in preparing the table below are unlikely to reflect actual experience.

Prepayment Speed (expressed as a percentage of PSA)	PAC Bonds Projected Weighted Average Life (in years)	
	Optional Redemption[1] Not Exercised	Optional Redemption[1] Exercised on First Eligible Date
0%	14.5	9.1
25	9.8	7.2
50	5.8	5.5
75	4.0	4.0
100	4.0	4.0
200	4.0	4.0
300	4.0	4.0
400	4.0	4.0
500	4.0	4.0

PSA does not purport to be a prediction of the anticipated rate of receipt of Directed Prepayments, and there is no assurance that such Directed Prepayments will conform to any of the assumed rates of receipt. The State, the Department and the Underwriters make no

[1] See "— Redemption — Optional Redemption." The first eligible optional redemption date is December 1, 2024.

representation as to the percentage of the principal balance of the Offered Veterans G.O. Bonds Contracts of Purchase that will be paid as of any date or as to the overall rate of receipt of Directed Prepayments.

The projected weighted average lives reflect a projected average of the periods of time for which the PAC Bonds are outstanding. They do not reflect the period of time that any particular Beneficial Owner's PAC Bonds will remain outstanding. At each prepayment speed, some Beneficial Owners' PAC Bonds will remain outstanding for periods of time shorter than the projected weighted average life, while some Beneficial Owners' PAC Bonds will remain outstanding for longer periods of time.

Notice of Redemption

While the Offered Veterans G.O. Bonds are in book-entry form, the State Treasurer is to give notice of redemption by sending copies of such notice only to DTC (not to the Beneficial Owners of the Offered Veterans G.O. Bonds) not less than thirty days nor more than sixty days prior to the date fixed for redemption and in accordance with DTC's operational arrangements. DTC, in turn, is to send the notice of redemption to its Participants for distribution to the Beneficial Owners of the Offered Veterans G.O. Bonds. See APPENDIX C – "DTC AND THE BOOK-ENTRY SYSTEM." A notice of redemption of Offered Veterans G.O. Bonds will state, among other things, the redemption date, the principal amount, dated date, maturity date and CUSIP numbers of the Offered Veterans G.O. Bonds to be redeemed, and that interest on the Offered Veterans G.O. Bonds will cease to accrue from and after the redemption date. If DTC is no longer acting as securities depository for the Offered Veterans G.O. Bonds, the State Treasurer is required to give notice pursuant to the operational arrangements of the substitute Securities Depository or, if there is no substitute Securities Depository, by mail to each registered owner at his/her address appearing on the books of registration in the office of the State Treasurer not less than thirty or more than sixty days prior to the redemption date. Upon surrender of any Offered Veterans G.O. Bond redeemed in part only, the State Treasurer is required to execute and deliver to the registered owner thereof a new Offered Veterans G.O. Bond of the same Series, interest rate and maturity in aggregate principal amount equal to the unredeemed portion of the Offered Veterans G.O. Bond so surrendered.

TAX MATTERS

Federal Tax Matters

The Offered Veterans G.O. Bonds are considered a single issue for Federal income tax purposes and the requirements of applicable Federal tax law must be satisfied with respect to the Offered Veterans G.O. Bonds in order that interest on the Offered Veterans G.O. Bonds not be included in gross income for Federal income tax purposes retroactive to the date of issuance thereof. Proceeds of the Series CL Bonds will be used to finance new and existing Contracts of Purchase, and proceeds of the Series CK Bonds and Series CM Bonds will be used to current refund certain outstanding Veterans G.O. Bonds and therefore must be used to retire such Veterans G.O. Bonds within 90 days of the date of issuance of the Series CK Bonds and Series CM Bonds. Failure to comply with the requirements of the Federal Tax Code with respect to the Offered Veterans G.O. Bonds could cause interest on the Offered Veterans G.O. Bonds to be included in gross income for Federal tax purposes retroactive to their date of issuance.

Requirements Imposed on the Offered Veterans G.O. Bonds by the Federal Tax Code

The Federal Tax Code contains the following requirements which are applicable (with certain exceptions), in whole or in part, to Contracts of Purchase (or portions of Contracts of Purchase) entered into with qualifying veterans with respect to properties acquired with amounts allocable to qualified veterans' mortgage bonds. The Offered Veterans G.O. Bonds are qualified veterans' mortgage bonds and not qualified mortgage bonds (as such term is defined in APPENDIX E). The moneys which will be made available from the issuance of the Offered Veterans G.O. Bonds to finance Contracts of Purchase will be QVMB Proceeds (as such term is defined in APPENDIX B). The qualified mortgage bond loan eligibility requirements described in APPENDIX E do not apply to Contracts of Purchase financed by Pre-Ullman Moneys (as defined in APPENDIX E) or Contracts of Purchase financed by moneys derived exclusively from proceeds of Veterans G.O. Bonds. Certain loan eligibility requirements apply to qualified veterans' mortgage bonds, such as the Offered Veterans G.O. Bonds, as described in the third succeeding paragraph. See APPENDIX E – "CERTAIN FEDERAL TAX CODE REQUIREMENTS" for further requirements with respect to qualified veterans' mortgage bonds. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Certain Statutory Requirements – Federal Tax Code."

The first general requirement of the Federal Tax Code which is applicable to qualified veterans' mortgage bonds is that the aggregate amount that may be issued must not exceed the volume limit based upon statutory formula. The Offered Veterans G.O. Bonds are in compliance with such requirement.

Secondly, the Federal Tax Code requires that the effective interest rate on mortgage loans financed with the lendable proceeds of qualified veterans' mortgage bonds (such as the Offered Veterans G.O. Bonds) may not exceed the yield on the issue by more than 1.125% (see "APPENDIX E – CERTAIN FEDERAL TAX CODE REQUIREMENTS – Other Requirements Imposed by the Federal Tax Code – Yield Limitations and Rebate") and that certain investment earnings on non-mortgage investments, calculated based upon the extent such investment earnings exceed the amount that would have been earned on such investments if the investments were invested at a yield equal to the yield on the issue, be rebated to the United States or to veterans. The Department has covenanted to comply with these requirements and has established procedures to determine the amount of excess earnings, if any, that must be rebated to the United States or to veterans. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Contracts of Purchase" for discussions of provisions of the Veterans Code which affect the Department's ability to establish and to change interest rates on Contracts of Purchase.

Federal Tax Code requirements specific to qualified veterans' mortgage bonds (such as the Offered Veterans G.O. Bonds) include the requirements that the veteran has served on active duty and applied for financing before the day 25 years after the last date on which such veteran left active service. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Certain Statutory Requirements – Federal Tax Code." See also APPENDIX E – "CERTAIN FEDERAL TAX CODE REQUIREMENTS."

Opinion of Bond Counsel to the State

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State (expected to be delivered in substantially the form set forth in APPENDIX G), under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described in such opinion, (i) interest on the Offered Veterans G.O. Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Federal Tax Code; (ii) interest on the Series CK Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Federal Tax Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations; (iii) interest on the Series CL Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Federal Tax Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax; and (iv) interest on the Series CM Bonds is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Federal Tax Code.

In rendering the foregoing opinions, Bond Counsel to the State has assumed compliance by the State and the Department with and enforcement by the State and the Department of the documents authorizing the issuance of the Offered Veterans G.O. Bonds and the Program Documents (as such term is defined in APPENDIX E).

In rendering its opinions, Bond Counsel to the State expresses no opinion regarding any other Federal or, except as stated below under "State Tax Matters," state tax consequences with respect to the Offered Veterans G.O. Bonds. Bond Counsel to the State renders its opinions under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinions after the issue date to reflect any future action, fact or circumstance, or any change in law or interpretation or otherwise. In rendering its opinions, Bond Counsel to the State expresses no opinion on the effect of any action taken or not taken after the date of the opinion in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Offered Veterans G.O. Bonds, or under state and local tax law.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Offered Veterans G.O. Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of an Offered Veterans G.O. Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Offered Veterans G.O. Bonds.

Prospective owners of Offered Veterans G.O. Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Offered Veterans G.O. Bonds may be taken into account in

determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Federal Tax Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of an Offered Veterans G.O. Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Offered Veterans G.O. Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Offered Veterans G.O. Bonds is expected to be the initial public offering price set forth on the inside cover page hereof. Bond Counsel to the State further is of the opinion that, for any Offered Veterans G.O. Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Federal Tax Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Offered Veterans G.O. Bonds.

In general, under Section 1288 of the Federal Tax Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires an Offered Veterans G.O. Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Offered Veterans G.O. Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Offered Veterans G.O. Bond (a "Premium Bond"). In general, under Section 171 of the Federal Tax Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond

premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Offered Veterans G.O. Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Federal Tax Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing an Offered Veterans G.O. Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Offered Veterans G.O. Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

State Tax Matters

In the opinion of Bond Counsel to the State to be rendered with respect to the Offered Veterans G.O. Bonds on the date of delivery thereof, interest on the Offered Veterans G.O. Bonds is exempt from personal income taxes of the State of California under State law in effect on the date of such opinion. A complete copy of the proposed form of opinion to be rendered with respect to the Offered Veterans G.O. Bonds is contained in APPENDIX G.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Offered Veterans G.O. Bonds under Federal or state law or otherwise prevent beneficial owners of the Offered Veterans G.O. Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Offered Veterans G.O. Bonds. For example, the Fiscal Year 2016 Budget proposed by the Obama Administration recommends a 28% limitation on "all itemized deductions, as well as other tax benefits" including "tax-exempt interest." The net effect of such a proposal, if enacted into law, would be that an owner of a tax-exempt bond with a marginal tax rate in excess of 28%

would pay some amount of Federal income tax with respect to the interest on such tax-exempt bond regardless of issue date.

Prospective purchasers of the Offered Veterans G.O. Bonds should consult their own tax advisors regarding the foregoing matters.

LEGAL MATTERS

The opinion of the Honorable Kamala D. Harris, Attorney General of the State of California (the "Attorney General"), approving the validity of the Offered Veterans G.O. Bonds, will be delivered concurrently with the issuance of the Offered Veterans G.O. Bonds. The opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the State ("Bond Counsel to the State"), approving the validity of the Offered Veterans G.O. Bonds and addressing certain tax matters will be delivered concurrently with the issuance of the Offered Veterans G.O. Bonds. The proposed forms of the legal opinions of the Attorney General and Bond Counsel to the State are set forth in APPENDIX F and APPENDIX G, respectively. Polsinelli LLP is serving as Disclosure Counsel with respect to the Offered Veterans G.O. Bonds ("Disclosure Counsel"). Orrick, Herrington & Sutcliffe LLP and Stradling Yocca Carlson & Rauth, a Professional Corporation, are serving as Co-Disclosure Counsel to the State regarding APPENDIX A ("Appendix A Co-Disclosure Counsel"). Certain legal matters will be passed upon for the Underwriters by their counsel Sidley Austin LLP ("Underwriters Counsel").

The Attorney General, Bond Counsel to the State, Disclosure Counsel, Appendix A Co-Disclosure Counsel and Underwriters Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement.

LITIGATION

There is not now pending (with service of process on the State or the Department having been accomplished) or threatened any litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Offered Veterans G.O. Bonds or challenging the validity of the Offered Veterans G.O. Bonds or any proceedings of the State or of the Department taken with respect to the foregoing.

There are numerous litigation matters pending against the State, which could, if determined adversely to the State, affect the State's expenditures and, in some cases, its revenues and cash flow. While there can be no assurances as to the ultimate resolution and fiscal impact of such litigation, the State believes that the resolutions of such litigation are unlikely to adversely affect the State's ability to pay principal of and interest on the Offered Veterans G.O. Bonds when due. See APPENDIX A – "THE STATE OF CALIFORNIA – LITIGATION."

From time to time there are also litigation matters against the Department, which could, if determined adversely to the Department, affect the Department's expenditures and, in some cases, its revenues and cash flow, including litigation affecting the Department that does not directly relate to the Veterans G.O. Bonds which, nonetheless, may relate to the 1943 Fund. While there can be no assurances as to the ultimate resolution and fiscal impact of such litigation, the Department believes that the resolutions of such litigation are unlikely to materially adversely affect the 1943 Fund or the payment of principal of and interest on the Offered Veterans G.O. Bonds when due.

UNDERWRITING

The Offered Veterans G.O. Bonds are being purchased by an underwriting group consisting of the underwriters listed on the cover page hereof (the "Underwriters"). Merrill Lynch, Pierce, Fenner & Smith Incorporated and Academy Securities, Inc. are acting as the representatives of the Underwriters with respect to the Offered Veterans G.O. Bonds.

The Underwriters have agreed to purchase the Offered Veterans G.O. Bonds for an aggregate purchase price equal to $443,872,438.25 (representing the principal amount of the Offered Veterans G.O. Bonds of $445,700,000.00, less net original issue discount in the amount of $5,501.65, less an Underwriters' discount of $1,822,060.10). The initial public offering prices of the Offered Veterans G.O. Bonds may be changed from time to time by the Underwriters.

The bond purchase contract relating to the Offered Veterans G.O. Bonds (the "Bond Purchase Contract") provides that (i) the Underwriters will purchase all (but not less than all) of the Offered Veterans G.O. Bonds, and (ii) the obligations to make such purchases are subject to certain terms and conditions set forth in such Bond Purchase Contract including, among others, the approval of certain legal matters by counsel.

Several of the Underwriters have provided letters to the State Treasurer relating to their distribution practices or other affiliations for inclusion in this Official Statement, which are set forth in APPENDIX H. The State does not guarantee the accuracy or completeness of the information contained in such letters and the information therein is not to be construed as a representation of the State, the Department or of any Underwriter other than the Underwriter providing such representation.

FINANCIAL STATEMENTS OF THE STATE

The Audited Basic Financial Statements of the State for the fiscal year ended June 30, 2014 are included as APPENDIX I. These Financial Statements have been examined by the State Auditor to the extent indicated in her report.

Certain unaudited financial information for the periods July 1, 2014 through June 30, 2015 and July 1, 2015 through September 30, 2015 are included as Exhibit 2 to APPENDIX A. See APPENDIX A—"THE STATE OF CALIFORNIA—FINANCIAL STATEMENTS."

REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS OF THE PROGRAM

The Report of Independent Auditors and Financial Statements of the 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) as of and for the years ended June 30, 2015 and 2014 are attached as Exhibit 1 to APPENDIX B and have been audited by Moss Adams LLP, independent auditors, as stated in their report appearing therein.

RATINGS

The Offered Veterans G.O. Bonds have received ratings of "Aa2" by Moody's Investors Service, "AA" by Standard & Poor's Ratings Services ("S&P") and "AA-" by Fitch Ratings. An explanation of the significance and status of such credit ratings may be obtained from the rating agencies furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised, qualified or withdrawn entirely by any such rating agencies if, in their respective judgments, circumstances so warrant. Any revision or withdrawal of a credit rating could have an effect on the market prices and marketability of the Offered Veterans G.O. Bonds. Neither the State nor the Department can predict the timing or impact of future actions by the rating agencies.

FINANCIAL ADVISOR

Montague DeRose and Associates, LLC is serving as the financial advisor (the "Financial Advisor") to the State in connection with the issuance of the Offered Veterans G.O. Bonds. The Financial Advisor has not been engaged, nor has it undertaken, to make an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to prospective buyers of the Offered Veterans G.O. Bonds. Quotations from and summaries and explanations of the Offered Veterans G.O. Bonds and of statutes or documents are brief summaries thereof which do not purport to be complete or definitive, and reference is made to such statutes or documents for full and complete statements of the contents thereof.

Any statements in this Official Statement involving estimates, forecasts or matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the State or the Department and the purchasers or holders of any of the Offered Veterans G.O. Bonds.

Questions regarding this Official Statement and the issuance of these securities may be addressed to the Office of the Honorable John Chiang, Treasurer of the State of California, 915 Capitol Mall, Room 110, Sacramento, California 95814, telephone (800) 900-3873.

Questions regarding the Program may be addressed to the Bond Finance Division of the Department of Veterans Affairs, P.O. Box 942895, Sacramento, California 94295-0001, telephone (916) 503-8012.

STATE OF CALIFORNIA
JOHN CHIANG
Treasurer of the State of California

APPENDIX A

THE STATE OF CALIFORNIA

NOTE: Since the date of the Preliminary Official Statement, certain information in Appendix A has been updated, shown in *italics* on the pages A-5, A-7, A-79, A-85 and A-87.

October 8, 2015

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INTRODUCTION TO APPENDIX A

APPENDIX A is the part of this Official Statement that provides investors with information concerning the State of California. The "OVERVIEW" which follows is intended to give readers a very brief overview of the main topics covered in APPENDIX A. Investors are advised to read the entire Official Statement, including APPENDIX A and its Exhibits to obtain information essential to making an informed investment decision. See "Certain Defined Terms" at the end of the "OVERVIEW" section for certain defined terms used in this APPENDIX A.

APPENDIX A is divided into two Parts. PART I contains information about the current state budget and economic forecasts, including an identification of certain Recent Developments since the state's last Official Statement. As the state (including certain of its agencies) issues a number of bonds before the end of 2015, PART I of APPENDIX A (including EXHIBIT 2) will be updated as needed to provide the most current information. PART II of APPENDIX A (including EXHIBIT 1 – "PENSION SYSTEMS") contains information on the basic structure of the state's finances, including details on revenues, expenditures and reserves, cash management, outstanding indebtedness and other information. The information in PART II will typically be updated twice a year, at the time of the release of the Governor's Budget in January and following enactment of the annual budget in July. The latter update will include revenue and economic forecasts presented in the Governor's May Revision of his original January budget proposal. In the event there are material changes to the information contained in PART II after each January/July update, such information will be highlighted in the "Recent Developments" section of PART I in the next version of APPENDIX A, and the updated material will be clearly identified within PART II, such as by use of italics.

The principal of and interest on the securities described in this Official Statement are payable either primarily or secondarily from moneys deposited in, or available for transfer to, the General Fund as more particularly described in the front part of this Official Statement and in APPENDIX A. Accordingly, information concerning the state's finances that does not significantly impact the availability of moneys deposited in, or available for transfer to, the General Fund or the expenditure of such moneys, and material risks related thereto, may not be included in APPENDIX A or if included may not be described in detail (e.g., the California Air Resources Board's cap and trade program).

This APPENDIX A is provided specifically for use in connection with the sale of securities described in this Official Statement. APPENDIX A may not be copied or used by any person for any other purpose or in connection with the sale of any other securities without the express written permission of the State Treasurer.

PART I

OVERVIEW

Population and Economy of the State

California is by far the most populous state in the nation, nearly 50 percent larger than the second-ranked state according to the 2010 United States Census. The July 2015 estimate of

California's population is 38.9 million residents, which is 12 percent of the total United States population.

California's economy, the largest among the 50 states and one of the largest and most diverse in the world, has major components in high technology, trade, entertainment, manufacturing, government, tourism, construction and services. The relative proportion of the various components of the California economy closely resembles the make-up of the national economy. The California economy continues to benefit from broad-based growth.

Demographic and economic statistical information and a discussion of economic assumptions are included in this APPENDIX A under "CURRENT STATE BUDGET—Economic Assumptions Underlying the 2015 Budget Act" and "ECONOMY AND POPULATION."

Financial Condition of the State General Fund

The state's fiscal health has significantly improved since the end of the severe recession in 2009. Voters approved Proposition 30 in November 2012, providing increased revenues through December 31, 2018. Voters also approved Proposition 2 in November 2014, which directs specified revenues towards increasing reserves in the Budget Stabilization Account ("BSA"), the state's rainy day fund, and paying down specified debts. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves – *Budget Stabilization Account*." In recent years, the state has paid off billions of dollars of budgetary borrowings, debts and deferrals which were accumulated in order to balance budgets during the previous recession and years prior.

By the end of fiscal year 2015-16, the BSA is projected to have a balance of $3.5 billion. Under the Proposition 2 requirements, the 2015 Budget Act directs an additional $1.9 billion to pay off loans from special funds, pay down past liabilities from Proposition 98, and help the University of California reduce its employee pension unfunded liability.

In addition, the 2015-16 Budget repays the remaining $1 billion in budgetary deferrals to schools and community colleges, discharges the last of the $15 billion in Economic Recovery Bonds that were issued to cover budget deficits from as far back as 2002, repays local governments $765 million in mandated reimbursements, and reduces outstanding mandate liabilities owed to schools and community colleges by $3.8 billion.

Despite the recent significant budgetary improvements, there remain a number of budget risks that threaten the state's financial condition, including the significant unfunded liabilities of the two main retirement systems managed by state entities, the California Public Employees' Retirement System ("CalPERS") and the California State Teachers' Retirement System ("CalSTRS"). In recent years, the state has committed to significant increases in annual payments to these systems to reduce the unfunded liabilities. The state also has a significant unfunded liability with respect to other post-employment benefits. See "CURRENT STATE BUDGET—Budget Risks" and "STATE FINANCES—OTHER ELEMENTS—Pension Systems" and "—Retiree Health Care Costs."

In addition, the state's revenues (particularly the personal income tax) can be volatile and correlate to overall economic conditions. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue." Under Proposition 2, upswings in personal income taxes derived from capital gains will be deposited in the BSA and used to pay off certain of the state's debts and liabilities. However, during the last recession the state experienced a significant economic downturn and state tax revenues declined precipitously, resulting in budget deficits in the tens of billions of dollars. There can be no assurances that the state will not face fiscal stress and cash pressures again, or that other changes in the state or national economies will not materially adversely affect the financial condition of the state.

General Fund Revenues, Expenditures and Cash Management

The moneys of the state are segregated into the General Fund and over 1,000 other funds, including special, bond and other funds. The General Fund consists of revenues received by the State Treasury and not required by law to be credited to any other fund, as well as earnings from the investment of state moneys not allocable to another fund. The General Fund is the principal operating fund for the majority of governmental activities and is the depository of most of the major tax revenue sources of the state. For additional financial data relating to the General Fund, see the State Controller's unaudited report of General Fund cash receipts and disbursements attached to this APPENDIX A as EXHIBIT 2 and the audited financial statements in APPENDIX I to this Official Statement. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES" and "FINANCIAL STATEMENTS."

The state receives revenues from taxes, fees and other sources, the most significant of which are the personal income tax, sales and use tax, and corporation tax (which collectively constitute over 90 percent of total General Fund revenues and transfers). The state expends money on a variety of programs and services. Significant elements of state expenditures include education (both kindergarten through twelfth grade ("K-12") and higher education), health and human services, and public safety programs. For a discussion of the sources and uses of the General Fund, see "STATE FINANCES —REVENUES, EXPENDITURES AND RESERVES."

For the General Fund, the 2015 Budget Act and related legislation (the "2015-16 Budget") appropriates $115.4 billion in expenditures and projects $117.4 billion in resources ($115.0 billion revenues and transfers and a $2.4 billion fund balance carried over from fiscal year 2014-15). The 2015 Budget Act projects total budget reserves of $4.6 billion at the end of fiscal year 2015-16, consisting of $1.1 billion in the Special Fund for Economic Uncertainties ("SFEU") and $3.5 billion in the BSA See "CURRENT STATE BUDGET" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

Over the years, a number of laws and constitutional amendments have been enacted, often through voter initiatives, which have made it more difficult for the state to raise taxes, restricted the use of the General Fund or special fund revenues, or otherwise limited the Legislature and the Governor's discretion in enacting budgets. See "STATE FINANCES – REVENUES, EXPENDITURES AND RESERVES—Restrictions on Raising or Using General Fund Revenues."

The state manages its cash flow requirements during the fiscal year primarily with a combination of external borrowing and internal borrowing by the General Fund from over 700 special funds. Since June 2008, the General Fund has typically ended each fiscal year with a net borrowing from special funds but starting in fiscal year 2013-14 the state has ended each fiscal year with a positive General Fund balance and no outstanding internal loans from special funds. The General Fund balance was $1.9 billion at June 30, 2014 and $2.5 billion at June 30, 2015. The 2015 Budget Act projects the state will not have any need to use external cash flow borrowing in fiscal year 2015-16. See "CASH MANAGEMENT—Traditional Cash Management Tools—*External Borrowing*" for a description of the priority of payment of the state's obligations, including the repayment of external and internal borrowing and see also "CASH MANAGEMENT—Inter-Fund Borrowings."

Because the principal of and interest on the securities being offered in this Official Statement are payable primarily or secondarily from moneys in the General Fund, the financial information contained in this APPENDIX A relates principally to revenues and expenditures of, or moneys available for transfer to, the General Fund and material risks related thereto.

State Indebtedness and Other Obligations

As of July 1, 2015, the state had more than $87.0 billion of outstanding general obligation bonds and lease revenue bonds payable principally from the state's General Fund or from lease payments paid from the operating budget of the respective lessees, which operating budgets are primarily, but not exclusively, derived from the General Fund. As of July 1, 2015, there were more than $30 billion of authorized and unissued long-term voter-approved general obligation bonds which, when issued, will be payable principally from the General Fund and approximately $4.0 billion of authorized and unissued lease-revenue bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Future Issuance Plans; General Fund Debt Ratio."

Certain state agencies and authorities issue revenue obligations for which the General Fund has no liability. Revenue bonds represent obligations payable from state revenue-producing enterprises and projects, which are not payable from the General Fund, and conduit obligations payable only from revenues paid by local governments or private users of facilities financed by the revenue bonds.

The state has always paid when due the principal of and interest on its general obligation bonds, general obligation commercial paper notes, lease-revenue obligations and short-term obligations, including revenue anticipation notes and revenue anticipation warrants.

Detailed information regarding the state's long-term debt appears in the sections "STATE INDEBTEDNESS AND OTHER OBLIGATIONS" and "STATE DEBT TABLES."

State Pension Systems and Retiree Health Care Costs

The two main state pension funds (CalPERS and CalSTRS) each face unfunded future liabilities in the tens of billions of dollars. General Fund contributions to CalPERS and CalSTRS are estimated to be approximately $2.9 billion and $1.9 billion, respectively, for fiscal year 2015-16. The combined contributions, which include contributions for California State University

("CSU"), represent about 4.2 percent of all General Fund expenditures in fiscal year 2015-16. See "CURRENT STATE BUDGET."

Recent legislation with respect to both CalPERS and CalSTRS and changes in actuarial assumptions and funding methodologies are expected to result in significant annual increases in the amount the state is required to pay. The actual amount of any increases will depend on a variety of factors, including but not limited to, investment returns, actuarial assumptions, experience and retirement benefit adjustments. See EXHIBIT 1—"PENSION SYSTEMS—Prospective Funding Status; Future Contributions."

The state also provides retiree health care and dental benefits to retired state employees and their spouses and dependents (when applicable) and almost exclusively utilizes a "pay-as-you-go" funding policy. These benefits are referred to as "Other Post-Employment Benefits" or "OPEB." As reported in the state's OPEB Actuarial Valuation Report, the state has an Actuarial Accrued Liability ("AAL") relating to OPEB estimated at $71.81 billion as of June 30, 2014, of which $71.77 billion is unfunded (as compared to $64.57 billion estimated as of June 30, 2013).

In 2015, the Administration initiated a comprehensive strategy to eliminate the OPEB unfunded AAL over approximately 30 years with increased prefunding shared equally between state employers and employees. The Administration is pursuing the prefunding strategy, as well as changes to retiree health benefits for new employees, through the collective bargaining process. Statutory language passed as part of the 2015-16 Budget contains the funding policy and framework designed to support the elimination of the unfunded AAL. See "STATE FINANCES—OTHER ELEMENTS – Retiree Health Care Costs—*Ongoing Efforts*."

Financial Statements

APPENDIX I to this Official Statement, which is incorporated into this APPENDIX A, contains the Audited Basic Financial Statements of the state for the year ended June 30, 2014, together with certain information required by governmental accounting and financial reporting standards to be included in the Financial Statements, including a "Management's Discussion and Analysis" that describes and analyzes the financial position of the state and provides an overview of the state's activities for the fiscal year ended June 30, 2014.

In addition, EXHIBIT 2 to APPENDIX A contains the State Controller's unaudited reports of General Fund cash receipts and disbursements for the period from July 1, 2014 through June 30, 2015 and the period from July 1 through *September 30,* 2015.

Certain Defined Terms

The following terms and abbreviations are used in this APPENDIX A:

"Administration" means the Governor's Office and those individuals, departments, and offices reporting to it (including the Department of Finance).

"BSA" or "Budget Stabilization Account" means the Budget Stabilization Account created under Proposition 58 and amended by Proposition 2. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES – Budget Reserves."

"ERBs" or "Economic Recovery Bonds" means Economic Recovery Bonds of the state issued pursuant to Proposition 57. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Economic Recovery Bonds."

"EXHIBIT 2" means the State Controller's Unaudited Statement of General Fund Cash Receipts and Disbursements for the period from July 1, 2014 through June 30, 2015 and the period from July 1, 2015 through September 30, 2015 as attached to this APPENDIX A as EXHIBIT 2.

"LAO" means the Legislative Analyst's Office, an entity of the State Legislature.

"PMIA" means the state's Pooled Money Investment Account.

"Proposition 2" means a legislative constitutional amendment that amends the provisions governing the BSA, which was approved by the voters in the November 2014 statewide general election. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

"Proposition 30" means The Schools and Local Public Safety Protection Act of 2012, an initiative measure which was approved by the voters in the November 2012 statewide general election. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue."

"SFEU" means the Special Fund for Economic Uncertainties, created pursuant to Government Code Section 16418.

"2014-15 Budget" means the 2014 Budget Act plus related legislation to implement the budget.

"2014 Budget Act" means the Budget Act for fiscal year 2014-15, adopted on June 20, 2014.

"2014-15 Governor's Budget" means the Governor's Budget for fiscal year 2014-15 released on January 9, 2014.

"2014-15 May Revision" means the May Revision of the 2014-15 Governor's Budget released on May 13, 2014.

"2015-16 Budget" means the 2015 Budget Act plus related legislation to implement the budget.

"2015 Budget Act" means the Budget Act for fiscal year 2015-16, adopted on June 24, 2015.

"2015-16 Governor's Budget" means the Governor's Budget for fiscal year 2015-16 released on January 9, 2015.

"2015-16 May Revision" means the May Revision of the 2015-16 Governor's Budget released on May 14, 2015.

Reference to the "state" as a noun or adjective means the State of California, following the practice of the Department of Finance.

RECENT DEVELOPMENTS

The following are certain significant recent developments concerning the state:

The 2015 Budget Act. On June 24, 2015, the Governor signed the 2015 Budget Act for fiscal year 2015-16 plus related legislation to implement the budget. The budget continues to pay down debts and liabilities and builds a healthier reserve fund as it implements the first year of Proposition 2. In addition, it increases spending on education, healthcare and In-Home Support Services. See "CURRENT STATE BUDGET."

Recent Cash Receipts. In *October* 2015, the Department of Finance reported that, based on agency cash receipts, tax receipts for *September* 2015 totaled *$9.707* billion, or *$217* million (*2.3* percent) above the 2015 Budget Act estimate of *$9.491* billion. Fiscal year 2015-16 tax receipts through *September* were *$23.599* billion, or *$744* million (*3.3* percent) above the 2015 Budget Act estimate of *$22.855* billion.

Special Sessions on Transportation and Health Care. On June 16, 2015, the Governor called special legislative sessions to consider two fiscal issues: (1) funding improved maintenance of roads, highways and other infrastructure; and (2) funding the state's health care delivery system. In the infrastructure special session, the Legislature is considering legislation to enact permanent and sustainable funding to maintain and repair the state's transportation and critical infrastructure, improve the state's key trade corridors and complement local infrastructure efforts. In the health care special session, the Legislature is considering legislation to enact permanent and sustainable funding to provide at least $1.1 billion annually to stabilize the state's General Fund costs for Medi-Cal, sufficient funding to continue the restoration of a 7 percent reduction of In-Home Supportive Services hours, and funding for additional rate increases for providers of Medi-Cal and developmental disability services. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures – *Health and Human Services—Special Session on Health Care Financing*."

Updates to Part II of Appendix A. Information under the headings "STATE FINANCES—OTHER ELEMENTS—Retiree Health Care Costs—*Ongoing Efforts*," "OVERVIEW OF STATE GOVERNMENT—Employee Relations," *"BANK ARRANGEMENTS TABLE"* and "STATE DEBT TABLES" and information under the heading EXHIBIT 1 - "PENSION SYSTEMS—CalPERs—3. Retirement Benefits," "—4. Member and State Contributions," "—5 Prospective Funding Status; Future State Contributions" "—7 Actuarial Methods and Assumptions," "—8. Actuarial Valuation; Determination of Required Contributions" and "—9. Funding Status" have been updated.

CURRENT STATE BUDGET

General

The 2015-16 Budget, including the 2015 Budget Act, was enacted on June 24, 2015. General Fund revenues and transfers for fiscal year 2015-16 are projected at $115.0 billion, an

increase of $3.7 billion or 3.3 percent compared with revised estimates for fiscal year 2014-15. General Fund expenditures for fiscal year 2015-16 are projected at $115.4 billion, an increase of $0.9 billion or 0.8 percent compared with revised estimates for fiscal year 2014-15. The 2015-16 Budget also included special fund expenditures of $45.8 billion and bond fund expenditures of $6.5 billion.

The following Table 1 summarizes the General Fund resources and expenditures estimates for fiscal year 2014-15 as of the 2014 Budget Act and for fiscal years 2014-15 and 2015-16 as of the 2015 Budget Act. For more information on revised fiscal year 2014-15 estimates, see "Fiscal Year 2014-15 Revised Estimates in the 2015 Budget Act."

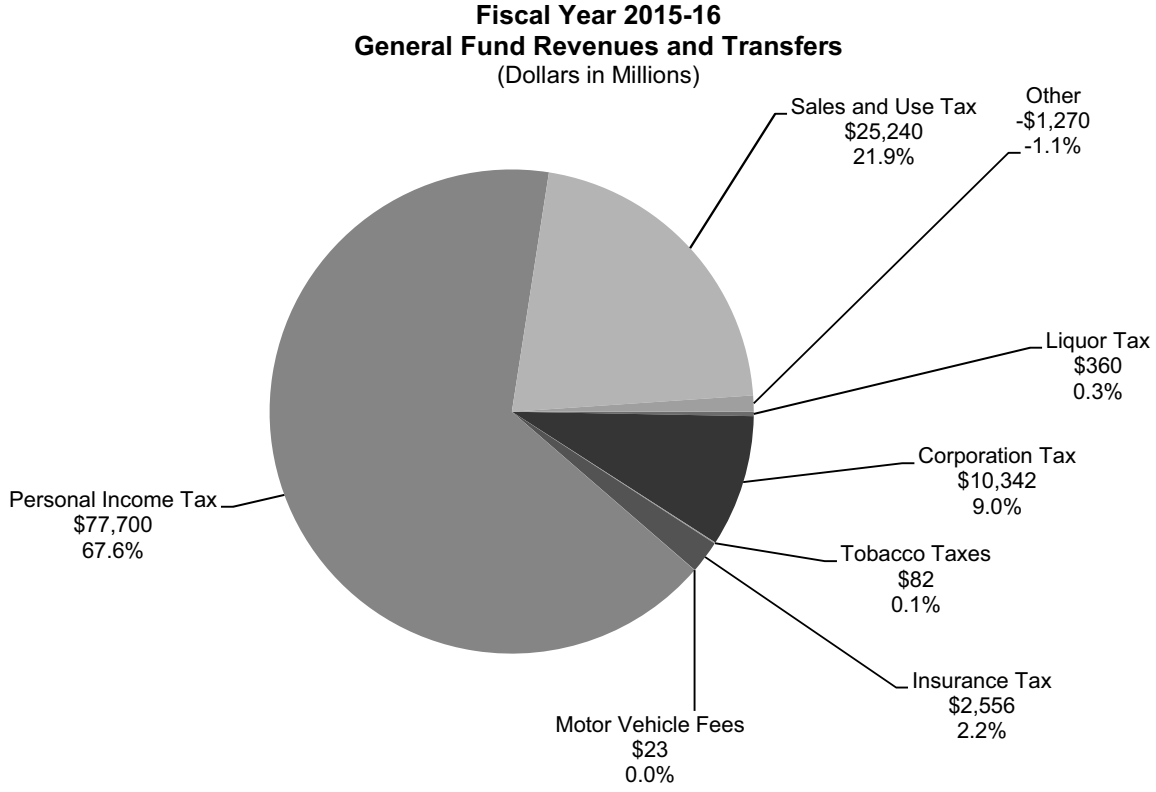
TABLE 1
General Fund Budget Summary

(Dollars in Millions)

	As of 2014 Budget Act	As of 2015 Budget Act	
	Fiscal Year 2014-15	Fiscal Year 2014-15	Fiscal Year 2015-16
Prior Year Balance	$ 3,903	$ 5,589	$ 2,423
Revenues and Transfers	105,488	111,307	115,033
Total Resources Available	$ 109,391	$ 116,896	$ 117,456
Non-Proposition 98 Expenditures	63,525	64,865	65,953
Proposition 98 Expenditures	44,462	49,608	49,416
Total Expenditures	$107,987	$ 114,473	$115,369
Fund Balance	1,404	2,423	2,087
Reserve for Liquidation of Encumbrances	955	971	971
Special Fund for Economic Uncertainties	449	1,452	1,116
Budget Stabilization Account/ Rainy Day Fund	$ 1,606	$ 1,606	$ 3,460

Source: State of California, Department of Finance.

The following chart summarizes the principal revenue and transfer components of the 2015 Budget Act, as of its adoption. For further details, see "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue."



Note: The "Other" category is negative because it includes a transfer to the BSA of $1,854 million.

The 2015-16 Budget includes the following major General Fund expenditure components:

- K-12 Education – funding of $50.5 billion for fiscal year 2015-16, of which $49.4 billion is from the General Fund (both Non-Proposition 98 and Proposition 98), $0.103 billion is from special funds and $1.063 billion is from bond funds. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—*K-12 Education and Proposition 98*."

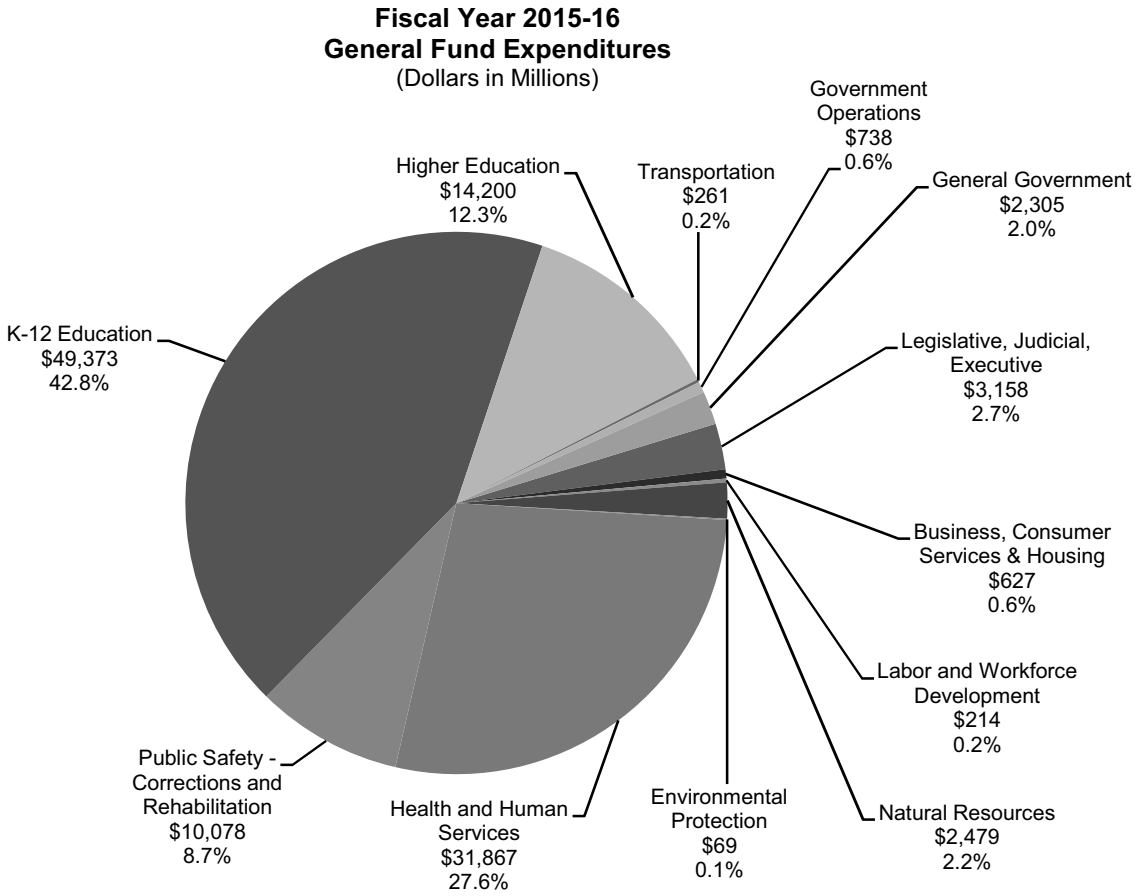
- Higher Education – funding of $14.6 billion for fiscal year 2015-16, of which $14.2 billion is from the General Fund (both Non-Proposition 98 and Proposition 98 expenditures), $0.043 billion is from special funds and $0.390 billion is from bond funds, for the University of California, California State University and the community colleges. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—*Higher Education*."

- Health and Human Services – funding of $52.3 billion for fiscal year 2015-16, of which $31.9 billion is from the General Fund and $20.4 billion is from special funds. See

"STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—*Health and Human Services*."

• Public Safety – funding of $12.7 billion for fiscal year 2015-16, of which $10.1 billion is from the General Fund and $2.6 billion is from special funds for the Department of Corrections and Rehabilitation ("CDCR") and other related programs. See "STATE FINANCES —REVENUES, EXPENDITURES AND RESERVES—State Expenditures—*Public Safety*."

The following chart summarizes the principal expenditure components of the 2015 Budget Act, as of its adoption.



Note: The state's expenditures for contributions to the pension funds (4.2 percent of total General Fund expenditures when combined) and for debt service on bonds (net of various reimbursements) payable from the General Fund (4.7 percent of total General Fund expenditures when combined) are not shown separately in this chart, but are included within the applicable expenditure categories in the chart.

Development of Revenue Estimates

Development of the forecast for the major General Fund revenues begins with a forecast of national economic activity prepared by an independent economic forecasting firm. The Department of Finance's Economic Research Unit, under the direction of the Chief Economist, adjusts the national forecast based on the Department of Finance's economic outlook. The national economic forecast is used to develop a forecast of similar indicators for California activity.

After finalizing the forecasts of major national and California economic indicators, revenue estimates are generated using revenue forecasting models developed and maintained by the Department of Finance. With each forecast, adjustments are made for any legislative, judicial, or administrative changes, as well as for recent cash flow results. The forecast is updated twice a year and released with the Governor's Budget by January 10 and the May Revision by May 14. The economic forecast for the 2015-16 May Revision projects solid growth in both the national and state economies. Certain significant elements of the forecast are set forth in Table 2.

National Economy. The national economy continues to show improvement, with low inflation and the national unemployment rate declining. There are still risks to the economy. Economic expansions do not last forever. Since World War II, the average economic expansion length is almost five years and the longest expansion was ten years. The current economic expansion began in July 2009. There are few immediate signs of a contraction, but it would be an historical anomaly for the U.S. not to see another recession before 2020.

California Economy. California's real GDP increased by 2.8 percent in 2014, and totaled $2.3 trillion at current prices, keeping California as the eighth largest economy in the world. Most sectors have experienced solid growth, with the exception of the agricultural sector. Agricultural production totaled $46.7 billion out of $2.2 trillion in 2013 California GDP. At less than 3 percent of the total economy, declines in the agricultural sector due to drought are expected to be offset by growth in other sectors. California added jobs faster than the nation in 2013 and 2014. The California economy is expected to continue making solid progress.

California Drought. While the current drought is one of the most severe in California's history, it is not expected to significantly impact any sectors of the state economy beyond the agricultural sector. Further, some farmers were able to offset the effects of surface water shortfalls in 2014 through groundwater pumping, shifting crop patterns, and planting fewer acres – this was enough that farm employment increased modestly in 2014. A continuation of drought conditions in 2015 is expected to have more severe impacts on agriculture, as options for adjustment are more limited, and farm employment decreased by around 2 percent through May 2015. The State is facing severe drought conditions in all 58 counties. The Administration has taken actions to address drought conditions in California, including mandated statewide water conservation, facilitated water management where possible, and provided funding for critical water infrastructure projects, but these actions have not significantly impacted the General Fund.

Economic Assumptions Underlying the 2015 Budget Act

The revenue and expenditure assumptions utilized in connection with the 2015-16 May Revision were incorporated into the 2015 Budget Act and were based upon certain assumptions concerning the performance of the California, national, and global economies in calendar years 2015 and 2016. These economic assumptions are set forth below. Additional information on the state's economy is set out in the section "ECONOMY AND POPULATION."

TABLE 2
Selected National and California Economic Data

	2014	2015 (Projected)	2016 (Projected)
United States			
Real gross domestic product (percent change)	2.4	2.8	2.7
Personal income (percent change)	4.0	3.9	4.5
Nonfarm wage and salary employment (millions)	139.0	141.9	144.0
(percent change)	2.0	2.1	1.5
Housing starts (thousands)	1,001	1,121	1,308
(percent change)	7.6	12.1	16.6
California			
Personal income ($ billions)	1,944.4	2,037.8	2,144.1
(percent change)	4.7	4.8	5.2
Nonfarm wage and salary employment (thousands)	15,668.7	16,072.8	16,453.4
(percent change)	3.2	2.6	2.4
Unemployment rate (percent)	7.5	6.5	6.0
Housing units authorized (thousands)	86.3	99.3	110.6
(percent change)	0.4	15.0	11.5
Total taxable sales ($ billions)	618.6	645.1	679.6
(percent change)	5.4	4.3	5.3

Note: Percentage changes calculated from unrounded data.

Source: State of California, Department of Finance, 2015-16 May Revision forecast.

Budget Risks

The 2015-16 Budget is based on a variety of estimates and assumptions. If actual results differ from those assumptions, the state's financial condition could be adversely or positively affected. There can be no assurance that the financial condition of the state will not be materially and adversely affected by actual conditions or circumstances in fiscal year 2015-16 and beyond.

The overall budget risks are substantially lower than they were several years ago. However, the risks with potentially significant General Fund impact include, but may not be limited to, the following:

- Threat of Economic Recession — The economic forecast used in connection with the 2015 Budget Act assumes continued steady growth of the economy. While there are few signs of an immediate contraction, the Administration understands that another recession is inevitable. See "CURRENT STATE BUDGET—Development of Revenue Estimates."

• Federal Fiscal Challenges — As it has done in the past, the federal government could continue to shift its costs to the state in order to address its own fiscal challenges. It could also disapprove proposals in the health and human services areas that the state relies on as fiscal control measures. Changes in the federal government's policies may also drive state program costs up significantly.

• Capital Gains Volatility — Capital gains are the state's most volatile revenue source. Under Proposition 2, some of this volatility will be mitigated by requiring that spikes in capital gains be deposited in the BSA in anticipation of the next recession and to pay down the state's debts and liabilities. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Revenue—*Personal Income Tax*" and "—Budget Reserves."

• Redevelopment Dissolution — To increase funding for core local government services, the state dissolved redevelopment agencies beginning in 2012. Between fiscal year 2011-12 and fiscal year 2015-16, approximately $9.9 billion in property tax revenues, that previously would have been spent by redevelopment agencies, was redistributed to cities, counties, special districts, and schools. Approximately fifty percent of these property tax revenues accrue to K-14 schools which reduces the state's annual Proposition 98 General Fund costs. There are several pending lawsuits involving the dissolution of redevelopment agencies, which might impact these revenues and require the state to backfill any lost revenues for schools. See "LITIGATION—Budget-Related Litigation—Actions Challenging Statutes Which Reformed California Redevelopment Law." See 'STATE FINANCES—OTHER ELEMENTS—Local Government Impacts on State Finances."

• Health Care Costs — The Medi-Cal program is the budget's second largest expenditure. Additionally, the state provides health benefits to its own employees and retirees. As the state implements federal health care reform, budgetary spending will become even more dependent upon the rate of health care inflation. If this inflation rises faster than expected, annual General Fund spending could quickly rise by hundreds of millions of dollars. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—Health and Human Services."

• Debts and Liabilities — The state's budget challenges have been exacerbated by an unprecedented level of debts, deferrals, and budgetary obligations accumulated over the prior decade, although the state has paid down a substantial amount of these debts in the past three years. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2." In addition, the state faces hundreds of billions of dollars in other long-term cost pressures, debts, and liabilities, including state retiree pension and health care costs. See "STATE FINANCES—OTHER ELEMENTS—Retiree Health Care Costs" and EXHIBIT 1 – "PENSION SYSTEMS."

Multi-Year Budget Projections

In connection with the enactment of the 2015 Budget Act, the Department of Finance prepared high level multi-year budget projections, as set forth below. The projections are based on current state and federal law and state policies assumed as part of the budget package. They reflect a variety of assumptions, including assumptions concerning economic conditions, and state revenues and expenditures. The projections do not include additional policy changes or

proposals to address the budget deficit projected in fiscal year 2018-19. Under state law and the state constitution, the annual proposed Governor's Budget, the budget sent by the Legislature to the Governor for consideration, and the budget signed into law by the Governor cannot provide for projected expenditures in excess of projected resources for the ensuing fiscal year. This requirement does not apply to out year projections.

The year-to-year changes in revenues and transfers are driven, in general, by expected continued moderate economic growth. However, due largely to the strength of the stock market through the end of 2014, capital gains are expected to be above normal levels for 2015 and 2016. (Normal level is considered to be 4.4 percent of personal income in the state.) Tax revenue is expected to grow by 3.5 percent from fiscal year 2014-15 to fiscal year 2015-16, and by 4.3 percent from fiscal year 2015-16 to fiscal year 2016-17.

For fiscal years 2017-18 and 2018-19, the underlying tax revenue is projected to grow less than 3.5 percent a year. This relatively slow growth in total revenues can be attributed in large part to the expiration of Proposition 30 tax rates. The sales tax portion of Proposition 30 expires on December 31, 2016 and the personal income tax portion of Proposition 30 expires on December 31, 2018. The other main factor explaining the year-to-year changes in revenues and transfers is the change in the amounts of loan repayments to special funds made each year consistent with the projections shown in Table 6 below. Actual conditions may differ materially from the assumptions, and there can be no assurances the projections will be achieved.

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TABLE 3
General Fund Multi-Year Budget Projection
(Dollars in Millions)

	Fiscal Year				
	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Prior Year Balance	$ 5,589	$ 2,423	$ 2,087	$ 1,743	$ 989
Revenues and Transfers[(a)]	112,913	116,887	121,791	125,873	127,610
Transfer to BSA/Rainy Day Fund[(b)]	-1,606	-1,854	-1,535	-1,097	-1,038
Total Resources Available	**$116,896**	**$117,456**	**$122,343**	**$126,519**	**$127,561**
Proposition 98 Expenditures	49,608	49,416	50,960	52,066	51,955
Non-Proposition 98 Expenditures	64,865	65,953	69,639	73,464	77,017
Unallocated Prop 2 Debt Payments					263
Total Expenditures	**$114,473**	**$115,369**	**$120,599**	**$125,530**	**$129,235**
Fund Balance	**$2,423**	**$2,087**	**$1,743**	**$989**	**-$1,673**
Reserve for Encumbrances	971	971	971	971	971
Special Fund for Economic Uncertainties	**$1,452**	**$1,116**	**$772**	**$18**	**-$2,644**
Budget Stabilization Account/ Rainy Day Fund	$1,606	$3,460	$4,995	$6,092	$7,130
Operating Surplus/-Deficit with BSA/Rainy Day Fund Transfer	**-$3,166**	**-$336**	**-$343**	**-$754**	**-$2,663**

Source: State of California, Department of Finance

(a) The personal income tax portion of Proposition 30 expires at the end of the 2018 tax year (December 31, 2018), accordingly, more than one-half of the revenue impact of Proposition 30 is expected to be lost in fiscal year 2018-19, and beginning with fiscal year 2019-20, there will be no remaining revenue impact from Proposition 30. The sales tax portion of Proposition 30 will expire at the end of the 2016 tax year (December 31, 2016). The Proposition 30 revenue amounts projected in the 2015 Budget Act are shown below (in millions):

	2014-15	2015-16	2016-17	2017-18	2018-19
Prop 30 – Income Tax	$6,590	$6,750	$6,834	$7,020	$2,857
Prop 30 – Sales Tax	1,459	1,551	827	0	0

(b) The fiscal year 2014-15 transfer to the BSA is pursuant to Proposition 58. The fiscal years 2015-16 through 2018-19 transfers to the BSA are pursuant to Proposition 2. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

Fiscal Year 2014-15 Revised General Fund Estimates in the 2015 Budget Act

The 2014-15 Budget, including the 2014 Budget Act, was enacted on June 20, 2014. The 2015 Budget Act makes various revisions to General Fund estimates involving the beginning fund balance, revenues, expenditures, and ending General Fund reserve balance for fiscal year 2014-15. The revised revenue and expenditure estimates are set forth in Table 4 below. In addition to the information shown in Table 4, the 2015 Budget Act estimates that the beginning fund balance for the General Fund at July 1, 2014 was $1.7 billion higher than had been assumed when the 2014 Budget Act was adopted, primarily due to higher than projected revenues. These figures are preliminary estimates subject to further adjustment after receipt of additional information concerning final revenues and expenditures for fiscal year 2014-15.

The most significant change to the results for fiscal year 2014-15 as shown in Table 5 is an increase of $5.8 billion of revenues, primarily due to higher than projected tax revenues, particularly from capital gains. This was offset by an increase of $6.5 billion in expenditures.

The most significant element of the increase in expenditures is a $5.1 billion increase in Proposition 98 expenditures, due to the increased revenues described above. The 2014 Budget Act projected an ending balance in the SFEU of $0.4 billion; the revised estimate is that the ending balance of the SFEU at June 30, 2015 was approximately $1.5 billion.

Summary of State Revenues and Expenditures

The table below presents the actual revenues, expenditures and changes in fund balance for the General Fund for fiscal years 2011-12, 2012-13 and 2013-14, and the estimated results for fiscal years 2014-15 and 2015-16. In addition to the SFEU, which is part of the fund balance of the General Fund, the 2015 Budget Act projects a cumulative balance of $3.5 billion in the BSA, or the rainy day fund, at June 30, 2016.

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Consistent with historical practice, the projected beginning of period fund balance of any given fiscal year may be updated from time to time to reflect changes attributable to revisions in preceding fiscal years' activity and estimates. Changes affecting the beginning of period fund balance may include changes in both revenue and expenditure final estimates for previous years' fiscal activity.

TABLE 4
Statement of Estimated Revenues, Expenditures and Changes in Fund Balance – General Fund (Budgetary Basis)[a]
Fiscal Years 2011-12 through 2015-16

(Dollars in Millions)*

	2011-12	2012-13	2013-14	Estimated[b] 2014-15	Estimated[b] 2015-16
Fund Balance–Beginning of Period	$(2,327)	$(1,609)	$4,285	$8,410	$2,423
Restatements					
Prior Year Adjustment	1,072	1,288	(316)	(2,821)	–
Fund Balance–Beginning of Period, as Restated	**$(1,253)**	**$ (320)**	**$3,969**	**$5,589**	**$2,423**
Revenues	$85,569	$98,418	$102,420	$113,357	$117,932
Other Financing Sources					
Transfers from Other Funds	1,999	2,047	1,154	(2,050)[c]	(2,899)[c]
Other Additions	262	393	213	–	–
Total Revenues and Other Sources	**$87,827**	**$100,858**	**$103,787**	**$111,307**	**$115,033**
Expenditures					
State Operations[d]	$23,683	$25,960	$25,811	$28,526	$29,614
Local Assistance	63,845	69,828	72,040	84,124	85,502
Capital Outlay	103	120	158	133	169
Unclassified	–	–	–	1,690[e]	84
Other Uses	–	–	–	–	–
Transfer to Other Funds	551	345	1,339	–[f]	–[f]
Total Expenditures and Other Uses	**$88,182**	**$96,253**	**$99,347**	**$114,473**	**$115,369**
Revenues and Other Sources Over or (Under)					
Expenditures and Other Uses	$(354)	4,605	$4,441	$(3,166)	$(336)
Fund Balance					
Deferred Payroll[g]	753	732	949	–	–
Reserved for Encumbrances	618	732	840	971	971
Reserved for Unencumbered Balances of Continuing Appropriations[h]	1,685	1,058	1,206	–	–
Unreserved–Undesignated [i]	(4,665)	1,763	5,415	1,452	1,116
Fund Balance–End of Period	**$(1,609)**	**$4,285**	**$8,410**	**$2,423**	**$2,087**

* Totals may not add due to rounding.

(a) These statements have been prepared on a budgetary basis in accordance with state law and some modifications would be necessary in order to comply with generally accepted accounting principles ("GAAP"). The Supplementary Information contained in the state's Audited Basic Financial Statements for the year ended June 30, 2014, attached as APPENDIX I to this Official Statement, contains a description of the differences between the budgetary basis and the GAAP basis of accounting and a reconciliation of the June 30, 2014 fund balance between the two methods. See "FINANCIAL STATEMENTS."

(Footnotes Continued on Following Page)

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(b) Source: Department of Finance, as of the 2015 Budget Act.

(c) Includes transfers to the BSA of $1.606 billion in fiscal year 2014-15 and $1.854 billion in fiscal year 2015-16.

(d) Includes debt service on general obligation bonds. The estimated amount of debt service is $4.7 billion and $4.8 billion for fiscal years 2014-15 and 2015-16, respectively. These amounts are net of the federal Build America Bonds subsidy, various reimbursements to the General Fund from other funds, and amounts included in UC and CSU support budgets for debt service on UC and CSU debt, totaling approximately $1.7 billion and $1.8 billion in fiscal years 2014-15 and 2015-16, respectively, to offset debt service costs of certain bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—*Build America Bonds*." Debt service amounts for earlier years are set forth in the table titled "Outstanding State Debt Fiscal Years 2009-10 through 2013-14" under "STATE DEBT TABLES."

(e) Includes expenditure of $1.606 billion for early repayment of the Economic Recovery Bonds.

(f) "Transfer to Other Funds" is included in "Transfers from Other Funds."

(g) Deferred Payroll, which began with the June 2010 payroll, is on-going and represents the amount of June payroll expenses deferred to July of the following fiscal year, for all state departments paid through the uniform payroll system. The Department of Finance, pursuant to Government Code Sections 12472.5 and 13302, implements the deferrals of June payroll expenditures for various governmental and nongovernmental cost funds. For 2014-15 and 2015-16, the Deferred Payroll amounts are estimated at $995 million and $1,020 million, respectively, and are included in the Unreserved-Undesignated row. Per statute, these expenditures are not recognized until the following July, under the budgetary basis of accounting and budgeting.

(h) For purposes of determining whether the General Fund budget, in any given fiscal year, is in a surplus or deficit condition, see Government Code Section 13307. Under this law, the unencumbered balances of continuing appropriations, which exist when no commitment for expenditure is made, should be an item of disclosure, but the amount shall not be deducted from the fund balance. In accordance with Government Code Section 12460, the State Controller's Budgetary/Legal Basis Annual Report reflects a specific reserve for the encumbered balance for continuing appropriations.

(i) Both actual and estimated amounts include SFEU. The Department of Finance generally includes in its estimates of the SFEU and other reserves, if any, the items reported as actual amounts by the Office of the State Controller under "Reserved for Unencumbered Balances of Continuing Appropriations."

Source: Actual amounts for fiscal years 2011-12 through 2013-14: State of California, Office of the State Controller.
Estimated amounts for fiscal years 2014-15 and 2015-16: State of California, Department of Finance.

Revenue and Expenditure Assumptions

The table below presents the Department of Finance's budget basis statements of General Fund revenue sources and expenditures by function for fiscal years 2014-15 and 2015-16, as set forth in the 2014-15 Budget and the 2015-16 Budget when they were enacted. The table also includes revisions to fiscal year 2014-15 General Fund estimates as of the 2015 Budget Act.

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TABLE 5
General Fund Revenue by Sources and Expenditures
Fiscal Years 2014-15 and 2015-16

(Dollars in Millions)

Revenues Source	2014-15 Enacted (as of June 2014)	2014-15 Revised (as of June 2015)	2015-16 Enacted (as of June 2015)
Personal Income Tax	$ 70,238	$ 75,384	$ 77,700
Sales and Use Tax	23,823	23,684	25,240
Corporation Tax	8,910	9,809	10,342
Insurance Tax	2,382	2,486	2,556
Alcoholic Beverage Taxes and Fees	359	353	360
Cigarette Tax	84	84	82
Motor Vehicle Fees	20	23	23
Other[(a)]	1,278	1,090	584
Subtotal	$ 107,094	$ 112,913	$ 116,887
Transfer to the Budget Stabilization Account/Rainy Day Fund	-1,606	-1,606	-1,854
Total	$ 105,488	$ 111,307	$ 115,033

Expenditures Function	2014-15 Enacted	2014-15 Revised	2015-16 Enacted
Legislative, Judicial and Executive	$ 2,968	$ 2,986	$ 3,158
Business, Consumer Services & Housing	850	843	627
Transportation	216	200	261
Natural Resources	2,260	2,558	2,479
Environmental Protection	63	87	69
Health and Human Services	29,652	30,015	31,867
Public Safety (including Corrections and Rehabilitation)	9,590	10,030	10,078
K-12 Education	44,980	49,659	49,373
Higher Education	12,562	13,267	14,200
Labor and Workforce Development	303	282	214
Government Operations	692	754	738
General Government			
Non-Agency Departments	715	1,498	684
Tax Relief/Local Government	442	446	469
Statewide Expenditures	1,088	242	1,152
Supplemental Payment to the Economic Recovery Bonds	1,606	1,606	-
Total Expenditures	$ 107,987	$ 114,473	$ 115,369

(a) Generally consists of transfers and loans, and various smaller amounts for miscellaneous fees, taxes, royalties, tribal gaming revenues, unclaimed property and other sources.

Source: State of California, Department of Finance.

DEBTS AND LIABILITIES UNDER PROPOSITION 2

Voters approved Proposition 2 in November 2014, which revised the state's method of funding the BSA, the state's "rainy day fund." Starting in fiscal year 2015-16, 1.5 percent of annual General Fund revenues, plus the excess of capital gains tax receipts above a certain level, not necessary to fund Proposition 98, will be applied equally to funding the BSA and paying down state debts and liabilities. See 'STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves." Debts and liabilities eligible under Proposition 2 include

certain budgetary borrowing accumulated over a number of years and specified payments over and above the base payments for state pensions and retiree health costs. The two main retirement systems managed by state entities, CalPERS and CalSTRS, each have substantial unfunded liabilities. See EXHIBIT 1 – "PENSION SYSTEMS." The state also has a substantial unfunded liability relating to post-employment healthcare benefits for state employee retirees. See "STATE FINANCES—OTHER ELEMENTS—Retiree Health Care Costs." Table 6 displays the categories of debts and liabilities the Administration considers eligible for accelerated payments under Proposition 2. Although included as an eligible use of Proposition 2 funds as shown in Table 6, the state is not legally responsible for the pension and retiree health care costs of the University of California, an independent corporate entity under state law.

The 2015 Budget Act will repay loans from special funds ($1.502 billion), repay prior years of Proposition 98 underfunding (referred to as "settle up," $256 million), and help pay down the unfunded liability associated with the University of California's retirement system ($96 million). The primary strategy within the multi-year forecast period is to continue to pay down budgetary borrowing. The Administration projects that all outstanding budgetary deferrals to the schools and community colleges, Economic Recovery Bonds, loans from special funds, underfunding of Proposition 98 (settle up payments), and borrowing from transportation funds under Proposition 42 (2002) will be entirely repaid by the end of fiscal year 2018-19. Remaining outstanding budgetary borrowing after fiscal year 2018-19 is projected to include reimbursements of state mandated costs to schools and community colleges and accounting deferrals. For more information regarding accounting deferrals, see the Section "Timing Differences" in the Required Supplemental Information in APPENDIX I, "Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2014."

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TABLE 6
Debts and Liabilities Under Proposition 2
2015 Budget Act
(Dollars in Millions)

	Outstanding Amount at Start of 2015-16	Use of 2015-16 Accelerated Payment	Proposed Use of 2016-17 Accelerated Payment	Proposed Use of 2017-18 Accelerated Payment	Proposed Use of 2018-19 Accelerated Payment	Remaining Amount Not Currently Scheduled[b]
Budgetary Borrowing						
Loans from special funds	$3,112	$1,502	$974	$560	$277	$0
Underfunding of Proposition 98—Settle-Up	1,512	256	390	368	498	0
State Retirement Liabilities (Unfunded Actuarial Estimate)						
State Retiree Health	71,773	0	0	0	0	N/A
State Employee Pensions	43,303	0	0	0	0	N/A
Teacher Pensions[a]	72,718	0	0	0	0	N/A
Judges' Pensions	3,358	0	0	0	0	N/A
Deferred payments to CalPERS	530	0	0	0	0	N/A
University of California Retirement Liabilities (Unfunded Actuarial Estimate)						
University of California Employee Pensions	7,633	96	171	169	0	N/A
University of California Retiree Health	14,519	0	0	0	0	N/A
Unallocated					263	
Total	**$218,458**	**$1,854**	**$1,535**	**$1,097**	**$1,038**	**N/A**

(a) The state portion of the unfunded liability for teacher pensions is $14.916 billion. See EXHIBIT 1 – "PENSION SYSTEMS—CalSTRS."
(b) N/A Remaining balance after the projection period is not known. The amount is dependent on future addition of liabilities and payments.

LITIGATION

The state is a party to numerous litigation matters. See "LITIGATION" in the forepart of this Official Statement.

The following describes only those litigation matters that are pending with service of process on the state accomplished and that have been identified by the state as having a potentially significant fiscal impact upon the state's revenues or expenditures.

This description was developed by the state with the participation of the Office of the Attorney General and other state entities. The Office of the Attorney General does not represent the state, its subdivisions, departments, agencies and other units in all matters, and accordingly there may be litigation matters of which the Office of the Attorney General is not aware. The state does not conduct a docket search of federal or state court litigation filings to identify pending litigation matters and no inquiry has been made into administrative claims and matters. There may be claims and matters with potentially significant fiscal impacts that have not been described below.

The state makes no representation regarding the likely resolution of any specific litigation matter described below.

Budget-Related Litigation

1. Actions Challenging Cap and Trade Program Auctions

In two consolidated matters, *California Chamber of Commerce, et al. v. California Air Resources Board*, (Sacramento County Superior Court, Case No. 34-2012-80001313) and *Morning Star Packing Co., et al. v. California Air Resources Board* (Sacramento County Superior Court, Case No. 34-2013-80001464), petitioners challenge the authority of the California Air Resources Board to conduct auctions under the state's cap and trade program and allege that the auction revenues are an unconstitutional tax under the state Constitution. The trial court ruled for the Board, finding that it had authority to conduct the auctions, and that the auction does not constitute an unconstitutional tax. Petitioners appealed (Court of Appeal, Third Appellate District, Case Nos. C075930, C075954).

2. Actions Challenging School Financing

In *Robles-Wong, et al. v. State of California* (Alameda County Superior Court, Case No. RG-10-515768), plaintiffs challenge the state's "education finance system" as unconstitutional. Plaintiffs, consisting of school children, school districts, the California Association of School Administrators, the California School Boards Association and California Teachers Association allege the state has not adequately fulfilled its constitutional obligation to support its public schools, and seek to enjoin the state from continuing to operate and rely on the current financing system and to develop a new education system that meets constitutional standards as declared by the court. In a related matter, *Campaign for Quality Education, et al. v. State of California* (Alameda County Superior Court, Case No. RG-10-524770), plaintiffs also challenge the constitutionality of the state's education finance system. The trial court ruled that there was no constitutional right to a particular level of school funding. Plaintiffs in each matter appealed (Court of Appeal, First Appellate District, Case Nos. A134423, A134424). Plaintiffs in these matters allege they have suffered $17 billion in education funding cuts over two years. It is currently unknown what the fiscal impact of these matters might be upon the General Fund.

Plaintiff in *California School Boards Association v. State of California* (Alameda County Superior Court, Case No. RG-11-554698), challenges the use of block grant funding to pay for education mandates in the 2012 Budget Act and associated trailer bills. The amended complaint also contends that changes to the statutes that control how education mandates are directed and funded violate the requirements of the state Constitution that the state pay local school districts for the costs of state mandated programs. After bifurcating the case, the trial court issued a ruling in favor of the state that addresses only certain of plaintiff's claims. If the court declares that the state has failed to properly pay for mandated educational programs, the state will be limited in the manner in which it funds education going forward.

3. Actions Challenging Statutes Which Reformed California Redevelopment Law

In *California Redevelopment Association, et al. v. Matosantos, et al.* (California Supreme Court, Case No. S194861), the California Supreme Court upheld the validity of legislation ("ABx1 26") dissolving all local Redevelopment Agencies ("RDAs").

A second case challenging the constitutionality of the RDA dissolution, *City of Cerritos, et al. v. State of California* (Sacramento County Superior Court, Case No. 34-2011-80000952) raises the same theories advanced in *Matosantos*, and additional challenges based on claimed violations of the California Constitution. The trial court denied the petitioners' motion for a preliminary injunction to block implementation of ABx1 26, and the Court of Appeal affirmed (Court of Appeal, Third Appellate District, Case No. C070484). Petitioners filed a petition for review (California Supreme Court, Case No. S229727).

There are over 100 pending actions that challenge implementation of the statutory process for winding down the affairs of the RDAs, asserting a variety of claims including constitutional claims. Some of the pending cases challenge AB 1484, which requires successor agencies to the former RDAs to remit by July 2012 certain property tax revenues for fiscal year 2011-12 that the successor agency had received, or face a penalty. Some cases challenge other provisions in ABx1 26 or AB 1484 that require successor agencies to remit various funds of former RDAs. Other cases challenge the implementation of ABx1 26, contending that various obligations incurred by the RDAs are enforceable obligations entitled to payment from tax revenues under ABx1 26. For example, in *Affordable Housing Coalition v. Sandoval* (Sacramento County Superior Court, Case No. 34 2012-80001158), plaintiffs argue that all former RDAs had obligations to pay for affordable housing that should be funded going forward. The court denied a motion for class action status in this matter.

Tax Cases

Six actions have been filed contending that the Legislature's modification of Revenue and Taxation Code Section 25128, which implemented the double-weighting of the sales factor in California's apportionment of income formula for the taxation of multistate business entities, is invalid and/or unconstitutional. *Kimberly-Clark Worldwide, Inc., et al. v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-495916); *Gillette Company and Subsidiaries v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-495911); *Procter & Gamble Manufacturing Company & Affiliates v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC 10 495912); *Sigma-Aldrich, Inc. and Affiliates v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-496437); *RB Holdings (USA), Inc. v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-496438); and *Jones Apparel Group v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-499083), now consolidated in one matter, collectively referred to as *Gillette Company v. Franchise Tax Board*. Plaintiffs contend that the single-weighted sales factor specified in Section 25128 prior to amendment was contained within the Multistate Tax Compact ("Compact") and therefore cannot be modified without repealing the legislation that enacted the Compact. An adverse ruling in these cases would affect multiple taxpayers and create potential exposure to refund claims in excess of $750 million. The trial court ruled for the state in each of these matters, but, on appeal, the trial court judgment was reversed (Court of Appeal, First Appellate District, Case No. A130803). The California Supreme Court granted the state's petition for review (California Supreme Court Case No. S206587). Oral argument was heard on October 6, 2015. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue—*Corporation Tax*."

A pending case challenges the fee imposed by the state tax code upon limited liability companies ("LLCs") registered in California, alleging that it discriminates against interstate commerce and violates the U.S. and the state Constitutions, is an improper exercise of the state's police powers, and has been misapplied by the Franchise Tax Board. *Bakersfield Mall LLC v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-07-462728). *Bakersfield Mall* was filed as a purported class action on behalf of all LLCs operating solely in California. A second lawsuit that is virtually identical to *Bakersfield Mall* also seeks to proceed as a class action. *CA-Centerside II, LLC v. Franchise Tax Board* (Fresno County Superior Court, Case No. 10 CECG00434). The cases are coordinated for hearing in San Francisco as the *Franchise Tax Board LLC Tax Refund Cases,* Judicial Council Proceeding No. 4742. The coordination trial judge denied the plaintiffs' joint motion for class certification and the plaintiffs appealed (Court of Appeal, First Appellate District, Case No. A140518). If this immediately appealable order is reversed and the cases proceed as class actions, the claimed refunds could be significant (in excess of $500 million).

Two pending cases challenge the state's right to require interstate unitary businesses to report their income on a combined basis while allowing intrastate unitary businesses to report the income of each business entity on a separate basis. *Harley Davidson, Inc. and Subsidiaries v. California Franchise Tax Board* (San Diego County Superior Court, Case No. 37-2001-00100846-CU-MC-CTL, Court of Appeal, Fourth Appellate District, Case No. D064241) and *Abercrombie & Fitch Co. & Subsidiaries v. California Franchise Tax Board* (Fresno County Superior Court, Case No. 12 CE CG 03408) challenge the constitutionality of Revenue and Taxation Code Section 25101.15, allowing intrastate unitary businesses the option to report their income on a separate rather than combined basis. The trial court in *Harley Davidson* ruled for the state; the Court of Appeal reversed and remanded the matter to the trial court. The California Supreme Court denied plaintiff's petition for review of a separate issue (California Supreme Court, Case No. S227652). A hearing on the parties' cross motions for summary judgment or adjudication is scheduled for November 18, 2015 in the *Abercrombie* matter. At this time, it is unknown what future fiscal impact a potential adverse ruling would actually have on corporation taxes (including potential rebates of previously collected taxes and reduced future tax revenue) because of the uncertainty regarding the number of businesses which currently pay the tax and how taxation on those companies would change as a result of an adverse ruling. However, the fiscal impact could be significant. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenues—*Corporation Tax*" for a discussion of corporation taxes. The *Harley Davidson* case also raises the issue raised in the *Gillette* case regarding modification of the apportionment formula for multi-state businesses; resolution of this issue in *Harley Davidson* has been deferred to await the outcome of the issue in *Gillette* (discussed above).

Environmental Matters

In *Consolidated Suction Dredge Mining Cases (Karuk Tribe v. DFG)* (coordinated for hearing in San Bernardino County Superior Court, Case No. JCPDS4720), environmental and mining interests challenge the state's regulation of suction dredge gold mining. The Legislature placed a moratorium on all suction dredging until certain conditions are met by the Department of Fish and Wildlife. Plaintiffs, who have pled a class action but have yet to seek certification, claim that as many as 11,000 claims, at a value of $500,000 per claim, have been taken. A trial

on some claims is scheduled for January 2016, while damage claims for alleged taking of property are stayed.

In related actions, *City of Colton v. American Promotional Events, Inc., et al.* (Los Angeles County Superior Court, Case No. BC 376008) and *Emhart Industries v. Regional Water Quality Control Board* (Los Angeles County Superior Court, Case No. BC 472949), defendants in actions involving liability for contaminated groundwater have filed cross complaints seeking indemnification from the state and the Regional Water Quality Control Board in an amount in each case of up to $300 million.

Escheated Property Claims

In *Taylor v. Chiang* (U.S. District Court, Eastern District, Case No. S-01-2407 WBS GGH), plaintiffs claim that the state's unclaimed property program violates the United States Constitution and various federal and state laws. Although the case is styled as a class action, no class has been certified. The district court granted the state's motion to dismiss plaintiffs' claims. Plaintiffs appealed this ruling to the Ninth Circuit, and the Ninth Circuit upheld the dismissal of the claims. Plaintiffs filed a petition for certiorari in the United States Supreme Court (U.S. Supreme Court Docket No. 15-169).

Action Seeking Damages for Alleged Violations of Privacy Rights

In *Gail Marie Harrington-Wisely, et al. v. State of California, et al.* (Los Angeles County Superior Court, Case No. BC 227373), plaintiffs seek damages, asserting that the use by the California Department of Corrections and Rehabilitation ("CDCR") of a body-imaging machine to search visitors entering state prisons for contraband violated the rights of the visitors. This matter was certified as a class action. The trial court granted judgment in favor of the state, and plaintiffs' initial appeal was dismissed (Court of Appeal, Second Appellate District, Case No. B190431). The parties agreed to a stipulated judgment and dismissed the case subject to further review if CDCR decided to use similar technology in the future. Plaintiffs filed another appeal of the dismissal of the damage claims and the appellate court reversed in part, remanding some of plaintiffs' claims for damages and for attorneys' fees to the trial court (Court of Appeal, Second Appellate District, Case No. B248565). If plaintiffs had been successful in obtaining an award of damages based on the original claims, damages could have been as high as $3 billion, but given the appellate decision narrowing the claims that remain, the potential damages are likely to be far less.

Action Regarding Special Education

Plaintiffs in *Morgan Hill Concerned Parents Assoc. v. California Department of Education* (U.S. District Court, Eastern District of California, Case No. 2:11-cv-3471-KJM), challenge the oversight and operation by the California Department of Education ("CDE") of the federal Individuals with Disabilities Education Act ("IDEA"). The complaint alleges that CDE, as the designated State Education Agency, has failed to monitor, investigate, and enforce the IDEA statewide. Under the IDEA, local school districts are the Local Educational Agencies responsible for delivering special education directly to eligible students. The complaint seeks

injunctive and declaratory relief, and asks the court to retain jurisdiction to monitor the operation of the IDEA by the state.

Actions Regarding Medi-Cal Reimbursements and Fees

In *The Rehabilitation Center of Beverly Hills, et al. v. Department of Health Services, et al.* (Sacramento County Superior Court, Case No. 06CS01592), plaintiffs challenge a quality assurance fee ("QAF") charged to skilled nursing facilities that was enacted in 2004, alleging violations of the federal and state constitutions and state law. Funds assessed under the QAF are made available, in part, to enhance federal financial participation in the Medi-Cal program. Plaintiffs seek a refund of fees paid. The QAF amounts collected from all providers is approximately $2.6 billion, and California has received additional federal financial participation based on its imposition and collection of the QAF. An adverse ruling could negatively affect the state's receipt of federal funds. The trial court ruled for the state, finding that the QAF is constitutionally valid. Plaintiffs appealed (Court of Appeal, Third Appellate District, Case No. C070361).

In *California Pharmacists Association, et al. v. Maxwell-Jolly, et al.* (U.S. District Court, Central District, Case No. CV09-08200), Medi-Cal pharmacy providers filed a suit challenging reimbursement rates, including the use by the California Department of Health Care Services ("DHCS") of reduced published average wholesale price data to establish reimbursement rates. Plaintiffs seek injunctive relief based on alleged violations of federal law. The district court granted a request for preliminary injunction in part and denied it in part, with respect to the use of reduced published average wholesale price data to establish reimbursement rates. Both parties appealed to the Ninth Circuit Court of Appeals. The parties requested mediation. At this time it is unknown what fiscal impact this case would have on the state's General Fund.

Medicaid providers and beneficiaries filed four lawsuits against both the state and the federal government, seeking to enjoin a set of rate reductions (the AB 97 reductions) that were approved by the federal government effective June 1, 2011. *Managed Pharmacy Care, et al. v. Sebelius* (U.S. District Court, Central District, Case No. 2:11-cv-09211-CAS(MANx); *California Medical Assoc., et al. v. Douglas* (U.S. District Court, Central District, Case No. 2:11-cv-09688-CAS (MANx); *California Medical Transportation Assoc. Inc. v. Douglas* (U.S. District Court, Central District, Case No. 2:11-cv-09830-CAS (MANx); *California Hospital Association, et al. v. Douglas* (U.S. District Court, Central District, Case No. CV-11-09078 CAS (MRWx). The Medicaid rates at issue in the four cases include pharmacy service and prescription drugs; services provided by skilled nursing facilities that are distinct part units within a hospital; non-emergency medical transportation services; physician services; dental services; durable medical equipment; and emergency ambulance services. The district court entered a series of preliminary injunctions to prevent the rate reductions from taking effect. Both the federal and state government (DHCS) appealed to the Ninth Circuit Court of Appeals, which reversed the district court, vacated the preliminary injunctions, and remanded the case. The United States Supreme Court denied plaintiffs' petitions for certiorari. The parties are in settlement discussions.

Prison Healthcare Reform and Reduction of Prison Population

The adult prison health care delivery system includes medical health care and mental health care. There are two significant cases pending in federal district courts challenging the constitutionality of prison health care. *Plata v. Brown* (U.S. District Court, Northern District, Case No. C 01-1351 TEH) is a class action regarding the adequacy of medical health care; and *Coleman v. Brown* (U.S. District Court, Eastern District, Case No. CIV S-90-0520 KJM JFM P) is a class action regarding mental health care. A third case, *Armstrong v. Brown* (U.S. District Court, Northern District, Case No. C 94-02307 CW) is a class action on behalf of inmates with disabilities alleging violations of the Americans with Disabilities Act and Section 504 of the Rehabilitation Act. In *Plata* the district court appointed a Receiver, who took office in April 2006, to run and operate the medical health care portion of the health care delivery system. The *Plata* Receiver and the Special Master appointed by the *Coleman* court, joined by the court representative appointed by the *Armstrong* court, meet routinely to coordinate efforts in these cases. To date, ongoing costs of remedial activities have been incorporated into the state's budget process. However, at this time, it is unknown what future financial impact this litigation may have on the state's General Fund. In March 2015, the court modified its order to update and clarify the process to transition responsibility for inmate medical care back to the state. This transition process is ongoing.

In *Plata* and *Coleman*, discussed above, a three-judge panel issued orders requiring the state to meet a final population-reduction benchmark by February 28, 2016, and to implement a number of measures designed to reduce the prison population. In January, 2015, the state met this court-ordered population benchmark. The state has agreed not to pursue further court appeals.

High-Speed Rail Litigation

In *Tos, et al. v. California High-Speed Rail Authority, et al*. (Sacramento County Superior Court, Case No. 34-2011-00113919), petitioners claim that the Authority has not complied with the state high-speed rail bond act in approving plans for the high-speed rail system. The trial court ruled that the Authority's plan for funding the high-speed rail project did not comply with certain requirements in the bond act, and ordered the Authority to rescind the plan. The Court of Appeal reversed the trial court ruling and the California Supreme Court (California Supreme Court Case No. S220926) denied petitions for review. A hearing on petitioners' remaining claims in *Tos* is expected in 2016.

In *Transportation Solutions Defense and Education Fund v. California Air Resources Board* (Sacramento County Superior Court, Case No. 34-2014-80001974), a transit-advocacy group seeks to reverse a decision of the California Air Resources Board ("ARB") to include the California high-speed rail project as a greenhouse gas reduction measure in the state's AB 32 Scoping Plan Update. The petitioner seeks a declaration that appropriations by the Legislature to fund the high-speed rail project from the Greenhouse Gas Reduction Fund ("GGRF") are invalid and an injunction or writ restraining ARB, the Authority and State Controller from expending funds from the GGRF for the construction of the high-speed rail project.

In the event of a final decision adverse to the state in *Tos* or *Transportation Solutions* that prevents use of bond proceeds or cap and trade funds, it is possible that the federal government may require the state to reimburse federal funds provided for the high-speed rail project if the state fails to provide other matching funds consistent with the federal grant agreement. The potential amount of any such reimbursement cannot be determined at this time.

Action Regarding State Mandates

Petitioners in *Coast Community College District, et al. v. Commission on State Mandates* (Sacramento County Superior Court, Case No. 34-2014-80001842) assert that costs for complying with certain laws and regulations prescribing standards for the formation and basic operation of California community colleges are state-mandated costs that must be reimbursed by the state. The trial court denied the petition. Petitioners appealed (Court of Appeal, Third Appellate District, Case No. C080349). The potential amount of reimbursement for such costs cannot be determined at this time.

FINANCIAL STATEMENTS

The Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2014 (the "Financial Statements") are included as APPENDIX I to this Official Statement and incorporated into this APPENDIX A. The Financial Statements consist of an Independent Auditor's Report, a Management Discussion and Analysis, Basic Financial Statements of the state for the Year Ended June 30, 2014 ("Basic Financial Statements"), and Required Supplementary Information. Only the Basic Financial Statements have been audited, as described in the Independent Auditor's Report. A description of the accounting and financial reporting standards set by the Governmental Accounting Standards Board and used in the Basic Financial Statements is contained in Note 1 of the Basic Financial Statements.

The State Controller issues a monthly report on General Fund cash receipts and disbursements. These reports are available on the State Controller's website, and are normally released by the 10th day of every calendar month for the period ended on the last day of the prior month. The State Controller's unaudited reports of General Fund cash receipts and disbursements for the period July 1, 2014 through June 30, 2015 and July 1, 2015 through August 31, 2015 are included as EXHIBIT 2 to this APPENDIX A.

Periodic reports on revenues and/or expenditures during the fiscal year are issued by the Administration, the State Controller's Office and the LAO. The Department of Finance issues a monthly bulletin, available by accessing the internet website of the Department of Finance (www.dof.ca.gov), which reports the most recent revenue receipts as reported by state departments, comparing those receipts to budget projections. The Administration also formally updates its budget projections three times during each fiscal year, in January, May, and at the time of budget enactment. These bulletins and reports are available on the internet at websites maintained by the agencies and by contacting the agencies at their offices in Sacramento, California. Such bulletins and reports are not part of or incorporated into this APPENDIX A. Investors are cautioned that interim financial information is not necessarily indicative of results for a fiscal year. Information which may appear in this APPENDIX A from the Department of Finance concerning monthly receipts of "agency cash" may differ from the State Controller's reports of cash receipts for the same periods because of timing differences in the recording of in-transit items.

PART II

STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES

The Budget Process

The state's fiscal year begins on July 1 and ends on June 30 of the following year. The state's General Fund budget operates on a legal basis, generally using a modified accrual system of accounting for its General Fund, with revenues credited in the period in which they are measurable and available and expenditures debited in the period in which the corresponding liabilities are incurred.

The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under state law and the state constitution, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected resources for the ensuing fiscal year. Following the submission of the Governor's Budget, the Legislature takes up the proposal. As required by the Balanced Budget Amendment ("Proposition 58") adopted by the voters in 2004, beginning with fiscal year 2004-05, the Legislature may not pass a budget bill in which General Fund expenditures exceed estimated General Fund revenues and beginning fund balances at the time of the passage and as set forth in the budget bill. Proposition 58 also provides for mid-year adjustments in the event that the budget falls out of balance and the Governor calls a special legislative session to address the shortfall. Proposition 58 prohibits the use of general obligation bonds, revenue bonds, and certain other forms of borrowing to cover fiscal year end budget deficits. The restriction does not apply to certain other types of borrowing, such as: (i) short-term borrowing to cover cash shortfalls in the General Fund (including RANs or RAWs), or (ii) inter-fund borrowings.

Under the state Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of annual expenditure appropriations is the annual budget act as approved by the Legislature and signed by the Governor (each a "Budget Act"). Pursuant to Proposition 25, enacted in 2010, the Budget Act (and other appropriation bills/"trailer bills" which are part of a budget package) must be approved by a majority vote of each House of the Legislature, rather than the previously required two-thirds vote, and legislators must forfeit their pay if the Legislature fails to pass the budget bill on time. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the state Constitution. Funds necessary to meet an appropriation are not required to be in the State Treasury at the time an appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

The General Fund

The moneys of the state are segregated into the General Fund and over 1,000 other funds, including special, bond and trust funds. The General Fund consists of revenues received by the

State Treasury and not required by law to be credited to any other fund, as well as earnings from the investment of state moneys not allocable to another fund. The General Fund is the principal operating fund for the majority of governmental activities and is the depository of most of the major revenue sources of the state. For additional financial data relating to the General Fund, see the State Controller's unaudited report of General Fund cash receipts and disbursements attached to this APPENDIX A as EXHIBIT 2 and the audited financial statements in APPENDIX I to this Official Statement. See also the other information in "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES" and "FINANCIAL STATEMENTS."

The General Fund may be expended as a consequence of appropriation measures enacted by the Legislature and approved by the Governor (including the annual Budget Act), as well as appropriations pursuant to various constitutional authorizations and initiative statutes. See "STATE FINANCES—OTHER ELEMENTS—State Appropriations Limit."

Because the principal of and interest on the securities being offered in this Official Statement are payable primarily or secondarily from moneys in the General Fund, and not from special, bond and trust funds of the state, the description of state finances in this APPENDIX A primarily includes information relating to revenues and expenditures of, or moneys available for transfer to, the General Fund.

Restrictions on Raising or Using General Fund Revenues

Over the years, a number of laws and constitutional amendments have been enacted, often through voter initiatives, which have reduced the state's budgetary flexibility by making it more difficult for the state to raise taxes or restricting or earmarking the use of tax revenues.

For example, Proposition 13, passed in 1978, makes it more difficult for the state to raise taxes by requiring that any change in state taxes enacted for the purpose of increasing revenues, whether by increased rates or changes in computation, be approved by a two-thirds vote in each house of the Legislature. More recently, in 2010 the voters approved Proposition 26, which specifies that a two-thirds vote of both houses of the Legislature is required for any increase in any tax on any taxpayer, eliminating the prior practice where a tax increase coupled with a tax reduction could be adopted by majority vote. It also provides that any increase in a fee beyond the amount needed to provide the specific service or benefit is deemed a tax requiring two-thirds vote. A related measure, Proposition 4, approved in 1979, limits government spending by establishing an annual limit on the appropriation of proceeds of taxes.

Several recent initiatives have earmarked certain taxes or funds for specific expenditures. For example, in 2012, voters approved Proposition 30, which provided temporary increases in personal income tax rates for high-income taxpayers and a temporary increase in the state sales tax rate, and specified that the additional revenues will support K-12 public schools and community colleges as part of the Proposition 98 guarantee. Proposition 30 also placed into the state Constitution the current statutory provisions transferring 1.0625 percent of the state sales tax to local governments to fund the "realignment" program for many services including housing criminal offenders. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue."

Proposition 98, enacted in 1988, directs a minimum portion of General Fund revenues to support K-12 schools and community colleges. In 2002, the voters approved Proposition 49 which requires the state to expand funding for before and after school programs in the state's public elementary, middle and junior high schools. Since fiscal year 2006-07, these after school programs have been funded at $550 million annually. These funds are part of the Proposition 98 minimum funding guarantee for K-14 education and expenditures can only be reduced in certain low revenue years. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—*K-12 Education and Proposition 98*."

In 1998, Proposition 10 raised taxes on tobacco products and mandated how the additional revenues would be expended. In 2004, the voters approved Proposition 63 which imposes a 1 percent tax surcharge on taxpayers with annual taxable income of more than $1 million for purposes of funding and expanding mental health services. Proposition 63 prohibits the Legislature or the Governor from redirecting these funds or from reducing General Fund support for mental health services below the levels provided in fiscal year 2003-04. Another measure affecting tax receipts was Proposition 39 (2012), discussed below under "Sources of Tax Revenue – Corporation Tax."

Sources of Tax Revenue

The following is a summary of the state's major tax revenues and tax laws. Further information on state revenues is available under "CURRENT STATE BUDGET." In fiscal year 2015-16, approximately 98.5 percent of the state's General Fund revenues and transfers were derived from personal income taxes, corporation taxes, and sales and use taxes. The bar chart below shows total General Fund revenues and transfers by the three major revenue sources, and all other revenues and transfers, for a ten-year period.

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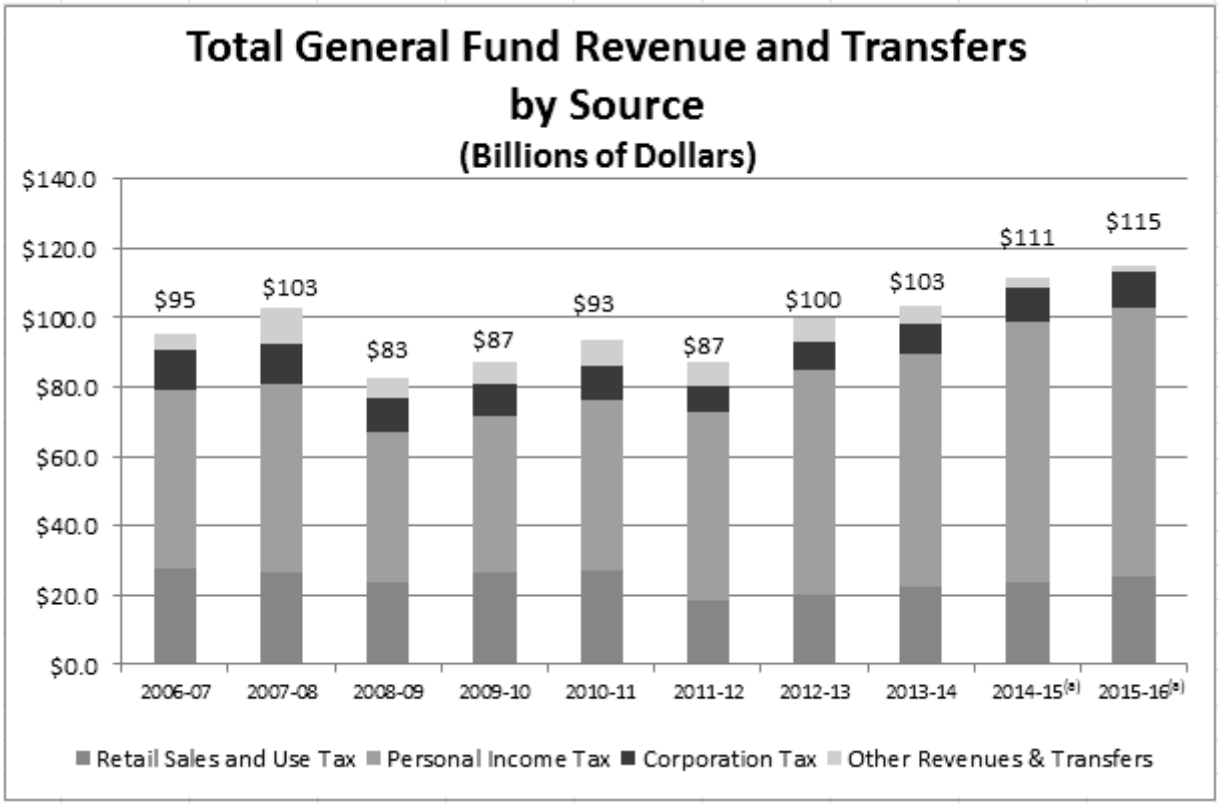

(a) Estimated.

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The following table contains certain summary information concerning major General Fund revenue sources for a ten-year period:

TABLE 7
General Fund Revenues and Transfers
(Includes Percentage of Total General Fund Revenues and Transfers)
(Dollars in Millions)

Fiscal Year	Personal Income Tax		Sales & Use Tax		Corporate Income Tax		Other Revenues and Transfers		Total
2006-07	$51,971	*54%*	$27,445	*29%*	$11,158	*12%*	$4,841	*5%*	$ 95,415
2007-08	54,182	*53*	26,613	*26*	11,849	*12*	9,930	*10*	102,574
2008-09	43,376	*52*	23,753	*29*	9,536	*12*	6,107	*7*	82,772
2009-10	44,852	*52*	26,741	*31*	9,115	*10*	6,333	*7*	87,041
2010-11	49,445	*53*	26,983	*29*	9,614	*10*	7,447	*8*	93,489
2011-12	54,261[(b)(c)]	*62*	18,658[(d)]	*21*	7,233	*8*	6,919[(f)]	*8*	87,071
2012-13	64,484[(c)]	*65*	20,482[(c)]	*20*	7,783[(e)]	*8*	7,166	*7*	99,915
2013-14	67,025[(c)]	*65*	22,263[(c)]	*22*	9,093[(e)]	*9*	4,994	*5*	103,375
2014-15[(a)]	75,384[(c)]	*68*	23,684[(c)]	*21*	9,809[(e)]	*9*	2,430[(g)]	*2*	111,307
2015-16[(a)]	77,700[(c)]	*68*	25,240[(c)]	*22*	10,342[(e)]	*9*	1,751[(g)]	*2*	115,033

(a) Estimated.

(b) Reflects the expiration of a temporary 0.25 percent surcharge and the reduced dependent exemption credit for the 2009 and 2010 tax years. These two changes decrease General Fund revenues by an estimated $3.537 billion in fiscal year 2011-12.

(c) Reflects the passage of Proposition 30, which temporarily increases tax rates on the highest income Californians, and temporarily increases the sales and use tax rate by 0.25 percent. Since higher personal income tax rate applies to income received in 2012, a majority of the expected new revenue for that year is allocated to fiscal year 2011-12, although the cash receipts did not begin occurring until December 2012.

(d) Reflects a decrease in the Sales & Use Tax rate from 6 percent to 5 percent (rate was temporarily increased from 5 percent to 6 percent from April 1, 2009 through June 30, 2011) and realignment of revenues related to shifting 1.0625 percent of the Sales & Use Tax rate to the Local Revenue Fund 2011. These two changes decrease General Fund revenues by roughly $10 billion annually.

(e) Reflects the passage of Proposition 39, which requires single sales factor apportionment for most multi-state businesses. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue—*Corporation Tax*."

(f) Reflects the expiration of a temporary 0.5 percent increase in the vehicle license fee rate (rate was increased from 0.65 percent to 1.15 percent, effective May 19, 2009 through June 30, 2011), decreasing General Fund revenues by an estimated $1.330 billion in fiscal year 2011-12.

(g) Reflects transfer of $1.606 billion in fiscal year 2014-15 and $1.854 billion in fiscal year 2015-16 from the General Fund to the BSA for rainy day purposes.

Percentages may not add to 100 percent because of rounding.

Source: State of California, Department of Finance.

1. Personal Income Tax

The California personal income tax is closely modeled after the federal income tax law. It is imposed on net taxable income (gross income less exclusions and deductions), with rates ranging from 1 percent to 12.3 percent. In addition, a 1 percent surcharge is imposed on taxable income above $1 million and proceeds from such tax are dedicated to the Mental Health Services Fund. The personal income tax brackets, along with other tax law parameters, are adjusted annually by the change in the consumer price index to prevent taxpayers from being pushed into higher tax brackets without a real increase in income. Personal, dependent, and other credits are allowed against the gross tax liability. In addition, taxpayers may be subject to an alternative minimum tax ("AMT"), which is much like the federal AMT. The personal income tax structure is considered to be highly progressive. For example, the Franchise Tax Board indicates that the top 1 percent of taxpayers paid 45.5 percent of the total personal income tax in tax year 2013.

The 2015 Budget Act revenue projections include the revenue expected from Proposition 30. This measure provides for an increase in the personal income tax rate of 1 percent for joint filing taxpayers with income above $500,000 and equal to or below $600,000; 2 percent increase for incomes above $600,000 and equal to or below $1,000,000; and 3 percent increase for incomes above $1,000,000. For single filers these tax rate increases start at incomes one-half those for joint filers. These additional rates are in effect for calendar years 2012 through 2018. The Administration estimates that the additional revenue from the three new tax brackets was $5.5 billion in fiscal year 2012-13 and $5.8 billion in fiscal year 2013-14, and is projected to be $6.6 billion in fiscal year 2014-15, and $6.8 billion in fiscal year 2015-16.

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The following table shows actual and projected tax revenues related to personal income tax for a ten year period, including a breakdown of capital gains included in that tax:

TABLE 8
Personal Income Tax General Fund Revenues (PIT)
(Includes Percentage of Total General Fund Revenues and Transfers)
Fiscal Years 2006-07 through 2015-16
(Dollars in Millions)

Fiscal Year	Capital Gains		All Other PIT		Total PIT	
2006-07	$ 9,999	*10.5%*	$41,944	*44.0%*	$51,971	*54.4%*
2007-08	8,980	*8.8*	45,254	*44.1*	54,182	*52.9*
2008-09	3,863	*4.7*	39,513	*47.7*	43,376	*52.4*
2009-10[(a)]	2,983	*3.4*	41,869	*48.1*	44,852	*51.5*
2010-11[(a)]	4,526	*4.8*	44,919	*48.1*	49,445	*52.9*
2011-12[(b)]	6,020	*6.9*	48,241	*55.6*	54,261	*62.5*
2012-13[(b)]	9,552	*9.6*	54,932	*55.3*	64,484	*64.9*
2013-14[(b)(c)]	9,027	*8.7*	57,998	*56.1*	67,025	*64.8*
2014-15[(b)(c)]	12,186	*11.0[(e)]*	63,198	*56.7[(e)]*	75,384	*67.7[(e)]*
2015-16[(b)(c)(d)]	11,659	*10.1[(e)]*	66,041	*57.4[(e)]*	77,700	*67.5[(e)]*

(a) Includes revenue from the temporary 0.25 percent surcharge on all personal income tax brackets and a reduction in the dependent exemption credit in 2009 and 2010.

(b) Includes revenue from the higher rates imposed by Proposition 30 that are dedicated to the Education Protection Account.

See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—*K-12 Education and Proposition 98*."

(c) Estimated.

(d) Revenue for 2015-16 reflects a reduction of $380 million due to the adoption of the state Earned Income Tax Credit as part of the 2015-16 Budget.

(e) Revenues and Transfers reflect transfers of $1.6 billion in fiscal year 2014-15 and $1.9 billion in fiscal year 2015-16 to the BSA.

Source: State of California, Franchise Tax Board provided calendar year estimates based on actual capital gains realizations through 2011. From 2012 onward, State of California, Department of Finance estimated calendar year capital gains based on actual capital gains realizations for 2012 and 2013 and the forecasted realizations for 2014 and forward. Fiscal year totals for capital gains shown in this table are estimated by adding 70 percent of calendar year total in first half of fiscal year to 30 percent of calendar year total in second half of fiscal year. All other information provided by State of California, Department of Finance.

Personal income tax receipts over the past few years have been impacted by changes in federal tax legislation, including increases in the rate of taxation on capital gains and a surtax on certain unearned income which went into effect on January 1, 2013. This led to the acceleration of realization of some income into calendar year 2012, for fiscal year 2012-13, which might otherwise have been received in a later fiscal year.

Taxes on capital gains realizations, which are linked to stock market and real estate performance, can add significant volatility to personal income tax receipts. For example, capital gains tax receipts accounted for nearly 12 percent of General Fund revenues and transfers in fiscal years 1999-00 and 2000-01, but dropped below 4 percent in fiscal years 2002-03 and 2009-

10. The 2015-16 Budget projects that capital gains will account for 11.0 percent of General Fund revenues and transfers in fiscal year 2014-15, and 10.1 percent in fiscal year 2015-16. See "CURRENT STATE BUDGET—Budget Risks."

2. Sales and Use Tax

The sales tax is imposed upon retailers for the privilege of selling tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions have been provided for certain essentials such as food for home consumption, prescription drugs, gas delivered through mains, and electricity. Other exemptions provide relief for a variety of sales ranging from custom computer software to aircraft.

The California use tax is imposed at the same rates as the regular sales tax on consumers of tangible personal property that is used, consumed, or stored in this state. Use tax applies to purchases from out-of-state vendors that are not required to collect tax on their sales. Use tax also applies to most leases of tangible personal property.

As of January 1, 2015, the breakdown for the uniform statewide state and local sales and use tax (referred to herein as the "sales tax") rate of 7.50 percent was as follows (many local jurisdictions have voted additional sales taxes for local purposes):

- 3.9375 percent imposed as a state General Fund tax;
- 0.25 percent dedicated to the Education Protection Account, per Proposition 30;
- 1.0625 percent dedicated to local governments for realignment purposes (Local Revenue Fund 2011);
- 0.5 percent dedicated to local governments for health and welfare program realignment (Local Revenue Fund);
- 0.5 percent dedicated to local governments for public safety services (Local Public Safety Fund);
- 1.0 percent local tax imposed under the Uniform Local Sales and Use Tax Law, with 0.25 percent dedicated to county transportation purposes and 0.75 percent for city and county general-purpose use; and
- 0.25 percent deposited into the Fiscal Recovery Fund to repay the state's ERBs (the "special sales tax"), which will be terminated as of January 1, 2016. (See below.)

Passage of Proposition 30 added a 0.25 percent additional sales tax rate from January 1, 2013 through December 31, 2016. Proposition 30 also constitutionally guarantees that the 1.0625 percent of the sales tax rate is dedicated to the cost of the realignment of certain defined public safety services programs from the state to the counties and explicitly states that this sales tax revenue does not constitute General Fund revenue for purposes of the Proposition 98

guarantee. The 1.0625 percent of the sales tax rate was expected to generate $6.2 billion in fiscal year 2014-15 and $6.6 billion in fiscal year 2015-16.

Existing law provides that 0.25 percent of the base state and local sales tax rate may be suspended in any calendar year upon certification by the Director of Finance, by November 1 in the prior year, that both of the following have occurred: (1) the General Fund reserve (excluding the revenues derived from the 0.25 percent special sales tax) is expected to exceed 3 percent of revenues in that fiscal year (excluding the revenues derived from the 0.25 percent special sales tax) and (2) actual revenues for the period May 1 through September 30 equal or exceed the previous May Revision forecast. The 0.25 percent rate will be reinstated the following year if the Director of Finance subsequently determines conditions (1) or (2) above are not met for that fiscal year. The Department of Finance estimates that the reserve level will be insufficient to trigger a reduction for calendar year 2015. See "CURRENT STATE BUDGET—Summary of State Revenues and Expenditures" for a projection of the fiscal years 2014-15 and 2015-16 General Fund reserve.

As of August 5, 2015, funds to pay all of the remaining outstanding ERBs have been set aside in several irrevocable escrow funds. Accordingly, on January 1, 2016, the special sales tax will terminate and the city and county portion of taxes under the uniform local sales and use tax will be automatically increased by 0.25 percent. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Economic Recovery Bonds." A large portion, and perhaps all, of the special sales taxes collected between August 5, 2015 and December 31, 2015, will be used to pay back cities and counties for the revenue they had foregone from the initial loss of 0.25 percent tax rate under the uniform local sales and use tax when the ERBs were first issued.

3. Corporation Tax

Corporation tax revenues are derived from the following taxes:

- The franchise tax and the corporate income tax are levied at an 8.84 percent rate on profits. The former is imposed on corporations for the privilege of doing business in California, while the latter is imposed on corporations that derive income from California sources but are not sufficiently present to be classified as doing business in the state.

- Banks and other financial corporations are subject to the franchise tax plus an additional tax at the rate of 2 percent on their net income. This additional tax is in lieu of personal property taxes and business license taxes.

- The AMT is similar to that in federal law. In general, the AMT is based on a higher level of net income computed by adding back certain tax preferences. This tax is imposed at a rate of 6.65 percent.

- A minimum franchise tax of up to $800 is imposed on corporations subject to the franchise tax but not on those subject to the corporate income tax. New corporations are exempted from the minimum franchise tax for the first year of incorporation.

- Sub-Chapter S corporations are taxed at 1.5 percent of profits.

- Fees paid by limited liability companies ("LLCs"), which account for 3.6 percent of corporation tax revenue, are considered "corporation taxes."

Six actions have been filed contending that the Legislature's modification of Revenue and Taxation Code Section 25128, which implemented the double-weighting of the sales factor in California's apportionment of income formula for the taxation of multistate business entities, is invalid and/or unconstitutional. These six actions are now consolidated in one matter and collectively referred to as *Gillette Company v. Franchise Tax Board ("Gillette").* The *Gillette* case is currently pending at the California Supreme Court. An adverse decision in this case could result in a revenue loss (from this case and for similar taxpayers) of approximately $750 million. It is likely, however, that even if the Franchise Tax Board were to ultimately lose this case, due to the expected time required for litigation, the vast majority of this revenue loss would not occur for several years. See "LITIGATION—Tax Cases."

Legislation enacted in the Budget Acts of 2008, 2009, and 2010 significantly reduced corporation tax revenues beginning in fiscal year 2011-12. However, the passage of Proposition 39 in November 2012 reverses portions of the reductions in revenue due to those tax changes. Proposition 39 amended a provision giving corporations an option on how to calculate the portion of worldwide income attributable to California. By requiring corporations to base their state tax liability on sales in California, it is estimated that state revenues increased by $666 million in fiscal year 2014-15 and $721 million in fiscal year 2015-16, and will increase almost $900 million by fiscal year 2018-19. The measure also, for fiscal years 2013-14 through 2017-18, dedicates 50 percent, up to $550 million, per year from the annual estimate of this increased income to funding of projects that create energy efficiency and clean energy jobs in California.

The legislatively enacted changes, together with Proposition 39, are expected to generate a net revenue loss of $467 million in fiscal year 2014-15 and $267 million in fiscal year 2015-16.

4. Insurance Tax

The majority of insurance written in California is subject to a 2.35 percent gross premium tax. For insurers, this premium tax takes the place of all other state and local taxes except those on real property and motor vehicles. Exceptions to the 2.35 percent rate are certain pension and profit-sharing plans which are taxed at the lesser rate of 0.5 percent, surplus lines and non-admitted insurance at 3 percent and ocean marine insurers at 5 percent of underwriting profits.

5. Other Taxes

Other general fund taxes and licenses include: cigarette taxes; alcoholic beverage taxes; horse racing license fees; and trailer coach license fees.

6. Special Fund Revenues

The state Constitution and statutes specify the uses of certain revenues. Such receipts are accounted for in various special funds. While these funds are not directly available to repay state general obligation bonds, the General Fund may, when needed to meet cash flow needs,

temporarily borrow from certain special funds. See "CASH MANAGEMENT—Inter-Fund Borrowings." In general, special fund revenues comprise three categories of income:

- Receipts from tax levies which are allocated to specified functions, such as motor vehicle taxes and fees and certain taxes on tobacco products.
- Charges for certain services provided by the state government to individuals, businesses, or organizations, such as fees for the provision of business and professional licenses.
- Rental royalties and other receipts designated for particular purposes (e.g., oil and gas royalties).

Motor vehicle-related taxes and fees are projected to account for approximately 25 percent of all special fund revenues in fiscal year 2015-16. Principal sources of this income are motor vehicle fuel taxes, registration and weight fees and vehicle license fees. In fiscal year 2015-16, $11.4 billion of special fund revenues are projected to come from the ownership or operation of motor vehicles. For a discussion of Proposition 1A of 2004, which replaced a portion of vehicle license fees with increased property tax revenues, see "STATE FINANCES—OTHER ELEMENTS—Local Governments Impacts on State Finances."

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The following table displays major special fund revenues (actual and estimated).

TABLE 9
Comparative Yield of State Taxes – Special Funds
Fiscal Years 2010-11 through 2015-16
(Modified Accrual Basis)

(Dollars in Thousands)

Fiscal Year	Sales and Use[a]	Personal Income[b]	Tobacco[c]	Insurance[d]	Motor Vehicle Fuel	Motor Vehicle Fees[e]
2010-11	$11,459,743	$1,062,520	$809,148	$230,133	$5,705,527	$5,198,006
2011-12	17,960,804	1,188,026	800,677	251,073	5,544,530	5,817,168
2012-13	19,160,335	1,684,000	778,703	21,379	5,492,850	5,838,702
2013-14	20,995,825	1,281,000	746,748	--	6,063,356	6,204,720
2014-15[f]	22,364,278	1,767,000	707,487	--	5,720,558	6,377,422
2015-16[f]	22,775,721	1,806,000	688,372	--	4,892,841	6,554,767

(a) These figures include allocations to Public Transportation Account, State Fiscal Recovery Fund, Local Public Safety Fund, and both Local Revenue Funds (1991 and 2011 Realignment), and the Bradley Burns tax, which is dedicated to city and county operations. Beginning in fiscal year 2013-14, includes revenue for a tax on Medi-Cal managed care premiums, with the rate being equal to the state General Fund sales tax rate.
(b) These figures include the revenue estimate for a 1.0 percent surcharge on taxpayers with taxable income over $1 million, with the proceeds funding mental health programs pursuant to Proposition 63.
(c) Figures include allocations to the California Children and Families First Trust Fund, Breast Cancer Fund, and the Cigarette and Tobacco Products Surtax Fund.
(d) Figures include insurance tax on Medi-Cal managed care plans from fiscal year 2010-11 through 2012-13.
(e) Registration and weight fees, motor vehicle license fees and other fees. See "STATE FINANCES—OTHER ELEMENTS—Local Governments Impacts on State Finances."
(f) Estimated for fiscal years 2014-15 and 2015-16.

Note: This table includes only revenue accruing to special funds. Some revenue sources are dedicated to local governments. This table also excludes fees, such as motor vehicle weight fees and license fees.
Source: State of California, Department of Finance.

7. Taxes on Tobacco Products

The state imposes an excise tax on cigarettes of 87 cents per pack and the equivalent rates on other tobacco products. Tobacco product excise tax revenues are earmarked as follows:

- Fifty cents of the per-pack tax on cigarettes and the equivalent rate levied on non-cigarette tobacco products are deposited in the California Children and Families First Trust Fund and are allocated primarily for early childhood development programs, pursuant to Proposition 10 (1998).

- Twenty-five cents of the per-pack tax on cigarettes and the equivalent rates levied on non-cigarette tobacco products are allocated to the Cigarette and Tobacco Products Surtax Fund, pursuant to Proposition 99 (1988). These funds are appropriated for anti-tobacco education and research, indigent health services, and environmental and recreation programs.

- Ten cents of the per-pack tax is allocated to the state's General Fund.
- The remaining two cents of the per-pack tax is deposited into the Breast Cancer Fund.

State Expenditures

The four biggest categories of state expenditures—comprising approximately 90 percent of the annual budget each year—are K-12 Education, Higher Education, Health and Human Services and Public Safety (including Corrections and Rehabilitation). Other expenditure categories are shown in Table 17 below.

1. K-12 Education and Proposition 98

General. California provides instruction and support services to roughly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. K-12 education programs are primarily funded under Proposition 98, and will receive funding of $49.4 billion from the General Fund for fiscal year 2015-16 (both Non-Proposition 98 and Proposition 98).

Proposition 98 Funding for K-12 and Community Colleges. State funding for K-12 schools and community colleges (referred to collectively as "K-14 education") is determined largely by Proposition 98, a voter-approved constitutional amendment passed in 1988. Proposition 98, as amended by Proposition 111 in 1990, is mainly comprised of a set of three formulas, or three tests, that guarantee schools and community colleges a minimum level of funding from the state General Fund and local property taxes, commonly referred to as the minimum guarantee. Which test applies in a particular year is determined by multiple factors including the level of funding in 1986-87, local property tax revenues, changes in school attendance, growth in per capita personal income, and growth in per capita General Fund revenue. The applicable test, as determined by these factors, sets the minimum funding level. Most of the factors are adjusted frequently and some may not be final for several years after the close of the fiscal year. Therefore, additional appropriations—referred to as settle-up funds—may be required to fully satisfy the minimum guarantee for prior years. Settle-up payments are made in future years at the discretion of the Legislature and the Governor.

Although the Constitution requires a minimum level of funding for education, the state may provide more or less than the minimum guarantee. If the state provides more than is required, the minimum guarantee is increased on an ongoing basis. If the state provides less than required, the minimum guarantee must be suspended in statute with a two-thirds vote of Legislature. When the minimum guarantee is suspended, the suspended amount is owed to schools in the form of a maintenance factor. A maintenance factor obligation is also created in years when the operative minimum guarantee is calculated using a per capita General Fund inflation factor (Test 3) and is lower than the calculation using a per capita personal income inflation factor (Test 2). (In Test 1 years, a fixed percentage of General Fund revenues is used in the calculation.) In both a suspension and a Test 3 year, the amount of maintenance factor obligation created is equal to the difference between the funded level and the Test 2 level.

Maintenance factor is repaid according to a Constitutional formula in years when the growth in per capita General Fund revenues exceeds the growth in per capita personal income.

The passage of Proposition 30 has temporarily created an additional source of funds for K-14 education. The newly created fund, the Education Protection Account ("EPA"), is available to offset Proposition 98 General Fund expenditures for fiscal years 2012-13 through 2018-19, freeing up General Fund resources for other purposes. See "Funding for Fiscal Years 2014-15 and 2015-16" below.

Proposition 2, approved by the voters in November 2014, creates the Public School System Stabilization Account ("PSSSA"), a special fund that serves as a Proposition 98 reserve, and requires a deposit in the PSSSA under specified conditions. These conditions are not anticipated to be met in fiscal year 2014-15 or fiscal year 2015-16. Therefore, no deposit into the PSSSA is currently anticipated.

Funding for Fiscal Years 2014-15 and 2015-16 for K-12 and Community Colleges Under Proposition 98. As shown in Table 10, the Proposition 98 minimum guarantee has increased significantly over the 2014 Budget Act estimates primarily due to increases in General Fund revenues. The 2015 Budget Act estimates the Proposition 98 minimum guarantee to be $68.4 billion in fiscal year 2015-16 and $66.3 billion in fiscal year 2014-15, increases of $7.6 billion and $5.4 billion, respectively, over the levels assumed for each of those fiscal years as of the 2014 Budget Act. The General Fund share is $49.4 billion in fiscal year 2015-16 and $49.6 billion in fiscal year 2014-15, which includes over $8 billion each year in EPA General Fund revenues. This slight decrease in General Fund from fiscal year 2014-15 to fiscal year 2015-16 is due to an increase in local property tax revenues of $2.3 billion. The local property tax revenue increase is attributable to an increase in base property tax revenues, as well as other shifts of local property tax revenues back to schools and community colleges.

The 2015 Budget Act reflects Proposition 98 General Fund expenditures in fiscal years 2013-14 through 2015-16, as outlined in the table below.

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TABLE 10
Proposition 98 Funding
(Dollars in Millions)

	2013-14		Fiscal Year 2014-15		2015-16	Change From Revised 2014-15 to Enacted 2015-16	
	Enacted[a]	**Revised**[c]	**Enacted**[b]	**Revised**[c]	**Enacted**[c]	**Amount**	**Percent**
K-12 Proposition 98							
State General Fund	$29,741	$32,463	$33,534	$36,879	$36,884	$ 5	0.0%
Education Protection Account	5,572	6,284	6,635	7,754	7,231	(523)	-6.7%
Local property tax revenue[d]	13,936	13,736	14,089	14,432	16,380	1,948	13.5%
Subtotals [e]	$49,249	$52,483	$54,258	$59,065	$60,495	$1,430	2.4%
CCC Proposition 98							
State General Fund	$ 3,053	$ 3,472	$ 3,473	$ 4,017	$ 4,407[e]	$ 390	9.7%
Education Protection Account	689	777	820	958	894	(64)	-6.7%
Local property tax revenue[d]	2,291	2,182	2,308	2,263	2,613	350	15.5%
Subtotals [e]	$ 6,033	$ 6,431	$ 6,601	$ 7,238	$ 7,914	$ 676	9.3%
Total Proposition 98							
State General Fund	$32,794	$35,935	$37,007	$40,896	$41,291	$ 395	1.0%
Education Protection Account	6,261	7,061	7,455	8,712	8,125	(587)	-6.7%
Local property tax revenue[d]	16,227	15,918	16,397	16,695	18,993	2,298	13.8%
Totals[f]	$55,282	$58,914	$60,859	$66,303	$68,409	$2,106	3.2%

[a] As of the 2013 Budget Act, adopted on June 27, 2013.

[b] As of the 2014 Budget Act, adopted on June 20, 2014.

[c] As of the 2015 Budget Act, adopted on June 24, 2015.

[d] Beginning in fiscal year 2011-12, local property tax revenues include amounts shifted to schools as a result of the elimination of redevelopment agencies. Fiscal years 2013-14, 2014-15, and 2015-16 include the one-time distribution of cash assets held by redevelopment agencies.

[e] Beginning in fiscal year 2015-16, the community college amount includes $500 million for the K-14 Adult Education Block Grant.

[f] Totals may not add due to rounding.

Source: State of California, Department of Finance.

Future Obligations. As explained above under "General," there are two forms of future obligations for the state General Fund which may be created under Proposition 98: maintenance factor and settle-up payments. Both of these obligations have been implemented in years leading up to fiscal year 2015-16. The following table shows the estimated Proposition 98 future obligations as of the 2015 Budget Act:

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TABLE 11
Proposition 98 Future Obligations Balances

(Dollars in Millions)

	Fiscal Year				
Year-End Balances:	**2011-12 Estimated[a]**	**2012-13 Estimated[a]**	**2013-14 Estimated[a]**	**2014-15 Estimated[a]**	**2015-16 Estimated[a]**
Maintenance Factor	$10,606	$5,828	$6,157	$743	$772
QEIA Settle-up[b]	410	410	410	0	0
Other Settle-Up	1,512	1,512	1,512	1,512[c]	1,256

[a] Proposition 98 factors and appropriations have been certified through fiscal year 2008-09.

[b] The Quality Education Improvement Act ("QEIA") enacted the settlement of a lawsuit concerning the proper amount of the guarantee in fiscal years 2004-05 and 2005-06 that obligated the state to pay a total of $2.7 billion in settle-up based on a statutory repayment plan. The final payment was made in fiscal year 2014-15.

[c] Included in "Underfunding of Proposition 98" in Table 6.

Note: Proposition 98 budgetary deferrals are not included in this Table. The 2014 Budget Act included deferral payments of $5.2 billion: $662 million made toward the deferral balance in fiscal year 2014-15 and additional payments of $4.5 billion made in fiscal year 2014-15 toward deferral balances in fiscal years 2012-13 and 2013-14. In addition, a trigger mechanism included in the 2014 Budget Act resulted in the remaining deferral balance of $992 million being paid in fiscal year 2014-15. In total, these payments eliminated the remaining deferral balance at the end of fiscal year 2014-15.

Maintenance factor payments are included in the multi-year projection (as shown in Table 3) developed by the Department of Finance based on factors known as of the 2015 Budget Act. The maintenance factor balance is adjusted by average daily attendance and per capita personal income growth each year. A payment of $5.4 billion, as required by Constitutional formula, is built into fiscal year 2014-15.

No maintenance factor payment was required in fiscal year 2013-14 and none is projected in fiscal years 2015-16, 2016-17 or 2017-18.

2. Higher Education

California has a comprehensive system of public higher education comprised of three segments: the California Community Colleges ("CCCs"), the California State University System and the University of California.

As discussed above, the state funds its community colleges under Proposition 98, and the 2015-16 Budget provides an estimated $7.9 billion Proposition 98 funds for community colleges (consisting of both General Fund moneys and local property taxes). There are 112 community college campuses operated by 72 community college districts, which provide associate degrees and certificates to students. Additionally, students may attend CCCs to meet basic skills and other general education requirements prior to transferring to a four-year undergraduate institution. The CCCs awarded 190,353 associate degrees and certificates in the 2013-14 school year. For the 2013-14 school year, approximately 1.1 million full-time equivalent students were enrolled at CCCs.

The California State University provides undergraduate and graduate degrees, awarding 103,637 degrees in the 2013-14 school year. The California State University enrolled 370,585 full-time students at 23 campuses in the 2013-14 school year.

The University of California provides undergraduate, graduate and professional degrees to students, awarding 62,919 degrees in the 2013-14 school year. The ten University of California campuses and the Hastings College of Law enrolled 243,315 full time students in the 2013-14 school year.

The following table summarizes the General Fund support for the three units of state higher education:

TABLE 12
Higher Education
General Fund Expenditures
(Dollars in Billions)

Fiscal Year	CSU[(a)(b)]	UC[(c)]	CCC
2011-12	$2.0	$2.3	$3.3
2012-13	2.3	2.4	3.9
2013-14	2.6	2.8	4.2
2014-15	3.0	3.0	5.0
2015-16	3.3	3.2	5.3

(a) Includes CSU Retired Annuitants Health Benefits
(b) Includes General Obligation debt service costs beginning in fiscal year 2014-15
(c) Includes General Obligation debt service costs beginning in fiscal year 2013-14

3. Health and Human Services

Medi-Cal. Medi-Cal, California's Medicaid program, is a health care entitlement program for low-income individuals and families who receive public assistance or otherwise lack health care coverage. Medi-Cal serves approximately 32 percent of all Californians.

Average monthly caseload in Medi-Cal is projected to be 12.1 million in fiscal year 2014-15. Caseload is expected to increase in fiscal year 2015-16 by approximately 303,000, or 2.5 percent, to 12.4 million people. The significant increase in caseload and total expenditures (particularly federal funds) in the last two years is largely due to the implementation of federal health care reform.

The following table shows Medi-Cal expenditures.

TABLE 13
Medi-Cal Expenditures

(Dollars in Billions)

Fiscal Year	General Fund	Other State Funds	Federal Funds	Total[a]
2011-12	$15.2	$2.1	$26.4	$43.7
2012-13	15.0	6.4	28.5	49.9
2013-14	16.6	5.7	34.1	56.4
2014-15[b]	17.7	9.6	55.0	82.3
2015-16[b]	18.2	14.1	59.2	91.5

[a] Totals may not add due to rounding.

[b] Estimated.

Litigation is pending with respect to certain cost reductions implemented by the state. See "LITIGATION—Actions Regarding Medi-Cal Reimbursements and Fees."

Health Care Reform. California continues its implementation of the federal Affordable Care Act (ACA). Since January 1, 2014, more than 5 million Californians have obtained health insurance, either through the state's new insurance exchange (Covered California) or through the two part (mandatory and optional) expansion of Medi-Cal. The mandatory Medi-Cal expansion simplified eligibility, enrollment, and retention rules that make it easier to get on and stay on the program. The 2015 Budget Act includes costs of $2.9 billion in fiscal year 2015-16 related to the mandatory expansion. California will split these costs with the federal government, with $1.4 billion of such costs expected to be paid from the General Fund. The mandatory expansion caseload is estimated to be 1.4 million in fiscal year 2015-16.

The optional expansion extended eligibility to adults without children, and parent and caretaker relatives with incomes up to 138 percent of the federal poverty level. The 2015 Budget Act includes costs of $14 billion in fiscal year 2015-16 for the optional Medi-Cal expansion. The federal government has committed to pay nearly 100 percent of the costs of this expansion for the first three years. California will begin contributing to these costs in fiscal year 2016-17 with California's contribution gradually increasing each fiscal year until fiscal year 2020-21, when the state will pay 10 percent of the total costs. By fiscal year 2020-21, the General Fund share for the optional expansion is estimated to be $1.7 billion. The 2015 Budget Act projects optional expansion caseload to be 2.3 million in fiscal year 2015-16.

In-Home Supportive Services (IHSS). The IHSS program provides domestic and related services such as housework, transportation, and personal care services to eligible low-income aged, blind, or disabled persons. These services are provided to assist individuals to remain safely in their homes and prevent institutionalization.

The following table shows IHSS caseload and related General Fund expenditures.

TABLE 14
IHSS Expenditures

(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2011-12	432,650	$1.7
2012-13	443,264	1.7
2013-14	425,526	1.9
2014-15[(a)]	446,341	2.2
2015-16[(a)]	467,000	2.8[(b)]

(a) Estimated.

(b) The increase in estimated fiscal year 2015-16 General Fund expenditures is primarily due to (1) assumed implementation of federal Department of Labor overtime regulations for IHSS in fiscal year 2015-16; (2) one-time General Fund restoration of prior 7 percent across-the-board reduction to authorized hours of service; and (3) growth in caseload and average service hours per case.

CalWORKs. The California Work Opportunity and Responsibility to Kids ("CalWORKs") program, the state's version of the federal Temporary Assistance for Needy Families ("TANF") program, provides temporary cash assistance to low-income families with children to meet basic needs, such as shelter, food, and clothing. CalWORKs includes specific welfare-to-work requirements and provides supportive services, including child care, to enable adult participants to meet these requirements. Eligibility requirements and benefit levels are established by the state, but counties have flexibility in program design, services, and funding to meet local needs. The federal government pays a substantial portion of welfare benefit costs, subject to a requirement that states provide significant matching funds. Federal law imposes detailed eligibility and programmatic requirements in order for states to be entitled to receive federal funds. Federal law also imposes time limits on program availability for individuals, and establishes certain work requirements. Consistent with the federal law, CalWORKs contains time limits on the receipt of welfare aid. The centerpiece of CalWORKs is the linkage of eligibility to work participation requirements.

The state annually receives a TANF block grant allocation of $3.7 billion from the federal government. To qualify for the TANF funds, the state is required to annually expend a "Maintenance of Effort," which is currently $2.9 billion.

Under federal law, states are required to demonstrate a 50 percent work participation rate among all TANF-aided families. The federal government determined that California failed to meet this requirement for federal fiscal years ("FFYs") 2007 through 2012, and the state is therefore subject to a penalty. The federal government waived the penalty for FFY 2007 and the state is seeking relief from the FFYs 2008, 2009, 2010, 2011, and 2012 penalties, estimated to be approximately $47.7 million, $113.6 million, $179.7 million, $246.1 million, and $312 million, respectively. On June 24, 2014, the federal government approved the state's corrective compliance plan which requires California to meet or exceed federal work participation rate requirements by September 30, 2015, to avoid incurring fiscal penalties.

The following table shows CalWORKs caseload and General Fund expenditures.

TABLE 15
CalWORKs Expenditures

(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2011-12[a]	575,988	$1.2
2012-13	559,920	1.5
2013-14[b]	550,928	1.2
2014-15[c] [d]	539,113	0.7
2015-16[c] [d]	525,189	0.7

[a] Beginning in fiscal year 2011-12, CalWORKs General Fund expenditures reflect a $1.1 billion ongoing annual savings as a result of redirecting fiscal year 1991-92 realignment revenues from mental health to fund CalWORKs grants, pursuant to Chapter 13, Statutes of 2011.

[b] Reflects approximately $300 million General Fund savings through redirecting a portion of fiscal year 1991-92 realignment revenues from indigent health to CalWORKs, pursuant to Chapter 24, Statutes of 2013.

[c] Reflects anticipated General Fund savings of $725 million in fiscal year 2014-15 and $742 million in fiscal year 2015-16 from redirecting a portion of fiscal year 1991-92 realignment revenue from indigent health to CalWORKs.

[d] Estimated.

SSI/SSP. The federal Supplemental Security Income ("SSI") program provides a monthly cash benefit to eligible seniors and persons with disabilities who meet the program's income and resource requirements. In California, the SSI payment is augmented with a State Supplementary Payment ("SSP") grant. The 2015 Budget Act includes approximately $2.8 billion for the SSI/SSP program from the General Fund for fiscal year 2015-16, 0.8 percent more than the revised fiscal year 2014-15 funding level. The average monthly caseload in this program is estimated to be 1.3 million recipients in fiscal year 2015-16, a 0.6 percent increase over the revised fiscal year 2014-15 projected level.

Developmental Services. The Department of Developmental Services (DDS) provides consumers with developmental disabilities a variety of services and supports that allow them to live and work independently or in supported environments. DDS serves approximately 290,000 individuals in the community and approximately 1,000 individuals in three state-operated developmental centers.

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The following table shows the caseload and related General Fund expenditures for the Department of Developmental Services (excluding capital outlay and Proposition 98 funding).

TABLE 16
Department of Developmental Services Expenditures
(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2011-12	251,076	$2.556
2012-13	257,557	2.656
2013-14	275,337	2.797
2014-15[(a)]	280,570	3.135
2015-16[(a)]	290,966	3.515

[(a)] Estimated.

Special Session on Health Care Financing. On June 16, 2015, the Governor called a special session to address the financing of Medi-Cal, IHSS, and developmental disability services. Since 2005, the state has levied a tax on Medi-Cal managed care plans to increase payments to Medi-Cal providers and offset health care costs that would otherwise be paid from the General Fund. The state's current managed care organization (MCO) tax structure, which expires on June 30, 2016, does not comply with new federal requirements that such a tax be broad-based and not limited narrowly to Medi-Cal plans. In the special session, the Governor proposed permanent and sustainable funding beginning in fiscal year 2016-17 to provide at least $1.1 billion annually to stabilize the state's General Fund costs for Medi-Cal, sufficient funding to continue the restoration of a 7 percent reduction of In-Home Supportive Services hours, and funding for additional provider payment increases for providers of Medi-Cal and developmental disability services. The funding could come from a proposed modified MCO tax and/or alternative revenue sources.

4. Public Safety

General. CDCR operates 37 youth and adult correctional facilities and 44 youth and adult camps as well as numerous other facilities. The CDCR also contracts for multiple adult parolee service centers and community correctional facilities. The CDCR's infrastructure includes more than 42 million square feet of building space on more than 24,000 acres of land (37 square miles) statewide. The 2015 Budget Act assumes an average daily adult inmate population of 127,990 in fiscal year 2015-16 and an average daily adult parole population of 44,570 in fiscal year 2015-16.

The 2015 Budget Act includes total expenditures (excluding capital outlay) of $10.2 billion ($9.9 billion from the General Fund) for CDCR, including salaries and benefits of approximately $7.4 billion. The 2015 Budget Act continues to include savings from the implementation of Chapter 15, Statutes of 2011 (AB 109). This legislation shifted responsibility for short-term, lower-level offenders from the state to county jurisdictions. In addition, counties are responsible for community supervision of lower-level offenders upon completion of their prison sentences.

Ruling Concerning Prison Population. Pursuant to various rulings issued by a panel of three federal judges (some affirmed by the United States Supreme Court), the state was ordered to reduce its prison population to 137.5 percent of the system's design capacity by February 28, 2016. In January 2015, CDCR met this court-ordered population benchmark because of successful implementation of a variety of court-ordered population reduction measures and approval of Proposition 47 by the voters in November 2014, which required reclassification of certain felonies to misdemeanors (and related resentencing).

Litigation Concerning Prison Medical Care Services. The federal receiver, the court appointed individual who oversees the CDCR's medical operations (the "Receiver"), has plans for the design and construction of additional facilities and improvements to existing facilities for inmates with medical or mental health care needs. All of these projects will be constructed at existing state correctional institutions.

The 2015 Budget Act includes $1.8 billion from the General Fund for the Receiver's Medical Services and Pharmacy Programs, compared to the 2014 Budget Act, which totaled $1.6 billion from the General Fund.

Citing "significant progress" in improving California's prison medical care, a federal District Court judge in January 2012 ordered California officials to begin planning for the end of the federal Receivership of the state's prison medical programs. On March 10, 2015, the court modified its order to update and clarify the process to transition responsibility for inmate medical care back to the state. This transition process is ongoing.

Five-Year Expenditure Summary

The following table summarizes the major categories of state expenditures, including both General Fund and special fund programs for fiscal years 2009-10 through 2013-14. The information for fiscal year 2014-15 will be part of the State Controller's Budgetary/Legal Basis Annual Report, which is expected to be released by March 2016, coinciding with release of the Audited General Purpose Financial Statements of the State for the Year Ended June 30, 2015.

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TABLE 17
Governmental Cost Funds (Budgetary Basis)
Schedule of Expenditures by Function and Character
Fiscal Years 2009-10 to 2013-14

(Dollars in Thousands)

Function	Fiscal Year 2009-10[e][f]	2010-11[e][f][g]	2011-12[e]	2012-13[e]	2013-14[e]
Legislative, Judicial, Executive					
Legislative	$ 323,371	$ 325,244	$ 331,052	$ 329,903	$ 345,319
Judicial	2,606,012	3,742,539	3,360,882	2,961,759	3,257,190
Executive	1,615,119	1,810,506	1,543,381	1,548,666	1,879,794
State and Consumer Services [a]	1,079,608	1,173,185	1,249,034	1,275,754	622,493
Business, Transportation and Housing					
Business and Housing [a]	215,295	227,899	239,838	211,466	90,082
Transportation[b]	7,178,962	7,109,753	5,452,535	5,950,645	7,389,121
Natural Resources	3,307,987	3,414,859	3,358,016	3,505,612	3,431,142
Environmental Protection	831,753	962,109	1,027,911	907,427	1,000,477
Health and Human Services	31,129,184	41,642,841	41,359,564	44,613,839	46,257,581
Public Safety Programs	7,860,690	9,514,121	7,892,864	8,530,717	9,111,239
Education					
Education – K through 12	33,850,883	33,193,396	32,755,642	39,789,023	38,742,395
Higher Education	9,735,095	10,623,763	9,256,322	9,055,279	10,659,644
Labor and Workforce Development	374,059	370,993	700,449	710,343	726,075
Government Operations [a]	--	--	--	--	888,422
General Government					
General Administration	1,711,273	1,757,991	1,712,184	1,948,034	1,851,530
Debt Service	6,049,251	6,222,307	6,561,871	5,721,714	6,305,806
Tax Relief	438,725	438,082	434,385	427,285	421,734
Shared Revenues	2,151,407	2,231,710	1,997,607	3,660,110	2,082,676
Other Statewide Expenditures	54,058	1,330,757	1,453,787	1,365,657	1,109,007
Expenditure Adjustment for Encumbrances [c]	1,785,703	18,316	2,195,656	(136,097)	30,739
Credits for Overhead Services by General Fund	(362,614)	(417,786)	(485,301)	(592,314)	(642,848)
Statewide Indirect Cost Recoveries	(80,454)	(100,543)	(109,807)	(132,847)	(133,400)
Total	$ 111,855,367	$ 125,592,042	$ 122,287,872	$ 131,651,975	$ 135,426,218
Character					
State Operations	$ 36,673,078	$ 40,451,395	$ 39,579,635	$ 39,122,859	$ 39,266,400
Local Assistance [d]	72,795,422	84,254,039	81,820,212	91,890,033	95,620,340
Capital Outlay	2,386,867	886,608	888,025	639,083	539,478
Total	$ 111,855,367	$ 125,592,042	$ 122,287,872	$ 131,651,975	$ 135,426,218

[a] The Governor's Reorganization Plan (GRP), which became operative on July 1, 2013, cut the number of state agencies from twelve to ten and eliminated or consolidated dozens of departments and entities, thereby making government more efficient and reducing unnecessary spending. The GRP created a new functional category called Government Operations and several departments/functions moved around. The State and Consumer Services and the Business and Housing functions were most affected.

[b] Beginning with fiscal year 2011-12, the Department of Transportation ("DOT") changed the basis of financial reporting from a modified accrual basis to a cash basis for the State Highway Account ("Fund 0042"), the Public Transportation Account ("Fund 0046"), the Traffic Congestion Relief Fund ("Fund 3007"), the Transportation Investment Fund ("Fund 3008"), and the Transportation Deferred Investment Fund ("Fund 3093"). This change resulted in a reduction of the reported expenditures by DOT in these funds for fiscal year 2011-12 due to expenditures incurred, but not paid in fiscal year 2011-12 not being accrued, and the fiscal year 2010-11 reported accruals being reversed. Therefore, in fiscal year 2012-13, reported expenditures increased. The change to cash basis financial reporting for these funds was done at the direction of the Department of Finance, in accordance with the following statutes: Streets and Highways Code Section 183(c), for Fund 0042; Public Utilities Code Section 99310.6, for Fund 0046; Government Code Section 14556.5(b), for Fund 3007; Revenue and Taxation Code Section 7104.3, for Fund 3008; and Revenue and Taxation Code Section 7105(g), for Fund 3093.

(Footnotes Continued on Following Page)

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(c) Large variances between fiscal years are normal. Fiscal years 2009-10, 2010-11 and 2011-12 variances are due to the prior year reversal of over encumbered expenditures. In fiscal years 2011-12 and 2012-13 the change to cash basis financial reporting by the DOT in Funds 0042, 0046, 3007, 3008, and 3093 accounts for most of the large variance between the two fiscal years.

(d) In fiscal year 2009-10, Proposition 1A of 2004 was suspended when Governor Schwarzenegger declared a fiscal emergency allowing the state to offset local assistance expenditures with $1.9 billion of property tax revenue borrowed from the local governments. The state repaid the obligation, plus interest, in June 2013. Additionally, $1.7 billion of local property tax revenues were shifted to offset General Fund costs in fiscal year 2009-10, $350 million were shifted in fiscal year 2010-11 and in fiscal year 2011-12 another $43 million were shifted.

(e) Executive Orders 10/11-A, 11/12-A, 12/13-A, 13/14-A and 14/15-A were issued by the Department of Finance, as authorized under Control Section 12.45 of the Budget Acts of 2009, 2010, 2011, 2012 and 2013, respectively, and pursuant to Government Code Sections 12472.5 and 13302, to defer the June 2010, June 2011, June 2012, June 2013 and June 2014 payroll expenditures for various governmental and nongovernmental cost funds to July 2010, July 2011, July 2012, July 2013 and July 2014. This affected all state departments paid through the uniform payroll system.

(f) The Department of Conservation ("DOC") did not submit the required year-end financial statements to the State Controller's Office for fiscal years 2009-10 and 2010-11 in time to be included in the Budgetary/Legal Basis Annual Report ("BLBAR"). The DOC amounts reported in the BLBAR include the June 30, 2010 and June 30, 2011 cash balances, plus accruals, derived from actual activity reported through November 30, 2010 and December 5, 2011, respectively.

(g) The State Air Resources Board ("ARB") did not submit the required year-end statements for the Motor Vehicle Account, in the State Transportation Fund, to the State Controller's office for fiscal year 2010-11 in time to be included in the BLBAR. The Motor Vehicle Account amounts reported in the BLBAR include the ARB's June 30, 2011 cash balances plus estimated (not reconciled) accrual amounts provided by ARB.

Source: State of California, Office of the State Controller.

Budget Reserves

1. Special Fund for Economic Uncertainties

The SFEU is funded with General Fund revenues and was established to protect the state from unforeseen revenue reductions and/or unanticipated expenditure increases. The State Controller may transfer funds from the SFEU to the General Fund as necessary to meet cash needs of the General Fund and such transfers are characterized as "loans." The State Controller is required to return moneys so transferred, without payment of interest, as soon as there are sufficient moneys in the General Fund. At the end of each fiscal year, the State Controller is required to transfer from the SFEU to the General Fund any amount necessary to eliminate any deficit in the General Fund.

There is a continuous appropriation authorizing the State Controller to transfer the unencumbered balance of the General Fund to the SFEU as of the end of each fiscal year. However, if, at the end of any fiscal year in which it has been determined revenues exceed the amount that may be appropriated, then the transfer shall be reduced by the amount of the excess revenues. The estimates of the transfer shall be made jointly by the LAO and the Department of Finance. See "STATE FINANCES—OTHER ELEMENTS—State Appropriations Limit." In certain circumstances, moneys in the SFEU may be used in connection with disaster relief.

For budgeting and accounting purposes, any appropriation made from the SFEU, other than the appropriations discussed above, is deemed an appropriation from the General Fund. For year-end reporting purposes, the State Controller is required to add the balance in the SFEU to

the balance in the General Fund so as to show the total moneys then available for General Fund purposes.

See Table 1 and footnote (i) in Table 4 for information concerning the recent balances in the SFEU and projections of the balances for the previous and current fiscal years. As in any year, the Budget Act and related trailer bills are not the only pieces of legislation which appropriate funds. Updated estimates of revenues and expenditures, existing statutory requirements and additional legislation introduced and passed by the Legislature may also impact the fiscal year-end balance in the SFEU.

2. Budget Stabilization Account

Proposition 58, approved in March 2004, created the BSA as a second budgetary reserve and established the process for transferring General Fund revenues to the BSA. In fiscal year 2014-15, $1.606 billion was transferred from the General Fund to the BSA under the provisions of Proposition 58 (the balance in the BSA had been $0 since fiscal year 2008-09). Beginning with fiscal year 2015-16, however, the BSA provisions of Proposition 58 have been superseded by Proposition 2, which was approved by the voters in November 2014.

Proposition 2 provides for both paying down debt and other long-term liabilities, and saving for a rainy day by making specified deposits into the BSA. In response to the volatility of capital gains revenues and the resulting boom-and-bust budget cycles, Proposition 2 takes into account the state's heavy dependence on the performance of the stock market and the resulting capital gains. Beginning with fiscal year 2015-16, Proposition 2:

- Requires a calculation of capital gains revenues in excess of 8 percent of General Fund tax revenues that are not required to fund a Proposition 98 increase. In addition, it requires a calculation of 1.5 percent of annual General Fund revenues. The sum of the amounts so calculated will be applied for the purposes set forth below.

- Requires half of each year's calculated amount for the next 15 years be used to pay specified types of debt or other long-term liabilities. The other half must be deposited into the BSA. After the first 15 years, at least half of each year's deposit will be deposited in the BSA, with the remainder used for supplemental debt or liabilities payments at the option of the Legislature and to the extent not so used also deposited into the BSA.

- Allows the withdrawal of funds from the BSA only for a disaster or if spending remains at or below the highest level of spending from the past three years. The maximum amount that can be withdrawn in the first year of a recession is limited to half of the BSA balance.

- Creates the Public School System Stabilization Account ("PSSSA"), a special fund that serves as a Proposition 98 reserve, in which spikes in funding will be saved for future years. This will smooth school spending and thereby minimize future cuts. This reserve will make no changes to the Proposition 98 calculations, and it will not begin to operate until the existing maintenance factor is fully paid off.

- Sets the maximum size to be reserved in the BSA at 10 percent of General Fund revenues. When the amount in the BSA is equal to its then maximum size any amount that otherwise would have been deposited in the BSA may be spent only on infrastructure, including deferred maintenance.

Proposition 2 also requires that the state provide a multiyear budget forecast to help better manage the state's longer term finances.

Under current projections, Proposition 2 will result in $7.1 billion in savings and $5.5 billion in additional reductions of debts and liabilities in its first four years of operation. See Table 6. If capital gains increase above current projections during that period, even more money may go into the BSA.

STATE FINANCES – OTHER ELEMENTS

Pension Systems

The state participates in two principal retirement systems, CalPERS and CalSTRS. In each case, the state makes annual contributions from the General Fund, and additional contributions are made by other employers which are part of the systems, and by employees. The state's annual contribution to CalPERS is determined by the CalPERS Board of Administration, and depends upon a variety of factors, including future investment performance, actuarial assumptions, and additional potential changes in retirement benefits. The state's annual contribution to CalSTRS is set by statute, and the CalSTRS Board has limited authority to adjust the state's contribution. The state has always made its mandatory contributions. For fiscal year 2015-16, the state's contribution to CalPERS is $2.9 billion and its contribution to CalSTRS is $1.9 billion.

Both systems currently have unfunded liabilities in the tens of billions of dollars, and both systems have taken steps in recent years to address these gaps (such as by lowering the estimated investment return on system assets), which will result in increased state contributions in future years. Detailed information about the two retirement systems, including information regarding the unfunded liabilities of each system, is contained in EXHIBIT 1 – "PENSION SYSTEMS."

Retiree Health Care Costs

In addition to a pension, as described in EXHIBIT 1 – "PENSION SYSTEMS," the state also provides retiree health care and dental benefits to its retired employees and their spouses and dependents (when applicable), and, except as otherwise described below, utilizes a "pay-as-you-go" funding policy. These benefits are referred to as "Other Post-Employment Benefits" or "OPEB."

As of June 30, 2014, approximately 168,200 retirees were enrolled to receive health benefits and 139,000 to receive dental benefits. Generally, employees vest for those benefits after serving 10 years with the state. Additional information on the State's OPEB plan can be found in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014 included as APPENDIX I to this Official Statement.

Pursuant to the Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, the state now reports on its liability for post-employment healthcare as well as other forms of post-employment benefits, such as life insurance, in its annual financial reports. The long-term costs for the state's OPEB may negatively affect the state's financial condition and impact its credit rating if the state does not adequately manage such costs.

On December 16, 2014, the State Controller's Office released the state's latest OPEB actuarial valuation report by the private actuarial firm, Gabriel, Roeder, Smith & Company, which was tasked with calculating the state's liability for these benefits. The actuarial valuation contained in the report covers the cost estimates for existing employees, retirees and dependents. The main objective of the report was to estimate the Actuarial Accrued Liability ("AAL"), which is the present value of future retiree healthcare costs attributable to employee service earned in prior fiscal years. The report was based on a variety of data and economic, demographic and healthcare trend assumptions described in the report. The primary assumption influencing annual OPEB costs and AAL is the assumed rate of return or discount rate on assets supporting the retiree healthcare liability. Based on PMIA's historical returns, investment policy and expected future returns, a discount rate of 4.25 percent was selected for the pay-as-you-go funding policy. The economic assumptions for price and wage inflation are 2.75 percent and 3 percent, respectively.

The report looked at three different scenarios: (i) continuation of the "pay-as-you-go" policy; (ii) a "full funding" policy under which assets would be set aside to prepay the future obligations, similar to the way in which pension obligations are funded, and (iii) a "partial funding" policy, a hybrid of the two scenarios. According to the state's OPEB actuarial valuation report, as of June 30, 2014, the pay-as-you go funding policy results in an AAL of $71.81 billion as of June 30, 2014, of which $71.77 billion is unfunded. Additionally, the pay-as-you go funding policy results in an annual OPEB cost of $5.14 billion, estimated employer contributions of $1.87 billion and an expected net OPEB obligation of $22.63 billion for fiscal year 2014-15. The annual required contribution for fiscal year 2015-16 is estimated at $5.62 billion.

The actuarial liability increased from $64.58 billion as of June 30, 2013, to $71.81 billion as of June 30, 2014. If the previous assumptions had been realized, the actuarial liability would have increased to $67.99 billion as of June 30, 2014. The key factors contributing to a $3.82 billion increase in expected actuarial liabilities had the previous assumptions been realized are:

- Favorable healthcare claims experience and plan design changes, resulting in a decrease in actuarial liabilities of approximately $3.32 billion.

- Demographic experience did not change the actuarial liabilities significantly. There were most likely offsetting gains and losses that led to this minimal change. Examples of demographic experience gains include: fewer members retiring than assumed, members retiring later than assumed and members not living as long as assumed. Examples of demographic experience losses

include: more members retiring than assumed, members retiring earlier than assumed and members living longer than assumed.

- Subsequent to the June 30, 2013, GASB No. 45 actuarial valuation, CalPERS performed a fourteen-year experience study where all pension-related assumptions were reviewed. Many of the assumptions were updated to reflect actual experience over the fourteen-year period. These changes have been adopted for this valuation. The assumption changes increased liabilities by approximately $7.14 billion. The largest change was due to the updating of the mortality table used to model post-retirement deaths. Under the new assumptions members are expected to live longer. The change in demographic assumptions is the largest contributor to the loss in actuarial liability.

The valuation depended primarily on the interest discount rate assumption of 4.25% used to develop the present value of future benefits and on the assets available to pay benefits. The State Controller's Office plans to issue an actuarial valuation report annually.

The following table is the historic annual OPEB cost summary and the projected schedule of funding progress as of the valuation date for the five fiscal years indicated below:

TABLE 18
OPEB Pay-As-You-Go Funding
Fiscal Years 2010-11 to 2014-15

(Dollars in Billions)

Fiscal Year	Annual OPEB Cost	Net Employer Contribution	Percentage of Annual OPEB Cost Contribution	Net OPEB Obligation	Unfunded Actuarial Accrued Liability[(b)]	Unfunded Actuarial Accrued Liability as Percent of Payroll[(b)]
2010-11	$4.21	$1.58	38%	$9.88	$62.14	345%
2011-12	4.74	1.72	36	12.91	63.84	341
2012-13	4.99	1.78	36	16.12	64.57	358
2013-14	5.12	1.87	37	19.36	71.77	373
2014-15[(a)]	5.13	1.87	36	22.63	N/A	N/A

(a) Net employer contribution and Net OPEB Obligation estimated for fiscal year ending June 30, 2015.

(b) Amounts are projected as of the valuation date.

Source: State of California OPEB Valuation as of June 30, 2014.

The following table illustrates the state's budget for post-employment benefits from fiscal years 2010-11 to 2015-16 and does not reflect any future liability for current employees or annuitants. It is anticipated that these costs will continue to grow in the future. The employer contribution for health premiums maintains the average 100/90 percent contribution formula established in the Government Code. Under this formula, the state averages the premiums of the four largest health benefit plans in order to calculate the maximum amount the state will contribute toward each retiree's health benefits. The state also contributes 90 percent of this average for the health benefits of each of the retiree's dependents. Generally, with 10 years of service credit, employees are entitled to 50 percent of the state's full contribution. This rate

increases by 5 percent per year and with 20 years of service, the employee is entitled to the full 100/90 formula. CSU employees fully vest for the 100/90 formula at 5 years of service. Employees in bargaining unit 12, hired after January 1, 2011, are subject to a longer vesting period.

TABLE 19
Actual Costs/Budget for Other Post-employment Benefits
Fiscal Years 2010-11 through 2015-16

(Dollars in Thousands)

Fiscal Year	State Employees All Funds[c]	State Employees General Fund	CSU Employees All General Fund	Total Contributions All Funds	Total General Fund Contributions
2010-11	$1,386,839	$1,351,008	N/A	$1,386,839	$1,351,008
2011-12	1,504,928	1,466,528	N/A	1,504,928	1,466,528
2012-13	1,365,234	1,337,089	222,135	1,587,369	1,559,224[b]
2013-14	1,382,717	1,378,709	225,332	1,608,049	1,604,041
2014-15[a]	1,521,070	1,515,070	263,062	1,784,132	1,778,132
2015-16[a]	1,621,612	1,617,012	267,151	1,888,763	1,884,163

(a) Estimated Contributions.

(b) Contributions for post-employment benefits are included for all years displayed in this table. However, beginning in fiscal year 2012-13, CSU contributions are split out and identified separately.

(c) "Pay-as-you-go" contributions from General Fund and Public Employee's Contingency Reserve Fund.

Source: State of California, Department of Finance.

Three state employee bargaining units have agreements which provide for some prefunding of OPEB liabilities. These units represent a little less than 10 percent of total state unionized employees.

In accordance with state law, the Bureau of State Audits periodically identifies what it believes to be "high risk" issues facing the state. The funding of OPEB liabilities has been identified as a high-risk issue in the California State Auditor Report 2013-601 dated September 2013.

Ongoing Efforts

In 2015, the Administration initiated a comprehensive strategy to eliminate the OPEB unfunded AAL over approximately 30 years by increasing prefunding shared equally between state employers and employees and reducing the cost structure of employee and retiree health care benefits. The Administration is pursuing the prefunding strategy, as well as changes to retiree health benefits for new employees, through the collective bargaining process. Statutory language passed as part of the 2015-16 Budget contains the funding policy and framework designed to support the elimination of the unfunded AAL.

The centerpiece of the strategy is a collective bargaining proposal to negotiate contributions for OPEB prefunding equivalent to the normal costs of those benefits. The goal is to have the additional contributions equally shared between employers and employees and phased in over a three-year period. Collective bargaining began in 2015 with four bargaining

units with contracts expiring in 2015. *The Legislature has ratified labor agreements with two of the four bargaining units (negotiations with the other two units are ongoing) that represent a template for contract renewals in coming years. The unions, which represent state scientists and engineers, and the state agreed to make matching contributions to an OPEB trust fund to set aside 100 percent of the actuarially determined "normal costs." The funding schedule is phased in over three years beginning July 1, 2017. Additionally, these two unions and the state agreed that new employees hired into those unions after January 1, 2016, will be subject to a lower employer contribution for future retiree health benefits, and a longer vesting period to qualify for the retiree health care contribution.*

The Administration intends to pursue similar negotiations with other collective bargaining units upon renewal of their contracts over the next three years. The Department of Finance estimates that the state's share of prefunding for Executive Branch employees will be approximately $600 million annually once fully implemented. (The "Executive Branch" generally excludes employees in the legislative and judicial branches of the state government, as well as employees of CSU and UC. See "OVERVIEW OF STATE GOVERNMENT—Organization of State Government.")

The funding plan to eliminate the OPEB unfunded actuarial accrued liability assumes that the state continues to pay for retiree health benefits on a pay-as-you-go basis while assets are accumulated in a trust fund, and that no investment income will be used to pay for benefits until the plan is fully funded. Statutory language passed as part of the 2015-16 Budget contains the framework for this funding plan preventing the use of investment income from the retiree health care trust fund for the payment of retiree health benefits until the earlier of:

1. The date the state Bargaining Unit subaccount within the trust fund reaches a 100 percent funded ratio.

2. July 1, 2046—the date the actuarial calculation of the Administration's prefunding plan is expected to reach a 100 percent funded ratio.

Unemployment Insurance

The Unemployment Insurance ("UI") program is a federal-state program that provides weekly UI payments to eligible workers who lose their jobs through no fault of their own. To be eligible for benefits, a claimant must be able and available to work, seeking work, and be willing to accept a suitable job. The regular unemployment program is funded by unemployment tax contributions paid by employers for each covered worker.

Due to the high rate of unemployment during the recession, the employer contributions were not sufficient to cover the cost of the benefits to claimants. Commencing in January 2009, in accordance with federal law, the state began to fund deficits in the state UI Fund through a federal loan to support benefit payments. The UI Fund deficit was $9.7 billion at the end of calendar year 2013 and $8.6 billion at the end of calendar year 2014 and is projected to be $7.0 billion at the end of calendar year 2015.

Pursuant to federal law, if the state is unable to repay a loan within the same year it is taken, state funds must be used to pay the annual interest payments on the borrowed funds.

However, repayment of principal on this federal UI loan is strictly an employer responsibility, and not a liability of the state's General Fund. To ensure that the federal loan is repaid, when a state has an outstanding loan balance for two consecutive years, the federal government reduces the Federal Unemployment Tax Act ("FUTA") credit it gives to employers. This is equivalent to an increase in the FUTA tax on employers, and has the effect of paying off the principal of the federal UI loan. These changes have already started and will increase annually until the loan is repaid, which is projected to be in 2019. Commencing in fiscal year 2011-12, the state has been required to pay interest on these loans. The September 2014 interest payment of $217.4 million was paid by the General Fund and the 2015 Budget Act provides $174.5 million from the General Fund to make the 2015 interest payment.

State Appropriations Limit

The state is subject to an annual appropriations limit imposed by the state Constitution (the "Appropriations Limit"). The Appropriations Limit does not restrict appropriations to pay debt service on voter-authorized bonds.

The state is prohibited from spending "appropriations subject to limitation" in excess of the Appropriations Limit. "Appropriations subject to limitation," with respect to the state, are authorizations to spend "proceeds of taxes," which consist of tax revenues, and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by that entity in providing the regulation, product or service," but "proceeds of taxes" exclude most state subventions to local governments, tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not "proceeds of taxes," such as reasonable user charges or fees and certain other non-tax funds.

There are various types of appropriations excluded from the Appropriations Limit. For example, debt service costs of bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, appropriations for tax refunds, appropriations of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels, and appropriation of certain special taxes imposed by initiative (e.g., cigarette and tobacco taxes) are all excluded. The Appropriations Limit may also be exceeded in cases of emergency.

The Appropriations Limit in each year is based on the Appropriations Limit for the prior year, adjusted annually for changes in state per capita personal income and changes in population, and adjusted, when applicable, for any transfer of financial responsibility of providing services to or from another unit of government or any transfer of the financial source for the provisions of services from tax proceeds to non-tax proceeds. The measurement of change in population is a blended average of statewide overall population growth and the change in attendance at local school and community college ("K-14") districts. The Appropriations Limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received over such two-year period above the combined Appropriations Limits for those two years, is divided equally between transfers to K-14 districts and refunds to taxpayers.

An estimate of the Appropriations Limit is included in the Governor's Budget, and is thereafter subject to the budget process and established in the Budget Act.

The following table shows the Appropriations Limit for fiscal years 2011-12 through 2015-16.

TABLE 20
State Appropriations Limit

(Dollars in Millions)

	Fiscal Year				
	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**
State Appropriations Limit	$81,726	$84,221	$89,716	$89,902	$94,042
Appropriations Subject to Limit	-61,952	-71,702	-71,352	-78,692[(a)]	-84,193[(a)]
Amount (Over)/Under Limit	$19,774	$12,519	$18,364	$11,210[(a)]	$9,849[(a)]

[(a)] Estimated/projected.

Source: State of California, Department of Finance.

Local Government Impacts on State Finances

The primary units of local government in California are the 58 counties, which range in population from approximately 1,200 in Alpine County to approximately 9.8 million in Los Angeles County. As summarized below, the fiscal condition of local governments and the relationship between local and state government finances can have an impact on the state's financial condition and flexibility.

1. Constitutional and Statutory Limitations

Counties are responsible for the provision of many basic services, including indigent health care, welfare, jails, and public safety in unincorporated areas. There are also 482 incorporated cities in California and thousands of special districts formed for education, utilities, and other services. The fiscal condition of local governments was changed when Proposition 13 was approved by California voters in 1978. Proposition 13 reduced and limited the future growth of property taxes and limited the ability of local governments to impose "special taxes" (those devoted to a specific purpose) without two-thirds voter approval. Although Proposition 13 limited property tax growth rates, it also has had a smoothing effect on property tax revenues, ensuring greater stability in annual revenues than existed before Proposition 13 passed.

Proposition 218, another constitutional amendment enacted by initiative in 1996, further limited the ability of local governments to raise taxes, fees, and other exactions. The limitations include requiring a majority vote approval for general local tax increases, prohibiting fees for services in excess of the cost of providing such service, and providing that no fee may be charged for fire, police, or any other service widely available to the public.

In the aftermath of Proposition 13, the state provided aid to local governments from the General Fund to make up some of the loss of property tax moneys, including assuming principal responsibility for funding K-12 schools and community colleges. During the recession of the early 1990s, the Legislature reduced the post-Proposition 13 aid to local government entities other than K-12 schools and community colleges by requiring cities and counties to transfer some of their property tax revenues to school districts. However, the Legislature also provided additional funding sources, such as sales taxes, and reduced certain mandates for local services funded by cities and counties. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue—*Sales and Use Tax*" for a discussion of the impact of the Economic Recovery Bond issuances on local sales taxes.

The 2004 Budget Act, related legislation and the enactment of Proposition 1A of 2004 and Proposition 22 in 2010 dramatically changed the state-local fiscal relationship. These constitutional and statutory changes implemented an agreement negotiated between the Governor and local government officials (the "state-local agreement") in connection with the 2004 Budget Act. One change relates to the reduction of the vehicle license fee ("VLF") rate from 2 percent to 0.65 percent of the market value of the vehicle. In order to protect local governments, which had previously received all VLF revenues, the 1.35 percent reduction in VLF revenue to cities and counties from this rate change was backfilled (or offset) by an increase in the amount of property tax revenues they receive. This worked to the benefit of local governments because the backfill amount annually increases in proportion to the growth in property tax revenues, which has historically grown at a higher rate than VLF revenues, although property tax revenues declined between fiscal years 2009-10 and 2011-12. This arrangement is proposed to continue without change in the 2015 Budget Act.

As part of the state-local agreement, voters at the November 2004 election approved Proposition 1A ("Proposition 1A of 2004"). Proposition 1A of 2004 amended the state Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by placing restrictions on the state's access to local governments' property, sales, and VLF revenues as of November 3, 2004.

Proposition 22, adopted on November 2, 2010, supersedes Proposition 1A of 2004 and prohibits any future borrowing by the state from local government funds, and generally prohibits the Legislature from making changes in local government funding sources. Allocation of local transportation funds cannot be changed without an extensive process.

2. <u>Property Tax Revenues</u>

Although the property tax is a local revenue source, the amount of property tax generated each year has a substantial impact on the state budget because local property tax revenues allocated to K-14 schools typically offset General Fund expenditures.

Statewide property tax revenues are estimated to increase 6.10 percent in fiscal year 2014-15 and 5.52 percent in fiscal year 2015-16. See Table 10 (Proposition 98 Funding) for information on the impact of these growth rates on the funding of the Proposition 98 guarantee. Property tax estimates used in the calculation of the guarantee are based on growth in statewide property taxes, but also include other factors such as excess tax, redevelopment agency

payments, and the shift of property taxes from local governments to K-14 schools (Educational Revenue Augmentation Fund).

3. Dissolved Redevelopment Agency Funds

In 2011, the Legislature enacted a bill that eliminated redevelopment agencies ("RDAs") and redirected property tax revenue that would have gone to RDAs to other local taxing entities, including cities, counties, school and community college districts, and special districts.

On December 29, 2011, the California Supreme Court upheld the law against various constitutional challenges and, in accordance with the Court's order, RDAs were dissolved on February 1, 2012, and their functions have been taken over by successor agencies tasked with winding down the RDAs' affairs. Property tax revenues that would have been directed to the RDAs are used to make pre-existing "pass through" payments to local agencies, and by the successor agencies for retirement of the RDAs' debts (also known as enforceable obligations), and for limited administrative costs. The remaining revenues are distributed to the local taxing entities.

Revenues distributed to school and community college districts result in corresponding savings for the state's General Fund. For the 2015 Budget Act, Proposition 98 General Fund savings are anticipated to be $964 million in fiscal year 2014-15 and projected to be $1.1 billion in fiscal years 2015-16 and 2016-17. Proposition 98 General Fund savings are anticipated to be at least $1 billion in each fiscal year after fiscal year 2016-17, with annual growth proportionate to the changes in property tax growth, and the rate at which the enforceable obligations of the former RDAs are retired.

Various local governments have disputed the implementation of the dissolution law and litigation is pending and expected to be filed in the future on this subject. See "LITIGATION—Budget-Related Litigation – *Actions Challenging Statutes Which Reformed California Redevelopment Law*."

4. Realigning Services to Local Governments

The 2011 Budget Act included a major realignment of public safety programs from the state to local governments ("AB 109"). The realignment was designed to move program and fiscal responsibility to the level of government that can best provide the service, eliminate duplication of effort, generate savings, and increase flexibility. The implementation of the Community Corrections Grant Program authorized by AB 109 moved lower-level offenders from state prisons to county supervision and reduced the number of parole violators in the state's prisons. Other realigned programs include local public safety programs, mental health, substance abuse, foster care, child welfare services, and adult protective services. The 2011 Realignment is funded through two sources: (1) a state special fund sales tax of 1.0625 percent (projected to total $6.7 billion in fiscal year 2015-16) and (2) $579.5 million in vehicle license fees (for fiscal year 2015-16). As a result of the realignment, the state expects General Fund savings from the realigned programs to be about $2.6 billion annually beginning in fiscal year 2011-12. In fiscal year 2011-12, about $2.2 billion of these savings was achieved from a

reduction in the Proposition 98 Guarantee, and that figure is currently estimated to grow to $2.7 billion in fiscal year 2014-15 and $2.7 billion in fiscal year 2015-16.

CASH MANAGEMENT

Traditional Cash Management Tools

General. The majority of the state's General Fund receipts are received in the latter part of the fiscal year. Disbursements from the General Fund occur more evenly throughout the fiscal year. The state's cash management program customarily addresses this timing difference by making use of internal borrowing (see "—Internal Borrowing") and by issuing short-term notes in the capital markets (see "—External Borrowing").

Internal Borrowing. The General Fund is currently authorized by law to borrow for cash management purposes from more than 700 of the state's approximately 1,300 other funds in the State Treasury (the "special funds" and each a "special fund"). Total borrowing from special funds must be approved quarterly by the Pooled Money Investment Board ("PMIB"). The State Controller submits an authorization request to the PMIB quarterly, based on forecasted available funds and borrowing needs. The Legislature may from time to time adopt legislation establishing additional authority to borrow from special funds. As of the 2015 Budget Act, the General Fund is projected to have up to approximately $27 billion of internal funds (excluding the BSA and the SFEU) available during fiscal year 2015-16. See "—Inter-Fund Borrowings" for a further description of this process.

One fund from which moneys may be borrowed to provide additional cash resources to the General Fund is the BSA. While during fiscal years 2008-09 through 2013-14 there were no funds available in the BSA, the BSA is now funded at a projected $3.5 billion in fiscal year 2015-16. The state also may transfer funds into the General Fund from the SFEU, which is not a special fund. See "—Inter-Fund Borrowings" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES – Budget Reserves" for a further description of this process.

External Borrowing. External borrowing is typically done with revenue anticipation notes ("RANs") that are payable not later than the last day of the fiscal year in which they are issued. Prior to the current fiscal year, RANs had been issued in all but one fiscal year since the mid-1980s and have always been paid at maturity. No RANs are planned in fiscal year 2015-16. See "—Cash Management Borrowings." The state also is authorized under certain circumstances to issue revenue anticipation warrants ("RAWs") that are payable in the succeeding fiscal year. The state issued RAWs to bridge short-term cash management shortages in the early 1990's and early 2000's. See "—State Warrants—Reimbursement Warrants" for more information on RAWs.

RANs and RAWs are both payable from any "Unapplied Money" in the General Fund on their maturity date, subject to the prior application of such money in the General Fund to pay Priority Payments. "Priority Payments" consist of: (i) the setting apart of state revenues in support of the public school system and public institutions of higher education (as provided in Section 8 of Article XVI of the state Constitution); (ii) payment of the principal of and interest

on general obligation bonds and general obligation commercial paper notes of the state as and when due; (iii) a contingent obligation for General Fund payments to local governments for certain costs for realigned public safety programs if not provided from a share of state sales and use taxes, as provided in Article XIII, Section 36 of the Constitution, enacted by Proposition 30 (see "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Restrictions on Raising or Using General Fund Revenues"); (iv) reimbursement from the General Fund to any special fund or account to the extent such reimbursement is legally required to be made to repay borrowings therefrom pursuant to Government Code Sections 16310 or 16418; and (v) payment of state employees' wages and benefits, state payments to pension and other state employee benefit trust funds, state Medi-Cal claims, lease payments to support lease-revenue bonds, and any amounts determined by a court of competent jurisdiction to be required by federal law or the state Constitution to be paid with state warrants that can be cashed immediately. See "—State Warrants."

Inter-Fund Borrowings

Inter-fund borrowing is used to meet temporary imbalances of receipts and disbursements in the General Fund. In the event the General Fund is or will be exhausted, the State Controller is required to notify the Governor and the PMIB (comprised of the Director of Finance, the State Treasurer and the State Controller). The Governor may then order the State Controller to direct the transfer of all or any part of the moneys not needed in special funds to the General Fund, as determined by the PMIB. All money so transferred must be returned to the special fund from which it was transferred as soon as there is sufficient money in the General Fund to do so. Transfers cannot be made which will interfere with the objective for which such special fund was created, or from certain specific funds.

The amount of loans from the SFEU, the BSA and other internal sources to the General Fund, as of the end of any month is displayed in the State Controller's Statement of General Fund Cash Receipts and Disbursements, on the first page under "Borrowable Resources – Outstanding Loans." See EXHIBIT 2 to APPENDIX A.

Enactment of Proposition 22 in November 2010 prohibited future inter-fund borrowing from certain transportation funds. However, legislation was enacted on February 3, 2012 to clarify the intent of Proposition 22, making those transportation funds available for short-term cash management borrowing purposes.

In addition to temporary inter-fund cash management borrowings described in this section, budgets enacted in the current and past fiscal years have included other budgetary transfers and long-term loans from special funds to the General Fund. In some cases, such budgetary loans and transfers have the effect of reducing internal borrowable resources.

The following table shows internal borrowable resources available for temporary cash management loans to the General Fund on June 30 of each of the fiscal years 2011-12 through 2014-15 and estimates the amount currently available based on the 2015-16 Budget. See EXHIBIT 2 to APPENDIX A. The amount of internal borrowable resources fluctuates throughout the year.

TABLE 21
Internal Borrowable Resources
(Cash Basis)

(Dollars in Millions)

	June 30				
	2012	**2013**	**2014**	**2015**	**2016[a]**
Available Internal Borrowable Resources	$20,824.3	$21,215.3	$23,761.5	$28,291.3	$31,590.6
Outstanding Loans					
From Special Fund for Economic Uncertainties	474.9	948.2	0	0	1,115.7
Budget Stabilization Account				0	3,460.4
From Special Funds and Accounts	9,118.4	1,486.7	0	0	255.9
Total Outstanding Internal Loans	(9,593.3)	(2,434.9)	0	0	(4,832.0)
Unused Internal Borrowable Resources	$11,231.0	$18,780.4	$23,761.5	$28,291.3	$26,758.6

[a] Estimated.
Source: Years ended June 30, 2011 through June 30, 2015: State of California, Office of the State Controller.
Year ending June 30, 2016: State of California, Department of Finance.

Cash Management Borrowings

As part of its cash management program, the state has regularly issued short-term obligations to meet cash management needs. See "External Borrowing" above.

The following table shows the amount of RANs issued in the past five fiscal years. No RANs are planned in the current fiscal year.

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TABLE 22
State of California Revenue Anticipation Notes Issued
Fiscal Years 2010-11 to 2014-15

(Dollars in Billions)

Fiscal Year	Type	Principal Amount	Date of Issue	Maturity or Redemption Date
2010-11	Interim Notes	$6.7	October 28, 2010	November 23, 2010*
	Notes Series A-1	2.25	November 23, 2010	May 25, 2011
	Notes Series A-2	7.75	November 23, 2010	June 28, 2011
2011-12	Interim Notes	5.4	July 28, 2011	September 22, 2011*
	Notes Series A-1	0.5	September 22, 2011	May 24, 2012
	Notes Series A-2	4.9	September 22, 2011	June 26, 2012
	Notes Series B	1.0	February 22, 2012	June 28, 2012
2012-13	Notes Series A-1	2.5	August 23, 2012	May 30, 2013
	Notes Series A-2	7.5	August 23, 2012	June 20, 2013
2013-14	Notes Series A-1	1.5	August 22, 2013	May 28, 2014
	Notes Series A-2	4.0	August 22, 2013	June 23, 2014
2014-15	Notes	2.8	September 23, 2014	June 22, 2015

* Redemption date.
Source: State of California, Office of the State Treasurer

Cash Management in Fiscal Years 2014-15 and 2015-16

The state entered the 2014-15 fiscal year in the strongest cash position since the start of the recession in 2008. For the first time since fiscal year 2007-08, the state began a fiscal year without any internal borrowings, and a positive cash balance in the General Fund of $1.922 billion. The state managed its cash flow needs for fiscal year 2014-15 entirely through the use of internal borrowing and an external RANs borrowing of $2.8 billion, the smallest RANs borrowing since fiscal year 2006-07.

The state's cash position continues to be strong entering fiscal year 2015-16, as the General Fund ended the previous year with a positive cash balance of $2.529 billion. The state's cash flow projections for fiscal year 2015-16 indicate that internal borrowings will be sufficient and available to meet the normal peaks and valleys of the state's cash needs, while maintaining a cushion at all times of at least $2.5 billion. Accordingly, the state does not plan to use any external RANs borrowing in fiscal year 2015-16, only the second time this has occurred since the commencement of annual RANs borrowings in the early 1980s.

State fiscal officers constantly monitor the state's cash position and if it appears that cash resources may become inadequate (including the maintenance of a projected cash reserve of at least $2.5 billion at any time), they will consider the use of other cash management techniques as described in this section, including seeking additional legislation.

Other Cash Management Tools

The state has employed additional cash management measures during some fiscal years; all of the following techniques were used at one time or another during the last several fiscal years, but none of them is planned to be used in fiscal year 2015-16.

- The State Controller has delayed certain types of disbursements from the General Fund.

- Legislation was enacted increasing the state's internal borrowing capability, and the state has increased the General Fund's internal borrowings. See "—Inter-Fund Borrowings."

- Legislation has been enacted deferring some of the state's disbursements until later in the then-current fiscal year, when more cash receipts are expected.

- The issuance of registered warrants (commonly referred to as "IOUs") because of insufficient cash resources (last occurred in 2009). See "—State Warrants" for an explanation of registered warrants.

From time to time, the Legislature changes by statute the due date for various payments, including those owed to public schools, universities and local governments, until a later date in the fiscal year in order to more closely align the state's revenues with its expenditures. This technique has been used several times in the last few fiscal years. Some of these statutory deferrals were made permanent, and others were implemented only for one fiscal year.

In addition, state law gives the State Controller some flexibility as to how quickly the state must pay its bills. For instance, income tax refunds for personal income taxes are not legally due until 45 days after the return filing deadline, which is normally April 15. Accordingly, while the state has typically paid tax refunds as returns are filed, it can conserve cash by withholding refund payments until after the April 15 due date. Payments to vendors generally must be made within 45 days of receipt of an invoice. The state may delay payment until the end of this period, or it may even choose to make these payments later and pay interest. These delays are only used if the State Controller foresees a relatively short-term cash flow shortage.

State Warrants

No money may be drawn from the State Treasury except upon a warrant duly issued by the State Controller. The State Controller is obligated to draw every warrant on the fund out of which it is payable for the payment of money directed by state law to be paid out of the State Treasury; however, a warrant may not be drawn unless authorized by law and unless unexhausted specific appropriations provided by law are available to meet it. As described above, state law provides two methods for the State Controller to respond if the General Fund has insufficient "Unapplied Money" available to pay a warrant when it is drawn, referred to generally as "registered warrants" and "reimbursement warrants." "Unapplied Money" consists of money in the General Fund for which outstanding warrants have not already been drawn and which would remain in the General Fund if all outstanding warrants previously drawn and then due were paid subject to the prior application of such money to obligations of the state with a higher priority. See "CASH MANAGEMENT—Traditional Cash Management Tools." Unapplied Money may include moneys transferred to the General Fund from the SFEU and the BSA and internal borrowings from state special funds (to the extent permitted by law); however the state is not obligated to utilize interfund borrowings for the payment of state obligations if

insufficient Unapplied Money is available for such payment. See "—Inter-Fund Borrowings" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

1. Registered Warrants

If a warrant is drawn on the General Fund for an amount in excess of the amount of Unapplied Money in the General Fund, after deducting from such Unapplied Money the amount, as estimated by the State Controller, required by law to be earmarked, reserved or set apart from the Unapplied Money for the payment of obligations having priority over obligations to which such warrant is applicable, the warrant must be registered on the reverse side as not paid because of the shortage of funds in the General Fund. The State Controller may issue registered warrants before exhausting all cash management tools (described above) that could provide Unapplied Money to the General Fund.

Registered warrants are interest bearing obligations that may be issued either with or without a maturity date. Most registered warrants bear interest at a rate designated by the PMIB up to a maximum of five percent per annum except, if the PMIB determines that it is in the best interests of the state to do so, the PMIB may fix the rate of interest paid on registered warrants at no more than 12 percent per annum. If issued with a maturity date, the principal and interest on such warrant will not be due until that date (although it may be optionally redeemed early if the state has sufficient Unapplied Money to do so) and the state may make other payments prior to that maturity date. If a registered warrant is issued without a maturity date, or its maturity date has occurred, it becomes redeemable by the holders on the date determined by the State Controller, with the approval of the PMIB.

State law generally requires that registered warrants be redeemable in the order they are issued but not prior to their maturity date, if any. The state last issued registered warrants in 2009. The State Controller was able to manage cash resources to ensure that higher Priority Payments, such as for schools and debt service, were made on time when registered warrants were issued. The issuance of the registered warrants permitted the state to pay Priority Payments with regular warrants which could be cashed.

2. Reimbursement Warrants

In lieu of issuing individual registered warrants to numerous creditors, state law provides an alternative procedure whereby the Governor, upon request of the State Controller, may authorize utilizing the General Cash Revolving Fund in the State Treasury to borrow from other state special funds to meet payments authorized by law. The State Controller may then issue "reimbursement warrants" (sometimes called "revenue anticipation warrants" or "RAWs") for sale to investors to reimburse the General Cash Revolving Fund, thereby increasing cash resources for the General Fund to cover required payments. The General Cash Revolving Fund exists solely to facilitate the issuance of reimbursement warrants. Reimbursement warrants have a fixed maturity date which may not be later than the end of the fiscal year following the year in which they were issued.

The principal of and interest on reimbursement warrants must be paid by the State Treasurer on their respective maturity dates from any Unapplied Money in the General Fund and available for such payment. In the event that Unapplied Money is not available for payment on the respective maturity dates of reimbursement warrants, and refunding reimbursement warrants (see "—Refunding Reimbursement Warrants") have not been sold at such times as necessary to pay such reimbursement warrants, such reimbursement warrants will be paid, together with all interest due thereon (including interest accrued at the original interest rate after the maturity date), at such times as the State Controller, with the approval of the PMIB, may determine.

The state has issued reimbursement warrants on several occasions in order to meet its cash needs when state revenues were reduced because of an economic recession, and the state incurred budget deficits. The state last issued reimbursement warrants in June 2002 and in June 2003.

3. Refunding Reimbursement Warrants

If it appears to the State Controller that, on the maturity date of any reimbursement warrant there will not be sufficient Unapplied Money in the General Fund to pay maturing reimbursement warrants, the State Controller is authorized under state law, with the written approval of the State Treasurer, to issue and sell refunding reimbursement warrants to refund the prior, maturing reimbursement warrants. Proceeds of such refunding reimbursement warrants must be used exclusively to repay the maturing warrants. In all other respects, refunding reimbursement warrants are treated like reimbursement warrants, as described above.

STATE INDEBTEDNESS AND OTHER OBLIGATIONS

General

The State Treasurer is responsible for the sale of most debt obligations of the state and its various authorities and agencies. The state has always paid when due the principal of and interest on its general obligation bonds, general obligation commercial paper notes, lease-revenue obligations and short-term obligations, including RANs and RAWs. Additional information regarding the state's long-term debt appears in the section "STATE DEBT TABLES."

Capital Facilities Financing

1. General Obligation Bonds

The state Constitution prohibits the creation of general obligation indebtedness of the state unless a bond measure is approved by a majority of the electorate voting at a general election or a direct primary. Each general obligation bond act provides a continuing appropriation from the General Fund of amounts for the payment of debt service on the related general obligation bonds, subject under state law only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education. Under the state Constitution, appropriations to pay debt service on any general obligation bonds cannot be repealed until the principal of and interest on such bonds have been paid. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State

Expenditures." Certain general obligation bond programs, called "self-liquidating bonds," receive revenues from specified sources so that moneys from the General Fund are not expected to be needed to pay debt service, but the General Fund will pay the debt service, pursuant to the continuing appropriation contained in the bond act, if the specified revenue source is not sufficient. The principal self-liquidating bond program is the veterans general obligation bonds, supported by mortgage repayments from housing loans made to military veterans.

General obligation bonds are typically authorized for infrastructure and other capital improvements at the state and local level. Pursuant to the state Constitution, general obligation bonds cannot be used to finance state budget deficits (except as already authorized by ERBs, as described below).

A summary of the general obligations bonds outstanding as well as authorized by the voters but unissued, as of July 1, 2015, is set forth in the following table. For greater detail, see the table "Authorized and Outstanding General Obligation Bonds" following the caption "STATE DEBT TABLES." Monthly updates of the State Debt Tables are posted on the website of the State Treasurer.

General Obligation Bonds
(as of July 1, 2015)

Authorized and Outstanding		**Authorized but Unissued***	
Primarily Payable from General Fund	Self-Liquidating	Primarily Payable from General Fund	Self-Liquidating
$76.0 billion	$1.6 billion†	$29.5 billion	$596 million

* May first be issued as commercial paper notes (see "General Obligation Commercial Paper Program" below).

† $930 million of ERBs were defeased on August 5, 2015 and are no longer outstanding; see "Economic Recovery Bonds" below.

2. Variable Rate General Obligation Bonds

The state's general obligation bond law permits the state to issue as variable rate indebtedness up to 20 percent of the aggregate amount of its long-term general obligation bonds outstanding. These bonds are described generally in the following table and represent about 4.67 percent of the state's total outstanding general obligation bonds. With respect to the $1,050,000,000 of variable rate general obligation bonds having mandatory tender dates, if these bonds cannot be remarketed on their respective scheduled mandatory tender dates, there is no default but the interest rate on the series of such bonds not remarketed on such date would be increased in installments thereafter until such bonds can be remarketed or refunded or are paid at maturity.

Type of Bonds	Outstanding Principal Amount ($000) as of July 1, 2015	Current Variable Rate Interest Mode	Liquidity Support[(a)]	Other Information
General Obligation	$2,473,690	Daily/Weekly VRDO	Letters of Credit	
General Obligation	400,000	Indexed Floating Rate to Respective Mandatory Tender Dates	None	Mandatory Tenders on December 1, 2016, December 1, 2017, May 1, 2018 and December 3, 2018
General Obligation	98,100	Indexed Floating Rate to Respective Maturity Dates	None	Fixed Maturities on each May 1 in the years 2017 through 2020
General Obligation	650,000	Fixed Term Rate to Respective Mandatory Tender Dates	None	Mandatory Tenders on December 1, 2016, December 1, 2017 and December 2, 2019
TOTAL	$3,621,790			

[(a)] See "Bank Arrangements Table."
Source: State of California, Office of the State Treasurer

The state is obligated to redeem, on the applicable purchase date, any weekly and daily variable rate demand obligations ("VRDOs") tendered for purchase if there is a failure to pay the related purchase price of such VRDOs on such purchase date from proceeds of the remarketing thereof, or from liquidity support related to such VRDOs. The state has not entered into any interest rate hedging contracts in relation to any of its variable rate general obligation bonds.

3. General Obligation Commercial Paper Program

Pursuant to legislation enacted in 1995, voter-approved general obligation indebtedness may be issued either as long-term bonds or, for some but not all bond acts, as commercial paper notes. Commercial paper notes may be renewed or may be refunded by the issuance of bonds. It is currently the state's policy to use commercial paper notes to provide flexibility for bond programs, such as to provide interim funding for voter-approved projects and to facilitate refunding of variable rate bonds into fixed rate bonds. Commercial paper notes are not included in the calculation of permitted variable rate indebtedness described under "Variable Rate General Obligation Bonds" and are not included in the figures provided above in the section "General Obligation Bonds." A total of $2.225 billion in principal amount of commercial paper notes is currently authorized under agreements with various banks, including an agreement for the direct purchase of up to $500 million of commercial paper notes by a bank. See "BANK ARRANGEMENTS TABLE" at the end of this PART II for a list of the credit agreements supporting the commercial paper program.

4. Bank Arrangements

In connection with VRDOs and the commercial paper program ("CP"), the state has entered into a number of reimbursement agreements or other credit agreements with a variety of financial institutions as set forth in "BANK ARRANGEMENTS TABLE." These agreements include various representations and covenants of the state, and the terms (including interest rates and repayment schedules) by which the state would be required to pay or repay any obligations thereunder (including drawings resulting from any failed remarketings). To the extent that VRDOs or CP offered to the public cannot be remarketed over an extended period (whether due to downgrades of the credit ratings of the institution providing credit enhancement or other

factors) and the applicable financial institution is obligated to purchase VRDOs or CP, interest payable by the state pursuant to the reimbursement agreement or credit agreement would generally increase over current market levels relating to the VRDOs or CP, and, with respect to VRDOs the principal repayment period would generally be shorter (typically less than five years) than the repayment period otherwise applicable to the VRDOs. In addition, after the occurrence of certain events of default as specified in a credit agreement, payment of the related VRDOs may be further accelerated and payment of related CP, as applicable, may also be accelerated and interest payable by the State on such VRDOs or CP could increase significantly.

5. Lease-Revenue Obligations

In addition to general obligation bonds, the state acquires and constructs capital facilities through the issuance of lease-revenue obligations (also referred to as lease-purchase obligations). Such borrowing must be authorized by the Legislature in a separate act or appropriation. Under these arrangements, the State Public Works Board ("SPWB"), another state or local agency or a joint powers authority issued bonds to pay for the acquisition or construction of facilities such as office buildings, university buildings, courthouses or correctional institutions. These facilities are leased to a state agency, the California State University or the Judicial Council under a long-term lease which provides the source of revenues which are pledged to the payment of the debt service on the lease-revenue bonds. Under applicable court decisions, such lease arrangements do not constitute the creation of "indebtedness" within the meaning of the state constitutional provisions that require voter approval. For purposes of this APPENDIX A and the tables under "STATE DEBT TABLES," the terms "lease-revenue obligation," "lease-revenue financing," "lease-purchase obligation" or "lease-purchase" mean principally bonds or certificates of participation for capital facilities where the lease payments providing the security are payable from the operating budget of the respective lessees, which are primarily, but not exclusively, derived from the General Fund. A summary of the lease-revenue bonds outstanding as well as those authorized by the Legislature but unissued, as of July 1, 2015, is set forth in the following table.

Lease-Revenue Obligations
(as of July 1, 2015)

Outstanding General Fund Supported Issues	Authorized but Unissued
$11.0 billion	$4.0 billion

The tables under "STATE DEBT TABLES" do not include equipment leases or leases which were not sold, directly or indirectly, to the public capital markets.

6. Non-Recourse Debt

Certain state agencies and authorities issue revenue obligations for which the General Fund has no liability. These revenue bonds represent obligations payable from state revenue-producing enterprises and projects, and conduit obligations payable from revenues paid by private users or local governments of facilities financed by the revenue bonds. In each case, such revenue bonds are not payable from the General Fund. The enterprises and projects include

transportation projects, various public works projects, public and private educational facilities (including the California State University and University of California systems), housing, health facilities and pollution control facilities. See the table "State Agency Revenue Bonds and Conduit Financing" under "STATE DEBT TABLES" for a summary of outstanding revenue bonds and notes which are non-recourse to the General Fund as of July 1, 2015.

7. Build America Bonds

In February 2009, Congress enacted certain new municipal bond provisions as part of the federal economic stimulus act ("ARRA"), which allowed municipal issuers such as the state to issue "Build America Bonds" ("BABs") for new infrastructure investments. BABs are bonds whose interest is subject to federal income tax, but pursuant to ARRA the U.S. Treasury was to repay the issuer an amount equal to 35 percent of the interest cost on any BABs issued during 2009 and 2010. The BAB subsidy payments related to general obligation bonds are General Fund revenues to the state, while subsidy payments related to SPWB lease-revenue bonds are deposited into a fund which is made available to the SPWB for any lawful purpose. In neither instance are the subsidy payments specifically pledged to repayment of the BABs to which they relate. The cash subsidy payment with respect to the BABs, to which the state is entitled, is treated by the Internal Revenue Service ("IRS") as a refund of a tax credit and such refund may be offset by the Department of the Treasury by any liability of the state payable to the federal government. None of the state's BAB subsidy payments to date have been reduced because of such an offset.

Between April 2009 and December 2010, the state issued $13.5 billion of BAB general obligation ("GO") bonds and the SPWB issued $551 million of BAB lease-revenue bonds (of which $150 million has been redeemed). The remaining aggregate amount of the subsidy payments expected to be received from fiscal year 2015-16 through the maturity of the outstanding BABs (mostly 20 to 30 years from issuance) based on the 35 percent subsidy rate is approximately $7.5 billion for the general obligation BABs and $195.5 million for the SPWB lease-revenue BABs.

Pursuant to certain federal budget legislation adopted in August 2011, starting as of March 1, 2013, the government's BAB subsidy payments have been reduced as part of a government-wide "sequestration" of many program expenditures. The amount of the reduction of the BAB subsidy payment has been less than $30 million annually and is presently scheduled to continue until 2024, although Congress can terminate or modify it sooner, or extend it. None of the BAB subsidy payments are pledged to pay debt service for the GO and SPWB BABs, so this reduction will not affect the state's ability to pay its debt service on time, nor have any material impact on the state's General Fund.

Future Issuance Plans; General Fund Debt Ratio

Based on estimates from the Department of Finance as well as updates from the State Treasurer's Office, approximately $3.3 billion of new money general obligation bonds (some of which may initially be in the form of commercial paper notes) and approximately $420 million of lease-revenue bonds are expected to be issued in fiscal year 2015-16. These estimates will be updated by the State Treasurer's Office based on information provided by the Department of

Finance with respect to the updated funding needs of, and actual spending by, departments. In addition, the actual amount of bonds sold will depend on other factors such as overall budget constraints, market conditions and other considerations. The state also expects to issue refunding bonds as market conditions warrant.

The ratio of debt service on general obligation and lease-revenue bonds supported by the General Fund, to annual General Fund revenues and transfers (the "General Fund Debt Ratio"), can fluctuate as assumptions for future debt issuance and revenue projections are updated from time to time. Any changes to these assumptions will impact the projected General Fund Debt Ratio. Based on the revenue estimates contained in the 2015 Budget and bond issuance estimates referred to in the preceding paragraph, the General Fund Debt Ratio is estimated to equal approximately 6.68 percent in fiscal year 2015-16 and 6.47 percent in fiscal year 2016-17.

The General Fund Debt Ratio is calculated based on actual gross debt service, without adjusting for receipts from the U.S. Treasury for the state's current outstanding general obligation and lease-revenue BABs or the availability of any special funds that may be used to pay a portion of the debt service to help reduce General Fund costs. The total of these offsets is estimated to equal approximately $1.5 billion for fiscal year 2015-16 and $1.5 billion for fiscal year 2016-17. Including the estimated offsets reduces the General Fund Debt Ratio to 5.38 percent in fiscal year 2015-16 and 5.22 percent in fiscal year 2016-17. The actual General Fund Debt Ratio in future fiscal years will depend on a variety of factors, including actual debt issuance (which may include additional issuance approved in the future by the Legislature and, for general obligation bonds, the voters), actual interest rates, debt service structure, and actual General Fund revenues and transfers.

See the table "OUTSTANDING STATE DEBT, FISCAL YEARS 2010-11 THROUGH 2014-15" under "STATE DEBT TABLES" for certain historical ratios of debt service to General Fund receipts.

Economic Recovery Bonds

The California Economic Recovery Bond Act ("Proposition 57") was approved by the voters on March 2, 2004. Proposition 57 authorized the issuance of up to $15 billion in Economic Recovery Bonds (ERBs) to finance the negative General Fund reserve balance as of June 30, 2004, and other General Fund obligations undertaken prior to June 30, 2004. Repayment of the ERBs was secured by a pledge of revenues from a one-quarter cent increase in the state's sales and use tax (the "special sales tax") that became effective July 1, 2004. The entire authorized amount of ERBs was issued in three sales, in May and June 2004, and in February 2008, and refunding issues were sold in 2009 and 2011. No further ERBs can be issued under Proposition 57. As of August 5, 2015, no ERBs remain outstanding, as all the remaining ERBs have been defeased by creation of several irrevocable escrow funds derived primarily from excess special sales tax revenues. The last ERBs will be paid from these escrow funds on July 1, 2019.

Tobacco Settlement Revenue Bonds

In 1998, the state signed a settlement agreement with the four major cigarette manufacturers, in which the participating manufacturers agreed to make payments to the state in perpetuity. Under a separate Memorandum of Understanding, half of the payments made by the cigarette manufacturers are paid to the state and half to certain local governments, subject to certain adjustments.

In 2002, the state established a special purpose trust to purchase the tobacco assets and to issue revenue bonds secured by the tobacco settlement revenues. Legislation in 2003 authorized a credit enhancement mechanism that requires the Governor to request an appropriation from the General Fund in the annual Budget Act for payment of debt service and other related costs in the event tobacco settlement revenues and certain other amounts are insufficient. The Legislature is not obligated to make any General Fund appropriation so requested.

The credit enhancement mechanism applies to certain tobacco settlement bonds that were issued in 2005, 2013, and 2015 with an outstanding principal amount of approximately $2.35 billion (the "enhanced bonds"). The enhanced bonds are neither general nor legal obligations of the state and neither the faith and credit, nor the taxing power, nor any other assets or revenues of the state shall be pledged to the payment of the enhanced bonds. However, as described above, the state committed to request the Legislature for a General Fund appropriation in the event there are insufficient tobacco settlement revenues to pay debt service with respect to the enhanced bonds, and certain other available amounts, including the reserve fund for the enhanced bonds, are depleted. This appropriation has been requested and approved by the Legislature but use of the appropriated moneys has never been required.

Draws on the reserve fund for the enhanced bonds in the amount of approximately $7.94 million were used to make required debt service payments on the 2005 bonds in 2011 and 2012. In April 2013, the reserve fund was replenished in full from tobacco revenues. As of July 1, 2015, the balance of the reserve fund for the enhanced bonds was $150 million. If, in any future year tobacco settlement revenues are less than required debt service payments on the enhanced bonds in such year, additional draws on the reserve fund will be required and at some point in the future the reserve fund may become fully depleted. The state is not obligated to replenish the reserve fund from the General Fund, or to request an appropriation to replenish the reserve fund.

Office of Statewide Health Planning and Development Guarantees

The Office of Statewide Health Planning and Development of the State of California ("OSHPD") insures loans and bond issues for financing and refinancing construction and renovation projects for nonprofit and publicly-owned healthcare facilities. This program (commonly called "Cal-Mortgage Loan Insurance") is currently authorized by statute to insure up to $3 billion for health facility projects.

State law established the Health Facility Construction Loan Insurance Fund (the "Fund") as a trust fund which is continuously appropriated and may only be used for purposes of this program. The Fund is used as a depository of fees and insurance premiums and any recoveries

and is the initial source of funds used to pay administrative costs of the program and shortfalls resulting from defaults by insured borrowers. If the Fund were unable to make payment on an insured loan or bond, state law provides for the State Treasurer to issue debentures to the holders of the defaulted loan or bond which are payable on parity with state general obligation bonds. The Fund is liable for repayment to the General Fund of any money paid from the General Fund. All claims on insured loans to date have been paid from the Fund and no debentures have been issued.

As of February 28, 2015, OSHPD insured 107 loans to nonprofit or publicly owned health facilities throughout California with a current outstanding aggregate par amount of approximately $1.763 billion. The cash balance of the Fund was approximately $168.4 million as of February 28, 2015. The biennial actuarial study of the Fund as of June 30, 2012, was completed in July 2014 (the "2012 actuarial study"). Based upon a number of assumptions, the 2012 actuarial study concluded, among other things, that the Fund appeared to be sufficient, under the "expected scenario" to maintain a positive balance until at least fiscal year 2041-42. Even under the "most pessimistic scenario," the 2012 actuarial study found that there was a 70 percent likelihood that the Fund's reserves as of June 30, 2012 would protect against any General Fund losses until at least 2020-21, and a 90 percent likelihood that the Fund's reserves as of June 30, 2012 would protect against any General Fund losses until at least fiscal year 2017-18. There can be no assurances that the financial condition of the Fund has not materially declined since the 2012 actuarial study. The biennial actuarial study of the Fund as of June 30, 2014 is anticipated to be completed in late 2015. More information on the program can be obtained from OSHPD's website.

INVESTMENT OF STATE FUNDS

Moneys on deposit in the State Centralized Treasury System are invested by the State Treasurer in the PMIA. As of June 30, 2015, the PMIA held approximately $48.1 billion of state moneys, and $21.5 billion invested for about 2,488 local governmental entities through the Local Agency Investment Fund ("LAIF"). The assets of the PMIA as of June 30, 2015 are shown in the following chart.

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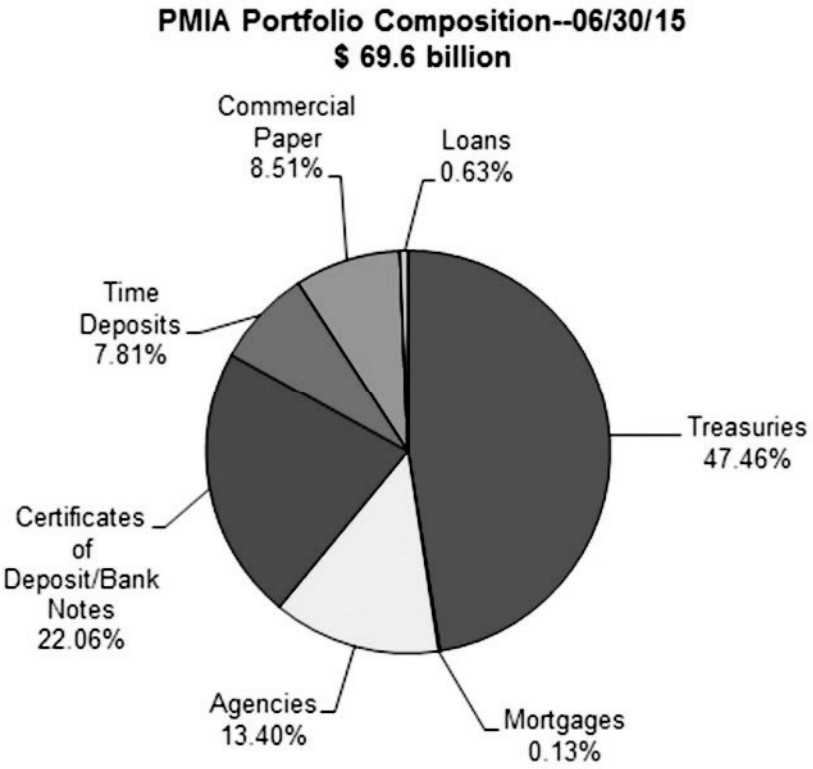

Source: State of California, Office of the State Treasurer.

The State's Treasury operations are managed in compliance with the Government Code and according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The PMIA operates with the oversight of the PMIB. The LAIF portion of the PMIA operates with the oversight of the Local Agency Investment Advisory Board (consisting of the State Treasurer and four other appointed members).

The PMIA is not invested, nor has it ever been invested, in structured investment vehicles or collateralized debt obligations. The PMIA portfolio performance, and the PMIA's holdings are displayed quarterly on the State Treasurer's website and may be accessed under PMIB Quarterly Reports. The PMIA is not currently invested in auction rate securities.

The State Treasurer does not invest in leveraged products or inverse floating rate securities. The investment policy permits the use of reverse repurchase agreements subject to limits of no more than 10 percent of the PMIA. All reverse repurchase agreements are cash matched either to the maturity of the reinvestment or an adequately positive cash management date which is approximate to the maturity of the reinvestment.

The average life of the investment portfolio of the PMIA as of June 30, 2015 was 239 days. Over the prior 12 months, the average life has ranged from 191 days to 247 days.

OVERVIEW OF STATE GOVERNMENT

Organization of State Government

The state Constitution provides for three separate branches of government: the legislative, the judicial and the executive. The state Constitution guarantees the electorate the right to make basic decisions, including amending the state Constitution and local government charters. In addition, the state voters may directly influence state government through the initiative, referendum and recall processes. The state Constitution provides for mechanisms through which it may be amended or revised.

California's Legislature consists of a 40-member Senate and an 80-member Assembly. Assembly members are elected for two-year terms, and Senators are elected for four-year terms. Before passage of Proposition 28 on June 5, 2012, Assembly members were limited to three terms in office and Senators to two terms. Proposition 28 reduced the total amount of time a person may serve in the Legislature from 14 to 12 years, but allows a person to serve a total of 12 years in either the Assembly, the Senate, or a combination of both. The new term limits law applies only to members of the Legislature elected after the measure was passed.

The Legislature meets almost year round for a two-year session. The Legislature employs the Legislative Analyst, who provides reports on state finances, among other subjects. The Office of the California State Auditor, an independent office since 1993, annually issues an auditor's report based on an examination of the General Purpose Financial Statements of the State Controller, in accordance with generally accepted accounting principles. See "FINANCIAL STATEMENTS."

The Governor is the chief executive officer of the state. The Governor presents the annual budget and traditionally presents an annual package of bills constituting a legislative program. In addition to the Governor, state law provides for seven other statewide elected officials in the executive branch. The Governor and the other statewide officials may be elected for up to two four-year terms. The current elected statewide officials, their party affiliation and the dates on which they were first elected are as follows:

Office	Name	Party Affiliation	First Elected
Governor	Edmund G. Brown Jr.	Democrat	2010*
Lieutenant Governor	Gavin Newsom	Democrat	2010
Controller	Betty Yee	Democrat	2014
Treasurer	John Chiang	Democrat	2014
Attorney General	Kamala D. Harris	Democrat	2010
Secretary of State	Alex Padilla	Democrat	2014
Superintendent of Public Instruction	Tom Torlakson	Democrat	2010
Insurance Commissioner	Dave Jones	Democrat	2010

* Previously served as Governor 1975-83, prior to term limit law.

In addition to entities such as the Department of Finance, the executive branch is principally administered through ten agencies and their Secretaries (Secretaries are appointed by the Governor).

Some state programs are administered by boards and commissions, such as The Regents of the University of California, Public Utilities Commission, Franchise Tax Board and California Transportation Commission, which have authority over certain functions of state government with the power to establish policy and promulgate regulations. The appointment of members of boards and commissions is usually shared by the Legislature and the Governor, and often includes ex officio members.

Employee Relations

The 2015 Budget Act estimates the state work force for fiscal year 2015-16 at approximately 364,000 positions. Approximately 140,000 of those positions represent state employees of the legislative and judicial branches of government and institutions of higher education. Of the remaining 224,000 positions, over 80 percent are subject to collective bargaining on wages, hours and other terms and conditions of employment with the Administration, which are contained in a Memorandum of Understanding ("MOU") subject to ratification by the Legislature; less than 20 percent are excluded from collective bargaining. State law provides that state employees, defined as any civil service employee of the state and teachers under the jurisdiction of the Department of Education or the Superintendent of Public Instruction, and excluding certain other categories, have a right to form, join, and participate in the activities of employee organizations for the purpose of representation on all matters of employer-employee relations. Once a bargaining unit ("BU") selects an employee organization, only that organization can represent those employees.

There are 21 collective BUs that are represented by employee organizations. The Service Employees International Union is the exclusive representative for 9 of the 21 BUs, or approximately 50 percent of those represented employees subject to collective bargaining. Currently, the Administration is in collective bargaining negotiations with *four* of the state's BUs that represent, respectively correctional peace officers, firefighters, scientists, and craft and maintenance workers. *The Administration recently reached an agreement for a new MOU with the professional engineers' union leadership that has been ratified by both the Legislature and the union's membership.* With the exception of firefighters, each of these units' MOUs with the state expired in early July 2015. For firefighters, the BU has exercised its option to reopen the contract, pursuant to existing provisions within the MOU. While the Administration and the affected BUs negotiate new or revised MOUs, the existing MOUs continue in effect until replaced or extended pursuant to law. A key priority for the Administration during bargaining is addressing the state's $72 billion unfunded retiree health care obligation (AAU) through shared prefunding of program costs along with other cost containment strategies. *See "STATE FINANCES – OTHER ELEMENTS – Retiree Health Care Costs."*

ECONOMY AND POPULATION

California's economy, the largest among the 50 states and one of the largest in the world, has major components in high technology, trade, entertainment, manufacturing, tourism,

construction, and services. The makeup of the state economy generally mirrors that of the national economy. See "CURRENT STATE BUDGET—Development of Revenue Estimates."

In July 2014, California's population reached 38.5 million residents, marking the highest annual growth rate (0.88 percent) of this decade. Since the national census on April 1, 2010, the state has grown by 1,190,000 persons. California's population is projected to grow by 0.94 percent per year to 38.9 million by July 2015 and 39.2 million by July 2016.

Natural increase (births minus deaths) is expected to account for most of the growth during this time; however, net migration into the state is also projected to gradually increase as economic conditions continue to improve. California's population is expected to cross the 40 million persons mark by January 2019. In July 2019, the population is expected to reach 40.3 million—an annualized growth rate of 0.91 percent.

Currently, nearly 9.1 million Californians are under age 18. California has a younger population than the remainder of the U.S., with a slightly higher percentage under 18, a lower percentage 65 and older, and a younger median age.

Population growth rates vary by age group. The state's projected total five-year growth rate (2014-2019) of 4.6 percent is higher than the anticipated 2.8 percent growth in the preschool-age group. The school-age group (5-17 years old) is expected to increase by 0.5 percent and the college-age group (18-24) to decrease by 4.5 percent. The working-age population (25-64) is expected to grow by 801,000 persons or 3.9 percent. The population of the retirement-age group, those 65 and older, is expected to expand rapidly (20.7 percent). Retirement-age growth is likely to be concentrated in the 65 through 74 age cohort, with a five-year growth rate of 25.0 percent.

The following table shows California's population data.

TABLE 23
Population

Year	California Population[(a)]	Increase Over Preceding Year	United States Population[(a)]	Increase Over Preceding Year	California as % of United States
2005	35,985,582	0.7%	295,753,151	0.9%	12.2%
2006	36,246,822	0.7	298,593,212	1.0	12.1
2007	36,552,529	0.8	301,579,895	1.0	12.1
2008	36,856,222	0.8	304,374,846	0.9	12.1
2009	37,077,204	0.6	307,006,550	0.9	12.1
2010	37,309,382	0.6	309,326,295	0.8	12.1
2011	37,570,112	0.7	311,582,564	0.7	12.1
2012	37,867,483	0.8	313,873,685	0.7	12.1
2013	38,164,011	0.8	316,128,839	0.7	12.1
2014	38,499,378	0.9	318,351,393	0.7	12.1

[(a)] Population as of July 1.

Source: U. S. figures from U.S. Department of Commerce, Bureau of the Census; California figures from State of California, Department of Finance.

The following table presents California's civilian labor force data for the resident population, age 16 and over, and unemployment rates for California and the United States.

TABLE 24
Labor Force

(Thousands)

Year	Labor Force	Employment	Unemployment Rate California	Unemployment Rate United States
2005	17,545	16,592	5.4%	5.1%
2006	17,687	16,821	4.9	4.6
2007	17,921	16,961	5.4	4.6
2008	18,207	16,894	7.2	5.8
2009	18,220	16,155	11.3	9.3
2010	18,336	16,092	12.2	9.6
2011	18,420	16,260	11.7	8.9
2012	18,555	16,630	10.4	8.1
2013	18,672	17,003	8.9	7.4
2014	18,811	17,397	7.5	6.2

Source: State of California, Employment Development Department.

Employment, Income, Construction and Export Growth

The following table shows California's nonfarm payroll employment distribution and growth for 2004 and 2014.

TABLE 25
Nonfarm Payroll Employment by Major Sector
2004 and 2014

(Thousands)

Industry Sector	Employment 2004	Employment 2014	Distribution of Employment 2004	Distribution of Employment 2014
Mining and Logging	22.8	31.3	0.2%	0.2%
Construction	850.4	675.4	5.8	4.3
Manufacturing				
Nondurable Goods	557.4	475.4	3.8	3.0
High Technology	387.1	334.0	2.6	2.1
Other durable Goods	579.0	460.2	3.9	2.9
Trade, Transportation & Utilities	2,753.5	2,871.1	18.7	18.4
Information	482.4	457.9	3.3	2.9
Financial Activities	895.2	784.3	6.1	5.0
Professional & Business Services	2,098.0	2,433.4	14.2	15.6
Educational & Health Services	1,756.9	2,414.4	11.9	15.4
Leisure & Hospitality	1,439.4	1,757.1	9.8	11.2
Other Services	503.9	539.8	3.4	3.5
Government				
Federal Government	251.0	242.3	1.7	1.5
State & Local Government	2,146.7	2,168.7	14.6	13.9
TOTAL	**14,723.6**	**15,645.1**	**100.0%**	**100.0%**

Source: State of California, Employment Development Department. (Note: Figures may not add due to rounding.)

The following tables show California's total and per capita income patterns.

TABLE 26
Total Personal Income in California

(Dollars in Millions)

Year	Total Personal Income	Annual % Change	California % of U.S.
2005	$1,395,992	5.6%	13.2%
2006	1,499,309	7.4	13.2
2007	1,564,289	4.3	13.0
2008	1,596,230	2.0	12.8
2009	1,537,095	-3.7	12.7
2010	1,578,553	2.7	12.7
2011	1,685,635	6.8	12.8
2012	1,805,194	7.1	13.0
2013	1,856,614	2.8	13.1
2014	1,944,369	4.7	13.2

Note: omits income for government employees overseas.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

TABLE 27
Personal Income Per Capita

Year	California	Annual % Change	United States	Annual % Change	California % of U.S.
2005	$38,964	4.9%	$35,888	4.6%	108.6%
2006	41,623	6.8	38,127	6.2	109.2
2007	43,152	3.7	39,804	4.4	108.4
2008	43,608	1.1	40,873	2.7	106.7
2009	41,587	-4.6	39,379	-3.7	105.6
2010	42,282	1.7	40,144	1.9	105.3
2011	44,749	5.8	42,332	5.5	105.7
2012	47,505	6.2	44,200	4.4	107.5
2013	48,434	2.0	44,765	1.3	108.2
2014	50,109	3.5	46,129	3.0	108.6

Note: omits income for government employees overseas.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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The following tables show California's residential and non-residential construction.

TABLE 28
Residential Construction Permits Authorized

Year	Units			Valuation[a] (Dollars in Millions)
	Total	Single	Multiple	
2005	208,972	155,322	53,650	$47,138
2006	164,280	108,021	56,259	38,108
2007	113,034	68,409	44,625	28,621
2008	64,962	33,050	31,912	18,072
2009	36,421	25,454	10,967	12,037
2010	44,762	25,526	19,236	13,731
2011	47,336	21,631	25,705	14,415
2012	59,225	27,560	31,665	17,731
2013	85,472	36,991	48,481	23,027
2014	85,846	37,091	48,755	24,178

[a] Valuation includes additions and alterations.

Source: Construction Industry Research Board; California Homebuilding Foundation.

TABLE 29
Non-residential Construction
(Dollars in Thousands)

Year	Commercial	Industrial	Other	Additions and Alterations	Total
2005	$5,853,351	$1,693,373	$3,818,100	$6,900,709	$18,265,533
2006	7,733,068	1,760,888	3,873,055	7,741,610	21,108,621
2007	8,812,083	1,450,875	3,496,471	8,782,424	22,541,853
2008	6,513,610	938,081	2,983,640	8,776,285	19,211,616
2009	1,919,763	359,868	1,984,534	6,602,103	10,866,268
2010	1,990,358	358,338	1,937,166	6,913,901	11,199,763
2011	2,213,034	478,896	2,152,688	8,146,064	12,990,682
2012	3,215,897	1,409,808	2,382,780	7,626,971	14,635,456
2013	5,294,105	1,072,101	6,340,166	8,974,512	21,680,884
2014	7,112,268	1,103,016	5,231,883	10,855,176	23,302,343

Source: Construction Industry Research Board; California Homebuilding Foundation.

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The following table shows changes in California's exports of goods.

TABLE 30
California's Exports of Goods

(Dollars in Millions)

Year	Exports[a]	Annual % Change
2005	$116,689.9	5.9%
2006	127,770.8	9.5
2007	134,318.9	5.1
2008	144,805.7	7.8
2009	120,080.0	-17.1
2010	143,208.2	19.3
2011	159,421.4	11.3
2012	161,746.0	1.5
2013	168,044.8	3.9
2014	174,128.6	3.6

[a] Origin of Movement (OM) series

Source: U.S. Department of Commerce, Bureau of the Census.

BANK ARRANGEMENTS TABLE

The following table includes certain information relating to bank arrangements the state has entered into. See also "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – Bank Arrangements."

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BANK ARRANGEMENTS TABLE

(See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – Bank Arrangements.")

As of October 1, 2015

BANK ARRANGEMENTS (See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – Bank Arrangements.")

Program	Series	Outstanding Par Amount	Credit Provider	Expiration	Type of Credit	Reset Mode
GO VRDOs	2003A 1	$50,000,000	JP Morgan Chase	12/16/2016	LOC	Daily
	2003A 2-3	$200,000,000	Bank of Montreal	*9/7/2018*	LOC	Daily
GO VRDOs	2003B 1-4	$250,000,000	JP Morgan Chase (80.0%) CA Public Employees' Retirement System (20.0%)	11/10/2016	LOC	Weekly
GO VRDOs	2003C 1	$100,000,000	Bank of America, N.A.	12/16/2016	LOC	Weekly
	2003C 3-4	$100,000,000	US Bank National Association	4/12/2017	LOC	Weekly
GO VRDOs	2004A 1, 4 & 5	$200,000,000	Citibank, N.A.	*9/7/2018*	LOC	Daily
GO VRDOs	2004A 2 &3	$150,000,000	State Street Bank & Trust Company	11/10/2016	LOC	Daily
GO VRDOs	2004A 6, 7, 8 & 10	$200,000,000	Citibank, N.A.	*9/7/2018*	LOC	Weekly
GO VRDOs	2004 A 9	$50,000,000	State Street Bank & Trust Company	11/10/2016	LOC	Weekly
GO VRDOs	2004B 1-3	$165,000,000	Citibank, N.A.	*9/7/2018*	LOC	Daily
GO VRDOs	2004B 4	$35,000,000	Citibank, N.A.	*9/7/2018*	LOC	Weekly
GO VRDOs	2004B 5-6	$100,000,000	US Bank National Association	4/5/2018	LOC	Weekly
GO VRDOs	2005A-1-1	$85,850,000	Royal Bank of Canada	11/4/2016	LOC	Weekly
GO VRDOs	2005A-1-2	$85,750,000	Royal Bank of Canada	11/4/2016	LOC	Weekly
GO VRDOs	2005A-2-1	$143,200,000	Barclays Bank PLC	4/11/2017	LOC	Weekly
GO VRDOs	2005A-2-2	$28,400,000	Royal Bank of Canada	11/4/2016	LOC	Weekly
GO VRDOs	2005A-3	$49,100,000	Bank of America, N.A.	12/16/2016	LOC	Weekly
GO VRDOs	2005B-1	$147,100,000	Bank of America, N.A.	2/17/2017	LOC	Weekly
GO VRDOs	2005B-2	$98,100,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	11/10/2016	LOC	Weekly
GO VRDOs	2005B-3	$49,100,000	Barclays Bank PLC	4/11/2017	LOC	Weekly
GO VRDOs	2005B-4	$49,100,000	JP Morgan Chase	12/16/2016	LOC	Weekly
GO VRDOs	2005B-5	$88,890,000	Barclays Bank PLC	4/11/2017	LOC	Weekly
GO VRDOs	2005B-7	$49,100,000	JP Morgan Chase	12/16/2016	LOC	Daily
Total GO VRDOs		**$2,473,690,000**				

BANK ARRANGEMENTS (See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – Bank Arrangements.")

GO CP [a]	A1/B1	$500,000,000	Wells Fargo Bank, N.A.	2/17/2017	LOC	Up to 90 days
	A2/B2	$500,000,000	Royal Bank of Canada	12/16/2016	LOC	Up to 90 days
	A3/B3	$200,000,000	JP Morgan Chase(75%) CA Public Employees' Retirement System (25%)	12/16/2016	LOC	Up to 90 days
	A4/B4	$150,000,000	Morgan Stanley Bank, N.A.	12/16/2016	LOC	Up to 90 days
	A5/B5	$125,000,000	US Bank National Association	12/16/2016	LOC	Up to 90 days
	A6/B6	$50,000,000	Bank of America, N.A.	12/16/2016	LOC	Up to 90 days
	A7/B7	$125,000,000	Mizuho Bank, Ltd.	2/19/2016	LOC	Up to 90 days
	A8/B8	$75,000,000	Bank of the West	2/17/2017	LOC	Up to 90 days
	C1/D1	$500,000,000	Bank of America, N.A.	11/25/2017	Bank Note	Up to 90 days
	Total CP	**$2,225,000,000**				
Grand Total		**$4,698,690,000**				

(a) For commercial paper (CP), the total outstanding par represents the maximum principal commitment under related bank agreements.

STATE DEBT TABLES

The tables which follow provide information on outstanding state debt, authorized but unissued general obligation bonds and commercial paper notes, debt service requirements for state general obligation and lease-revenue bonds, and authorized and outstanding state revenue bonds. The table titled "Bank Arrangements" contains certain information relating to letters of credit, liquidity facilities and other bank arrangements in connection with variable rate obligations and commercial paper notes. Also, see "STATE INDEBTEDNESS AND OTHER OBLIGATIONS." For purposes of these tables, "General Fund bonds," also known as "non-self liquidating bonds," are general obligation bonds expected to be paid from the General Fund without reimbursement from any other fund. Although the principal of general obligation commercial paper notes in the "non-self liquidating" category is legally payable from the General Fund, the state expects that principal of such commercial paper notes will be paid only from the issuance of new commercial paper notes or the issuance of long-term general obligation bonds to retire the commercial paper notes. Interest on "non-self liquidating" general obligation commercial paper notes is payable from the General Fund.

"Enterprise Fund bonds," also known as "self liquidating bonds," are general obligation bonds for which program revenues are expected to be sufficient to reimburse in full the General Fund for debt service payments, but any failure to make such a reimbursement does not affect the obligation of the state to pay principal and interest on the bonds from the General Fund.

Certain of the following tables, which are dated as of July 1, 2015, reflect that as of that date the state still had outstanding $929.7 million of Economic Recovery Bonds, a category of self-liquidating bonds also referred to in prior versions of these tables as "Special Revenue Fund Bonds." All of these bonds were defeased on August 5, 2015 and are no longer outstanding. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Economic Recovery Bonds."

Monthly updates of certain of the tables are available on the website of the State Treasurer.

The following tables do not include the following bond issues:

$1,925,825,000 State of California General Obligation Bonds issued on September 8, 2015. This issue of bonds included $550,000,000 of new money bonds, with the remaining principal amount consisting of refunding bonds.

$548,185,000 State Public Works Board of the State of California Lease Revenue Refunding Bonds 2015 Series F and Series G issued on October 13, 2015.

OUTSTANDING STATE DEBT
FISCAL YEARS 2010-11 THROUGH 2014-15
(Dollars in Thousands Except for Per Capita Information)

	2010-11	2011-12	2012-13	2013-14	2014-15
Outstanding Debt (a)					
General Obligation Bonds					
General Fund (Non-Self Liquidating)	$ 71,283,705	$ 73,060,865	$ 74,456,230	$ 75,714,125	$ 76,005,055
Enterprise Fund (Self Liquidating)	$ 1,216,115	$ 1,115,935	$ 884,180	$ 671,180	$ 646,750
Special Revenue Fund (Self Liquidating)	$ 6,787,220	$ 5,910,480	$ 4,731,745	$ 3,417,115	$ 929,735
Total General Obligation Bonds	$ 79,287,040	$ 80,087,280	$ 80,072,155	$ 79,802,420	$ 77,581,540
Revenue Bonds					
Lease-Purchase Debt	$ 9,426,325	$ 11,330,355	$ 11,822,140	$ 11,266,240	$ 10,989,480
Proposition 1A Receivables Program	$ 1,895,000	$ 1,895,000	$ 0	$ 0	$ 0
Total Revenue Bonds	$ 11,321,325	$ 13,225,355	$ 11,822,140	$ 11,266,240	$ 10,989,480
Total Outstanding General Obligation and Revenue Bonds	$ 90,608,365	$ 93,312,635	$ 91,894,295	$ 91,068,660	$ 88,571,020
Bond Sales During Fiscal Year					
Non-Self Liquidating General Obligation Bonds	$ 4,525,000	$ 7,817,390	$ 7,417,170	$ 5,905,370	$ 6,613,070
Self Liquidating General Obligation Bonds	$ 0	$ 0	$ 0	$ 0	$ 110,000
Proposition 1A Receivables Revenue Bonds	$ 0	$ 0	$ 0	$ 0	$ 0
Self Liquidating Special Fund Revenue Bonds	$ 0	$ 438,635	$ 0	$ 0	$ 0
Lease-Purchase Debt	$ 0	$ 2,627,115	$ 1,678,130	$ 4,849,680	$ 728,085
Debt Service (b)					
Non-Self Liquidating General Obligation Bonds	$ 5,704,729	$ 5,782,240	$ 5,424,867	$ 6,307,696	$ 6,577,536
Lease-Purchase Debt	$ 973,824	$ 980,862	$ 1,194,881	$ 978,202	$ 1,103,973
General Fund Receipts (c)	$ 95,536,379	$ 87,769,787	$ 103,424,674	$ 103,966,197	$ 116,385,580
Non-Self Liquidating General Obligation Bonds Debt Service as a Percentage of General Fund Receipts	5.97%	6.59%	5.25%	6.07%	5.65%
Lease-Purchase Debt Service as a Percentage of General Fund Receipts	1.02%	1.12%	1.16%	0.94%	0.95%
Population (d)	37,309,382	37,570,112	37,867,483	38,164,011	38,449,378
Non-Self Liquidating General Obligation Bonds Outstanding per Capita	$ 1,910.61	$ 1,944.65	$ 1,966.23	$ 1,983.91	$ 1,976.76
Lease-Purchase Debt Outstanding per Capita	$ 252.65	$ 301.58	$ 312.20	$ 295.21	$ 285.82
Personal Income (e)	$ 1,587,403,750	$ 1,664,635,750	$ 1,720,052,000	$ 1,827,919,750	$ 1,943,915,250
Non-Self Liquidating General Obligation Bonds Outstanding as Percentage of Personal Income	4.49%	4.39%	4.33%	4.14%	3.91%
Lease-Purchase Debt Outstanding as Percentage of Personal Income	0.59%	0.68%	0.69%	0.62%	0.57%

(a) Principal outstanding as of July 1 of the next fiscal year. Includes the initial value of capital appreciation bonds rather than the accreted value.
(b) Calculated on a cash basis. The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service. Debt service costs of bonds issued in any fiscal year largely appear in subsequent fiscal years.
(c) Calculated on a cash basis. General Fund Receipts includes both revenues and nonrevenues, such as borrowings, the proceeds of which are deposited in the General Fund (e.g. tobacco securitization bonds and economic recovery bonds).
(d) As of July 1, the beginning of the fiscal year.
(e) Revised estimates as of June 22, 2015.

SOURCES: Population: State of California, Department of Finance.
Personal Income: United States, Department of Commerce, Bureau of Economic Analysis
Outstanding Debt, Bonds Sales During Fiscal Year and Debt Service: State of California, Office of the Treasurer.
General Fund Receipts: State of California, Office of the State Controller.

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 7/01/2015
(Thousands)

	Proposition Number	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding (a) $	Unissued $
GENERAL FUND BONDS (Non-Self Liquidating)						
+ 1988 School Facilities Bond Act	79	11/08/88	797,745	41,915	0	0
+ 1990 School Facilities Bond Act	123	06/05/90	797,875	90,640	0	0
+ 1992 School Facilities Bond Act	155	11/03/92	898,211	257,770	0	0
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	40	03/05/02	2,600,000	2,102,570	15,410	243,830
+ California Library Construction and Renovation Bond Act of 1988	85	11/08/88	72,405	12,965	0	0
*+ California Park and Recreational Facilities Act of 1984	18	06/05/84	368,900	12,325	0	0
* California Parklands Act of 1980	1	11/04/80	285,000	2,650	0	0
California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000	50	03/07/00	350,000	263,220	0	5,040
*+ California Safe Drinking Water Bond Law of 1976	3	06/08/76	172,500	2,905	0	0
* California Safe Drinking Water Bond Law of 1984	28	11/06/84	75,000	1,855	0	0
* California Safe Drinking Water Bond Law of 1986	55	11/04/86	100,000	22,075	0	0
California Safe Drinking Water Bond Law of 1988	81	11/08/88	75,000	28,230	0	0
*+ California Wildlife, Coastal, and Park Land Conservation Act	70	06/07/88	768,670	114,210	0	0
Children's Hospital Bond Act of 2004	61	11/02/04	750,000	651,625	300	47,145
Children's Hospital Bond Act of 2008	3	11/04/08	980,000	647,810	12,645	304,455
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (Hi-Ed)	1A	11/03/98	2,500,000	1,707,315	0	0
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (K-12)	1A	11/03/98	6,700,000	3,953,915	0	11,400
Clean Air and Transportation Improvement Bond Act of 1990	116	06/05/90	1,990,000	787,835	0	4,985
* Clean Water Bond Law of 1984	25	11/06/84	325,000	10,045	0	0
* Clean Water and Water Conservation Bond Law of 1978	2	06/06/78	375,000	4,405	0	0
Clean Water and Water Reclamation Bond Law of 1988	83	11/08/88	65,000	20,375	0	0
* Community Parklands Act of 1986	43	06/03/86	100,000	2,795	0	0
* County Correctional Facility Capital Expenditure Bond Act of 1986	52	06/03/86	495,000	15,565	0	0
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	86	11/08/88	500,000	71,255	0	0
++++ Disaster Preparedness and Flood Prevention Bond Act of 2006	1E	11/07/06	3,990,000	2,231,645	0	1,718,652

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 7/01/2015
(Thousands)

	Proposition Number	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding (a) $	Unissued $
GENERAL FUND BONDS (Non-Self Liquidating)						
Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990	122	06/05/90	300,000	72,495	1,240	7,490
* Fish and Wildlife Habitat Enhancement Act of 1984	19	06/05/84	85,000	5,035	0	0
Higher Education Facilities Bond Act of 1988	78	11/08/88	600,000	24,730	0	0
Higher Education Facilities Bond Act of June 1990	121	06/05/90	450,000	48,545	0	540
Higher Education Facilities Bond Act of June 1992	153	06/02/92	900,000	311,215	0	0
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	1B	11/07/06	19,925,000	15,413,335	93,490	3,674,490
Housing and Emergency Shelter Trust Fund Act of 2002	46	11/05/02	2,100,000	834,100	14,120	79,495
Housing and Emergency Shelter Trust Fund Act of 2006	1C	11/07/06	2,850,000	1,250,520	0	1,094,135
Housing and Homeless Bond Act of 1990	107	06/05/90	150,000	1,470	0	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (Hi-Ed)	47	11/05/02	1,650,000	1,393,410	0	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (K-12)	47	11/05/02	11,400,000	9,140,790	0	57,810
Kindergarten-University Public Education Facilities Bond Act of 2004 (Hi-Ed)	55	03/02/04	2,300,000	2,015,725	4,045	58,824
Kindergarten-University Public Education Facilities Bond Act of 2004 (K-12)	55	03/02/04	10,000,000	8,701,530	30,410	121,190
Kindergarten-University Public Education Facilities Bond Act of 2006 (Hi-Ed)	1D	11/07/06	3,087,000	2,997,480	4,335	38,775
Kindergarten-University Public Education Facilities Bond Act of 2006 (K-12)	1D	11/07/06	7,329,000	6,593,220	5	575,360
* Lake Tahoe Acquisitions Bond Act	4	08/02/82	85,000	150	0	0
* New Prison Construction Bond Act of 1986	54	11/04/86	500,000	2,490	0	0
New Prison Construction Bond Act of 1988	80	11/08/88	817,000	12,785	0	2,165
New Prison Construction Bond Act of 1990	120	06/05/90	450,000	16,955	0	605
Passenger Rail and Clean Air Bond Act of 1990	108	06/05/90	1,000,000	42,025	0	0
Public Education Facilities Bond Act of 1996 (Higher Education)	203	03/26/96	975,000	517,560	3,780	4,650
++ Public Education Facilities Bond Act of 1996 (K-12)	203	03/26/96	2,012,035	879,420	0	0
++++ Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	13	03/07/00	1,884,000	1,398,450	0	43,346
++++ Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006	84	11/07/06	5,283,000	2,396,365	253,370	2,552,255
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000	12	03/07/00	2,100,000	1,468,840	0	73,820
++++ Safe, Clean, Reliable Water Supply Act	204	11/05/96	969,500	545,745	0	62,915
Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century	1A	11/04/08	9,950,000	808,970	0	8,923,225
* School Building and Earthquake Bond Act of 1974	1	11/05/74	40,000	14,635	0	0

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 7/01/2015
(Thousands)

	Proposition Number	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding (a) $	Unissued $
GENERAL FUND BONDS (Non-Self Liquidating)						
School Facilities Bond Act of 1990	146	11/06/90	800,000	142,100	0	0
School Facilities Bond Act of 1992	152	06/02/92	1,900,000	528,175	0	10,280
Seismic Retrofit Bond Act of 1996	192	03/26/96	2,000,000	1,155,030	0	0
* State, Urban, and Coastal Park Bond Act of 1976	2	11/02/76	280,000	3,930	0	0
Stem Cell Research and Cures Bond Act of 2004	71	11/02/04	3,000,000	1,396,355	45,210	1,272,650
Veterans Homes Bond Act of 2000	16	03/07/00	50,000	35,205	0	975
Veterans Housing and Homeless Prevention Bond Act of 2014	41	06/03/14	600,000	125	850	599,000
Voting Modernization Bond Act of 2002	41	03/05/02	200,000	28,840	0	64,495
Water Conservation Bond Law of 1988	82	11/08/88	60,000	22,870	0	5,235
++++* Water Conservation and Water Quality Bond Law of 1986	44	06/03/86	136,500	31,645	0	230
Water Quality, Supply, and Infrastructure Improvement Act of 2014	1	11/04/14	7,545,000	0	865	7,544,135
++++ Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	50	11/05/02	3,345,000	2,694,875	1,810	309,574
Total General Fund Bonds			**135,239,341**	**76,005,055**	**481,885**	**29,513,171**
ENTERPRISE FUND BONDS (Self Liquidating)						
* California Water Resources Development Bond Act	1	11/08/60	1,750,000	180,560	0	167,600
Veterans Bond Act of 1986	42	06/03/86	850,000	29,060	0	0
Veterans Bond Act of 1988	76	06/07/88	510,000	29,695	0	0
Veterans Bond Act of 1990	142	11/06/90	400,000	45,910	0	0
Veterans Bond Act of 1996	206	11/05/96	400,000	120,175	0	0
Veterans Bond Act of 2000	16	11/07/00	500,000	241,350	0	128,610
+++ Veterans Bond Act of 2008	12	11/04/08	300,000	0	0	300,000
Total Enterprise Fund Bonds			**4,710,000**	**646,750**	**0**	**596,210**

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 7/01/2015
(Thousands)

	Proposition Number	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding (a) $	Unissued $
SPECIAL REVENUE FUND BONDS (Self Liquidating)						
b) Economic Recovery Bond Act	57	04/10/04	15,000,000	929,735	0	0
Total Special Revenue Fund Bonds			**15,000,000**	**929,735**	**0**	**0**
TOTAL GENERAL OBLIGATION BONDS			**154,949,341**	**77,581,540**	**481,885**	**30,109,381**

(a) A total of not more than $2.225 billion of commercial paper principal plus accrued interest may be owing at one time. Bond acts marked with an asterisk (*) are not legally permitted to utilize commercial paper.

(b) The $929,735,000 Economic Recovery Bonds were defeased on August 5, 2015.

+ SB 1018 (06/27/2012) reduced the voter authorized amount

++ SB 71 (06/27/2013) reduced the voter authorized amount

+++ AB 639 (10/10/2013) reduced the voter authorized amount

++++ AB 1471 (11/04/2014) reallocated the voter authorized amount

SOURCE: State of California, Office of the Treasurer.

GENERAL OBLIGATION AND REVENUE BONDS
SUMMARY OF DEBT SERVICE REQUIREMENTS
As of July 1, 2015

	Total Debt		
	Interest	**Principal**	**Total (a)**
GENERAL OBLIGATION BONDS			
GENERAL FUND NON-SELF LIQUIDATING (b)			
Fixed Rate	$ 59,436,539,267.60	$ 72,383,265,000.00	$ 131,819,804,267.60
Variable Rate (c)	365,701,867.90	3,621,790,000.00	3,987,491,867.90
ENTERPRISE FUND SELF LIQUIDATING			
Fixed Rate	299,507,609.23	646,750,000.00	946,257,609.23
SPECIAL REVENUE FUND SELF LIQUIDATING (d)			
Fixed Rate	216,174,625.00	929,735,000.00	1,145,909,625.00
REVENUE BONDS			
GENERAL FUND LEASE-REVENUE			
Lease-Revenue	6,258,301,390.76	10,989,480,000.00	17,247,781,390.76
General Fund and Lease-Revenue Total (e)	**$ 66,576,224,760.49**	**$ 88,571,020,000.00**	**$ 155,147,244,760.49**

(a) Includes scheduled mandatory sinking fund payments.
(b) Does not include outstanding commercial paper.
(c) The estimate of future interest payments is based on rates in effect as of July 1, 2015. The interest rates for the daily, weekly and monthly rate bonds range from 0.01 - 1.22%.
The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, Series 2013A & 2013B currently bear interest at a fixed rate of 4.00%, and Series 2014A bears interest at a fixed rate of 3.00%, until reset dates, and are assumed to bear that rate from reset until maturity.
(d) Special Revenue Fund Self Liquidating - The $929,735,000 Economic Recovery Bonds were defeased on August 5, 2015.
(e) Estimated interest included.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Fixed Rate
As of July 1, 2015

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2015	$ -	$ -	$ -
2016	3,876,945,324.83	2,772,400,000.00	6,649,345,324.83
2017	3,771,037,710.62	2,535,605,000.00	6,306,642,710.62
2018	3,662,345,854.95	2,478,875,000.00	6,141,220,854.95
2019	3,544,871,563.12	2,662,370,000.00	6,207,241,563.12
2020	3,396,897,210.14	2,830,425,000.00	6,227,322,210.14
2021	3,269,425,355.23	2,392,785,000.00	5,662,210,355.23
2022	3,142,306,610.31	2,659,655,000.00	5,801,961,610.31
2023	3,014,815,365.53	2,251,945,000.00	5,266,760,365.53
2024	2,906,502,045.43	2,064,550,000.00	4,971,052,045.43
2025	2,799,716,345.65	2,310,610,000.00	5,110,326,345.65
2026	2,682,264,021.60	2,469,155,000.00	5,151,419,021.60
2027	2,555,315,724.56	2,356,855,000.00	4,912,170,724.56
2028	2,439,866,487.11	2,341,835,000.00	4,781,701,487.11
2029	2,325,400,868.85	2,499,025,000.00	4,824,425,868.85
2030	2,201,581,017.60	2,673,635,000.00	4,875,216,017.60
2031	2,056,509,704.05	2,763,880,000.00	4,820,389,704.05
2032	1,925,215,721.90	2,574,165,000.00	4,499,380,721.90
2033	1,787,976,195.01	2,582,090,000.00	4,370,066,195.01
2034	1,657,619,491.00	3,397,575,000.00	5,055,194,491.00
2035	1,425,425,744.09	3,160,410,000.00	4,585,835,744.09
2036	1,236,844,900.76	2,770,655,000.00	4,007,499,900.76
2037	1,064,269,524.37	3,122,660,000.00	4,186,929,524.37
2038	875,842,559.44	3,268,625,000.00	4,144,467,559.44
2039	723,493,428.95	3,415,270,000.00	4,138,763,428.95
2040	442,769,662.50	1,767,885,000.00	2,210,654,662.50
2041	280,957,793.75	2,190,000,000.00	2,470,957,793.75
2042	178,677,793.75	1,319,000,000.00	1,497,677,793.75
2043	123,220,418.75	1,326,325,000.00	1,449,545,418.75
2044	49,651,398.75	875,000,000.00	924,651,398.75
2045	18,773,425.00	550,000,000.00	568,773,425.00
Total	**$ 59,436,539,267.60**	**$ 72,383,265,000.00**	**$ 131,819,804,267.60**

(a) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.
(b) Includes scheduled mandatory sinking fund payments.
Does not include outstanding commercial paper.
Total represents the remaining debt service requirements from August 1, 2015 through June 30, 2016.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Variable Rate
As of July 1, 2015

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2015	$ -	$ -	$ -
2016	28,266,292.26	21,000,000.00	49,266,292.26
2017	28,603,783.30	184,675,000.00	213,278,783.30
2018	28,324,033.47	243,305,000.00	271,629,033.47
2019	27,931,415.74	113,420,000.00	141,351,415.74
2020	27,698,358.14	105,500,000.00	133,198,358.14
2021	27,481,270.38	154,400,000.00	181,881,270.38
2022	26,995,613.66	39,200,000.00	66,195,613.66
2023	26,984,099.27	61,100,000.00	88,084,099.27
2024	26,986,175.85	173,600,000.00	200,586,175.85
2025	26,910,708.25	116,400,000.00	143,310,708.25
2026	26,884,155.70	203,300,000.00	230,184,155.70
2027	22,337,839.08	390,600,000.00	412,937,839.08
2028	13,250,083.90	399,000,000.00	412,250,083.90
2029	7,976,578.58	407,700,000.00	415,676,578.58
2030	6,731,810.94	254,390,000.00	261,121,810.94
2031	6,169,983.45	163,600,000.00	169,769,983.45
2032	4,619,612.56	316,600,000.00	321,219,612.56
2033	1,547,331.56	271,400,000.00	272,947,331.56
2034	769.23	1,600,000.00	1,600,769.23
2035	330.00	-	330.00
2036	331.43	-	331.43
2037	328.57	-	328.57
2038	330.00	-	330.00
2039	330.00	-	330.00
2040	302.58	1,000,000.00	1,000,302.58
Total	**$ 365,701,867.90**	**$ 3,621,790,000.00**	**$ 3,987,491,867.90**

(a) The estimate of future interest payments is based on rates in effect as of July 1, 2015. The interest rates for the daily, weekly and monthly rate bonds range from 0.01 - 1.22%.
The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, Series 2013A & 2013B currently bear interest at a fixed rate of 4.00%, and Series 2014A bears interest at a fixed rate of 3.00%, until reset dates, and are assumed to bear that rate from reset until maturity.
(b) Includes scheduled mandatory sinking fund payments. Does not include outstanding commercial paper.
Total represents the remaining estimated debt service requirements from August 1, 2015 through June 30, 2016.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR ENTERPRISE FUND SELF LIQUIDATING BONDS
Fixed Rate
As of July 1, 2015

Fiscal Year Ending June 30	Current Debt		
	Interest	Principal	Total(a)
2015	$ -	$ -	$ -
2016	25,170,265.90	66,415,000.00	91,585,265.90
2017	22,689,276.25	69,685,000.00	92,374,276.25
2018	20,413,625.90	56,490,000.00	76,903,625.90
2019	18,798,050.00	43,015,000.00	61,813,050.00
2020	17,622,800.10	26,935,000.00	44,557,800.10
2021	16,391,158.75	29,375,000.00	45,766,158.75
2022	15,405,011.28	13,630,000.00	29,035,011.28
2023	14,837,563.75	9,695,000.00	24,532,563.75
2024	14,526,228.75	4,365,000.00	18,891,228.75
2025	14,324,594.80	4,660,000.00	18,984,594.80
2026	14,220,521.25	-	14,220,521.25
2027	13,844,946.15	16,695,000.00	30,539,946.15
2028	13,269,205.30	8,835,000.00	22,104,205.30
2029	12,653,205.30	18,315,000.00	30,968,205.30
2030	11,706,236.19	23,565,000.00	35,271,236.19
2031	10,609,799.78	24,895,000.00	35,504,799.78
2032	9,272,432.10	36,605,000.00	45,877,432.10
2033	7,658,458.75	39,735,000.00	47,393,458.75
2034	6,323,555.18	24,135,000.00	30,458,555.18
2035	5,440,006.25	18,165,000.00	23,605,006.25
2036	4,569,518.75	22,810,000.00	27,379,518.75
2037	3,548,333.75	23,025,000.00	26,573,333.75
2038	2,662,880.00	15,300,000.00	17,962,880.00
2039	1,950,055.00	16,025,000.00	17,975,055.00
2040	1,195,310.00	16,790,000.00	17,985,310.00
2041	404,570.00	17,590,000.00	17,994,570.00
Total	**$ 299,507,609.23**	**$ 646,750,000.00**	**$ 946,257,609.23**

(a) Includes scheduled mandatory sinking fund payments.
Total represents the remaining debt service requirements from August 1, 2015 through June 30, 2016.

SOURCE: State of California, Office of the Treasurer.

STATE PUBLIC WORKS BOARD AND OTHER LEASE-REVENUE FINANCING OUTSTANDING ISSUES
As of July 1, 2015

Name of Issue		Outstanding
GENERAL FUND SUPPORTED ISSUES:		
State Public Works Board		
California Community Colleges	$	261,625,000
California Department of Corrections and Rehabilitation		4,178,000,000
Trustees of the California State University		1,045,520,000
Various State Facilities (a)		5,172,280,000
Total State Public Works Board Issues	**$**	**10,657,425,000**
Total Other State Facilities Lease-Revenue Issues (b)	$	332,055,000
Total General Fund Supported Issues	**$**	**10,989,480,000**
SPECIAL FUND SUPPORTED ISSUES:		
East Bay State Building Authority	$	11,915,000
San Bernardino Joint Powers Financing Authority		24,550,000
Total Special Fund Supported Issues	**$**	**36,465,000**
TOTAL	**$**	**11,025,945,000**

(a) Includes projects that are supported by multiple funding sources in addition to the General Fund.
(b) Includes $79,815,000 Sacramento City Financing Authority Lease-Revenue Refunding Bonds State of California - Cal/EPA Building, 2013 Series A, which are supported by lease rentals from the California Environmental Protection Agency; these rental payments are subject to annual appropriation by the State Legislature.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR LEASE-REVENUE DEBT
Fixed Rate
As of July 1, 2015

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2015	$ -	$ -	$ -
2016	555,130,114.47	517,730,000.00	1,072,860,114.47
2017	534,715,528.96	547,585,000.00	1,082,300,528.96
2018	507,251,503.09	607,565,000.00	1,114,816,503.09
2019	477,952,761.34	586,100,000.00	1,064,052,761.34
2020	449,002,292.60	570,870,000.00	1,019,872,292.60
2021	421,674,576.67	534,040,000.00	955,714,576.67
2022	395,004,393.73	521,800,000.00	916,804,393.73
2023	370,442,125.69	477,685,000.00	848,127,125.69
2024	346,602,894.25	463,295,000.00	809,897,894.25
2025	322,860,078.42	482,540,000.00	805,400,078.42
2026	298,042,273.40	495,670,000.00	793,712,273.40
2027	271,862,527.45	521,820,000.00	793,682,527.45
2028	244,692,905.63	535,370,000.00	780,062,905.63
2029	217,277,855.97	497,575,000.00	714,852,855.97
2030	190,477,020.37	491,255,000.00	681,732,020.37
2031	163,751,912.79	484,130,000.00	647,881,912.79
2032	136,315,519.08	490,745,000.00	627,060,519.08
2033	110,209,586.07	414,705,000.00	524,914,586.07
2034	85,775,299.41	426,345,000.00	512,120,299.41
2035	60,934,133.87	393,190,000.00	454,124,133.87
2036	42,258,875.00	248,365,000.00	290,623,875.00
2037	29,820,925.00	260,800,000.00	290,620,925.00
2038	16,656,150.00	202,380,000.00	219,036,150.00
2039	7,511,337.50	136,055,000.00	143,566,337.50
2040	2,078,800.00	81,865,000.00	83,943,800.00
Total	**$ 6,258,301,390.76**	**$ 10,989,480,000.00**	**$ 17,247,781,390.76**

(a) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.
(b) Includes scheduled mandatory sinking fund payments.
Total represents the remaining debt service requirements from August 1, 2015 through June 30, 2016.

SOURCE: State of California, Office of the Treasurer.

STATE AGENCY REVENUE BONDS
AND CONDUIT FINANCING
As of June 30, 2015

Issuing Agency	Outstanding[(a)(b)(c)]
State Revenue Bond Financing Programs:	
California Alternative Energy and Advanced Transportation Financing Authority	3,835,200
California Department of Transportation - GARVEE	49,315,000
California Earthquake Authority	350,000,000
California Health Facilities Financing Authority	62,210,000
California Housing Finance Agency	2,967,688,196
California Infrastructure and Economic Development Bank	569,045,000
California State University	3,687,508,000
Department of Water Resources - Central Valley Project	2,445,325,000
Department of Water Resources - Power Supply Program	5,278,455,000
The Regents of the University of California	15,988,990,000
Veterans Revenue Debenture	359,745,000
TOTAL	**31,762,116,396**
Conduit Financing:	
California Alternative Energy and Advanced Transportation Financing Authority	56,396,701
California Educational Facilities Authority	4,516,958,406
California Health Facilities Financing Authority	13,264,965,000
California Housing Finance Agency	372,411,894
California Infrastructure and Economic Development Bank	3,793,293,994
California Pollution Control Financing Authority	3,755,990,517
California School Financing Authority	373,918,055
TOTAL	**26,133,934,568**

(a) Totals for California Department of Transportation, California State University, Department of Water Resources and Veterans Revenue Debenture were provided by the State of California, Office of the Treasurer. All other totals were provided by the listed issuing agency.

(b) Does not include the Tobacco Settlement Revenue Bonds issued by Golden State Tobacco Securitization Corporation.

(c) Certain state agencies and authorities issue revenue obligations for which the General Fund has no liability. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing -Non-Recourse Debt." The tables above are intended to provide general information concerning the scope of the various State Revenue Bond Financing and Conduit Financing Programs referenced therein, and are not intended to be an exhaustive listing of all of the outstanding obligations of the respective programs.

EXHIBIT 1 TO APPENDIX A

PENSION SYSTEMS

NOTE: Since the date of the Preliminary Official Statement, certain information in Exhibit 1 to Appendix A has been updated, shown in *italics* on pages EX-1-6, EX-1-7, EX-1-8, EX-1-9, EX-1-11, EX-1-12 and EX-1-13.

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PENSION SYSTEMS

General

The principal retirement systems in which the state participates or to which it contributes funds are the California Public Employees' Retirement System ("CalPERS") and the California State Teachers' Retirement System ("CalSTRS"). The assets and liabilities of the funds administered by CalPERS and CalSTRS are included in the financial statements of the state as fiduciary funds. A summary description of CalPERS and CalSTRS is set forth in Note 24 (and the Schedule of Funding Progress included in the Required Supplementary Information) to the Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2014. See "FINANCIAL STATEMENTS."

The University of California ("UC") maintains a separate retirement system. The 2015 Budget Act does not allocate any of UC's appropriation specifically to fund its employer retirement costs, but directs $96 million in one-time Proposition 2 funds to pay down the unfunded liability associated with UC's retirement system. See Table 6.

As described below, the obligation of the state to make payments to CalPERS and CalSTRS to fund retirement benefits constitutes a significant financial obligation. CalPERS and CalSTRS each currently have unfunded liabilities in the tens of billions of dollars. Retirement-related costs payable from the General Fund are expected to increase in the foreseeable future. The actual amount of such increases will depend on a variety of factors, including but not limited to investment returns, actuarial assumptions, experience, retirement benefit adjustments and, in the case of CalSTRS, statutory changes to contribution levels.

The information in this section relating to CalPERS and CalSTRS is primarily derived from information produced by CalPERS and CalSTRS, their independent accountants and their actuaries. The state has not independently verified the information provided by CalPERS and CalSTRS and makes no representations nor expresses any opinion as to the accuracy of the information provided by CalPERS and CalSTRS.

The comprehensive annual financial reports of CalPERS and CalSTRS are available on their websites at www.calpers.ca.gov and www.calstrs.ca.gov, respectively. The CalPERS and CalSTRS websites also contain the most recent actuarial valuation reports, as well as other information concerning benefits and other matters. Such information is not incorporated by reference herein. The state cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

On June 25, 2012, the Governmental Accounting Standards Board ("GASB") approved two new standards with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new standards are set forth in GASB Statements 67 and 68 which replace GASB Statement 27 and most of GASB Statements 25 and 50. The

changes impacted the accounting treatment of pension plans in which state and local governments participate.

While these new accounting standards change financial statement reporting requirements, they did not impact funding policies of the pension systems. The impact of new GASB reporting requirements are reflected in the CalPERS and CalSTRS Comprehensive Annual Financial Reports for year ended June 30, 2014.

Pension Reform

PEPRA

In 2012, the state enacted The Public Employees' Pension Reform Act ("PEPRA"), a comprehensive pension reform package affecting state and local government, which increased the retirement age and lowered retirement benefits for most new state and local government employees hired on or after January 1, 2013. PEPRA also includes provisions to increase current employee contributions. Though PEPRA covers most public employees in state government, cities, counties, special districts, school districts, and community colleges, the following discussion relates only to PEPRA's impact on state employee retirement. PEPRA excludes judges, the University of California, and charter cities with independent pension systems from the new retirement plans; however, newly elected or appointed judges are subject to the new cost-sharing provisions described below.

In a preliminary actuarial analysis, CalPERS noted savings to the state of $10.3 billion to $12.6 billion over the next 30 years due primarily to increased employee contributions and, as the workforce turns over, lower benefit formulas that will gradually reduce normal costs. Other provisions reduce the risk of the state incurring additional unfunded liabilities, including prohibiting retroactive benefits increases, generally prohibiting contribution holidays, and prohibiting purchases of additional non-qualified service credit ("air time"). Key changes to retirement plans affecting the state include (1) lower defined-benefit formulas that increase retirement ages; (2) caps imposed on pensionable income for new public employees hired on or after January 1, 2013; and (3) a new standard that new employees must pay for at least 50 percent of the normal costs of their pensions.

Costs for retiree health and dental benefits ("OPEB") are not addressed in PEPRA; however, later retirement ages will reduce OPEB liabilities in the long term. See "STATE FINANCES—Retiree Health Care Costs." Provisions in PEPRA affecting CalSTRS did not change the state's statutory contribution rate. However, potential additional employee contributions, limits on pensionable compensation, and higher retirement ages for new members will reduce pressure on the system's unfunded liabilities and potentially on state contribution levels in the long term.

CalSTRS Funding Solution

The funding of the CalSTRS Defined Benefit Plan (the "DB Program") is based on contribution rates set by statute instead of actuarially determined amounts as is done for the CalPERS system. Over time, this has contributed to an underfunding of the DB Program which has been a concern in recent years. As one example, the funding status of the DB Program was identified as a high risk issue in the California State Auditor report 2013 601 dated September 2013 because, as stated in the report, the DB Program assets were projected to be depleted in 31 years (33 years based on the June 30, 2013 CalSTRS Valuation) assuming existing contribution rates continue, and other significant actuarial assumptions are realized.

In 2014, the Legislature enacted AB 1469 (Chapter 47, Statutes of 2014), a comprehensive funding solution intended to eliminate the current CalSTRS unfunded liability on the DB Program by 2046. The plan started modestly in fiscal year 2014-15 and will phase in, providing the state, schools, and teachers sufficient time to prepare for future increases in contributions.

Teacher (member) contributions will increase from 8 percent to a total of 10.25 percent of creditable compensation for members not subject to PEPRA and 9.205 percent for members subject to PEPRA, school (employer) contributions will increase from 8.25 percent to a total of 19.1 percent of creditable compensation, and the state's total contribution to the DB Program will increase from approximately 3.5 percent on July 1, 2014 to 6.3 percent of payroll on July 1, 2016 and thereafter. In addition, the state will continue to pay 2.5 percent of payroll annually for a supplemental inflation protection program—for a total of 8.8 percent. See "CalSTRS—Funding for the DB Program" for more information on the plan.

CalPERS

1. General

At June 30, 2014, CalPERS administered a total of 13 funds, including four defined benefit retirement plans: the Public Employees' Retirement Fund ("PERF"), the Legislators' Retirement Fund ("LRF"), the Judges' Retirement Fund ("JRF"), and the Judges' Retirement Fund II ("JRF II"). (These plans, as well as the other plans administered by CalPERS, are described in the comprehensive financial reports of CalPERS, which can be found on CalPERS' website at www.calpers.ca.gov. Such information is not incorporated by reference herein.) The PERF, LRF, JRF, and JRF II are defined benefit pension plans which provide benefits based on members' years of service, age, final compensation, and benefit formula. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Certain summary information concerning PERF is set forth below. Certain summary information concerning LRF, JRF, JRF II, and the 1959 Survivor Benefit program (which provides payments to the survivors of eligible members who die before retirement) is set forth at the end of this section.

CalPERS is administered by a 13-member Board of Administration (the "CalPERS Board"), that includes the State Controller, State Director of the Department of Human Resources, and the State Treasurer, who serve ex officio. The other CalPERS Board members

include a member elected by school employees, a member elected by retirees, a member elected by state employees, a member elected by other public agency employees, a member designated by the State Personnel Board, a public representative appointed jointly by the Speaker of the Assembly and the Senate Rules Committee, an official of a life insurer appointed by the Governor, an elected local official appointed by the Governor, and two members elected by all members.

2. Members and Employers

CalPERS is a multiple-employer defined benefit retirement system. In addition to the state, employer participants at June 30, 2014 included more than 3,000 public agencies and school districts. CalPERS acts as the common investment and administrative agent for the member agencies. The state and schools (for "classified employees," which generally consist of school employees other than teachers) are required by law to participate in CalPERS. Other public agencies can elect whether or not to participate in CalPERS or administer their own plans. Members of CalPERS generally become fully vested in their retirement benefits earned to date after five years of credited service. Separate accounts are maintained for each employer participating in CalPERS, and separate actuarial valuations are performed for each individual employer's plan to determine the employer's periodic contribution rate and other information for the individual plan, based on the benefit formula selected by the employer and the individual plan's proportionate share of CalPERS assets.

Unless otherwise specified, the information relating to CalPERS provided in this section relates only to state employees. State employees include Executive Branch, California State University, Judicial, and Legislature employees.

The following table reflects the number of state employee members of CalPERS as of June 30, 2013 and June 30, 2014. (CalPERS's fiscal year commences July 1 and ends June 30 of the following year.)

TABLE 31
CalPERS Membership (State Employees) as of June 30

Category	2013	2014
Retirees	175,851	180,666
Survivors and Beneficiaries	28,785	30,575
Active Members	243,620	246,834
Inactive Members	90,463	94,813
Total	538,719	552,888

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2013 and June 30, 2014.

Benefits to state employees are paid according to the category of employment and the type of benefit coverage provided by the state. All employees in a covered class of employment who work on a half-time basis or more are eligible to participate in CalPERS. The five categories of membership applicable to state employees are set forth below. Certain of the categories also have "tiers" of membership. It is up to the employee to select his or her preferred

membership tier. Different tiers may have different benefits, as well as different employee contribution requirements. The member categories are as follows:

- Miscellaneous Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.

- Safety Members – employees whose principal duties are in active law enforcement or fire prevention and suppression work but are not defined as a State Peace Officer/Firefighter Member, or who occupy positions designated by law as Safety Member positions.

- State Industrial Members – employees of CDCR who have the same service retirement and other benefits as Miscellaneous Members, but who also have industrial death and disability benefits under certain limited circumstances.

- State Peace Officer/Firefighter Members – employees who are involved in law enforcement, firefighting and fire suppression, public safety, protective services, or the management and supervision thereof, whose positions are defined as State Peace Officer/Firefighter Members in the Government Code or by the Department of Human Resources.

- Patrol Members – California Highway Patrol officers and their related supervisors and managers.

3. Retirement Benefits

Generally, annual pension benefits depend on employment category, years of service credit, final compensation, and age of retirement. Annual pension benefits generally range from 2 percent of final compensation at age 55 for each year of service credit (applicable to Miscellaneous and State Industrial category members) to 3 percent of final compensation for each year of service for retirement at age 50 (for State Peace Officer/Firefighter category members). Pension benefits are subject to annual cost of living adjustments (generally ranging from 2-3 percent) and an additional adjustment intended to preserve the "purchasing power" of the pension benefit. Additional pension benefits also generally include disability and death benefit provisions. A detailed description of the pension benefits payable by PERF to state employees is set forth in CalPERS actuarial valuations.

The following table shows the amount of pension benefits paid from CalPERS for fiscal years *2009-10 through 2013-14*.

TABLE 32
CalPERS (State Only)
Schedule of Pension Benefits Paid

(Dollars in Millions)

Fiscal Year	Amount of Benefits Paid
2009-10	$5,485
2010-11	6,017
2011-12	6,711
2012-13	6,935
2013-14	*7,409*

Source: CalPERS State and Schools Actuarial Valuation for fiscal years ended June 30, *2010 through June 30, 2012; State Actuarial Valuation for Fiscal Years Ended June 30, 2013 through June 30, 2014.*

4. Member and State Contributions

The pension benefits for state employees in CalPERS are funded by contributions from members, the state, and earnings from investments. Member and state contributions are a percentage of applicable member compensation and are determined annually on an actuarial basis. Member contribution rates are defined by law and vary by bargaining units within the same employee classification. The required contribution rates of active CalPERS members are based on a percentage of their salary ranging from 3 to 13 percent.

State contributions are made from the General Fund, special funds, and non-governmental cost funds. The state has made the full amount of actuarially required contribution each year. *The rates below also include additional state contributions due to savings realized by the state as a result of increased employee contributions under PEPRA.*

The 2015 Budget Act includes the following employer contribution rates:

	Contribution Rates
State Miscellaneous Tier 1	25.150%
California State University, Miscellaneous Tier 1	25.150
State Miscellaneous Tier 2	25.278
State Industrial	18.656
State Safety	19.264
State Peace Officers & Firefighters	38.985
California State University, Peace Officers and Firefighters	38.985
California Highway Patrol	46.725

Table 33 shows the state's actual and estimated contributions to CalPERS.

TABLE 33
State Contribution to PERF, including CSU
Fiscal Year Ending June 30

(Dollars in Thousands)

Fiscal Year	State Employees All Funds[b]	State Employees General Fund[b]	CSU Employees All Funds	CSU General Fund	Total Contributions	Total General Fund [b]
2011-12	$3,174,494	$1,745,972	N/A	N/A	$3,174,494	$1,745,972
2012-13	2,948,137	1,506,043	$449,243	$449,000	3,397,380	1,955,043
2013-14	3,219,262	1,644,546	473,798	473,542	3,693,060	2,118,088
2014-15[a]	4,041,591	2,119,742	542,814	542,520	4,584,405	2,662,262
2015-16[a]	4,337,735	2,281,422	584,650	584,357	4,922,385	2,865,779

[a] Estimated contributions.

[b] Pension contributions for CSU employees are included for all years displayed in this table. However, beginning in 2012-13, CSU contributions are identified separately.

Source: State of California, Department of Finance.

5. Prospective Funding Status; Future State Contributions

The level of future required contributions from the state depends on a variety of factors, including future investment portfolio performance, actuarial assumptions, and additional potential changes in retirement benefits. There can be no assurances that the required annual contribution to CalPERS will not continue to significantly increase and that such increases will not materially adversely affect the financial condition of the state.

In accordance with state law, the actuarial valuation for the fiscal year ended June 30, *2014* includes a sensitivity analysis of discount rates. The analysis shows that employer contribution rates are highly sensitive to changes in the discount rate and that employer contribution rates would be significantly reduced if a higher discount rate is used, and employer contribution rates would significantly increase if a lower discount rate is used. The actuarial report for the year ended June 30, *2014* contains information concerning the specific impact on employer contribution rates and unfunded liability resulting from these different discount rate assumptions.

The table below, excerpted from the actuarial report for the year ended June 30, *2014*, *shows the projected state contribution rates for fiscal year 2016-17, using the CalPERS 2014-15 earning rate of 2.4 percent. The projected rates also assume that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur. The rates below also include additional state contributions due to savings realized by the state as a result of increased employee contributions under PEPRA.*

Plan	***Projected 2016-17 Contribution Rates***
State Miscellaneous Tier 1	*27.3%*
State Miscellaneous Tier 2	*26.8*
State Industrial	*19.0*
State Safety	*18.8*
State Peace Officers & Firefighters	*40.4*
California Highway Patrol	*49.6*

The tables below show projected state contribution rates for fiscal year 2017-18 through fiscal year 2019-20 for the employee categories under five different investment return scenarios. The projected rates assume that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur. The five different investment return scenarios are as follows (figures in parentheses are negative numbers):

- The first scenario assumes a negative (3.80) percent return for each of the fiscal years *2015-16, 2016-17 and 2017-18*.
- The second scenario assumes a 2.80 percent return for each of the fiscal years *2015-16, 2016-17 and 2017-18.*
- The third scenario assumes the return for each of the fiscal years *2015-16, 2016-17 and 2017-18* would be CalPERS' assumed 7.50 percent investment return.
- The fourth scenario assumes a 12.00 percent return for each of the fiscal years *2015-16, 2016-17 and 2017-18.*
- The fifth scenario assumes an 18.90 percent return for each of the fiscal years *2015-16, 2016-17 and 2017-18.*

In all the scenarios, rates are expressed as a percentage of payroll.

Estimated: *2017-18*

Assumed return	(3.80)%	2.80%	7.50%	12.00%	18.90%
	Projected Contribution Rates				
State Miscellaneous Tier 1	*29.1%*	*28.5%*	*28.1%*	*27.7%*	*27.1%*
State Miscellaneous Tier 2	*28.8*	*28.2*	*27.8*	*27.4*	*26.8*
State Industrial	*20.3*	*19.8*	*19.5*	*19.2*	*18.7*
State Safety	*19.4*	*19.0*	*18.8*	*18.5*	*18.1*
State Peace Officers & Firefighters	*42.6*	*41.8*	*41.2*	*40.7*	*39.9*
California Highway Patrol	*52.1*	*51.3*	*50.7*	*50.2*	*49.4*

Source: CalPERS State Actuarial Valuation, Fiscal Year Ended June 30, *2014*.

Estimated: *2018-19*

Assumed return	(3.80)%	2.80%	7.50%	12.00%	18.90%
Projected Contribution Rates					
State Miscellaneous Tier 1	*31.8%*	*30.2%*	*28.9%*	*27.7%*	*25.8%*
State Miscellaneous Tier 2	*31.6*	*30.0*	*28.8*	*27.6*	*25.6*
State Industrial	*22.2*	*20.9*	*19.9*	*18.9*	*17.4*
State Safety	*20.6*	*19.6*	*18.8*	*18.0*	*16.8*
State Peace Officers & Firefighters	*46.1*	*43.8*	*42.1*	*40.5*	*37.9*
California Highway Patrol	*55.8*	*53.6*	*51.9*	*50.2*	*47.6*

Source: CalPERS State Actuarial Valuation, Fiscal Year Ended June 30, *2014*.

Estimated: *2019-20*

Assumed return	(3.80)%	2.80%	7.50%	12.00%	18.90%
Projected Contribution Rates					
State Miscellaneous Tier 1	*35.3%*	*32.2%*	*29.8%*	*27.3%*	*23.3%*
State Miscellaneous Tier 2	*35.3*	*32.2*	*29.8*	*27.3*	*23.3*
State Industrial	*24.9*	*22.3*	*20.4*	*18.4*	*15.1*
State Safety	*22.4*	*20.4*	*18.8*	*17.2*	*14.6*
State Peace Officers & Firefighters	*50.7*	*46.4*	*43.0*	*39.6*	*34.1*
California Highway Patrol	*60.7*	*56.4*	*53.0*	*49.7*	*44.1*

Source: CalPERS State Actuarial Valuation, Fiscal Year Ended June 30, *2014*.

6. Investment Policy; Investment Returns

Pursuant to the state Constitution, the CalPERS Board has sole and exclusive fiduciary responsibility over the assets of the PERF. CalPERS' assets are managed both externally by professional investment management firms and internally by CalPERS investment staff. The CalPERS Board monitors the performance of the managers with the assistance of an external investment consultant.

CalPERS has established a series of procedures and guidelines with respect to investments. The procedures, grouped together as the "Investment Policy," serve to guide CalPERS' asset allocation strategy for PERF. The CalPERS Board reviews the Investment Policy annually, taking into consideration the latest actuarial valuation. Additional information concerning CalPERS investments can be found on the CalPERS website.

The following tables set forth the total return on all assets for PERF for the fiscal years ending June 30, 2004 through June 30, 2014, as well as time-weighted average returns.

TABLE 34
CalPERS Investment Results Based On Market Value

Fiscal Year	Annualized Rate of Return
2003-04	16.6%
2004-05	12.3
2005-06	11.8
2006-07	19.1
2007-08	(5.1)
2008-09	(24.0)
2009-10	13.3
2010-11	21.7
2011-12	0.1
2012-13	13.2
2013-14	18.4

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2004 through June 30, 2014.

On July 13, 2015, a CalPERS press release reported a 2.4 percent net investment return in fiscal year 2014-15.

TABLE 35
PERF Time-Weighted Average Returns as of June 30, 2014

Period	Time Weighted Average Rate of Return
3 years	10.4%
5 years	12.5
10 years	7.2

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2014.

7. Actuarial Methods and Assumptions

The total cost CalPERS incurs to provide benefits includes administrative expenses. All of these costs are funded through contributions to the PERF and investment earnings on PERF's assets. CalPERS' actuary estimates the total cost of the benefits to be paid and, using the actuarial funding method determined by CalPERS (as described below), the actuary allocates these costs to the fiscal years. CalPERS' financial objective is to fund in such a manner as to keep contribution rates approximately level as a percentage of payroll from generation to generation, while accumulating sufficient assets over each member's working career in order to cover the total cost of providing benefits.

The primary funding method used to accomplish this objective is the "Entry Age Normal Cost Method." Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual costs as a level percent of

pay in each year from the age of hire (entry age) to the assumed retirement age. The cost allocated to the current fiscal year is called the "normal cost." The Actuarial Accrued Liability ("AAL") for active members is then calculated as the portion of the total cost of the plan allocated to prior years.

The AAL for members currently receiving benefits, for active members beyond the assumed retirement age, and for inactive members entitled to deferred benefits is equal to the present value of the benefits expected to be paid. No normal costs are applicable for these participants. The excess of the total AAL over the value of plan assets is called the unfunded actuarial accrued liability. The required contribution is then determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payroll.

With respect to CalPERS, the unfunded liability is broken down into components, or bases, according to their date of origin and the cause that gave rise to that component. A component of the unfunded liability that arose due to a change in plan provisions or in actuarial methods or assumptions is separately tracked and amortized over a declining 20-year period. The actuarial assumptions discussed below are used to determine projected benefits. The effect of differences between those assumptions and the actual experience of the plan is calculated each year when the annual actuarial valuation is performed. These differences are actuarial gains or losses.

The CalPERS Chief Actuary considers various factors in determining the assumptions to be used in preparing the actuarial report. Demographic assumptions are based on a study of the actual history of retirement, rates of termination/separation of employment, years of life expectancy after retirement, disability, and other factors. This experience study is generally done once every four years. The most recent experience study was completed in 2014 in connection with the preparation of actuarial recommendations by the CalPERS Chief Actuary as described below. The following table sets forth certain economic actuarial assumptions for the fiscal years ended June 30, *2011* through June 30*, 2014*.

TABLE 36
Actuarial Assumptions—PERF

Assumption	**2011**	**2012**	**2013**	***2014***
Investment Returns	7.50%	7.50%	7.50%	*7.50%*
Inflation	2.75	2.75	2.75	*2.75*
Salary Increase (Total Payroll)	3.00	3.00	3.00	*3.00*

Source: CalPERS State and Schools Actuarial Valuation for fiscal years ended *June 30, 2010 through June 30, 2012; State Actuarial Valuation for Fiscal Years Ended June 30, 2013 through June 30, 2014*.

On February 20, 2014, the CalPERS Board of Administration adopted new mortality and retirement assumptions as part of a regular review of demographic experience. Key assumption changes included longer post-retirement life expectancy, earlier retirement ages, and higher-than-expected wage growth for State Peace Officers/Firefighters and California Highway Patrol. The impact of the assumption changes will be phased in over three years, with a 20-year amortization, beginning in 2014-15.

The CalPERS Board is discussing various "de-risking" approaches to reduce the volatility of employer contribution rates by gradually lowering the discount rate and adjusting asset allocations over a long period of time. A formal proposal is expected to be presented to the CalPERS Board in October 2015. However, CalPERS has signaled it would not incorporate a new risk management approach into state contribution rates until 2017-18 at the earliest.

8. *Actuarial Valuation; Determination of Required Contributions*

The required state contributions to PERF are determined on an annual basis by the CalPERS Chief Actuary. The actuary uses demographic and other data (such as employee age, salary, and service credits) and various assumptions (such as estimated salary increases, interest rates, employee turnover, and mortality and disability rates) to determine the amount that the state must contribute in a given year to provide sufficient funds to PERF to pay benefits when due. The actuary then produces a report, called the "actuarial valuation," in which the actuary reports on the assets, liabilities, and required contribution for the following fiscal year. State law requires the state to make the actuarially-required contribution to PERF each year.

A portion of the actuarial valuations performed by CalPERS actuaries are audited each year by an independent actuarial firm. The actuarial valuations specific to state employees are audited every three years. The most recent audit was for the June 30, 2012 actuarial valuation and was completed February 24, 2014.

The market value of assets measures the value of the assets available in the pension plan to pay benefits and is used to determine the required employer contributions. At the April 16 and 17, 2013 meetings, the CalPERS Board approved a plan to replace the current 15-year asset-smoothing policy with a 5-year direct-rate smoothing process and replace the current 30-year rolling amortization of unfunded liabilities with a 30-year fixed amortization period.

The Chief Actuary stated that the approach provides a single measure of funded status and unfunded liabilities, less volatility in extreme years, a faster path to full funding, and more transparency to employers about future contribution rates. These changes will accelerate the repayment of unfunded liabilities (including fiscal year 2008-09 investment losses) of the state plans in the near term. Under the CalPERS Board action, actual rates for the state *were* not set using the new methods until fiscal year 2015-16, *reflecting* the June 30, 2014 valuation.

9. *Funding Status*

The following table sets forth the schedule of funding progress relating to the state's participation in PERF as of the ten most recent actuarial valuation dates. Funding progress is measured by a comparison of the state's share of PERF assets to pay state employee benefits with plan liabilities.

On *October 2,* 2015 *the CalPERS Board of Administration released the June 30, 2014 State Actuarial Valuation, which showed* marginally lower than expected fiscal year 2015-16 state employer contribution rates and improved funded status due to strong investment performance, an increase in new employees subject to lower pension-reform benefits, and other demographic factors. The unfunded liability allocable to state employees (excluding judges and elected officials) was $43.3 billion as of June 30, 2014, a decrease of $6.7 billion from the June

30, 2013 valuation. The funded status increased to 72.1 percent as of June 30, 2014 as compared to 66.1 percent in the June 30, 2013 valuation. This actuarial information is available on the CalPERS website: http://www.calpers.ca.gov/eip-docs/about/committee-meetings/agendas/financeadmin/201504/item-8b-00.pdf.

TABLE 37
PERF Schedule of Funding Progress
State Employees Only
Fiscal Years Ended June 30

(Dollars in Millions)

	2009-10	2010-11	2011-12	2012-13	2013-14
Market Value of Assets (MVA)[a]	$76,266	$91,159	$88,810	$97,453	$111,982
Actuarial Accrued Liabilities	121,446	129,648	134,314	147,393	155,247
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis	(45,180)	(38,489)	(45,504)	(49,940)	(43,265)
Covered Payroll	16,281	16,212	15,680	15,347	16,476
Funded Ratio (MVA)	62.8%	70.3%	66.1%	66.1%	72.10%

[a] Table does not include actuarial value of assets (AVA) because CalPERS no longer measures AVA.

Source: CalPERS State and Schools Actuarial Valuation, Fiscal Year Ended June 30, 2012 and prior years; State Actuarial Valuation, Fiscal Year Ended *June 30, 2013 and June 30, 2014*.

10. Other Retirement Plans

In addition to PERF, CalPERS also administers JRF, JRF II, LRF, and the 1959 Survivor Benefit program, which are defined benefit plans.

In the JRF actuarial reports for the year ended June 30, 2014, CalPERS reported that JRF had an unfunded actuarial liability of approximately $3.4 billion. For the same year, the JRF II and the LRF reported funding surpluses of $63 million and $19 million, respectively. In the 1959 Survivor Benefit program actuarial report for the year ended June 30, 2014, CalPERS reported that the program had an unfunded actuarial liability of approximately $25.5 million. The state's fiscal year 2015-16 retirement contributions from the General Fund are estimated to be $189.1 million for JRF, $68.1 million for JRF II, $4.7 million for the 1959 Survivor Benefit Program, and $1.0 million for LRF.

Further information concerning JRF, JRF II, and LRF can be found in CalPERS' financial reports and actuarial reports and is set forth in Note 24 (and the Schedule of Funding Progress included in the Required Supplementary Information) to the Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2014 attached as APPENDIX I to this Official Statement.

CalSTRS

1. General

CalSTRS was established under the California Education Code in 1913 to provide benefits to California public school and community college teachers and to certain other employees of the state's public school system (kindergarten through community college). CalSTRS is the administrator of multiple-employer, cost-sharing defined benefit plans, a tax-deferred defined contribution plan, a Medicare Premium Payment Program, and a Teachers' Deferred Compensation Fund.

The largest CalSTRS fund, the State Teachers' Retirement Plan (the "STRP"), is a multiple employer, cost-sharing, defined benefit plan comprised of four programs: the Defined Benefit Program (referred to in the state's 2014 Financial Statements and in this Official Statement as the "DB Program"), the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. Within the DB Program there is also a Supplemental Benefits Maintenance Account (the "SBMA") which provides purchasing power protection for retired members.

The state is not an employer (with certain very limited exceptions) in any of CalSTRS programs but does contribute to the DB Program and the SBMA from its General Fund pursuant to statutes in the Education Code. The DB Program is funded through a combination of investment earnings and statutorily set contributions from three sources: the members of CalSTRS, the employers, and the state. Contribution rates for the members and employers to fund the DB Program are not adjusted to reflect or offset actual investment returns or other factors which affect the funded status of the DB Program. The same is true for the contribution rates for the state. For contributions from employers and the state, the CalSTRS Board was provided new limited rate setting authority under the provisions of AB 1469.

The SBMA is a separate account within the DB Program that is funded with a combination of investment earnings and statutorily set contributions from the state. The Purchasing Power Protection Program payments for retired members are made only to the extent funds are available in the SBMA and are not a vested benefit. See "Funding for the SBMA."

CalSTRS is administered by a 12-member Teachers' Retirement Board (the "CalSTRS Board") that includes the California Director of Finance, State Controller, State Superintendent of Public Instruction, and the State Treasurer, who serve ex officio. The other CalSTRS Board members serve four-year terms and include three CalSTRS member-elected representatives representing current educators, one retired CalSTRS member, three public representatives, and one school board representative, each appointed by the Governor and confirmed by the Senate.

Certain summary information concerning the DB Program is set forth below.

2. Members and Employers

As of June 30, 2014, the DB Program included 1,687 employers. The following table reflects the total number of members in the DB Program as of June 30, 2013 and 2014.

TABLE 38
DB Program Membership

Membership	June 30, 2014	June 30, 2013	Percent Change
Active Members	420,887	416,643	1.0%
Inactive Members	182,815	182,576	0.1
Retirees and Beneficiaries	275,627	269,274	2.4
Total Membership	879,329	868,493	1.2

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2014.

3. Retirement Benefits

Member benefits are determined by statute in the Education Code and are generally based on a member's age, final compensation, and years of credited service. Members are 100 percent vested in retirement benefits after five years of credited service and are eligible for normal retirement at age 60 and for early retirement at age 55 or at age 50 with 30 years of credited service. The normal retirement benefit is 2 percent of final compensation (as defined in the Education Code) for each year of credited service (up to 2.4 percent of final compensation for members retiring after age 60), and members who retired on or after January 1, 2001 with 30 or more years of service by December 31, 2010 receive monthly bonus payments of up to $400 per month. Pension reform legislation signed in 2012 increased the retirement age for new CalSTRS members hired on or after January 1, 2013. New members who retire at age 62 will be eligible for a benefit equal to 2 percent of final compensation for each year of credited service (up to 2.4 percent of final compensation for members retiring after age 62).

Benefits are increased by 2 percent (a simple, not a compounded, cost-of-living increase) of the initial allowance, on each September 1 following the first anniversary of the effective date of the benefit.

The following table shows the amount of benefits and administrative expenses paid under the DB Program for the last five fiscal years:

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TABLE 39
DB Program
Schedule of Benefits Paid and Administrative Expenses

(Dollars in Millions)

Fiscal Year	Amount of Benefits Paid	Administrative Expenses
2009-10	$9,358	$140
2010-11	10,092	110
2011-12	10,677	138
2012-13	11,355	137
2013-14[1]	11,616	146

[1] Pursuant to GASB 67, the CalSTRS Comprehensive Annual Financial Report for Fiscal Year 2014 no longer displays the DB Program independent of the State Teachers' Retirement Plan. The DB Program amounts were provided by CalSTRS.
Source: CalSTRS Comprehensive Annual Financial Reports for Fiscal Years ended June 30, 2008 through 2013. CalSTRS for Fiscal Year ended June 30, 2014.

4. Funding for the DB Program

The DB Program is funded with a combination of investment income and contributions from members, employers, and the state. Although specific amounts vary from year to year, approximately 55 percent of DB Program assets were derived from investment returns, according to CalSTRS. As described below, the contribution rates of the members, employers, and the state are determined by statute in the Education Code instead of actuarially determined amounts as is done for the CalPERS system. Over time, this has contributed to an underfunding of the DB Program which has been a concern in recent years.

On June 24, 2014, the Governor signed AB 1469, a comprehensive long-term funding solution intended to eliminate the current CalSTRS unfunded liability on the DB Program by 2046. The changes in contribution rates for members, employers and the state required by AB 1469 are described below. While the plan is intended to eliminate the unfunded liability of the DB Program by 2046, there is no assurance that it will be eliminated by that date. See "—Prospective Funding Status; Future Contributions" below. Accordingly, there can be no assurances that the required amounts annually payable among the members, employers, and state will not significantly increase in the future.

Member Contributions. Members are required to make contributions to the DB Program in an amount equal to 8 percent of creditable compensation of the member. However, for services performed between January 1, 2000 and December 31, 2010, the member contribution to the DB Program was 6 percent because 2 percent was directed to the Defined Benefit Supplement Program (to which the state does not contribute).

Under AB 1469, member contributions will increase over time on July 1, 2014, 2015 and 2016 to 10.25 percent for members not subject to PEPRA and to 9.205 percent for members subject to PEPRA.

Employer Contributions. Employers are required to make contributions to the DB Program in an amount equal to 8 percent of creditable compensation plus 0.25 percent to pay costs of the unused sick leave credit; provided that a portion of the employers' contributions has

in the past and may in the future be transferred to the Medicare Premium Program which has the effect of further reducing aggregate annual contributions to the DB Program.

Under AB 1469, employer contributions will increase over time on each July 1 of 2014 through 2020 to 19.1 percent of creditable compensation in fiscal year 2020-21 through fiscal year 2045-46. Beginning in fiscal year 2021-22 through fiscal year 2045-46, AB 1469 authorizes the CalSTRS Board to adjust the employer contribution up or down 1 percentage point each year, but no higher than 20.25 percent total and no lower than 8.25 percent, to eliminate the remaining unfunded obligation that existed on July 1, 2014.

State Contributions. The state's General Fund contribution to the DB Program is 2.017 percent of creditable compensation from two fiscal years prior. For example, for fiscal year 2011-12, the state's contribution was based on creditable compensation from fiscal year 2009-10. Before fiscal year 2014-15, the state also contributed an additional 0.524 percent of creditable compensation from two fiscal years prior when there is an unfunded obligation or a normal cost deficit exists for benefits in place as of July 1, 1990. Under the prior structure, the percentage was adjusted up to 0.25 percent per year to reflect the contributions required to fund the unfunded obligation or the normal cost deficit. However, the supplemental contribution could not exceed 1.505 percent of creditable compensation from two fiscal years prior.

Under AB 1469, the state will increase its supplemental contribution to the July 1, 1990 benefit obligation and it will be phased in over a three year period. Starting in fiscal year 2014-15, the supplemental contribution increased to 1.437 percent, in fiscal year 2015-16 it will increase to 2.874 percent, and in fiscal year 2016-17 through 2045-46 it will increase to 4.311 percent. Beginning fiscal year 2017-18 through fiscal year 2045-46, the CalSTRS Board is authorized to adjust the supplemental state contribution up 0.50 percent each year to eliminate the unfunded obligation for benefits in place as of July 1, 1990. If there is no unfunded obligation, the supplemental contribution shall be reduced to zero.

The plan also provides the CalSTRS Board with limited authority to increase or decrease the school and state contributions based on changing conditions. The plan is intended to eliminate the unfunded liability of the DB Program by 2046. However, while AB 1469 provides for significant increases in the statutorily required contributions to CalSTRS from the state, employers and members, it does not provide that such statutory rates be adjusted to equal actuarially required amounts from time to time. Actuarially required amounts will vary from time to time based on a variety of factors, including actuarial assumptions, investment performance and member benefits. To the extent rates established pursuant to AB 1469 are less than actuarially required amounts from time to time, such circumstances could materially adversely affect the funded status of CalSTRS.

5. Change in Accounting Standards

The 2014 CalSTRS Financial Statements were prepared in accordance with GASB Statement 67. GASB Statement 67 impacts the financial reporting requirements for CalSTRS but does not change the funding requirements for members, employers, or the state. The 2014 CalSTRS Financial Statements are available on the CalSTRS website at www.calstrs.ca.gov.

Under GASB Statement 67, CalSTRS is required to report the net pension liability (NPL) instead of the previously required unfunded actuarial accrued liability (UAAL). Additionally, CalSTRS is now required to provide a schedule in the notes to the financial statements that display the proportionate share of contributions per employer. Employers will consider this schedule when determining their proportionate share of the NPL to be recognized in their financial statements pursuant to GASB Statement 68.

Investors should note that the CalSTRS 2014 Financial Statements display the NPL of the entire STRP and do not provide a calculation of the DB Program separately. CalSTRS reports that an actuarial valuation of the DB Program will continue to be prepared. See "Actuarial Valuation" below for information about the most recent valuation report for the DB Program.

In addition, CalSTRS has allocated the proportionate share of its NPL to employers and the state (as a nonemployer contributing entity) in the 2014 CalSTRS Financial Statements to assist employers and the state in implementing GASB 68 in their respective financial statements for the year ended June 30, 2015. GASB Statement 68 requires employers and nonemployer contributing entities to report any NPL as a liability in their Statement of Net Position. In the 2014 CalSTRS Financial Statements, 37.65% of the NPL is allocated to the state. The State Controller will continue to evaluate this allocation until release of the state's financial statements for the year ended June 30, 2015 and the percentage may be less than or greater than the 37.65% contained in the 2014 CalSTRS Financial Statements.

6. Funding for the SMBA

The SBMA is a separate account within the DB Program that is funded with a combination of investment income and contributions from the state. The contribution rate for the state's funding of the SBMA is also determined by statute in the Education Code. The Purchasing Power Protection Program funded from the SBMA provides quarterly payments to retired and disabled members and beneficiaries to restore purchasing power to beneficiaries if the purchasing power of their initial retirement or disability allowances have fallen below a specified percentage. The Purchasing Power Protection Program payments are made only to the extent funds are available in the SBMA and are not a vested benefit.

The state's General Fund contribution to the SBMA is 2.5 percent of creditable compensation of the fiscal year ending in the prior calendar year, less $70 million for the fiscal year ended June 30, 2010, $71 million for the fiscal year ended June 30, 2011 and $72 million thereafter.

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The following table displays the total state contributions to CalSTRS for the DB Program, SBMA, and the additional Pre-1990 Defined Benefit supplemental payments made pursuant to AB 1469.

TABLE 40
Schedule of Contributions from the State

(Dollars in Millions)

Fiscal Year	Contributed to the DB	Contributed to the SBMA	Contributed to the Pre-1990 DB	Total Contributed
2011-12	$547	$662	$107	$1,316
2012-13	530	642	188	1,360
2013-14	527	581	252	1,360
2014-15[(a)]	528	582	376	1,486
2015-16	548	607	781	1,936

[(a)] Beginning in 2014-15 the state increased payments to the Pre-1990 Defined Benefit pursuant to AB 1469. .
Source: State of California, Department of Finance

7. Actuarial Methods and Assumptions

Although contributions are set by statute, CalSTRS retains an independent actuary (the "CalSTRS Consulting Actuary") that prepares annual actuarial valuation reports of the DB Program. The CalSTRS Consulting Actuary also prepares reports reviewing the DB Program's actual experience every four years. The CalSTRS Board uses experience reports to evaluate how realistic the long-term assumptions have been and may be in the future. The most recent valuation report for the DB Program, dated March 18, 2015 (the "2014 CalSTRS Valuation"), was prepared as of June 30, 2014, and is available on the CalSTRS website. The actuarial assumptions and methods used in the 2014 CalSTRS Valuation were based on the most recent experience report (the "2010 Experience Analysis") prepared by the CalSTRS Consulting Actuary in February 2012.

In preparing the 2014 CalSTRS Valuation, the CalSTRS Consulting Actuary used the Entry Age Actuarial Cost Method to measure the accruing costs of benefits under the DB Program. GASB Statements 67 and 68 require all state and local governments with pension liabilities to use the Entry Age Actuarial Cost Method beginning in fiscal year 2014-15 if they are not already doing so. Under the Entry Age Actuarial Cost Method, the actuarial present value of projected benefits of each individual is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. The portion of the actuarial present value allocated to the valuation year is called the normal cost and represents the cost assigned to a member for a given year, such that it would meet the continuing costs of a particular benefit if contributed each year starting with the date of membership. The CalSTRS Consulting Actuary notes that the Entry Age Actuarial Cost Method is designed to produce a normal cost rate that remains a level percentage of earned salaries and that the normal cost rate is expected to remain fairly stable so long as the benefit provisions are not amended, the assumptions are not changed,

membership experience emerges as assumed, and the demographic characteristics of the membership remain reasonably consistent. Some of the key demographic information taken into account includes assumptions about membership, service retirements, disability retirements, deaths, and merit salary increases, and some of the economic items include assumptions about inflation and wage growth.

The portion of the actuarial value of benefits not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial obligation, and the excess, if any, of the actuarial obligation over the actuarial value of assets is the unfunded actuarial obligation. Assumptions about how long benefits will be paid for active and inactive members and when such members will retire and how long they will live are required in calculating the actuarial obligation, and economic assumptions and valuation methods are required in valuing assets. The following table sets forth certain actuarial methods and assumptions for the four fiscal years ended June 30, 2014.

TABLE 41
Actuarial Methods and Assumptions - DB Program
(Fiscal Years Ended June 30)

Methods	2011	2012	2013	2014
Actuarial Cost Method	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization Method	Level Percent of payroll	Level Percent of payroll	Level Percent of payroll	Level Percent of payroll
Amortization Period	Open	Open	Open	Open
Remaining Amortization Period	30 years	30 years	30 years	30 years
Asset Valuation Method	Expected value with 33% adjustment to market value	Expected value with 33% adjustment to market value	Expected value with 33% adjustment to market value	Expected value with 33% adjustment to market value
Actuarial Assumptions				
Investment Rate of Return	7.50%	7.50%	7.50%	7.50%
Interest on Accounts	4.50	4.50	4.50	4.50
Wage Growth	3.75	3.75	3.75	3.75
Consumer Price Inflation	3.00	3.00	3.00	3.00
Post-retirement Benefit Increases	2.00 (simple)	2.00 (simple)	2.00 (simple)	2.00 (simple)

Source: CalSTRS Comprehensive Annual Financial Reports for Fiscal Years ended June 30, 2011, 2012, 2013, and 2014.

8. Actuarial Valuation

According to CalSTRS and as reflected in the 2014 CalSTRS Valuation, the biggest source of funding of the DB Program is investment returns, and in calculating the actuarial value of assets, contributions for the past year are added to the actuarial value of assets at the end of the prior year; benefits and expenses are subtracted; an assumed rate of return is added, and as described below, a portion of market value gains and losses are added or subtracted. The assumed investment rate of return on DB Program assets (net of investment and administrative expenses) and the assumed interest to be paid on refunds of member accounts are based in part on an inflation assumption of 3.0 percent.

Actual market returns are taken into account but to reduce rate volatility, actual market gains and losses are spread or "smoothed" over a three-year period. That is, one third of the difference between the expected actuarial value of assets and the fair market value of assets is taken into account to determine the actuarial value of assets. According to the 2014 CalSTRS Valuation, due to the asset smoothing method, approximately one-third of the approximately $16.4 billion investment gain was recognized in June 30, 2014 (the difference between the AVA and MVA in Table 36 below). GASB Statements 67 and 68, beginning in fiscal year 2013-14 for pension plans and fiscal year 2014-15 for employers, will require state and local governments with pension liabilities to recognize the differences between expected and actual investment returns over a closed 5-year period instead of the 3-year period currently used by CalSTRS. CalSTRS will continue to use 3-year period for valuation purposes and the 5-year period for financial reporting purposes.

9. Funding Status

The following table sets forth the schedule of funding progress as of the ten most recent actuarial valuation dates based on information provided by CalSTRS from the actuarial valuation reports for such years. Funding progress is measured by a comparison of DB Program assets with DB Program liabilities.

The actuarial reports for the DB Program and the SBMA Program were approved by the CalSTRS Board on April 2, 2015. Such reports are currently available on the CalSTRS website.

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TABLE 42
DB Program Schedule of Funding Progress
(Fiscal Years Ended June 30)

(Dollars in Millions)

	2009-10	2010-11	2011-12	2012-13	2013-14[b]
Market Value of Assets (MVA)[a]	$117,129	$140,040	$134,835	$147,907	$169,406
Actuarial Value of Assets (AVA)	140,291	143,930	144,232	148,614	158,495
Actuarial Accrued Liabilities (AAL)-entry age	196,315	208,405	215,189	222,281	231,213
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis[a]	(79,186)	(68,365)	(80,354)	(74,374)	(61,807)
Excess of Actuarial Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) AVA Basis	(56,024)	(64,475)	(70,957)	(73,667)	(72,718)
Covered Payroll	26,275	25,576	25,388	25,479	26,470
Funded Ratio (MVA)[a]	60%	67%	63%	67%	73%
Funded Ratio (AVA)	71%	69%	67%	67%	69%

[a] The CalSTRS Comprehensive Annual Financial Report reports the SBMA assets with DB Program assets and does not provide a separate accounting of only the DB Program assets. The market value of the DB Program assets (without SBMA assets) for the fiscal years ended June 30, 2010 through 2014 was provided by the CalSTRS Consulting Actuary.

[b] The AAL is referred to as the Actuarial Obligation and the UAAL is referred to as the Unfunded Actuarial Obligation (UAO) in the 2014 CalSTRS Valuation.

Source: CalSTRS Actuarial Valuations for Fiscal Years ended June 30, 2010 through 2014.

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According to CalSTRS, the market value of the entire DB Program investment portfolio (including the SBMA assets) was $178.3 billion as of June 30, 2014, an increase from $156.7 billion (or 13.7 percent) on June 30, 2013.

10. Prospective Funding Status; Future Contributions

The CalSTRS Consulting Actuary concluded in the 2013 CalSTRS Valuation (prior to the enactment of AB 1469) that the unfunded actuarial obligation of the DB Program will not be amortized over any future period and that the DB Program is projected to have its assets depleted in about 33 years. As mentioned above, on June 24, 2014, the Governor signed AB 1469, a comprehensive funding solution intended to eliminate the CalSTRS unfunded liability on the DB Program by 2046. The changes in contribution rates for members, employers and the state required by AB 1469 are described above.

According to the 2014 CalSTRS Valuation, future revenues from contributions and appropriations for the DB Program are projected to be sufficient to finance its obligation by 2046.

11. Investment Policy; Investment Returns

Pursuant to the state Constitution, the CalSTRS Board has sole and exclusive fiduciary responsibility over all CalSTRS' assets (including the DB Program assets). CalSTRS' assets (including the DB Program assets) are managed both externally by professional investment management firms and internally by CalSTRS investment staff. The CalSTRS Board monitors the performance of the managers with the assistance of an external investment consultant.

CalSTRS has established a series of procedures and guidelines with respect to investments. The procedures, grouped together as the "Investment Policy and Management Plan," serve to guide CalSTRS asset allocation strategy for all CalSTRS' programs, including the DB Program. The CalSTRS Board reviews the Investment Policy and Management Plan annually, taking into consideration the latest actuarial study. CalSTRS follows strategic allocation guidelines that identify targets for the percentage of funds to be invested in each asset class. These targets are typically implemented over a period of several years. Additional information concerning CalSTRS investments can be found on the CalSTRS website.

The following table sets forth the total return on all CalSTRS' assets (including the DB Program assets) for the fiscal years ended June 30, 2004 through June 30, 2014, as well as time-weighted average returns.

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TABLE 43
CalSTRS Investment Results Based On Market Value

Fiscal Year	Annualized Rate of Return
2003-04	17.38%
2004-05	11.09
2005-06	13.21
2006-07	21.03
2007-08	(3.69)
2008-09	(25.03)
2009-10	12.20
2010-11	23.10
2011-12	1.84
2012-13	13.80
2013-14	18.66

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2014.

On July 17, 2015, a CalSTRS press release reported a 4.8 percent gross investment return in fiscal year 2014-15.

TABLE 44
CalSTRS Time-Weighted Average Returns as of June 30, 2014

Period	Time-Weighted Rate of Return
3 years	11.21%
5 years	13.69
10 years	7.65

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2014.

June 2015

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

BETTY T. YEE
California State Controller

BETTY T. YEE
California State Controller

July 10, 2015

Users of the Statement of General Fund Cash Receipts and Disbursements:

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2014, through June 30, 2015. This statement reflects the State of California's General Fund cash position, and compares actual receipts and disbursements for the 2014-15 fiscal year to cash flow estimates prepared by the Department of Finance (DOF) for the 2014-15 Budget Act. The statement is prepared in compliance with Provision 7 of Budget Act item 0840-001-0001 using records compiled by the State Controller. Prior-year actual amounts are also displayed for comparative purposes.

Attachment A compares actual receipts and disbursements for the 2014-15 fiscal year to cash flow estimates published in the 2015-16 May Revision Budget. These cash flow estimates are predicated on projections and assumptions made by DOF in preparation of the 2015-16 May Revision Budget.

Attachment B compares actual receipts and disbursements for the 2014-15 fiscal year to cash flow estimates prepared by DOF, based upon the 2014-15 Budget Act.

These statements are also available on the State Controller's website at www.sco.ca.gov under the category Monthly Financial Reports.

Any questions concerning this report may be directed to Casandra Moore-Hudnall, Division Chief of Accounting and Reporting, by telephone at (916) 445-5834.

Sincerely,
Original signed by:

BETTY T. YEE

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2015-16 May Revision Estimates
(Amounts in thousands)

	July 1 through June 30					
	2015					2014
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount		%	Actual
GENERAL FUND BEGINNING CASH BALANCE	**$ 1,921,629**	**$ 1,921,629**	**$ -**		-	$ -
Add Receipts:						
Revenues	114,277,777	113,383,598	894,179	(e)	0.8	101,572,529
Nonrevenues	2,107,803	2,073,609	34,194		1.6	2,393,668
Total Receipts	116,385,580	115,457,207	928,373		0.8	103,966,197
Less Disbursements:						
State Operations	30,505,865	31,184,321	(678,456)		(2.2)	26,448,309
Local Assistance	82,217,873	83,635,512	(1,417,639)		(1.7)	72,773,611
Capital Outlay	164,063	216,659	(52,596)		(24.3)	154,544
Nongovernmental	2,889,996	2,927,205	(37,209)		(1.3)	233,239
Total Disbursements	115,777,797	117,963,697	(2,185,900)		(1.9)	99,609,703
Receipts Over / (Under) Disbursements	607,783	(2,506,490)	3,114,273		(124.2)	4,356,494
Net Increase / (Decrease) in Temporary Loans	-	584,861	(584,861)		(100.0)	(2,434,865)
GENERAL FUND ENDING CASH BALANCE	**2,529,412**	**-**	**2,529,412**			1,921,629
Special Fund for Economic Uncertainties	449,700	-	449,700		-	1,071,100
TOTAL CASH	**$ 2,979,112**	**$ -**	**$ 2,979,112**			$ 2,992,729
BORROWABLE RESOURCES						
Available Borrowable Resources	$ 28,291,332	$ 26,604,039	$ 1,687,293	(f)(g)	6.3	$ 23,761,526
Outstanding Loans (b)	-	584,861	(584,861)		(100.0)	-
Unused Borrowable Resources	$ 28,291,332	$ 26,019,178	$ 2,272,154		8.7	$ 23,761,526

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2014-15 fiscal year was prepared by the Department of Finance for the 2015-16 May Revision. Any projections or estimates are set forth as such and not as representation of facts.
(b) The $607.8 million in excess receipts over disbursements was added to the cash balance of $1.9 billion carried forward from June 30, 2014, leaving a net ending cash balance of $2.5 billion and $0.00 in outstanding loans at June 30, 2015.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.
(e) Includes ($343.3) million one-time adjustment for an under-allocation of sales and use tax due to local government in prior fiscal years for Public Safety and Local Revenue Realignment.
(f) $2.8 billion of Revenue Anticipation Notes (RANs) proceeds were repaid on June 22, 2015 as scheduled.
(g) In September, $1.6 billion was transferred from the General Fund to the Budget Stabilization Account (BSA). This balance in the BSA is included in the Available Borrowable Resources. In addition, $1.6 billion was transferred to the Deficit Recovery Fund to retire economic recovery bonds. This expenditure is reflected in State Operations, General Government.
(h) A $1.0 billion advance was made from the General Fund to the Medi-Cal Provider Interim Payment Fund and repayment was received in June 2015. Consequently, the disbursements for Local Assistance Medical Assistance Program increased in June.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2015				2014
	2015	2014	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 57,251	$ 31,370	$ 386,125	$ 362,437	$ 23,688	6.5	$ 329,457
Corporation Tax	2,653,896	2,480,217	10,254,954	10,284,897	(29,943)	(0.3)	8,511,645
Cigarette Tax	7,036	982	92,281	86,064	6,217	7.2	80,152
Estate, Inheritance, and Gift Tax	356	2,327	3,466	2,662	804	30.2	8,828
Insurance Companies Tax	328,667	307,021	2,450,009	2,486,044	(36,035)	(1.4)	2,365,974
Personal Income Tax	10,916,594	9,258,300	76,268,212	75,509,329	758,883	1.0	66,194,590
Retail Sales and Use Taxes	2,180,314	2,026,168	23,241,632	23,180,513	61,119 (e)	0.3	22,158,717
Vehicle License Fees	5	41	157	145	12	8.3	1,951
Pooled Money Investment Interest	4,518	3,554	18,374	18,130	244	1.3	21,351
Not Otherwise Classified	618,575	675,235	1,562,567	1,453,377	109,190	7.5	1,899,864
Total Revenues	**16,767,212**	**14,785,215**	**114,277,777**	**113,383,598**	**894,179**	**0.8**	**101,572,529**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	621,400	621,400	-	-	-
Transfers from Other Funds	24,047	247,020	415,465	404,926	10,539	2.6	1,197,097
Miscellaneous	8,847	24,182	1,070,938	1,047,283	23,655	2.3	1,196,571
Total Nonrevenues	**32,894**	**271,202**	**2,107,803**	**2,073,609**	**34,194**	**1.6**	**2,393,668**
Total Receipts	**$ 16,800,106**	**$ 15,056,417**	**$ 116,385,580**	**$ 115,457,207**	**$ 928,373**	**0.8**	**$ 103,966,197**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2015				2014
	2015	2014	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 93,912	$ 32,232	$ 1,422,382	$ 1,453,974	$ (31,592)	(2.2)	$ 1,478,905
Business, Consumer Services and Housing	255	(4,415)	18,867	20,103	(1,236)	(6.1)	10,667
Transportation	5	20	49	44	5	11.4	593
Resources	3,262	64,873	1,245,744	1,564,234	(318,490)	(20.4)	1,084,230
Environmental Protection Agency	9,870	3,928	47,895	68,932	(21,037)	(30.5)	40,943
Health and Human Services:							
Health Care Services and Public Health	2,891	(2,978)	243,006	258,978	(15,972)	(6.2)	235,749
Department of State Hospitals	120,207	112,636	1,530,646	1,499,951	30,695	2.0	1,375,451
Other Health and Human Services	20,507	16,487	544,522	585,495	(40,973)	(7.0)	517,745
Education:							
University of California	-	2,889	2,990,656	2,991,732	(1,076)	-	2,852,368
State Universities and Colleges	74,958	29	2,998,093	3,021,730	(23,637)	(0.8)	2,551,907
Other Education	13,497	7,562	193,214	203,746	(10,532)	(5.2)	186,421
Dept. of Corrections and Rehabilitation	776,569	707,814	9,654,294	9,786,108	(131,814)	(1.3)	8,785,327
Governmental Operations	77,252	50,805	757,198	751,685	5,513	0.7	679,501
General Government	189,635	124,765	3,979,119	4,004,457	(25,338) (g)	(0.6)	2,136,658
Public Employees Retirement System	(199,955)	(165,093)	(102,743)	(91,555)	(11,188)	12.2	(57,274)
Debt Service (d)	199,171	130,941	4,946,112	5,009,999	(63,887)	(1.3)	4,505,852
Interest on Loans	47,570	80,051	36,811	54,708	(17,897)	(32.7)	63,266
Total State Operations	**1,429,606**	**1,162,546**	**30,505,865**	**31,184,321**	**(678,456)**	**(2.2)**	**26,448,309**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	3,992,548	2,220,509	44,235,987	44,537,061	(301,074)	(0.7)	36,842,575
Community Colleges	471,904	354,750	4,862,623	4,875,012	(12,389)	(0.3)	4,001,929
Debt Service-School Building Bonds	-	-	-	(519)	519	(100.0)	-
Contributions to State Teachers' Retirement System	-	-	1,486,004	1,486,004	-	-	1,359,827
Other Education	28,564	13,863	2,489,056	2,607,677	(118,621)	(4.5)	1,744,406
School Facilities Aid	-	-	-	519	(519)	(100.0)	-
Dept. of Corrections and Rehabilitation	3,187	35	215,106	208,258	6,848	3.3	168,313
Dept. of Alcohol and Drug Program	-	605	210	(665)	875	(131.6)	(254)
Health Care Services and Public Health:							
Medical Assistance Program	1,365,163	823,586	17,064,401	17,465,233	(400,832) (h)	(2.3)	16,995,452
Other Health Care Services/Public Health	80,239	(5,461)	213,566	239,934	(26,368)	(11.0)	104,234
Developmental Services - Regional Centers	56,860	122,783	2,862,614	2,985,513	(122,899)	(4.1)	2,653,769
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	331,141	57,972	4,802,967	5,147,171	(344,204)	(6.7)	4,615,418
CalWORKs	1,156	(38,517)	318,900	348,831	(29,931)	(8.6)	1,481,494
Other Social Services	16,640	109,633	735,344	721,649	13,695	1.9	766,416
Tax Relief	500	-	416,755	416,255	500	0.1	421,734
Other Local Assistance	663,522	44,557	2,514,340	2,597,579	(83,239)	(3.2)	1,618,298
Total Local Assistance	**7,011,424**	**3,704,315**	**82,217,873**	**83,635,512**	**(1,417,639)**	**(1.7)**	**72,773,611**

See notes on page A1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2015				2014
	2015	2014	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**4,197**	**294**	**164,063**	**216,659**	**(52,596)**	**(24.3)**	**154,544**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	-	-	-	122,900
Transfer to Budget Stabilization Account	-	-	1,606,422	1,606,422	- (g)	-	-
Transfer to Other Funds	414,998	419,500	1,353,449	1,350,491	2,958	0.2	1,093,514
Transfer to Revolving Fund	(12,237)	(7,279)	(5,729)	7,535	(13,264)	(176.0)	(12,787)
Advance:							
MediCal Provider Interim Payment	(1,000,000)	(1,000,000)	-	-	- (h)	-	(1,000,000)
State-County Property Tax Administration Program	(19,331)	(12,096)	2,981	39,550	(36,569)	(92.5)	(15,404)
Social Welfare Federal Fund	29,000	141,200	(88,170)	(117,170)	29,000	(24.8)	108,989
Local Governmental Entities	-	(60,000)	(1,161)	(1,161)	-	-	(30,913)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	304,816	282,612	22,204	41,538	(19,334)	(46.5)	(33,060)
Total Nongovernmental	**(282,754)**	**(236,063)**	**2,889,996**	**2,927,205**	**(37,209)**	(1.3)	**233,239**
Total Disbursements	**$ 8,162,473**	**$ 4,631,092**	**$ 115,777,797**	**$ 117,963,697**	**$ (2,185,900)**	**(1.9)**	**$ 99,609,703**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (449,700)	$ (1,071,100)	$ -	$ 449,700	$ (449,700)	(100.0)	$ (948,200)
Budget Stabilization Account	(1,606,422)	-	-	135,161	(135,161) (g)	(100.0)	-
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	(1,252,099)	(3,432,596)	-	-	-	-	(1,486,665)
Revenue Anticipation Notes	(2,800,000)	(4,000,000)	-	-	- (f)	-	-
Net Increase / (Decrease) Loans	**(6,108,221)**	**$ (8,503,696)**	**$ -**	**$ 584,861**	**$ (584,861)**	**(100.0)**	**$ (2,434,865)**

See notes on page A1.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through June 30			
	General Fund		Special Funds	
	2015	2014	2015	2014
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 386,125	$ 329,457	$ -	$ -
Corporation Tax	10,254,954	8,511,645	-	-
Cigarette Tax	92,281	80,152	800,670	700,910
Estate, Inheritance, and Gift Tax	3,466	8,828	-	4
Insurance Companies Tax	2,450,009	2,365,974	1,546,994	779,224
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	5,412,357	5,699,170
Diesel & Liquid Petroleum Gas	-	-	358,310	317,647
Jet Fuel Tax	-	-	2,779	2,811
Vehicle License Fees	157	1,951	2,300,506	2,163,979
Motor Vehicle Registration and Other Fees	-	-	4,280,707	4,165,105
Personal Income Tax	76,268,212	66,194,590	1,367,033	1,189,222
Retail Sales and Use Taxes	23,241,632	22,158,717	14,854,858	14,006,872
Pooled Money Investment Interest	18,374	21,351	180	148
Total Major Taxes, Licenses, and Investment Income	**112,715,210**	**99,672,665**	**30,924,394**	**29,025,092**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	2,924	3,239	52,813	52,727
Electrical Energy Tax	-	-	624,491	619,337
Private Rail Car Tax	8,924	8,530	-	-
Penalties on Traffic Violations	-	-	68,842	70,883
Health Care Receipts	11,243	12,569	-	-
Revenues from State Lands	271,595	417,751	-	-
Abandoned Property	367,563	485,893	-	-
Trial Court Revenues	46,745	49,003	1,599,661	1,656,797
Horse Racing Fees	1,155	1,058	12,764	12,789
Cap and Trade	-	-	1,490,776	477,140
Miscellaneous	852,418	921,821	12,453,281	10,403,490
Not Otherwise Classified	**1,562,567**	**1,899,864**	**16,302,628**	**13,293,163**
Total Revenues, All Governmental Cost Funds	**$ 114,277,777**	**$ 101,572,529**	**$ 47,227,022**	**$ 42,318,255**

See notes on page A1.

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2014-15 Budget Act
(Amounts in thousands)

	July 1 through June 30						
	2015						2014
	Actual	Estimate (a)	Actual Over or (Under) Estimate				Actual
			Amount			%	
GENERAL FUND BEGINNING CASH BALANCE	**$ 1,921,629**	**$ 1,921,629**	**$ -**			-	$ -
Add Receipts:							
Revenues	114,277,777	107,444,120	6,833,657	(e)		6.4	101,572,529
Nonrevenues	2,107,803	1,701,856	405,947			23.9	2,393,668
Total Receipts	116,385,580	109,145,976	7,239,604			6.6	103,966,197
Less Disbursements:							
State Operations	30,505,865	30,863,087	(357,222)			(1.2)	26,448,309
Local Assistance	82,217,873	82,815,663	(597,790)			(0.7)	72,773,611
Capital Outlay	164,063	168,714	(4,651)			(2.8)	154,544
Nongovernmental	2,889,996	2,869,657	20,339			0.7	233,239
Total Disbursements	115,777,797	116,717,121	(939,324)			(0.8)	99,609,703
Receipts Over / (Under) Disbursements	607,783	(7,571,145)	8,178,928			(108.0)	4,356,494
Net Increase / (Decrease) in Temporary Loans	-	5,649,516	(5,649,516)			(100.0)	(2,434,865)
GENERAL FUND ENDING CASH BALANCE	**2,529,412**	-	**2,529,412**				1,921,629
Special Fund for Economic Uncertainties	449,700	-	449,700			-	1,071,100
TOTAL CASH	**$ 2,979,112**	**$ -**	**$ 2,979,112**				$ 2,992,729
BORROWABLE RESOURCES							
Available Borrowable Resources	$ 28,291,332	$ 24,801,927	$ 3,489,405	(f)(g)		14.1	$ 23,761,526
Outstanding Loans (b)	-	5,649,516	(5,649,516)			(100.0)	-
Unused Borrowable Resources	$ 28,291,332	$ 19,152,411	$ 9,138,921			47.7	$ 23,761,526

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2014-15 fiscal year was prepared by the Department of Finance for the 2014-15 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.
(b) The $607.8 million in excess receipts over disbursements was added to the cash balance of $1.9 billion carried forward from June 30, 2014, leaving a net ending cash balance of $2.5 billion and $0.00 in outstanding loans at June 30, 2015.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.
(e) Includes ($343.3) million one-time adjustment for an under-allocation of sales and use tax due to local government in prior fiscal years for Public Safety and Local Revenue Realignment.
(f) $2.8 billion of Revenue Anticipation Notes (RANs) proceeds were repaid on June 22, 2015 as scheduled.
(g) In September, $1.6 billion was transferred from the General Fund to the Budget Stabilization Account (BSA). This balance in the BSA is included in the Available Borrowable Resources. In addition, $1.6 billion was transferred to the Deficit Recovery Fund to retire economic recovery bonds. This expenditure is reflected in State Operations, General Government.
(h) A $1.0 billion advance was made from the General Fund to the Medi-Cal Provider Interim Payment Fund and repayment was received in June 2015. Consequently, the disbursements for Local Assistance Medical Assistance Program increased in June.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2015				2014
	2015	2014	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 57,251	$ 31,370	$ 386,125	$ 358,366	$ 27,759	7.7	$ 329,457
Corporation Tax	2,653,896	2,480,217	10,254,954	8,624,157	1,630,797	18.9	8,511,645
Cigarette Tax	7,036	982	92,281	83,727	8,554	10.2	80,152
Estate, Inheritance, and Gift Tax	356	2,327	3,466	-	3,466	-	8,828
Insurance Companies Tax	328,667	307,021	2,450,009	2,381,526	68,483	2.9	2,365,974
Personal Income Tax	10,916,594	9,258,300	76,268,212	70,435,566	5,832,646	8.3	66,194,590
Retail Sales and Use Taxes	2,180,314	2,026,168	23,241,632	23,637,475	(395,843) (e)	(1.7)	22,158,717
Vehicle License Fees	5	41	157	-	157	-	1,951
Pooled Money Investment Interest	4,518	3,554	18,374	20,303	(1,929)	(9.5)	21,351
Not Otherwise Classified	618,575	675,235	1,562,567	1,903,000	(340,433)	(17.9)	1,899,864
Total Revenues	**16,767,212**	**14,785,215**	**114,277,777**	**107,444,120**	**6,833,657**	**6.4**	**101,572,529**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	621,400	621,400	-	-	-
Transfers from Other Funds	24,047	247,020	415,465	274,985	140,480	51.1	1,197,097
Miscellaneous	8,847	24,182	1,070,938	805,471	265,467	33.0	1,196,571
Total Nonrevenues	**32,894**	**271,202**	**2,107,803**	**1,701,856**	**405,947**	**23.9**	**2,393,668**
Total Receipts	**$ 16,800,106**	**$ 15,056,417**	**$ 116,385,580**	**$ 109,145,976**	**$ 7,239,604**	**6.6**	**$ 103,966,197**

See notes on page B1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30					
			2015					2014
	2015	2014	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount		%	Actual
STATE OPERATIONS (c)								
Legislative/Judicial/Executive	$ 93,912	$ 32,232	$ 1,422,382	$ 1,409,643	$ 12,739		0.9	$ 1,478,905
Business, Consumer Services and Housing	255	(4,415)	18,867	19,404	(537)		(2.8)	10,667
Transportation	5	20	49	-	49		-	593
Resources	3,262	64,873	1,245,744	1,255,896	(10,152)		(0.8)	1,084,230
Environmental Protection Agency	9,870	3,928	47,895	57,837	(9,942)		(17.2)	40,943
Health and Human Services:								
Health Care Services and Public Health	2,891	(2,978)	243,006	251,811	(8,805)		(3.5)	235,749
Department of State Hospitals	120,207	112,636	1,530,646	1,450,190	80,456		5.5	1,375,451
Other Health and Human Services	20,507	16,487	544,522	541,148	3,374		0.6	517,745
Education:								
University of California	-	2,889	2,990,656	2,986,670	3,986		0.1	2,852,368
State Universities and Colleges	74,958	29	2,998,093	2,966,298	31,795		1.1	2,551,907
Other Education	13,497	7,562	193,214	222,009	(28,795)		(13.0)	186,421
Dept. of Corrections and Rehabilitation	776,569	707,814	9,654,294	9,371,735	282,559		3.0	8,785,327
Governmental Operations	77,252	50,805	757,198	688,404	68,794		10.0	679,501
General Government	189,635	124,765	3,979,119	4,339,506	(360,387)	(g)	(8.3)	2,136,658
Public Employees Retirement System	(199,955)	(165,093)	(102,743)	(52,241)	(50,502)		96.7	(57,274)
Debt Service (d)	199,171	130,941	4,946,112	5,267,597	(321,485)		(6.1)	4,505,852
Interest on Loans	47,570	80,051	36,811	87,180	(50,369)		(57.8)	63,266
Total State Operations	**1,429,606**	**1,162,546**	**30,505,865**	**30,863,087**	**(357,222)**		**(1.2)**	**26,448,309**
LOCAL ASSISTANCE (c)								
Public Schools - K-12	3,992,548	2,220,509	44,235,987	44,843,289	(607,302)		(1.4)	36,842,575
Community Colleges	471,904	354,750	4,862,623	4,700,833	161,790		3.4	4,001,929
Debt Service-School Building Bonds	-	-	-	(519)	519		(100.0)	-
Contributions to State Teachers' Retirement System	-	-	1,486,004	1,486,004	-		-	1,359,827
Other Education	28,564	13,863	2,489,056	2,886,740	(397,684)		(13.8)	1,744,406
School Facilities Aid	-	-	-	519	(519)		(100.0)	-
Dept. of Corrections and Rehabilitation	3,187	35	215,106	218,909	(3,803)		(1.7)	168,313
Dept. of Alcohol and Drug Program	-	605	210	-	210		-	(254)
Health Care Services and Public Health:								
Medical Assistance Program	1,365,163	823,586	17,064,401	17,226,470	(162,069)	(h)	(0.9)	16,995,452
Other Health Care Services/Public Health	80,239	(5,461)	213,566	79,466	134,100		168.8	104,234
Developmental Services - Regional Centers	56,860	122,783	2,862,614	2,477,878	384,736		15.5	2,653,769
Department of State Hospitals	-	-	-	-	-		-	-
Dept. of Social Services:								
SSI/SSP/IHSS	331,141	57,972	4,802,967	4,792,488	10,479		0.2	4,615,418
CalWORKs	1,156	(38,517)	318,900	651,125	(332,225)		(51.0)	1,481,494
Other Social Services	16,640	109,633	735,344	829,976	(94,632)		(11.4)	766,416
Tax Relief	500	-	416,755	420,183	(3,428)		(0.8)	421,734
Other Local Assistance	663,522	44,557	2,514,340	2,202,302	312,038		14.2	1,618,298
Total Local Assistance	**7,011,424**	**3,704,315**	**82,217,873**	**82,815,663**	**(597,790)**		**(0.7)**	**72,773,611**

See notes on page B1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2015				2014
	2015	2014	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**4,197**	**294**	**164,063**	**168,714**	**(4,651)**	**(2.8)**	**154,544**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	-	-	-	122,900
Transfer to Budget Stabilization Account	-	-	1,606,422	1,606,422	- (g)	-	-
Transfer to Other Funds	414,998	419,500	1,353,449	1,196,066	157,383	13.2	1,093,514
Transfer to Revolving Fund	(12,237)	(7,279)	(5,729)	-	(5,729)	-	(12,787)
Advance:							
MediCal Provider Interim Payment	(1,000,000)	(1,000,000)	-	-	- (h)	-	(1,000,000)
State-County Property Tax Administration Program	(19,331)	(12,096)	2,981	-	2,981	-	(15,404)
Social Welfare Federal Fund	29,000	141,200	(88,170)	-	(88,170)	-	108,989
Local Governmental Entities	-	(60,000)	(1,161)	-	(1,161)	-	(30,913)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	304,816	282,612	22,204	67,169	(44,965)	(66.9)	(33,060)
Total Nongovernmental	**(282,754)**	**(236,063)**	**2,889,996**	**2,869,657**	**20,339**	0.7	**233,239**
Total Disbursements	**$ 8,162,473**	**$ 4,631,092**	**$ 115,777,797**	**$ 116,717,121**	**$ (939,324)**	**(0.8)**	**$ 99,609,703**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (449,700)	$ (1,071,100)	$ -	$ 449,700	$ (449,700)	(100.0)	$ (948,200)
Budget Stabilization Account	(1,606,422)	-	-	1,606,422	(1,606,422) (g)	(100.0)	-
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	(1,252,099)	(3,432,596)	-	3,593,394	(3,593,394)	(100.0)	(1,486,665)
Revenue Anticipation Notes	(2,800,000)	(4,000,000)	-	-	- (f)	-	-
Net Increase / (Decrease) Loans	**(6,108,221)**	**$ (8,503,696)**	**$ -**	**$ 5,649,516**	**$ (5,649,516)**	**(100.0)**	**$ (2,434,865)**

See notes on page B1.

(Concluded)

September 2015

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

BETTY T. YEE
California State Controller

BETTY T. YEE
California State Controller

October 9, 2015

Users of the Statement of General Fund Cash Receipts and Disbursements:

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2015, through September 30, 2015. This statement reflects the State of California's General Fund cash position, and compares actual receipts and disbursements for the 2015-16 fiscal year to cash flow estimates prepared by the Department of Finance (DOF) for the 2015-16 Budget Act. The statement is prepared in compliance with Provision 5 of Budget Act item 0840-001-0001, using records compiled by the State Controller. Prior-year actual amounts are also displayed for comparative purposes.

Attachment A compares actual receipts and disbursements for the 2015-16 fiscal year to cash flow estimates prepared by DOF, based upon the 2015-16 Budget Act.

These statements are also available on the State Controller's website at www.sco.ca.gov under the category Monthly Financial Reports.

Please direct any questions relating to this report to Casandra Moore-Hudnall, Division Chief of Accounting and Reporting, by telephone at (916) 445-5834.

Sincerely,
Original signed by:

BETTY T. YEE

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2015-16 Budget Act
(Amounts in thousands)

	July 1 through September 30				
	2015				2014
	Actual	Estimate (a)	Actual Over or (Under) Estimate		Actual
			Amount	%	
GENERAL FUND BEGINNING CASH BALANCE	**$ 2,529,412**	**$ 2,529,412**	**$ -**	-	$ 1,921,629
Add Receipts:					
Revenues	23,441,337	23,090,215	351,122	1.5	21,814,110
Nonrevenues	385,977	280,699	105,278	37.5	304,389
Total Receipts	23,827,314	23,370,914	456,400	2.0	22,118,499
Less Disbursements:					
State Operations	7,801,504	7,998,782	(197,278)	(2.5)	9,563,919
Local Assistance	22,528,295	23,445,805	(917,510)	(3.9)	26,179,352
Capital Outlay	117,273	97,022	20,251	20.9	40,665
Nongovernmental	1,714,764	1,652,605	62,159	3.8	1,645,494
Total Disbursements	32,161,836	33,194,214	(1,032,378)	(3.1)	37,429,430
Receipts Over / (Under) Disbursements	(8,334,522)	(9,823,300)	1,488,778	(15.2)	(15,310,931)
Net Increase / (Decrease) in Temporary Loans	5,805,110	7,293,888	(1,488,778)	(20.4)	13,389,302
GENERAL FUND ENDING CASH BALANCE	**-**	-	**-**		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	**$ -**	$ -	**$ -**		$ -
BORROWABLE RESOURCES					
Available Borrowable Resources	$ 32,725,279	$ 30,369,742	$ 2,355,537	7.8	$ 31,060,311
Outstanding Loans (b)	5,805,110	7,293,888	(1,488,778)	(20.4)	13,389,302
Unused Borrowable Resources	$ 26,920,169	$ 23,075,854	$ 3,844,315	16.7	$ 17,671,009

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2015-16 fiscal year was prepared by the Department of Finance for the 2015-16 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $5.8 billion is comprised of $5.8 billion of internal borrowing. Current balance is comprised of $0.0 billion carried forward from June 30, 2015, plus current year Net Increase/(Decrease) in Temporary Loans of $5.8 billion.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) Debt Service amounts are net of offsets such as federal subsidies and reimbursements from other sources. To the extent that these offsets do not occur when anticipated, there can be variances between actuals and estimates on a month-to-month basis.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of September		July 1 through September 30				
			2015				2014
	2015	2014	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	Actual Over or (Under) Estimate %	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 40,131	$ 28,910	$ 88,840	$ 94,265	$ (5,425)	(5.8)	$ 125,588
Corporation Tax	836,561	1,114,993	1,286,798	1,387,394	(100,596)	(7.3)	1,561,454
Cigarette Tax	2,135	13,773	16,970	21,792	(4,822)	(22.1)	28,429
Estate, Inheritance, and Gift Tax	182	227	756	-	756	-	969
Insurance Companies Tax	283,815	333,215	604,733	611,234	(6,501)	(1.1)	586,658
Personal Income Tax	6,681,781	6,056,822	15,312,106	14,705,913	606,193	4.1	14,059,345
Retail Sales and Use Taxes	1,694,915	2,076,207	5,642,716	6,021,826	(379,110)	(6.3)	5,255,257
Vehicle License Fees	2	17	8	-	8	-	66
Pooled Money Investment Interest	2,572	2,128	4,963	6,194	(1,231)	(19.9)	4,045
Not Otherwise Classified	35,142	129,778	483,447	241,597	241,850	100.1	192,299
Total Revenues	**9,577,236**	**9,756,070**	**23,441,337**	**23,090,215**	**351,122**	**1.5**	**21,814,110**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	-	-	-	-	24,242
Transfers from Other Funds	-	18,608	188,807	151,569	37,238	24.6	154,226
Miscellaneous	48,668	289	197,170	129,130	68,040	52.7	125,921
Total Nonrevenues	**48,668**	**18,897**	**385,977**	**280,699**	**105,278**	**37.5**	**304,389**
Total Receipts	**$ 9,625,904**	**$ 9,774,967**	**$ 23,827,314**	**$ 23,370,914**	**$ 456,400**	**2.0**	**$ 22,118,499**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of September		July 1 through September 30				
			2015				2014
	2015	2014	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 146,135	$ 169,469	$ 539,261	$ 624,928	$ (85,667)	(13.7)	$ 574,416
Business, Consumer Services and Housing	1,784	2,438	5,042	6,304	(1,262)	(20.0)	5,016
Transportation	-	-	2	-	2	-	15
Resources	205,527	185,083	478,351	563,356	(85,005)	(15.1)	385,876
Environmental Protection Agency	8,170	2,973	12,973	13,956	(983)	(7.0)	9,205
Health and Human Services:							
Health Care Services and Public Health	(568)	26,098	140,654	153,326	(12,672)	(8.3)	621,925
Department of State Hospitals	122,384	123,956	385,931	415,178	(29,247)	(7.0)	389,349
Other Health and Human Services	56,276	45,853	188,865	210,606	(21,741)	(10.3)	192,123
Education:							
University of California	237,548	228,496	768,182	767,644	538	0.1	740,757
State Universities and Colleges	297,234	242,893	887,549	737,302	150,247	20.4	722,479
Other Education	18,421	22,014	52,967	64,829	(11,862)	(18.3)	56,536
Dept. of Corrections and Rehabilitation	856,092	820,243	2,507,502	2,594,594	(87,092)	(3.4)	2,475,786
Governmental Operations	64,020	53,849	191,885	222,683	(30,798)	(13.8)	189,787
General Government	382,212	2,005,199	806,247	953,904	(147,657)	(15.5)	2,448,673
Public Employees Retirement System	(205,109)	(191,218)	(32,907)	(186,509)	153,602	(82.4)	(82,704)
Debt Service (d)	599,933	550,025	862,212	845,810	16,402	1.9	850,188
Interest on Loans	-	(29,061)	6,788	10,871	(4,083)	(37.6)	(15,508)
Total State Operations	**2,790,059**	**4,258,310**	**7,801,504**	**7,998,782**	**(197,278)**	**(2.5)**	**9,563,919**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	5,825,967	4,759,056	9,479,070	10,088,056	(608,986)	(6.0)	13,527,476
Community Colleges	753,416	581,929	1,575,311	1,358,613	216,698	15.9	1,655,705
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	332,081	332,081	-	-	225,955
Other Education	280,149	47,121	1,027,212	824,961	202,251	24.5	780,949
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	3,212	299	50,917	30,269	20,648	68.2	50,386
Dept. of Alcohol and Drug Program	-	-	-	-	-	-	210
Health Care Services and Public Health:							
Medical Assistance Program	1,244,016	2,117,609	6,055,090	5,690,458	364,632	6.4	5,725,905
Other Health Care Services/Public Health	49,581	(6,977)	49,374	57,708	(8,334)	(14.4)	15,153
Developmental Services - Regional Centers	348,324	141,889	1,011,223	1,258,379	(247,156)	(19.6)	892,448
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	469,946	482,842	1,168,484	1,818,907	(650,423)	(35.8)	1,857,677
CalWORKs	85,478	131,919	338,772	449,245	(110,473)	(24.6)	167,857
Other Social Services	46,103	107,656	166,569	192,304	(25,735)	(13.4)	146,771
Tax Relief	-	-	-	-	-	-	-
Other Local Assistance	385,446	347,018	1,274,192	1,344,824	(70,632)	(5.3)	1,132,860
Total Local Assistance	**9,491,638**	**8,710,361**	**22,528,295**	**23,445,805**	**(917,510)**	**(3.9)**	**26,179,352**

See notes on page A1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of September		July 1 through September 30				
			2015				2014
	2015	2014	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**84,579**	**33,855**	**117,273**	**97,022**	**20,251**	**20.9**	**40,665**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	-	-	-	-
Transfer to Budget Stabilization Account	1,854,000	1,606,422	1,854,000	1,854,000	-	-	1,606,422
Transfer to Other Funds	-	-	108,011	109,071	(1,060)	(1.0)	390,931
Transfer to Revolving Fund	18	1	9,315	-	9,315	-	1,075
Advance:							
MediCal Provider Interim Payment	-	-	-	-	-	-	-
State-County Property Tax Administration Program	39,309	45,492	54,667	-	54,667	-	47,834
Social Welfare Federal Fund	29,000	28,000	(6,413)	-	(6,413)	-	(118,156)
Local Governmental Entities	-	-	-	-	-	-	-
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	-	-	(304,816)	(310,466)	5,650	(1.8)	(282,612)
Total Nongovernmental	**1,922,327**	**1,679,915**	**1,714,764**	**1,652,605**	**62,159**	3.8	**1,645,494**
Total Disbursements	**$ 14,288,603**	**$ 14,682,441**	**$ 32,161,836**	**$ 33,194,214**	**$ (1,032,378)**	**(3.1)**	**$ 37,429,430**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ (10,000)	$ -	$ 439,700	$ 449,700	$ (10,000)	(2.2)	$ 1,046,858
Budget Stabilization Account	2,767,711	1,606,422	3,460,422	3,460,422	-	-	1,606,422
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	1,904,988	501,052	1,904,988	3,383,766	(1,478,778)	(43.7)	7,936,022
Revenue Anticipation Notes	-	2,800,000	-	-	-	-	2,800,000
Net Increase / (Decrease) Loans	**4,662,699**	**$ 4,907,474**	**$ 5,805,110**	**$ 7,293,888**	**$ (1,488,778)**	**(20.4)**	**$ 13,389,302**

See notes on page A1.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through September 30			
	General Fund		Special Funds	
	2015	2014	2015	2014
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 88,840	$ 125,588	$ -	$ -
Corporation Tax	1,286,798	1,561,454	-	-
Cigarette Tax	16,970	28,429	149,248	241,891
Estate, Inheritance, and Gift Tax	756	969	-	-
Insurance Companies Tax	604,733	586,658	404,093	291,311
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	1,233,789	1,384,660
Diesel & Liquid Petroleum Gas	-	-	101,436	78,348
Jet Fuel Tax	-	-	631	783
Vehicle License Fees	8	66	648,765	592,221
Motor Vehicle Registration and Other Fees	-	-	1,171,200	1,113,474
Personal Income Tax	15,312,106	14,059,345	275,648	249,824
Retail Sales and Use Taxes	5,642,716	5,255,257	3,318,323	3,447,865
Pooled Money Investment Interest	4,963	4,045	31	40
Total Major Taxes, Licenses, and Investment Income	**22,957,890**	**21,621,811**	**7,303,164**	**7,400,417**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	719	678	16,977	12,870
Electrical Energy Tax	-	-	153,575	135,263
Private Rail Car Tax	-	-	-	-
Penalties on Traffic Violations	-	-	10,188	12,170
Health Care Receipts	826	58	-	-
Revenues from State Lands	34,966	112,781	-	-
Abandoned Property	(44,265)	(126,230)	-	-
Trial Court Revenues	10,946	12,152	277,166	335,953
Horse Racing Fees	294	326	2,935	3,417
Cap and Trade	-	-	645,331	98,742
Miscellaneous	479,961	192,534	3,044,906	1,946,759
Not Otherwise Classified	**483,447**	**192,299**	**4,151,078**	**2,545,174**
Total Revenues, All Governmental Cost Funds	**$ 23,441,337**	**$ 21,814,110**	**$ 11,454,242**	**$ 9,945,591**

See notes on page A1.

APPENDIX B[†]

THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND

INTRODUCTION

This APPENDIX B includes information about the Department, the Program, the 1943 Fund and the Department's allocation of receipts from Contracts of Purchase, including Excess Revenues. EXHIBIT 1 to this APPENDIX B includes the Report of Independent Auditors and Financial Statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund (as defined below). Capitalized terms not defined herein shall have the meanings ascribed to them in the Official Statement.

Forward-Looking Statements

The presentation of historical information in this APPENDIX B is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the Department, the Program or the 1943 Fund. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. Certain statements included or incorporated by reference in this APPENDIX B constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements attained to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Any statements made in this APPENDIX B involving matters of opinion, whether expressly stated or not, are set forth as such and not as representations of fact.

THE DEPARTMENT

General

In 1921, the California Legislature (the "State Legislature") created the Veterans' Welfare Board and the Program. The Department became the successor to the Veterans' Welfare Board under the Veterans' Farm and Home Purchase Act of 1943 (the "1943 Act"). The Department is a subdivision of the State and constitutes a public corporation. One of the Department's basic objectives is to provide eligible veterans the opportunity to acquire homes with long-term low-interest financing provided under the Program. See "THE PROGRAM."

Governance of the Department

The California Veterans Board (the "Board") advises the Department and the Department Secretary on policies for operations of the Department. The Board is composed of seven members appointed by the Governor and subject to confirmation by the State Senate. Each member of the Board must be a veteran and a member in good standing with a congressionally chartered veteran service organization. In addition, one member must be retired from the active or reserve forces of the United States military service. One member must have substantial

[†] Source: Department of Veterans Affairs.

training, professional knowledge, or experience in the issues faced by female veterans which may include, but are not limited to, the following issues: combat-related disorders, sexual trauma and homelessness. Six of the members serve four-year terms. Finally, one member must be a resident of one of the State veterans homes run by the Department which were established for qualified aged and disabled veterans and their spouses. This member serves only a two-year term. Members of the Board sit on various committees of the Department including policy and procedures, legislative, communication, administrative, home and veterans services.

Certain actions of the Department, for example, certain actions relating to interest rates on Contracts of Purchase, require the approval of the Board and the Veterans' Finance Committee, which is comprised of the Governor, the State Treasurer, the State Controller, the State Director of Finance and the Department Secretary. See "THE PROGRAM – Contracts of Purchase – Interest Rates." Certain actions of the Department require the approval of the Veterans' Debenture Finance Committee comprised of the Governor, the State Treasurer, the State Controller, the State Director of Finance and the Department Secretary.

The Department has developed a three year strategic plan for the Fiscal Years ended June 30, 2014 through June 30, 2016 (the "Strategic Plan"). The Department has identified a number of means of fulfilling the goals of the Strategic Plan applicable to the Program, including collaborating with Federal, state, local and nonprofit organizations to enhance veterans housing opportunities and implementing a statewide marketing plan, focused on improving communications to veterans. The Department also aims to optimize access to its loan programs and has completed an update to automate the Department's phone system in the beginning of calendar year 2015. The Department has further developed an online application process and is developing a system to accept electronic payment. As the Department expands its housing options, the Department has identified that property insurance coverage may be expanded to mitigate increased geographic concentration risks of its Contracts of Purchase. The Department plans to review risk-based pricing for high-density geographic concentration exposures and ways to keep insurance rates low and explore cost savings measures for the veteran, such as higher deductible options and group pricing based on geographic concentration risks. See "THE PROGRAM – Construction Contracts of Purchase," "—Property Insurance – Concerns Regarding Geographic Concentration Risk" and EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Geographic Distribution of Contracts of Purchase."

Administration of the Department

There are four principal divisions within the Department: the Division of Veterans Services, the Division of Administration, the Veterans' Home Division and the Division of Farm and Home Purchases. The Program is administered by the Division of Farm and Home Purchases with support from the Division of Administration and other Department support units. General administration of the Program, including fiscal, legal, personnel and other administrative functions, is performed at the Department's headquarters in Sacramento, California. See "THE PROGRAM."

The Department Secretary is appointed by the Governor, serves at the pleasure of the Governor and must be a veteran. The Department Secretary and other senior staff personnel of the Department principally responsible for the administration of the Program are listed below.

As of June 30, 2015, the Department employed approximately 104 people in support of the Program.

Vito Imbasciani, M.D.
Secretary since September 2015

Vito Imbasciani, M.D., was recently appointed Department Secretary by Governor Brown. Dr. Imbasciani's experience includes serving as director of government relations at the Southern California Permanente Medical Group since 2004, where he has been a urologic surgeon since 1997. He served as State surgeon for the California Army National Guard from 2006 to 2014 and as a surgeon in the U.S. Army Medical Corps from 1986 to 2014. Dr. Imbasciani is president-elect of the Los Angeles County Medical Association and a member of the California Medical Association Board of Trustees and the California Association of Physician Groups Board of Directors. He earned a Doctor of Medicine degree from the University of Vermont College of Medicine and Doctor of Philosophy and Master of Arts degrees in musicology from Cornell University.

Undersecretary
(Vacant)

Todd Irby
Chief Counsel of Legal Affairs since July 2012

Mr. Irby is a veteran of the United States Air Force. Mr. Irby's experience includes Deputy Attorney General at the California Department of Justice through 2007; sole practitioner in Irvine from 2006 to 2007; associate attorney at the Duffy Law Firm in Newport Beach from 2004 to 2006; associate attorney and partner at Hess-Verdon & Associates/Hess-Verdon & Irby in Newport Beach from 1995 to 2004; associate attorney at Martin, Wilson, Fingal & MacDowell in Santa Ana from 1994 to 1995; and associate attorney at Garret Jensen & Sanders/Garret & Jensen in Santa Ana from 1991 to 1994. Mr. Irby has held various leadership positions in local and state-wide legal organizations, including the State Bar of California's Commission on Judicial Nominees Evaluation, the Orange County Bar Association, the Public Law Center of Orange County, and is a Barrister member of the Anthony M. Kennedy Inn of Court. Mr. Irby earned a Juris Doctorate degree from Pepperdine University School of Law.

Theresa Gunn
Deputy Secretary, CalVet Home Loans, since April 2013

Ms. Gunn has over 18 years of financial experience. Ms. Gunn's experience includes various positions with the California Department of Finance from 2001 to 2013, including a position as the Principal Program Budget Analyst responsible for numerous capital outlay programs, and Assistant Administrative Secretary to the State Public Works Board. As an Assistant Administrative Secretary, she was instrumental in acquiring and constructing the Veterans Homes of California in five cities, the Northern California Veterans Cemetery and a variety of other capital projects. Additionally, Ms. Gunn was responsible for the issuance of more than $5 billion State Public Works Board Lease Revenue Bonds from 2004 through 2012. Ms. Gunn's education includes a Master of Science in Administration, Bachelor of Arts degrees in Business Administration and Psychology, and an Associate's degree in Development Disabilities.

Deputy Secretary, Administrative Services
(Vacant)

Eric Tiche
Assistant Deputy Secretary, Bond Finance and Investments, since January 2010

Mr. Tiche is responsible for the management and oversight of the Department's debt portfolio, investments and cash management section and has been with the Department for more than 16 years. Mr. Tiche's experience includes: Acting Assistant Deputy Secretary, Bond Finance and Investments for two years and Manager of the Bond Finance Unit for over two years. Mr. Tiche graduated from California State University, Sacramento with a Bachelor of Science degree in Business Administration (Strategic Management).

Rita Almanza
Assistant Deputy Secretary, Program Servicing Operations, since May 2013

Ms. Almanza has 28 years of Program experience with the Department and two years of experience with the California Department of Housing and Community Development. Ms. Almanza's experience includes oversight of Loan Origination, Loan Processing, Loan Closing, Loan Servicing and Default Servicing; Farm and Home Loan Servicing Operations Manager from 2008 to 2013; and Collection, Foreclosure & REO Unit Manager from 1999 to 2008.

THE PROGRAM

History

The Department began making low interest rate farm and home financing available to veterans after World War I, following the enactment by the State Legislature of the California Veterans Welfare Bond Act of 1921. In 1943, the State Legislature enacted the 1943 Act which modified the Program to meet the needs of veterans. The 1943 Act was superseded by the Veterans' Farm and Home Purchase Act of 1974 (the "1974 Act") which again modified the Program. The 1943 Act established the 1943 Fund in the State Treasury, which is the principal fund utilized by the Program.

General

Under the Program, the Department acquires residential property to be sold to eligible veterans under Contracts of Purchase. Generally, a Contract of Purchase creates a land sale contract which is analogous to a loan from the Department to the veteran. See "—Contracts of Purchase – General." In the discussions pertaining to the Program, Contracts of Purchase and Federal Tax Code requirements which follow, these Contracts of Purchase or land sale arrangements may be referred to as loans.

The description of the Program hereunder is a description of the Program as it currently exists under the Veterans Code and the Department's implementation thereof, both of which are subject to change. The Program is also subject to the Federal Tax Code, as noted below. Further, the Program comprises Contracts of Purchase that may be financed by Veterans G.O. Bonds and Revenue Bonds, payments for which are made to the 1943 Fund, which is the first source of payment for Veterans G.O. Bonds.

Since its inception, the Program has assisted approximately 422,335 veterans with the purchase of farms and homes throughout the State and home improvement loans through long-term farm and housing Contracts of Purchase.

Program Financing

Since its inception, the Program has been financed through the issuance of Revenue Bonds and Veterans G.O. Bonds, from time to time, as well as surplus revenues under the Program not needed at any given time to meet the then-current debt service schedules and operating costs. As of June 30, 2015, there were approximately 5,802 Contracts of Purchase outstanding with a remaining principal balance of approximately $821 million[†]. As of June 30, 2015, the Department had approximately 112 pending applications for Contracts of Purchase in the total principal amount of approximately $34 million. See EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase" and "—Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments."

Certain Statutory Requirements

Certain requirements of the Veterans Code and the Federal Tax Code are discussed below.

Veterans Code

To participate in the Program, an applicant must meet qualifications established under the Veterans Code relating to status as a veteran. The Veterans Code currently allows the Department to finance Contracts of Purchase for:

(a) veterans who have served, generally, at least ninety consecutive days on active duty in the military, naval or air service of the United States (unless sooner discharged because of a service-connected disability), have received an honorable discharge or been released from active duty under honorable conditions, and have performed any portion of such service during one of the following periods:

(i) April 6, 1917 through November 11, 1918; December 7, 1941 through December 31, 1946; or June 27, 1950 through January 31, 1955 (all veterans referred to in this clause (i) are "Earlier War Veterans");

(ii) February 28, 1961 through August 4, 1964 if the veteran served in the Republic of Vietnam during that period; or August 5, 1964 through May 7, 1975 (all veterans referred to in this clause (ii) are "Vietnam Era Veterans"); or

(iii) on or after August 2, 1990, through a date as yet to be determined by the President of the United States on which the territories in and around the Arabian Peninsula cease to be designated as a place where the armed forces of the United States are engaged in combat; at any time in Somalia, or in direct support of the troops in Somalia, during Operation Restore Hope, regardless of the number of days served; or at any time (regardless of the number of days served on active duty) in a campaign or expedition for service in which a medal was authorized by the United States Government (all veterans referred to in this clause (iii) are "Recent War Veterans");

(b) any member of the reserves or National Guard who (i) is called to, and released from, active duty or active service, regardless of the number of days served, (ii)

[†] Generally, in this APPENDIX B, references to the principal balance of Contracts of Purchase include the principal balance of delinquent Contracts of Purchase, cancelled or foreclosed upon Contracts of Purchase and REO in inventory.

is called during any period when a presidential executive order specifies the United States is engaged in combat or homeland defense and (iii) has received an honorable discharge or was released from active duty or active service under honorable conditions;

(c) any person who has served in the Merchant Marine Service of the United States and has been granted veteran status by the United States Secretary of Defense under Title IV of the GI Improvement Act of 1977 (Public Law 95-202, as amended);

(d) any person who qualifies under the Federal Tax Code for financing from Revenue Bonds or Pre-Ullman Moneys of the Department and who served in the active military, naval or air service of the United States for a period of not less than ninety consecutive days and who received an honorable discharge or was released from active duty or active service under honorable conditions (such veterans are referred to as "Peacetime Veterans"); and

(e) any person who qualifies under the Federal Tax Code for financing from Revenue Bonds or Pre-Ullman Moneys of the Department and is at the time of application for Department benefits a member of the California National Guard or a reserve component of any branch of the United States armed forces who has enlisted or been commissioned in that service for a period of not less than six years and has completed a minimum of one year of satisfactory service.

Certain veterans who have served in the recent conflicts in Iraq and Afghanistan qualify for participation in the Program under the Veterans Code. The qualifications specified in the Veterans Code are subject to change by the State Legislature.

Federal Tax Code

The Federal Tax Code prescribes limitations on the use of moneys from certain sources for the financing of Contracts of Purchase. Such Federal Tax Code limitations reduce the pool of veterans eligible to receive Contracts of Purchase financed from certain sources. See APPENDIX E – "CERTAIN FEDERAL TAX CODE REQUIREMENTS." Based on the current Federal Tax Code, the moneys that may be available to finance Contracts of Purchase from time to time are separated into three classes:

(a) "Pre-Ullman Moneys" (derived from certain moneys in the 1943 Fund, certain proceeds of Pre-Ullman (as defined below) Revenue Bonds and Veterans G.O. Bonds, and certain future issues of taxable bonds, if any), which can finance Contracts of Purchase for those veterans who qualify under the applicable provisions of the Veterans Code. ("Pre-Ullman" refers to the period prior to enactment of Federal Tax Code programmatic restrictions on the use of proceeds of tax-exempt bonds to finance mortgage loans.) The QMB Loan Eligibility Requirements (as defined below) do not apply to Contracts of Purchase financed by Pre-Ullman Moneys. The Department has implemented a policy (which is subject to change) to make Pre-Ullman Moneys available for Earlier War Veterans, Vietnam Era Veterans, Recent War Veterans and Peacetime Veterans;

(b) "Qualified Veterans' Mortgage Bond Proceeds" or "QVMB Proceeds" (derived exclusively from proceeds of Veterans G.O. Bonds), which can finance Contracts of Purchase for any veteran who (i) qualifies under the

Veterans Code; (ii) served on active duty; and (iii) applied for financing before the day 25 years after the last date on which such veteran left active service. The QMB Loan Eligibility Requirements (as defined below) do not apply to Contracts of Purchase financed by moneys derived exclusively from proceeds of Veterans G.O. Bonds. These proceeds can finance Contracts of Purchase for any qualifying veterans; and

(c) "Qualified Mortgage Bond Proceeds" or "QMB Proceeds" (derived principally from Revenue Bond proceeds other than Pre-Ullman Revenue Bond proceeds), which can finance Contracts of Purchase for any veteran who (i) qualifies under the Veterans Code and (ii) meets the QMB Loan Eligibility Requirements. "QMB Loan Eligibility Requirements" include, among other things, and subject to certain exceptions contained in the Federal Tax Code, that (i) either (y) borrowers not have had a present ownership interest in their principal residence during the three-year period preceding the date of financing or (z) have not previously received financing of their Contracts of Purchase from the proceeds of Qualified Mortgage Bonds or Qualified Veterans' Mortgage Bonds or a Mortgage Credit Certificate issued in accordance with the Federal Tax Code in connection with its Contract of Purchase pursuant to an exception for veterans to the requirement described in (y) (the "First Time Home Buyer Requirement") or meet certain waiver conditions to the First Time Home Buyer Requirement, (ii) the residence being financed has a purchase price not in excess of limits stated in the Federal Tax Code, (iii) the family income of the borrower is not in excess of limits stated in the Federal Tax Code, (iv) the proceeds of the financing are not being used to refinance an existing mortgage loan and (v) the proceeds of the financing are used solely for the purpose of financing one-family or one-to-four family dwelling units meeting certain criteria.

All financing with respect to targeted area residences and residences on land possessed under certain contract for deed agreements is treated as satisfying the First Time Home Buyer Requirement.

Limits on Purchase Price

Veterans Code

The amount the Department finances is reflected in the Contract of Purchase as the "purchase price." Pursuant to the Veterans Code, the maximum purchase price to the Department of an existing home or the sum to be expended by the Department pursuant to a Contract of Purchase for a home to be constructed may not exceed 125% of the then-current maximum loan limit for a single-family home, set annually by Fannie Mae (formerly named the Federal National Mortgage Association) ("Fannie Mae"). At present, the Fannie Mae general loan limit for a single-family home ranges between $417,000 and $625,500 depending on the county. Current Department policy also limits the maximum purchase price to the Department of an existing home or for a home to be constructed to be 125% of the Fannie Mae conforming limits (resulting in maximum purchase prices of homes ranging from $521,250 to $781,875 depending on the county). Under the Veterans Code, the maximum sum to be expended by the Department pursuant to a Contract of Purchase for a farm may not exceed 150% of the then-current maximum loan limit set by Fannie Mae. Current Department policy also limits the

maximum purchase price to the Department of a farm to be 150% of the Fannie Mae conforming limits (resulting in maximum purchase prices of farms ranging from $625,500 to $938,250 depending on the county). Under the Veterans Code (as well as current Department policy), the maximum purchase price to the Department of a mobile home located on or to be located on a leased or rented site in a mobile home park is $175,000. The maximum purchase price for any home may be increased by an additional $5,000 for solar energy heating devices.

As of June 30, 2015 the average outstanding principal balance of the Contracts of Purchase financed through the Program was approximately $141,477.

Federal Tax Code

The Federal Tax Code imposes maximum purchase prices on properties that are the subject of Contracts of Purchase financed by QMB Proceeds which are periodically adjusted when required by the Federal Tax Code. No Federal Tax Code purchase price limits apply to Contracts of Purchase financed from Pre-Ullman Moneys or QVMB Proceeds. These Federal Tax Code requirements vary depending upon where the property is located, if it is in a targeted or non-targeted area and whether it is a new or existing home.

The maximum purchase price under the Program is, therefore, the maximum amount permitted under the Veterans Code or, if the Contract of Purchase is being financed by QMB Proceeds, the lesser of the maximum amount permitted under the Veterans Code or the maximum amount permitted under the Federal Tax Code.

Income Limits

Although the Veterans Code does not impose maximum income limits, the Federal Tax Code imposes maximum income limits applicable only to veterans obtaining Contracts of Purchase financed by QMB Proceeds. The income limits vary by statistical area, targeted and non-targeted areas and family size. No maximum income limits apply to veterans obtaining Contracts of Purchase financed by Pre-Ullman Moneys or QVMB Proceeds.

Allocation of Lendable Moneys

For veterans who qualify for Contracts of Purchase from two or more of the financing sources described under "—Certain Statutory Requirements – Federal Tax Code," above, the Department may select the source of funds to be used in its sole discretion. As of the date of this Official Statement Pre-Ullman Moneys are available through the prior issuance of Revenue Bonds and Veterans G.O. Bonds to finance Contracts of Purchase and QVMB Proceeds and QMB Proceeds are not available to finance Contracts of Purchase. The Offered Veterans G.O. Bonds are expected to provide approximately $128.6 million to finance new Contracts of Purchase. Recently, the Department has used Excess Revenues to finance Contracts of Purchase. The Department's current policy is as follows:

- Contracts of Purchase for all veterans who qualify for financing with QMB Proceeds are funded from QMB Proceeds, when available.
- Contracts of Purchase for all veterans who qualify for financing with QMB Proceeds and QVMB Proceeds will be funded with the lowest rate fund, when available.

- Contracts of Purchase for all other eligible veterans are funded first from QVMB Proceeds and then Pre-Ullman Moneys, when available.
- Available QMB Proceeds are used to fund Contracts of Purchase for National Guard or reserves members who are only eligible for those funds under State law. See "—Certain Statutory Requirements – Veterans Code."

The Federal Tax Code includes certain procedures that an issuer of Qualified Mortgage Bonds may undertake to satisfy QMB Loan Eligibility Requirements, but requires that 95% or more of the proceeds of each bond issue be used in full compliance with the loan eligibility restrictions.

Administration of the Program

General

Through the Program, the Department finances the purchase of new and existing single-family homes, condominiums, cooperative dwelling units, farms and mobile homes, the construction of dwellings, and the making of home improvements with respect to properties covered by existing Contracts of Purchase, subject to applicable restrictions. See "—Certain Statutory Requirements."

Origination

The Department originates Contracts of Purchase through Department staff at its headquarters and, from time to time, in coordination with mortgage brokers approved by the Department. The Department uses Calyx, a loan origination software platform, for origination and Mitas, an integrated loan processing and financial information system, for loan processing, closing and servicing of all Contracts of Purchase. All Contracts of Purchase are serviced by the Department. See "—Contracts of Purchase – Delinquencies and Cancellations." The Department also uses the Calyx and Mitas system to provide workflow management, document imaging, and use of online account information. An origination begins with a loan application and purchase sales agreement with the collection and evaluation of data regarding the veteran and the property to be acquired under the Contract of Purchase. This evaluation includes an examination of the qualifications of the veteran applying for participation in the Program, a credit analysis of the veteran and the receipt of an appraisal for the applicable property. The appraisals reflect the market conditions at the time the appraisals were conducted, may not reflect current values, are not guarantees and may not be fully indicative of present or future values.

The history of the Department's originations of Contracts of Purchase is set forth in EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience."

Underwriting Credit Analysis

The Department limits availability of financing to veterans on the basis of their personal credit status. The Department's underwriting process is centralized at the Department's headquarters and is comprised of the following tasks: (i) reviewing credit history, (ii) verifying liabilities, (iii) identifying and establishing sources of verifiable income, (iv) determining housing expenses, including assessments, maintenance, utilities and taxes, (v) determining debt-

to-income ratio, (vi) determining amount and source of down payment, (vii) verifying assets required for costs to complete the transaction and (viii) verifying that the collateral is acceptable. In evaluating these factors, it is the Department's policy to decide in favor of the veteran applicant if the Department determines that there is adequate security for and ability of the veteran to pay on the Contract of Purchase. See EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience."

Contracts of Purchase with United States Department of Veterans Affairs ("USDVA") guarantees require additional documentation specific to USDVA entitlement and indebtedness that are in addition to the documents required for other Contracts of Purchase transactions. See "—USDVA Guaranty Program; Loan Insurance."

The Department's underwriting requirements, according to an internal unaudited survey by the Department, have resulted in average borrower Fair Isaac Corporation ("FICO") credit scores at the time of origination in excess of 720 for transactions originated between January 1, 2005 and June 30, 2015.

Subordinate Lending

The Veterans Code permits the Department to finance permanent home and property improvements for veterans with no existing financing or subordinate to existing financing (provided by lenders other than the Department) through the use of a deed of trust, promissory note or other security interest as the financing instrument. However, at present the Department does not provide financing for permanent home and property improvements for veterans that is subordinate to existing financing provided by lenders other than the Department. The Department permits the financing of down payments with subordinate financing by lenders other than the Department.

Contracts of Purchase

General

Under a Contract of Purchase, the veteran has the benefits of ownership as the equitable owner of the property, but title to the property and improvements thereon is held by the Department as the legal owner until the final principal payment is made on the Contract of Purchase. Property subject to a Contract of Purchase may not be transferred, assigned, encumbered, leased, let or sublet in whole or in part without the written consent of the Department. Any such permitted encumbrance must be junior or secondary to the Department's interest in the property.

Variation in the Terms of Contracts of Purchase

The terms of the Contracts of Purchase funded by Pre-Ullman Moneys, QVMB Proceeds or QMB Proceeds are substantially identical except as follows:

- Interest rates on Contracts of Purchase originated after January 1, 2011 have been and are expected to be fixed for the entire term of the loan. Interest rates on Contracts of Purchase originated prior to January 1, 2011 are fixed, subject to periodic adjustment as described in "—Interest Rates" below.
- The Federal Tax Code requires that Contracts of Purchase financed with QMB Proceeds (and Excess Revenues related to such proceeds) include (a) more

restrictions imposed on the right of a purchaser to assume the obligations under a Contract of Purchase than a Contract of Purchase financed by Pre-Ullman Moneys or QVMB Proceeds (and Excess Revenues related to such proceeds) and (b) certain Federal Tax Code recapture provisions not included in Contracts of Purchase funded from other sources.

See also QMB Loan Eligibility Requirements under "—Certain Statutory Requirements – Federal Tax Code."

Down Payment Requirements – Term of Contracts of Purchase

General

The Veterans Code, in certain cases, requires a veteran obtaining a Contract of Purchase to make an initial payment of at least 2% of the purchase price or a higher amount determined based upon the creditworthiness of the veteran and with consideration of his or her military record, employment record, financial condition and other similar factors as determined by the Department. Department policy generally requires a veteran obtaining a Contract of Purchase to make an initial payment of at least 3% of the purchase price, unless the veteran obtains a full USDVA Guaranty. In either case, the Veterans Code permits the balance of the purchase price to be amortized over a period fixed by the Department not exceeding 40 years (30 years for mobile homes, including cooperative housing stock related to mobile homes, located in mobile home parks). However, pursuant to Department policy, the Department issues all new Contracts of Purchase for a term of 30 years unless a shorter term is requested and except that certain Contracts of Purchase for mobile homes have shorter terms. See "—Mobile Homes Contracts of Purchase."

The Veterans Code provides to the Department the option, although the Department has never exercised such option and has no present intent to do so, of postponing at the time of initial purchase the commencement of payment of the principal balance of a Contract of Purchase for a period not to exceed five years if the veteran's current income meets the standards for purchase and if the Department determines that the veteran's income can reasonably be expected to increase sufficiently within the five-year period to make the transition to fully amortized payments (so long as the total term of the Contract of Purchase does not exceed the above-described limits), in order to allow the veteran to purchase the home selected without incurring excessive monthly payments.

USDVA Guaranteed Contracts of Purchase

If a veteran obtains a full USDVA Guaranty, subject to the Department's underwriting criteria, the Veterans Code permits such veteran to obtain a Contract of Purchase which does not require a down payment. In such cases the purchase price, including USDVA Guaranty fees, may be amortized over a period fixed by the Department, not exceeding 30 years and 32 days.

Interest Rates

The Veterans Code provides that the Department shall establish the interest rates payable under Contracts of Purchase, as described herein. The Department does not enter into Contracts of Purchase with low, adjustable introductory interest rates designed to attract potential borrowers (sometimes known as "teaser rates") or with balloon payments. All outstanding Contracts of Purchase have been entered into with interest rates as follows:

Pre-January 1999 Contracts of Purchase

Contracts of Purchase originated prior to January 1, 1999 ("pre-1999 Contracts of Purchase") bear interest at a rate which is set by the Department and may be changed with the approval of the Board and the Veterans' Finance Committee. Most pre-1999 Contracts of Purchase currently bear interest at a rate of 6.95%. The Veterans Code requires that, generally, all pre-1999 Contracts of Purchase bear the same interest rate and that such interest rate can be changed annually as deemed necessary. The effective date of a higher rate of interest on pre-1999 Contracts of Purchase may occur only once in any calendar year unless a finding is made by the Board and the Veterans' Finance Committee that such additional action is necessary to maintain the financial solvency of the 1943 Fund.

January 1, 1999 – December 2010 Contracts of Purchase

Contracts of Purchase originated on or after January 1, 1999 and prior to January 1, 2011 ("post-1998 Contracts of Purchase") are not required to be uniform with respect to interest rates and the Department may modify interest rates applicable to post-1998 Contracts of Purchase, which may be fixed or variable, and the methodology and timing for determining or modifying interest rates applicable to post-1998 Contracts of Purchase, from time to time, subject to the approval of the Board and the Veterans' Finance Committee. Pursuant to Department policy, the interest rates on post-1998 Contracts of Purchase may be adjusted by the Department up to one-half of one percent (0.5%) over the term of the post-1998 Contracts of Purchase.

Post-December 2010 Contracts of Purchase

Pursuant to Department policy all Contracts of Purchase entered into by the Department on or after January 1, 2011, have fixed interest rates which may not be adjusted by the Department over the term of such Contracts of Purchase.

As of June 30, 2015 interest rates for new Contracts of Purchase are as follows:

Interest Rates for New Contracts of Purchase

Interest Rate	Funding Source
4.25% (30 year)	QMB Proceeds
3.50% (20 year)	QVMB Proceeds
3.90% (30 year)	QVMB Proceeds
5.50% (30 year)	Pre-Ullman Moneys

Source: Department of Veterans Affairs.

Funding sources noted above include related Excess Revenues. See EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds – Reservation Rates on Contracts of Purchase" for historical interest rates for Contracts of Purchase originated during the applicable stated period.

Interest Rate Setting

Interest rates on Contracts of Purchase are expected to be established, from time to time, based on various factors deemed appropriate by the Department, subject in all cases to the requirements of the Veterans Code and the Revenue Bond Resolution, for the filing of a Cash Flow Statement and conformity with Program Operating Procedures. See EXHIBIT 2 to this

APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds." See also "AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS" in the forepart of the Official Statement.

Origination Fees for Contracts of Purchase

The Department collects an origination fee equal to 1% of the purchase price of the property in addition to any down payment which may be required in connection with a Contract of Purchase. The origination fee is collected at close of escrow on all new Contracts of Purchase and must be paid in escrow. If the Contract of Purchase is originated through an approved mortgage broker, the origination fee is paid to the mortgage broker through the escrow. If the Contract of Purchase is originated through the Department, the origination fee is retained by the Department.

No Prepayment Penalties

There are no prepayment penalties on any Contracts of Purchase. The Department's actual past prepayment experience for existing Contracts of Purchase is set forth in EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Contracts of Purchase Origination and Principal Repayment Experience."

Delinquencies and Cancellations

Economic Considerations

Prior events in the national and global economy and financial markets, including falling home prices, limited credit availability, financial instability, failures of banks and other major financial institutions, a downturn in consumer spending, declining real property and investment values and increased job losses, among other factors, weighed heavily on the global, national and State economies, particularly in the State housing market. Declines in residential real estate values result in reduced home equity and higher loan-to-value ratios. Higher loan-to-value ratios generally result in lower recoveries on foreclosure, and an increase in losses above those that would have been realized had property values remained stable or continued to increase after origination. Generally, the Department does not track the amount of home equity or loan-to-value ratio for a home under a Contract of Purchase. A reduction in home equity or loan-to-value ratio may result in an increase in losses after the cancellation of a Contract of Purchase.

Although the State and national economies are recovering, higher loan-to-value ratios, recessive economic trends and high levels of unemployment continue to be primary indicators of delinquencies, foreclosures and cancellations. A general unavailability of credit and sustained job losses or an increase in job losses may adversely affect the overall economy in ways that result in increased delinquencies and cancellations (foreclosures) of Contracts of Purchase, and real estate owned ("REO") in inventory by the Department as a result of foreclosure on a Contract of Purchase.

The mortgage and residential real estate markets periodically face uncertainties that create risk for market participants, including the Department. General market uncertainties that exist from time to time include interest rate volatility, changes in tolerance for credit risk, unavailability of certain mortgage products, decline or instability in residential real estate values,

concerns about the financial health and market participation of Fannie Mae and Freddie Mac and other secondary mortgage market participants, changes in legislative requirements relating to mortgage lending and servicing, and the exercise of mortgage remedies, the health of various financial institutions, insurance companies and other market participants and the health of the residential construction industry. Many sectors of the State residential real estate market have experienced, to varying degrees, increasing mortgage loan delinquency and foreclosure rates and declines in the market value of residences. Prior increases in delinquencies and foreclosures were not limited to so-called "subprime" mortgage loans, which are generally made to borrowers with impaired credit often with limited documentation, but had also affected mortgage loans generally and so-called "prime" mortgage loans, which are typically made to borrowers with relatively higher credit who often provided full documentation.

Recent economic growth within the State and national economies and low interest rates for residential mortgages have fueled increases in housing prices, improving the market value of residences, and spurred job creation resulting in decreased delinquencies and cancellations of Contracts of Purchase and REO. Delinquencies and cancellations related to Contracts of Purchase originated in the real estate "bubble" years of 2005 through 2008 are trending downward, thereby lowering rates of delinquencies, cancellations, and REO for Contracts of Purchase as originated in these years. However, the stability of the housing market remains uncertain during the economic recovery as restrictive credit underwriting, shifts in housing market demographics and negative equity, among other factors, persist.

Significant principal amounts of Contracts of Purchase are not covered by a USDVA Guaranty or primary mortgage insurance. See "—USDVA Guaranty Program; Loan Insurance" and EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2015."

Delinquency and Cancellation Data

As of June 30, 2015 (i) approximately 2.74% of the outstanding number of the Department's Contracts of Purchase were 30 to 60 days delinquent (or approximately 2.99% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 1.84% of the outstanding number of the Department's Contracts of Purchase were 60 days or more delinquent (or approximately 2.22% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 0.45% of the outstanding number of the Department's Contracts of Purchase had been cancelled or foreclosed upon (or approximately 0.70% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) approximately 0.17% of the outstanding number of the Department's Contracts of Purchase were REO in inventory (or approximately 0.16% of the then outstanding principal amount of the Department's Contracts of Purchase).

Contracts of Purchase which had been foreclosed upon include those Contracts of Purchase where the Department has not yet obtained merchantable title to the subject property and/or possession of the property (i.e., the prior holder of the Contract of Purchase and all occupants have not vacated the subject property). Contracts of Purchase in REO inventory include those Contracts of Purchase where the Department has obtained merchantable title to the subject property and possession of the property (i.e., the prior holder of the Contract of Purchase and all occupants have vacated the subject property). The Department's delinquency statistics

include Contracts of Purchase subject to Repayment Agreements (as defined below) and hardship deferrals. See "—Department Procedures for Addressing Delinquencies and Cancellations" and EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Cancellations and Delinquencies."

With respect to USDVA guaranteed Contracts of Purchase, as of June 30, 2015 (i) approximately 3.22% of the outstanding number of the Department's Contracts of Purchase guaranteed by the USDVA were 30 to 60 days delinquent (or approximately 2.81% of the then outstanding principal amount of the Department's Contracts of Purchase guaranteed by the USDVA and approximately 1.09% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 1.90% of the outstanding number of the Department's Contracts of Purchase guaranteed by the USDVA were 60 days or more delinquent (or approximately 1.78% of the then outstanding principal amount of the Department's Contracts of Purchase guaranteed by the USDVA and approximately 0.69% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 0.37% of the outstanding number of the Department's Contracts of Purchase guaranteed by the USDVA had been cancelled, transferred and purchased by the USDVA (or approximately 0.26% of the then outstanding principal amount of the Department's Contracts of Purchase guaranteed by the USDVA and approximately 0.10% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) approximately 0.07% of the outstanding number of the Department's Contracts of Purchase guaranteed by the USDVA were REO in inventory (or approximately 0.04% of the then outstanding principal amount of the Department's Contracts of Purchase guaranteed by the USDVA and approximately 0.02% of the then outstanding principal amount of the Department's Contracts of Purchase).

The delinquency rates noted in the preceding paragraphs exceed the delinquency rates as reported in the June 30, 2015 National Delinquency Survey published by the Mortgage Bankers Association of America (the "Survey") for USDVA guaranteed and prime loans and are below Federal Housing Administration ("FHA") loans in California and nationally for the same period. Pursuant to the Survey, with respect to USDVA guaranteed loans as of June 30, 2015 (i) approximately 1.64% of the outstanding number of loans in California and 2.28% nationally were 30 to 60 days delinquent (the Survey does not report outstanding principal amounts), (ii) approximately 1.41% of the outstanding number of loans in California and 2.31% nationally were 60 days or more delinquent; and (iii) approximately 0.51% of the outstanding number of loans in California and 1.37% nationally were cancelled, transferred and purchased by the USDVA. The Survey does not report REO in inventory. Pursuant to the Survey, with respect to prime loans as of June 30, 2015 (i) approximately 1.20% of the outstanding number of loans in California and 1.50% nationally were 30 to 60 days delinquent, (ii) approximately 1.09% of the outstanding number of loans in California and 1.50% nationally were 60 days or more delinquent; and (iii) approximately 0.56% of the outstanding number of loans in California and 1.19% nationally were foreclosures in inventory. Pursuant to the Survey, with respect to FHA loans as of June 30, 2015 (i) approximately 3.56% of the outstanding number of loans in California and 4.57% nationally were 30 to 60 days delinquent, (ii) approximately 2.82% of the outstanding number of loans in California and 4.43% nationally were 60 days or more delinquent; and (iii) approximately 0.95% of the outstanding number of loans in California and 2.68% nationally were foreclosures in inventory. In comparison, the outstanding total number of the Department's Contracts of Purchase that had been cancelled or foreclosed upon were substantially lower at 0.45% as of June 30, 2015 compared to USDVA guaranteed, prime and

FHA loans in California and nationally. In the Survey, loans are categorized as prime loans or otherwise based upon the Survey respondents' internal classifications.

With respect to Contracts of Purchase insured under the Original Radian Policy (Groups 1-3 as both terms are defined below) as of June 30, 2015: (i) approximately 1.88% of the outstanding number of the Department's Contracts of Purchase insured under the Original Radian Policy were 30 to 60 days delinquent (or approximately 1.50% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Original Radian Policy and approximately 0.05% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 1.05% of the outstanding number of the Department's Contracts of Purchase insured under the Original Radian Policy were 60 days or more delinquent (or approximately 1.69% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Original Radian Policy and approximately 0.05% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 0.21% of the outstanding number of the Department's Contracts of Purchase insured under the Original Radian Policy had been cancelled or foreclosed upon (or approximately 0.19% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Original Radian Policy and approximately 0.01% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) none of the outstanding number of the Department's Contracts of Purchase insured under the Original Radian Policy were REO in inventory. The Department has ceased entering into Contracts of Purchase to be insured by Radian Guaranty Inc. ("Radian"). See "—USDVA Guaranty Program; Loan Insurance – Primary Mortgage Insurance."

With respect to Contracts of Purchase insured under the Additional Radian Policy Group 4 (as defined below) as of June 30, 2015: (i) approximately 4.36% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy were 30 to 60 days delinquent (or approximately 4.91% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Additional Radian Policy and approximately 1.15% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 3.47% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy were 60 days or more delinquent (or approximately 4.18% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Additional Radian Policy and approximately 0.98% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 1.13% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy had been cancelled or foreclosed upon (or approximately 1.75% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Additional Radian Policy and approximately 0.41% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) approximately 0.48% of the outstanding number of the Department's Contracts of Purchase insured under the Additional Radian Policy were REO in inventory (or approximately 0.38% of the then outstanding principal amount of the Department's Contracts of Purchase insured under the Additional Radian Policy and approximately 0.09% of the then outstanding principal amount of the Department's Contracts of Purchase). See "—USDVA Guaranty Program; Loan Insurance – Primary Mortgage Insurance."

As of June 30, 2015, (i) approximately 2.69% of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park were 30 to

60 days delinquent (or approximately 2.67% of the then outstanding principal amount of the Department's Contracts of Purchase financing such mobile homes and approximately 0.08% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 2.28% of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park were more than 60 days delinquent (or approximately 2.17% of the then outstanding principal amount of the Department's Contracts of Purchase financing such mobile homes and approximately 0.07% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 0.62% of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park had been canceled or foreclosed upon (or approximately 0.81% of the then outstanding principal amount of the Department's Contracts of Purchase financing mobile homes in a mobile home park had been canceled or foreclosed upon and approximately 0.03% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) approximately 0.62% of the outstanding number of the Department's Contracts of Purchase financing mobile homes in a mobile home park were REO in inventory (or approximately 0.54% of the then outstanding principal amount of the Department's Contracts of Purchase financing such mobile homes and approximately 0.02% of the then outstanding principal amount of the Department's Contracts of Purchase). For additional information regarding mobile homes Contracts of Purchase, see "—Mobile Homes Contracts of Purchase."

With respect to Contracts of Purchase financing permanent home and property improvements as of June 30, 2015: (i) approximately 2.67% of the outstanding number of the Department's Contracts of Purchase financing permanent home and property improvements were 30 to 60 days delinquent (or approximately 2.50% of the then outstanding principal amount of the Department's Contracts of Purchase financing permanent home and property improvements and approximately 0.01% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 2.00% of the outstanding number of the Department's Contracts of Purchase financing permanent home and property improvements were 60 days or more delinquent (or approximately 7.13% of the then outstanding principal amount of the Department's Contracts of Purchase financing permanent home and property improvements and approximately 0.03% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) none of the outstanding number of the Department's Contracts of Purchase financing permanent home and property improvements had been canceled or foreclosed upon; and (iv) none of the outstanding number of the Department's Contracts of Purchase financing permanent home and property improvements were REO in inventory. For additional information regarding home improvement Contracts of Purchase, see "—Home Improvement Contracts of Purchase."

With respect to Contracts of Purchase financing the purchase of a building site and construction of a home, as of June 30, 2015: (i) approximately 2.49% of the outstanding number of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home were 30 to 60 days delinquent (or approximately 2.96% of the then outstanding principal amount of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home and approximately 0.38% of the then outstanding principal amount of the Department's Contracts of Purchase); (ii) approximately 1.10% of the outstanding number of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home were 60 days or more delinquent (or approximately 1.43% of the then outstanding principal amount of the Department's Contracts of Purchase

financing the purchase of a building site and construction of a home and approximately 0.02% of the then outstanding principal amount of the Department's Contracts of Purchase); (iii) approximately 0.28% of the outstanding number of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home had been cancelled or foreclosed upon (or approximately 0.24% of the then outstanding principal amount of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home and approximately 0.02% of the then outstanding principal amount of the Department's Contracts of Purchase); and (iv) none of the outstanding number of the Department's Contracts of Purchase financing the purchase of a building site and construction of a home were REO in inventory. For additional information regarding Contracts of Purchase financing the purchase of a building site and construction of a home, see "– Construction Contracts of Purchase."

For the fiscal year ended June 30, 2015, the Department experienced approximately $491 thousand in losses resulting from REO sales and approximately $407 thousand in charge offs resulting from short sales. Gains or losses on REO sales, short sales, and USDVA Guaranty claims with losses can be expected to fluctuate based on the market and other considerations during the period that the Offered Veterans G.O. Bonds are outstanding. See "—USDVA Guaranty Program; Loan Insurance – USDVA Guaranty Program" regarding limitations of USDVA Guaranties and factors which may cause a lender to incur a loss on a Contract of Purchase guaranteed by the USDVA.

The audited financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund attached hereto reflect an allowance for uncollectible Contracts of Purchase established through a provision charged to operations. The allowance is an amount that the Department's management believes will be adequate to absorb losses with respect to Contracts of Purchase based, among other things, on prior loss experience and the outstanding aggregate principal amount of Contracts of Purchase. See EXHIBIT 1 to this APPENDIX B – "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) FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014" and EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Cancellations and Delinquencies."

Department Procedures for Addressing Delinquencies and Cancellations

The following is a description of the Department's procedures for addressing delinquencies and cancellations, which procedures are subject to change while the Offered Veterans G.O. Bonds are Outstanding. Also see "—Keep Your Home California."

If a veteran fails to comply with any of the terms of a Contract of Purchase the Department may terminate the Contract of Purchase and be released from all obligations thereunder, at law or in equity. In such event, the veteran's rights under the Contract of Purchase may be forfeited and all payments made by the veteran prior to termination of the Contract of Purchase by the Department would be deemed to be rental paid for occupancy of the property by the veteran. In the event the veteran's rights under the Contract of Purchase are forfeited, the Department takes possession of the property for the purposes of reselling it. The Department may, for good cause, permit the postponement from time to time, and upon such terms as it

deems proper, of the payment of the whole or any part of any installment under a Contract of Purchase.

If a veteran does not make a payment by the 16th day of the month in which the payment is due, the payment is considered "late." Mitas is to generate an initial reminder letter automatically if payment is not received by the 20th day of the month, which advises the veteran that payment has not been received. If payment is not received by the 30th day of the month, a second reminder letter is to be issued and the Contract of Purchase installment payment is considered "delinquent." After the initial reminder letter is issued the Department's staff also initiates telephone contact with the veteran. If the Contract of Purchase installment payment remains delinquent 60 days, a Notice of Intent to Cancel Contract ("NICC") is issued to notify the veteran that the Contract of Purchase may be cancelled at the end of a 30-day notice period unless the Contract of Purchase installment payment is brought current. Department personnel continue to initiate telephone contact with veterans with delinquent Contract of Purchase installment payments. If the veteran has not paid by the 70th day of the delinquency, another letter is issued reminding the veteran that he or she must bring the Contract of Purchase installment payment current within 30 days of the NICC date (the "70 Day Reminder Letter"). A schedule for liquidation of delinquent Contract of Purchase installment payments satisfactory to the Department is arranged during this period; however, if the Contract of Purchase installment payment remains delinquent 21 days after the issuance of the 70 Day Reminder Letter and no schedule for liquidation of delinquent installment payments has been agreed upon, the Department may begin cancellation of the Contract of Purchase. If a schedule of liquidation has been agreed to with respect to a Contract of Purchase and the veteran makes all regularly scheduled installment payments and liquidation payments on a timely basis, the Department does not initiate cancellation of the Contract of Purchase.

The Collections, Cancellation and REO Unit at the Department's headquarters monitors the delinquency throughout this process, orders a title search to identify any junior lienholders and then commences pre-cancellation processing in accordance with the California Code of Regulations. Junior lienholders are sent notices giving them 30 days (40 days in the case of Federal tax liens) to protect their interest by beginning foreclosure proceedings. If the Contract of Purchase installment payment is not brought current during the notice period to junior lienholders and no junior lienholder proceeds with a foreclosure action to protect its interest, the Department's Collections, Cancellation and REO Unit cancels the Contract of Purchase and a Notice of Cancellation is mailed to the veteran and recorded with the applicable county recorder. The Department's Cancellation Unit then takes steps to evict occupants and clear any remaining liens. If judicial action is required, the case is referred to the Department's Law Division for additional processing. In some cases, cancellation of defaulted Contracts of Purchase may be deferred or delayed due to high volume of cancellations or other factors. If moratoriums on cancellations are enacted in California, such moratoriums may cause delays and increased expenses associated with Contract of Purchase cancellation and property repossession may increase realized losses.

If a Contract of Purchase guaranteed by the USDVA goes into default and is canceled, the related property either is sold to the USDVA for a percentage of the property's appraised value or becomes Department REO. After the sale of the property, either to USDVA or through Department REO, the USDVA will pay an amount based upon its USDVA Guaranty toward the unpaid principal, accrued interest and foreclosure expenses not recovered from proceeds of the

sale, within USDVA-approved limits. The Department's policies regarding delinquencies and cancellations conform to USDVA Guaranty program requirements.

After all remaining liens are removed and the property is vacant, the repossessed property is repaired and improved, if necessary and feasible, and is marketed through the Department's Collections, Cancellation and REO Unit which uses a Pre-Advertising Listing ("PAL") program. Under the PAL program the property is listed for sale with a licensed real estate broker or agent, at an overall commission rate which typically does not exceed 6%. The Department is required to advertise and accept sealed offers during a 2-week period, after which the property may be sold to the highest acceptable bidder (best net return). If no acceptable bids are received, the property continues to be marketed by the listing real estate agent or broker until an acceptable offer is received and the property is sold. All sales of REO assets are required to be conducted in accordance with the California Code of Regulations for the Department.

If a veteran is struggling to make payments on a Contract of Purchase the Department may enter into a repayment agreement ("Repayment Agreement") with the veteran. Generally, a Repayment Agreement is used to implement a short-term restructuring of the payments under the Contract of Purchase, to accommodate temporary financial difficulties. As of June 30, 2015 the Department had Repayment Agreements in place for approximately 0.47% of the total then outstanding number of Contracts of Purchase (or approximately 0.56% of the then outstanding principal amount of the Department's Contracts of Purchase).

Additionally, if a veteran is able to demonstrate financial hardship to the Department, the Department may modify the Contract of Purchase to assist the veteran. Modifications may extend the term of the Contract of Purchase up to a 40 year term for most Contracts of Purchase and up to a 30 year term for a Contract of Purchase financing a mobile home in a mobile home park. When extending the term of the Contract of Purchase the Department reduces the monthly installment payments. In cases where the veteran has already defaulted on the Contract of Purchase at the time of the veteran's hardship assistance request, the Department may allow the veteran to make reduced payments under a Repayment Agreement for six months. Thereafter, the Department may approve a hardship deferral of the outstanding delinquent interest (and in rare cases, principal) on the Contract of Purchase. In such cases the delinquent interest (or principal) is due and payable upon the sale of the property, further encumbrance of the property or upon the maturity of the loan. In some cases the Department may also re-amortize the past due principal. As of June 30, 2015, 182 Contracts of Purchase were subject to hardship deferrals.

The Department permits a sale of a property in which the proceeds from the sale of the property will not be sufficient to pay the remaining amounts due under the Contract of Purchase (a distress sale or short sale) in situations where the Department determines significant hardship will occur if the holder of a Contract of Purchase is not permitted to enter into a short sale. Situations where short sale may be permitted include, job relocation, a divorce which requires sale of the property, loss of employment or illness.

To be considered for a short sale, the Department requires a contract holder to submit a written explanation of the hardship and supporting documentation, including financial records. The Department reviews all estimated costs involved in the proposed short sale and only permits reasonable costs to be included in the short sale. In connection with the evaluation of a short sale the Department obtains the market value of the property through an appraisal, broker opinion of

value or comparative market analysis report, as the Department determines appropriate. The Department compares the proposed short sale with the Department's projected recovery from the property as REO taking into consideration whether the Contract of Purchase is subject to a USDVA Guaranty or the Radian Policies (as defined below) and the amounts that may be realized in connection with a claim thereunder. USDVA approval is not required for a short sale and if the Contract of Purchase is subject to a USDVA Guaranty and the short sale is completed, the Department is permitted to submit a claim with the USDVA. If the Contract of Purchase is subject to a USDVA Guaranty and the Department sells the property as a Department REO, claim moneys can be received and are also considered in the analysis. If the Contract of Purchase is subject to the Radian Policies, then the short sale requires Radian approval. Once Radian approves the short sale, Radian informs the Department of the claim amount approved for payment. Claim moneys to be received for a Radian insured Contract of Purchase sold as a Department REO are also considered in the analysis. Upon consideration of the various options the Department pursues the most cost effective approach that provides the greatest benefit to the Department. The Department requires the parties to the short sale to execute, under the penalty of perjury, a transaction certification statement certifying that the sale is a true "arm's length" transaction. No sales proceeds are permitted to go to the holder of the Contract of Purchase.

For the Fiscal Year ended June 30, 2015, none of the outstanding number of the Department's Contracts of Purchase were approved for short sales.

The Department's policies regarding delinquencies and cancellations conform to Radian guidelines.

The Federal Relief Act and the California Relief Act (each as described below) also require certain extensions of Contracts of Purchase terms. See "—Legislative Protection of Veterans" herein.

The Federal government, State and local governments, consumer advocacy groups and others continue to urge modifications of mortgage loans to avoid foreclosure, and Federal, State and local governmental authorities have enacted and continue to propose numerous laws and regulations relating to mortgage loans generally and to foreclosure actions in particular. Any of these laws or regulations may delay foreclosure or provide new defenses to foreclosure or result in reduced payments by borrowers, permanent forgiveness of debt and increased prepayments due to the availability of government-sponsored refinancing initiatives. In addition, in certain cases judicial decisions have delayed or prevented foreclosure.

Further, the Federal government has undertaken a number of measures designed to address the recent economic difficulties facing the United States including relief programs established by the USDVA. Additional measures and legislation may be considered by the Federal government, or the State Legislature, which measures may affect the Program, the Veterans G.O. Bonds, the Revenue Bonds or the Contracts of Purchase. While some of these measures may benefit the Program, no assurance can be given that the Program, the Veterans G.O. Bonds, the Revenue Bonds or the Contracts of Purchase will not be adversely affected by such measures.

See EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Cancellations and Delinquencies" for additional information regarding the status of Contracts of Purchase.

Keep Your Home California

The California Housing Finance Agency formed the CalHFA Mortgage Assistance Corporation, a separate nonprofit public benefit corporation, to act as an institution eligible to receive applicable Federal funding. This affords access to Federal funding through the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets established by the United States Department of the Treasury in connection with Federal programs authorized under the Emergency Economic Stabilization Relief Act of 2008 and the Troubled Asset Relief Program. CalHFA Mortgage Assistance Corporation has received nearly $2 billion in Federal awards to fund its Keep Your Home California program through 2017. The Keep Your Home California program consists of four programs: the Unemployment Mortgage Assistance Program, the Mortgage Reinstatement Assistance Program, the Principal Reduction Program and the Transition Assistance Program. The Department has elected to participate in each of the programs.

The Unemployment Mortgage Assistance Program provides mortgage payment assistance to eligible homeowners who have experienced an involuntary job loss and are receiving California unemployment benefits and includes homeowners whose unemployment benefits lapsed or expired within 30 days of the request for assistance. Benefit assistance through the Unemployment Mortgage Assistance Program may be up to $3,000 per month and is permitted to last up to eighteen months. The maximum assistance per household is $54,000. CalHFA Mortgage Assistance Corporation has allocated approximately $716 million for the Unemployment Mortgage Assistance Program.

The Mortgage Reinstatement Assistance Program provides assistance to eligible homeowners who, because of a financial hardship, are delinquent and seek assistance to reinstate a delinquent first mortgage loan. Benefit assistance through the Mortgage Reinstatement Assistance Program is permitted up to $54,000 to cover principal, interest, property taxes and insurance and may include escrowed homeowners' association dues or assessments. CalHFA Mortgage Assistance Corporation has allocated approximately $166 million for the Mortgage Reinstatement Assistance Program.

The Principal Reduction Program provides assistance to eligible homeowners who have experienced an economic hardship or a severe decline in the home's value, and who owe more on their mortgage than their home is worth and/or have an unaffordable payment. Homeowners who qualify for the Principal Reduction Program may be eligible for up to $100,000 in assistance. CalHFA Mortgage Assistance Corporation has allocated approximately $913 million for the Principal Reduction Program.

The Transition Assistance Program provides one-time funds to help eligible homeowners relocate into new housing after executing a short sale or deed-in-lieu of foreclosure program. The Transition Assistance Program is permitted to provide up to $5,000 in transition assistance per household. CalHFA Mortgage Assistance Corporation has allocated $7.5 million for the Transition Assistance Program.

Eligibility for Keep Your Home California programs may be limited by, among other things, current unpaid principal balance of applicable loans, owner occupancy, date of loan origination and available program funds. Program exclusions also apply.

Assistance provided in connection with the Unemployment Mortgage Assistance Program, Mortgage Reinstatement Assistance Program and Principal Reduction Program (where, in the Principal Reduction Program, CalHFA Mortgage Assistance Corporation receives less than 100% match by the applicable lender/servicer and the homeowner's post-assistance loan-to-value ratio ("LTV") is 100% or greater) is structured as a non-recourse, non-interest bearing subordinate loan in favor of CalHFA Mortgage Assistance Corporation secured by a junior lien on the applicable home. The subordinate loan will be structured with a five year term. At the conclusion of the fifth year (or, in the Principal Reduction Program, the thirtieth year for post-assistance LTV of less than 100%), the subordinate lien will be released. In the event of a sale or refinancing of the property, the holder of the Contract of Purchase is required to repay the subordinate loan when there are sufficient proceeds.

Since January 2011, the Department has participated in the Keep Your Home California program and as of June 30, 2015 has received approximately $12.8 million benefiting approximately 433 Contracts of Purchase as follows: (i) approximately $1.8 million from the Unemployment Mortgage Assistance Program benefiting approximately 142 Contracts of Purchase, (ii) approximately $1.4 million from the Mortgage Reinstatement Assistance Program benefiting approximately 110 Contracts of Purchase, (iii) approximately $9.6 million from the Principal Reduction Program benefiting approximately 172 Contracts of Purchase; and (iv) approximately $45 thousand from the Transition Assistance Program benefiting approximately 9 Contract of Purchase.

Late Fees

Late charges are applied to Contracts of Purchase that have a remaining amount due of $25 or more at the close of any account month. The late charge imposed on Contracts of Purchase originated during and after October 1984 is currently 4% of the principal and interest portion of the installment, consistent with late charges authorized by the USDVA.

Additional Financing

Any veteran who qualifies under the Veterans Code and the Federal Tax Code may be granted a subsequent Contract of Purchase so long as any previous Contract of Purchase has been paid in full or the veteran lost his or her interest in the previous Contract of Purchase through divorce or dissolution of marriage so long as the Federal Tax Code requirements regarding first-time homebuyers are met. Only one farm or home purchased under the 1974 Act may be owned by a veteran (or a veteran and his/her spouse) at any one time.

Mobile Homes Contracts of Purchase

The Veterans Code permits the Department to issue Contracts of Purchase for the purchase of mobile homes. The Federal Tax Code requires that any mobile home purchased with QVMB Proceeds or QMB Proceeds must be permanently affixed to land. If the mobile home is located on land for which the Department obtains title, the Contract of Purchase is treated by the Department in substantially the same manner as Contracts of Purchase to finance the purchase of single family residences. If the mobile home is located where the Department does not obtain title to the land, the Contract of Purchase is issued by the Department only where the mobile home is in a qualified mobile home park. In such cases the Contract of Purchase is issued with a term not exceeding thirty years and an interest rate which is 1% higher than the interest rate for a Contract of Purchase issued to finance the purchase of a single family conventional residence or

a mobile home sited on a lot owned by the purchaser. Mobile home parks are qualified by Department underwriting staff on a case-by-case basis based on a review of the appraisal, condition of the park, other minimum property standards and the park's rental agreement. The appraisals reflect the market conditions at the time the appraisals were conducted, may not reflect current values, are not guarantees and may not be fully indicative of present or future values. The Department also requires the mobile home park management to approve the transaction.

As of June 30, 2015, approximately 8.32% of the then outstanding total number of the Department's Contracts of Purchase financed mobile homes in a mobile home park (or approximately 3.14% of the then outstanding principal amount of the Department's Contracts of Purchase).

In April 2009, the Department revised its policies to limit financing of mobile homes in mobile home parks due to an increase in the percentage of the Department's REO in mobile home parks. New single-wide units may be financed for up to 15 years and a 15% down payment is required. New multi-wide units may be financed for up to 20 years and a 10% down payment is required. Used multi-wide units may be financed for the lesser of 20 years or the economic life expectancy of the unit and a 15% down payment is required. No financing is available for used single-wide units or mobile homes which are over 20 years old.

See EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2015" and "—Cancellations and Delinquencies" for additional information.

Home Improvement Contracts of Purchase

The Veterans Code permits the Department to finance permanent home and property improvements. Currently, under Department policy, when a home improvement Contract of Purchase is issued, the amount of total financing, including the balance of the original Contract of Purchase, the amount of the improvement Contract of Purchase and any other encumbrances, is not permitted to exceed 90% of the improved market value of the property. The Department relies on current market data from a third party information provider to develop formal opinions of value for a determination of the improved market value of the property. Typically, the total loan-to-value ratio at origination of a home improvement Contract of Purchase is lower than 90%.

The Department distributes the proceeds from a home improvement Contract of Purchase either to the contractors (or vendors) directly as the improvements are completed or to the veteran as reimbursement for actual construction costs. For a home improvement Contract of Purchase which is subordinate to an existing Contract of Purchase, a separate Contract of Purchase covering only the improvements is executed. The subordinate Contract of Purchase bears interest at the same rate as the veteran's existing Contract of Purchase where the home improvement Contract of Purchase was entered into prior to January 1, 2005, or at current Department rates where the home improvement Contract of Purchase was entered into on or after January 1, 2005. Pursuant to Department policy, home improvement Contracts of Purchase are issued with a term of up to 25 years. Generally, the terms of the original Contract of Purchase and the home improvement Contract of Purchase mature separately. An origination fee of 1.5% of the home improvement Contract of Purchase amount is assessed. Except in the case of

hardship or in connection with safety concerns, home improvement Contracts of Purchase, generally, are not approved for veterans who have had significant delinquencies in the 12 months immediately preceding the application.

The maximum home improvement Contract of Purchase funded with QMB Proceeds is $15,000. Home improvement Contracts of Purchase funded with Pre-Ullman Moneys or QVMB Proceeds are available up to a maximum of $150,000. Subsequent home improvement Contracts of Purchase may be granted, if funds are available to the Department, so long as there is only one home improvement Contract of Purchase per veteran outstanding at any time. As of June 30, 2015, the average principal balance of the Department's home improvement Contracts of Purchase then outstanding was approximately $21 thousand.

See EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2015" for additional information.

Construction Contracts of Purchase

Contracts of Purchase entered into to finance the purchase of a building site and construction of a home are also available. Qualifying sites include undeveloped land, lots in subdivision developments and sites in non-profit self-help developments. Mobile homes in mobile home parks do not qualify. Construction of the improvements must be performed by a contractor licensed in the State. The Department does not submit Contracts of Purchase that finance home construction for USDVA Guaranty.

The Department has developed a program with a view to enriching residential neighborhoods (the "CalVet REN Program") under which the Department works with affordable home builders to provide affordable homes for low income veterans. As part of the CalVet REN Program the Department, together with the affordable home builders, identifies project areas for the construction of a number of new affordable homes, and identifies and qualifies veterans for Contracts of Purchase for whom the Department could finance a portion of the construction of the homes, with the balance of the construction costs financed by the affordable home builders and/or other governmental entities such as the city or county. In connection with any such Contracts of Purchase, the Department distributes the proceeds from the Contract of Purchase to the affordable home builders at various milestones as the construction is completed.

As of June 30, 2015, approximately 6.24% of the then outstanding total number of the Department's Contracts of Purchase financed the purchase of a building site and construction of a home (or approximately 7.36% of the then outstanding principal amount of the Department's Contracts of Purchase).

See EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2015" for additional information.

Pooled Self-Insurance Fund

In 2009, the Veterans Code created a pooled self-insurance fund (the "Pooled Self-Insurance Fund") to allow the Department to pool certain of its funds and accounts. The Pooled Self-Insurance Fund has been established in the State Treasury and is comprised of moneys of the Department previously on deposit in the Disaster Indemnity Fund, the Fire and Hazard Insurance Account, the Legacy Self-Insured Disability Coverage Account and the Primary

Mortgage Insurance Account, each as defined below. Under the Veterans Code, if claims under one Pooled Self-Insurance Fund account exceed the amount of funds available in such account, the Department is permitted to borrow from other Pooled Self-Insurance Fund accounts within the Pooled Self-Insurance Fund rather than draw on the 1943 Fund. The Department on behalf of the Pooled Self-Insurance Fund is permitted to borrow from the 1943 Fund upon declaration of emergency by the Department Secretary. Amounts borrowed from other Pooled Self-Insurance Fund accounts or from the 1943 Fund must be repaid within three years. As of the date of this Official Statement, the Department on behalf of the Pooled Self-Insurance Fund has not borrowed from the 1943 Fund as permitted by the Veterans Code. The Veterans Code also requires the Department to manage rates charged to the holders of Contracts of Purchase for each account in the Pooled Self-Insurance Fund, so that each account is self-sufficient. Under the Veterans Code, the Department is permitted to insure or reinsure the risks payable out of the Pooled Self-Insurance Fund. The Department has insured risks payable out of the Disaster Indemnity Fund and the Fire and Hazard Insurance Account. See also "—USDVA Guaranty Program; Loan Insurance" and "—Life and Disability Insurance."

USDVA Guaranty Program; Loan Insurance

Significant principal amounts of Contracts of Purchase are not covered by a USDVA Guaranty or primary mortgage insurance. See EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2015."

USDVA Guaranty Program

The Servicemen's Readjustment Act of 1944, as amended, permits a veteran (or in certain instances the veteran's spouse) to obtain a guaranty from the USDVA covering mortgage financing for the purchase or construction of certain dwelling units at interest rates permitted by the USDVA (a "USDVA Guaranty"). The USDVA Guaranty program sets loan guaranty limits depending on the size of the loan and the location of the property and permits the guaranty of mortgage loans of up to 30 years and 32 days' duration unless the USDVA, in its sole discretion, approves an extension. Under the USDVA Guaranty program, the maximum USDVA Guaranty on a loan of more than $144,000 is an amount equal to 25% of the applicable USDVA county limit; as of January 1, 2015, the USDVA loan limits are set to those established by the Federal Housing Finance Agency (and used by Fannie Mae). The maximum USDVA Guaranty for such loans originated on or after January 1, 2015 is generally $104,250 (equal to 25% of $417,000, the general Fannie Mae loan limit for single-family homes); however the maximum USDVA Guaranty for such loans originated for homes in certain "high cost" counties, including many counties in California, on or after January 1, 2015, may generally be as high as $156,375 (equal to 25% of $625,500, the general Fannie Mae loan limit for single-family homes for such counties). See "—Certain Statutory Requirements – Limits on Purchase Price" above. In addition to such maximum USDVA Guaranty limits, the amount of the original USDVA Guaranty with respect to any particular loan is limited to 25% of the loan amount. Therefore, USDVA Guaranty is limited to the lesser of 25% of the applicable county loan limit or 25% of the loan amount. The liability on the USDVA Guaranty is reduced or increased *pro rata* with any reduction or increase in the amount of indebtedness, but in no event will the amount payable on the USDVA Guaranty exceed the amount of the original USDVA Guaranty. Notwithstanding the dollar and percentage limitations of the USDVA Guaranty, a mortgage holder will ordinarily

suffer a monetary loss only where the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a mortgaged property is greater than the original USDVA Guaranty, as adjusted. Periods without interest payments prior to foreclosure increase the potential for losses. In the event of a default in the payment of a USDVA guaranteed loan, but prior to a suit or foreclosure, USDVA may, at its option, pay to the mortgage holder of such defaulted loan the unpaid balance of the obligation plus accrued interest and receive an assignment of the loan and the security for such loan. For information regarding the amount of Contracts of Purchase guaranteed by the USDVA, see "—Primary Mortgage Insurance" and EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2015."

Prior to 1998, Contracts of Purchase were not insured or guaranteed by the USDVA or any private primary mortgage insurer. The Department took steps to reduce Program risk, and as of March 10, 1998, the Department was approved by the USDVA as a "non-supervised lender with automatic processing authority," which approval allows the Department to underwrite and approve USDVA guaranteed loans without obtaining prior USDVA approval. Generally, for all new Contracts of Purchase the Department requires veterans to apply for a USDVA Guaranty except with respect to Contracts of Purchase for construction, for rehabilitation, for home improvement or for mobile homes in a mobile home park. See "—Primary Mortgage Insurance."

The Department has obtained, and continues to obtain, USDVA Guarantees (i) since 2002 on all Contracts of Purchase with LTV ratios greater than 97% and (ii) since 2009 on Contracts of Purchase where the veteran qualifies for the USDVA Guaranty, regardless of LTV. As described above, the Department previously provided Radian primary mortgage insurance for new Contracts of Purchase not guaranteed by the USDVA with LTVs in excess of 80%, but is no longer entering into Contracts of Purchase to be insured by Radian.

The USDVA is a department of the United States of America. On June 10, 2015, S&P affirmed its long-term sovereign credit rating on the United States of America as "AA+." S&P's long-term rating outlook remains "stable." On April 13, 2015, Fitch Ratings ("Fitch") affirmed its long-term issuer default rating on the United States of America of "AAA" with an outlook of "stable." On September 17, 2014, Moody's Investors Service ("Moody's") confirmed its long-term rating for the United States of America of "Aaa" with an outlook of "stable." The foregoing ratings were still in effect as of the date of this Official Statement. †

Primary Mortgage Insurance

The Department's primary mortgage insurer has been Radian which is a wholly-owned subsidiary of Radian Group Inc., an insurance holding company listed on the New York Stock Exchange. On April 1, 2015, Moody's upgraded the insurance financial strength rating of Radian from "Ba2" to "Ba1" with a positive outlook. On March 9, 2015, S&P raised its

† Ratings as shown on the web site of the respective rating agency as of October 8, 2015. Ratings reflect each respective rating agency's current assessment of the creditworthiness of the United States of America. An explanation of the significance of such ratings may be obtained from the respective rating agencies. There is no assurance that the ratings will continue for any given period of time or that they will not be revised, qualified or withdrawn entirely by such ratings agencies if, in their judgment, circumstances so warrant.

financial strength ratings on Radian to "BB" from "BB-" with a positive outlook. The foregoing ratings were still in effect as of the date of this Official Statement.[†]

The Department purchased a policy of primary mortgage insurance from Radian (the "Original Radian Policy") for a pool of certain then-existing Contracts of Purchase with LTVs exceeding 80% originated before February 1, 1998. Thereafter, the Department purchased an additional policy of primary mortgage insurance from Radian (the "Additional Radian Policy," and together with the Original Radian Policy, the "Radian Policies") which provides similar coverage on certain Contracts of Purchase issued after February 1, 1998 as provided in the Original Radian Policy. The Radian Policies provide coverage for aggregate losses incurred on covered Contracts of Purchase following property disposition, above an aggregate 2% deductible. Under the Radian Policies the aggregate 2% deductible is defined as the total loss remaining after property disposition of the applicable Contracts of Purchase of an applicable subgroup. As many of the Contracts of Purchase insured under the Original Radian Policy have high originally insured balances but have been paid down significantly over the life of such Contracts of Purchase, the Department does not anticipate that it will incur significant losses on such Contracts of Purchase in excess of the 2% deductible. The aggregate 2% deductible under the Additional Radian Policy has been met, and Radian began paying claim proceeds effective August 29, 2013.

After meeting the aggregate 2% deductible and after an REO sale, in settlement of any claim Radian may at its option elect to pay the Department (i) the entire amount of the loss after the sale proceeds have been applied or (ii) a percentage of the loss, prior to the application of the sale proceeds, as specified in the applicable certificate of insurance and in accordance with the applicable mortgage coverage ratios under which the Contract of Purchase is insured. In both cases the Department will retain title to the applicable property.

The coverage levels in the table below apply to Contracts of Purchase covered by the Additional Radian Policy. For these purposes, the loan-to-value ratio is calculated using the original appraised value of the applicable property. The appraisals reflect the market conditions at the time the appraisals were conducted, may not reflect current values, are not guarantees and may not be fully indicative of present or future values.

Radian Mortgage Insurance Coverage Ratios

LTV Category	% of Coverage
97.01% to 100.00%	35%
95.01% to 97.00%	35%
90.01% to 95.00%	30%
85.01% to 90.00%	25%
80.01% to 85.00%	17%

Source: Department of Veterans Affairs.

Since April 1, 2008, the Department has ceased insuring new Contracts of Purchase with Radian. Instead, where primary mortgage insurance would have been used with respect to a

[†] Ratings as shown on the web site of the respective rating agency as of October 8, 2015. Ratings reflect each respective rating agency's current assessment of the creditworthiness of Radian. An explanation of the significance of such ratings may be obtained from the respective rating agencies. There is no assurance that the ratings will continue for any given period of time or that they will not be revised, qualified or withdrawn entirely by such ratings agencies if, in their judgment, circumstances so warrant.

Contract of Purchase the Department has charged the veteran an amount equal to the premium amount which would have been collected by the Department in respect of a Radian Policy, but has retained such payments in a primary mortgage insurance account (the "Primary Mortgage Insurance Account") within the Pooled Self-Insurance Fund. As of June 30, 2015, there was approximately $2.3 million in the Primary Mortgage Insurance Account. As of June 30, 2015, the balance of Contracts of Purchase to which the Primary Mortgage Insurance Account applies was approximately $64.5 million (or approximately 7.86% of the then outstanding principal amount of Department's Contracts of Purchase).

On an ongoing basis, the Department investigates options for primary mortgage insurance options for new Contracts of Purchase and reinsuring the Pooled Self-Insurance Fund to diversify the portfolio. See "—Pooled Self-Insurance Fund." No assurance can be given that the Department will be able to obtain replacement primary mortgage insurance or reinsurance, or whether such insurance or reinsurance will be available at commercially reasonable premiums.

For information regarding the principal amount of Contracts of Purchase covered by the Radian Policies, see EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2015."

Funding of USDVA Guaranty or Primary Mortgage Insurance Account

At the time of origination of each Contract of Purchase the Department collects a funding fee of 1.25% to 3.3% of the Contract of Purchase amount based on the LTV to offset the cost of the USDVA Guaranty or for deposit in the Primary Mortgage Insurance Account. For USDVA guaranteed loans, the funding fee may be added to the purchase price provided it does not exceed the effective maximum loan amount. Veterans obtaining USDVA-guaranteed loans must have adequate remaining USDVA Guaranty entitlement to obtain a 25% USDVA Guaranty. With respect to Contracts of Purchase eligible for a USDVA Guaranty, this fee is paid to the USDVA for the cost of the USDVA Guaranty. If the veteran or the property is not eligible for a USDVA Guaranty, the funding fee is retained by the Department, and such funding fees are deposited by the Department into the Primary Mortgage Insurance Account. Any change to the foregoing insurance and guaranty expectations may require an amendment to the Department's Program Operating Procedures and delivery of a new Cash Flow Statement.

Property Insurance

The Veterans Code and long-standing Department policy have both required the veterans holding a Contract of Purchase to maintain certain insurance with respect to the property covered by a Contract of Purchase. Insurance must be in the amount, with the insurance companies and under the terms and conditions specified by the Department. In the cases of physical losses, the coverage is provided by the Department up to a specified deductible amount and thereafter by insurance companies selected by the Department. The insurance programs are as follows:

Fire and Hazard Coverage

Under the Fire and Hazard Insurance Program, the Department carries $33 million in reinsurance and retains a $2 million per occurrence deductible for fire and hazard losses. Funding for the Fire and Hazard Insurance Program is collected from the holder of the Contract of Purchase through annual premiums and amounts collected are deposited into the Fire and

Hazard Insurance Account within the Pooled Self-Insurance Fund (the "Fire and Hazard Insurance Account"). Liabilities of the Fire and Hazard Insurance Program are payable solely from the Fire and Hazard Insurance Account. However, under the Veterans Code, if claims under one Pooled Self-Insurance Fund account exceed the amount of funds available in such account, the Department is permitted to borrow from other Pooled Self-Insurance Fund accounts within the Pooled Self-Insurance Fund rather than draw on the 1943 Fund. See "—Pooled Self-Insurance Fund" and "—Reinsurance."

Fire and Hazard Insurance replacement cost coverage (for participants in the Program) is adjusted annually to reflect current construction costs. Coverage is maintained on a guaranteed replacement cost basis for homes and on an actual cash value basis for outbuildings. A $250 deductible, payable by the holder of the Contract of Purchase, applies to each loss. Claims must be submitted within 12 months from the date of loss or discovery of loss to be considered for payment. If there are more than three paid claims which result to any one Contract of Purchase within a revolving five year period, the deductible is increased to $1,000. Claims adjusting activities and capped remediation payments are made on behalf of the Department by a third party adjuster.

The Fire and Hazard Insurance Program does not cover mobile homes, condominiums or planned unit development properties which should be covered by blanket insurance policies maintained by a homeowners' association. Veterans financing condominiums or planned unit development properties that are not covered by blanket insurance policies maintained by homeowners' associations are covered by the Fire and Hazard Insurance Program. Veterans financing mobile homes are required to secure their own coverage. Veterans in all other housing types are required to participate in the Fire and Hazard Insurance Program.

If the holder of a Contract of Purchase participates in the Fire and Hazard Insurance Program, such holder is required to pay an annual premium (paid monthly through a charge to the holder's account) which contributes to, among other things, (i) a portion of the reinsurance premium, (ii) an amount attributable to the funding of a reserve fund for the Department's self-insured retention and (iii) an amount attributable to costs of claims adjusting. The current annual premium is equal to $1.70 per $1,000 of insured value. The annual premium is divided into twelve equal payments, that is collected in twelve monthly installments via an impound charge, and included with the monthly payments on the Contract of Purchase.

The amount in the Fire and Hazard Insurance Account as of June 30, 2015 was approximately $5.8 million. See "—Pooled Self-Insurance Fund."

GC Analytics performed a catastrophe analysis for the Department based on the portfolio of homes covered by the Department's Fire and Hazard program as of November 2014. The wildfire exposure analysis concluded that the wildfire gross probabilistic loss prior to the application of reinsurance for a 250-year period is approximately $7.5 million per occurrence or $8.5 million in the aggregate and in the long-term, the Department can expect to incur approximately $1.1 million of damage from wildfire on an average annual basis. The analysis and the catastrophe modeling upon which the conclusions in the analysis are based are subject to certain limitations and assumptions including assumptions with respect to inflationary costs, environmental facts, structures, insured values, occupancy vulnerability and certain historical loss data. No assurances can be given that the conclusion made in the analysis will be accurate.

Disaster Indemnity Coverage

Under its Disaster Indemnity Program, the Department carries $31 million in reinsurance and retains a $4 million per occurrence deductible for earthquake and flood losses. Funding for the Disaster Indemnity Program is collected from the holder of the Contract of Purchase through the payment of monthly premiums and amounts collected are deposited into the Disaster Indemnity Account within the Pooled Self-Insurance Fund (the "Disaster Indemnity Account"). Liabilities of the Disaster Indemnity Plan are payable solely from the Disaster Indemnity Account. However, under the Veterans Code, if claims under one Pooled Self-Insurance Fund account exceed the amount of funds available in such account, the Department is permitted to borrow from other Pooled Self-Insurance Fund accounts within the Pooled Self-Insurance Fund rather than draw on the 1943 Fund. See "—Pooled Self-Insurance Fund" and "—Reinsurance."

Disaster Indemnity provides guaranteed replacement cost coverage on the main structure and on an actual cash value basis for outbuildings and is adjusted annually to reflect current construction costs. The holder of a Contract of Purchase is required to pay a $500 deductible for flood losses; and the deductible for earthquake losses is the greater of $500 or 5% of the loss. Claims must be submitted within 90 days following the date of loss to be considered.

Every holder of a Contract of Purchase must participate in the Disaster Indemnity Program and is currently required to pay an annual premium of $1.25 per $1,000 of insured value. The annual premium is divided into twelve equal payments, that is collected in twelve monthly installments via an impound charge, and included with the monthly payments on the Contract of Purchase.

The amount in the Disaster Indemnity Account as of June 30, 2015 was approximately $17.3 million. See "—Pooled Self-Insurance Fund."

GC Analytics performed a catastrophe analysis for the Department based on the portfolio of homes covered by the Department's Disaster Indemnity program as of November 2014. The Earthquake exposure analysis concluded that earthquake shake and fire following gross probabilistic loss for a 250-year return period is $31.4 million per occurrence or $32.8 million aggregate, including the risk of fire after damage following the earthquake event, and that in the long-term, the Department can expect to incur approximately $1.2 million of damage from earthquake on an average annual basis. The analysis and the catastrophe modeling upon which the conclusions in the analysis are based are subject to certain limitations and assumptions including assumptions with respect to inflationary costs, environmental facts, structures, insured values, occupancy vulnerability and certain historical loss data. No assurances can be given that the conclusion made in the analysis will be accurate.

Reinsurance

Effective March 1, 2015, the Department obtained reinsurance for losses incurred under the Fire and Hazard Insurance Program and Disaster Indemnity Program from a consortium of 11 insurers led by Lloyd's of London. Effective March 1, 2015, each insurer was rated A- X or better by AM Best Co. The Fire and Hazard Insurance Program/Disaster Indemnity Program reinsurance provides $33 million of coverage in excess of the Department's $2 million per occurrence deductible for fire and hazard losses (see "—Fire and Hazard Coverage") and $31 million in excess of the Department's $4 million per occurrence deductible for earthquake and flood losses (see "—Disaster Indemnity Coverage"). The reinsurance policy expires

March 1, 2016 and is renewable annually. The one-year premium paid by the Department for the policy is approximately $1.6 million minus return premiums if applicable. Under the policy, loss payments reduce the limit of coverage afforded by the amounts paid by the reinsurers, however, the limit of coverage may be reinstated upon the payment by the Department of an additional premium calculated at pro rata of the premium as to the amount reinstated.

Concerns Regarding Geographic Concentration Risk

As the Department expands its housing options though the CalVet REN Program, the Department has identified that insurance coverage may be required to be expanded to mitigate increased geographic concentration risks. Some of the Department's newest housing expansion opportunities, including in connection with the CalVet REN Program, may result in a greater geographic concentrations of Contracts of Purchase. The Department plans to review risk-based pricing for high-density geographic concentration exposures. No assurance can be given that the Department will be able to obtain additional insurance coverage for risks resulting from high-density geographic concentration exposures or that any such additional insurance may be available at reasonable premiums. See "THE DEPARTMENT – Governance of the Department," "THE PROGRAM – Construction Contracts of Purchase" and EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Geographic Distribution of Contracts of Purchase."

Life and Disability Insurance

From 2003 to 2013, the Department required holders of Contracts of Purchase to obtain life insurance made available by the Department through The Standard Insurance Company ("Standard"), and also made available to holders of Contracts of Purchase optional disability insurance through Standard. In 2013 the Department's life and disability insurance requirements and offerings changed. Since 2013, the Department no longer makes available disability insurance for new holders of Contracts of Purchase and the Department no longer requires holders of Contracts of Purchase to obtain life insurance. Disability insurance remains available on a voluntary basis through Standard for those holders of Contracts of Purchase that were financed prior to February 1, 2003 and enrolled for disability insurance prior to 2013. Life insurance remains available on a voluntary basis through Standard to all new holders of Contracts of Purchase and to those holders of Contracts of Purchase that were financed prior to February 1, 2003, as further described below.

Currently, life insurance is made available by the Department through Standard to the primary holder of the Contract of Purchase and/or his or her spouse provided that certain requirements are met. To qualify, life insurance applicants must be under age 62. Life insurance is no longer made available after the insured reaches the age of 70. The availability of life insurance for a given life insurance applicant is also subject to the approval by Standard of an applicant's medical history statement. However, health conditions arising from a qualified military service-connected disability are not included in Standard's evaluation.

Life insurance benefits vary. For those insured under the previously mandatory life insurance requirement, the life insurance benefits pay the lesser of (i) the unpaid balance of the Contract of Purchase, or (ii) the principal and interest on the Contract of Purchase for up to five years, depending on the insured's medical history statement evaluation and underwriting by Standard. For those insured on a voluntary basis, the life insurance benefits pay the entire

balance of the Contract of Purchase. In either event, the payment is made in a lump sum to the Department.

Premiums for the life insurance change annually based upon age and the balance of the Contract of Purchase. Monthly premiums are charged to the holder of the Contract of Purchase and are included in the monthly Contract of Purchase payments.

Where still available, as described above, disability insurance is made available by the Department through Standard to the primary holder of the Contract of Purchase and/or their spouse provided that certain requirements are met. Now, disability insurance coverage is no longer available after the insured reaches the age of 62. Disability insurance benefits pay the principal and interest on the Contract of Purchase, property taxes, and other insurance premiums totaling the current monthly installment. Available disability insurance includes three coverage options. Under the first option, disability insurance benefits begin on the first of the calendar month following 90 days of continuous disability and continue through the earliest of (i) the last day of the calendar month in which the insured becomes 70 years of age; (ii) the date the Contract of Purchase is terminated; (iii) (a) for a disability due to injury, provided disability occurs within 180 days of the accident, 60 months or (b) for any other disability, 24 months; or (iv) upon the death of the insured. Under the first option disability benefits can continue beyond the periods described above if the insured is unable to safely perform two or more specified activities of daily living. Notwithstanding the foregoing, disability benefits cease upon the earlier of death or termination of the related Contract of Purchase. Under the second option, disability insurance benefits begin on the first of the calendar month following 90 days of continuous disability and continue through the earliest of (i) the last day of the calendar month in which the insured becomes 65 years of age or (ii) the date the related Contract of Purchase is terminated. Under the third option, benefits begin on the first of the calendar month following 365 consecutive days of disability and will continue through the earliest of (i) the date that the insured becomes 70 years of age or (ii) the date the Contract of Purchase is terminated. To qualify for disability insurance, the applicant must be a veteran under the age of 62, provide evidence of good health and be actively working at least 30 hours per week.

Premiums for the disability insurance change annually based upon age and the balance of the Contract of Purchase. Monthly premiums are charged to the holder of the Contract of Purchase and are included in the monthly Contract of Purchase payments.

In addition to the foregoing, there remain approximately seven holders of Contracts of Purchase that are insured under a prior disability plan (the "Legacy Plan Beneficiaries"). As of June 30, 2015, the aggregate principal balance of the Contracts of Purchase applicable to the Legacy Plan Beneficiaries was approximately $285 thousand. As of June 30, 2015, the Department held approximately $2.0 million in a Legacy Self-Insured Disability Coverage Account within the Pooled Self-Insurance Fund (the "Legacy Self-Insured Disability Coverage Account") to pay all benefits in connection with the Contracts of Purchase held by the Legacy Plan Beneficiaries. The Department expects that, upon the repayment of all of the Contracts of Purchase held by the Legacy Plan Beneficiaries, any amount remaining in the Legacy Self-Insured Disability Coverage Account (and not otherwise borrowed for the benefit of other Pooled Self-Insurance Fund accounts) will be returned to the 1943 Fund. See "—Pooled Self-Insurance Fund" and "—Selected Financial Data of the 1943 Fund and the Program and Department's Discussion."

In connection with the life insurance and disability insurance coverage made available by the Department through Standard, the Department entered into a certain experience rating refund agreement with Standard (the "Experience Rating Refund Agreement") pursuant to which The Bank of New York Mellon, as trustee, administers a claim fluctuation reserve account. The Department has funded, from moneys of the 1943 Fund, a claim fluctuation reserve account in the amount of $6 million. At June 30, 2015, the claims fluctuation reserve account held approximately $16.6 million. Under the Experience Rating Refund Agreement, an experience rating refund (i.e., a refund or credit based on the premium collection and claims paying experience under the plan) is calculated periodically. Based on these calculations and in certain circumstances (such as a period where earned premiums, amounts charged by Standard for administration, and interest earned on claims reserves exceed insured claims paid), Standard is required to make a deposit into the claim fluctuation reserve account. In other circumstances, such as a period where earned premiums, amounts charged by Standard for administration, and interest earned on claims reserves do not exceed insured claims, Standard is permitted to make a withdrawal from moneys on deposit in the claim fluctuation reserve account. Under the Experience Rating Refund Agreement, if the claim fluctuation reserve account exceeds $6 million the Department is permitted to withdraw the excess. The Department expects that excess funds so withdrawn will be returned to the 1943 Fund. In addition, under the Experience Rating Refund Agreement, the Department is permitted to make deposits to the claim fluctuation reserve account at any time. The Experience Rating Refund Agreement is scheduled to expire on January 31, 2016. See "Additional Investments (as of June 30, 2015)" in EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA."

Ultimately, the Department is responsible for the payment of claims under the above-described life insurance and disability insurance programs. To manage claims exposure Standard monitors and administers the insurance programs. In connection with the foregoing, Standard annually reviews the life and disability claims experience and the claims fluctuation reserve account to ensure the solvency of the life and disability insurance program. Based on these reviews the Department may, from time to time, adjust the premiums charged for or may make changes to the availability of life and disability insurance coverage.

Legislative Protection of Veterans

Federal law provides certain protections to military personnel on active duty, and reservists and members of the National Guard ordered to report for military service under the Servicemembers Civil Relief Act of 2003, formerly known as The Soldiers' and Sailors' Civil Relief Act of 1940 (the "Federal Relief Act"). Under the Federal Relief Act, a servicemember may seek a stay (or a court may on its own motion grant a stay) of any court action or proceeding. The Federal Relief Act provides that if a servicemember obtained an obligation or liability consisting of a mortgage, trust deed or other security in the nature of a mortgage, such as a Contract of Purchase, bearing interest at a rate in excess of 6% per year, and is later recalled to active duty, then during the period of military service and one year thereafter, the interest rate on the Contract of Purchase cannot exceed 6% (unless the ability of the servicemember to pay interest in excess of 6% is not materially impaired by such military service). The Veterans Code also provides that no obligation or liability bearing interest at a rate in excess of 6% per year incurred by a service member before that person's entry into service shall bear interest at a rate in excess of 6% per year, for an obligation or liability consisting of a mortgage, trust deed or

other security in the nature of a mortgage (such as a Contract of Purchase), during any part of the period of military service and one year thereafter. Notwithstanding the foregoing, the Veterans Code provides that if in the opinion of a court upon application thereto by the obligee the ability of the service member to pay interest at a rate in excess of 6% per year is not materially affected by reason of that service, the court may make that order as in its opinion may be just. Furthermore, the 1974 Act within the Veterans Code provides relief for Contract of Purchase holders called to active duty in the military service of the U.S. who qualify for relief under the Federal Relief Act by authorizing the Department to establish separate rates of interest (not greater than the rate provided for in the Federal Relief Act) payable on the amounts remaining unpaid under Contracts of Purchase, applicable to any Contract of Purchase from the date of entry into active duty to and including 90 days after the date of release from active duty. Taking into account current interest rates applicable on Contracts of Purchase, the effect of any application of the Federal Relief Act in most cases would be a reduction in the applicable interest rate of less than one percent or no reduction at all.

Pursuant to the California Military Families Financial Relief Act (the "California Relief Act"), members of the United States Military Reserve or the California National Guard called to active duty before January 1, 2014 as part of the Iraq and Afghanistan conflicts, and reservists called to active duty on and after January 1, 2014, may defer payments on obligations secured by mortgages or deeds of trust, including Contracts of Purchase, for the lesser of (i) 180 days or (ii) the period of active duty plus 60 calendar days. The total period of the deferment must not exceed 180 days within a 365-day period. The California Relief Act requires, among other things, that reservists desiring to take advantage of such deferments provide notice to their lender, and the deferral shall apply only to those payments due subsequent to the notice provided to the lender. The California Relief Act also requires lenders, such as the Department, to extend the term of loans subject to deferment by the amount of months of the deferral, and prohibits foreclosure or repossession of property during a deferment period. In addition, no interest can be charged or accumulated on the principal or interest on which the payment was delayed.

Under the Program, deferrals required by the California Relief Act are accounted for by the Department through the creation of a deferred balance on the loan account. The Department anticipates that, of the loans affected by the California Relief Act that are not delinquent, foreclosed upon or canceled, most will be prepaid prior to the end of the regular term, making an extension of the Contract of Purchase term unnecessary. If a Contract of Purchase affected by the California Relief Act is covered by a USDVA Guaranty, the Department will request the USDVA's approval to extend the loan term, if necessary. As of June 30, 2015, twenty Contracts of Purchase were subject to California Relief Act deferrals and there has been no material impact on the 1943 Fund. See "—Contracts of Purchase – Delinquencies and Cancellations" herein.

External Reviews of the Program

The Program and the Department have been the subject of external reviews. The most recent reviews are briefly explained below.

Bureau of State Audits

The Bureau of State Audits ("BSA") periodically audits the Department as part of the State's regular Single Audit required under the Single Audit Act of 1984 and the California Government Code. The BSA audited the Department's USDVA Guaranty program in 2010 and

the Department complied with the BSA's operational recommendations contained therein. Additional information regarding this and other BSA audits may be obtained from the BSA.

USDVA

The USDVA Loan Guaranty Monitoring Unit (the "USDVA Auditors") periodically audits the Department to determine, among other things, whether the Department is compliant with the laws, regulations and policies governing USDVA guaranties. The most recent audit took place in 2009 and the Department has responded to the findings and implemented new procedures in connection therewith. The USDVA Auditors accepted the Department's responses as satisfactory and required no additional action. Reports of the USDVA Auditors and the Department's responses thereto are available by contacting the Department's Bond Finance Division at P.O. Box 942895, Sacramento, California 94295-0001, telephone (916) 503-8012. Nothing contained in such reports of the USDVA Auditors or the Department's responses thereto is incorporated into this Official Statement.

THE 1943 FUND

General

The components of the 1943 Fund are (i) proceeds derived from the sale of Revenue Bonds; (ii) proceeds derived from the sale of Veterans G.O. Bonds; (iii) amounts receivable under all Contracts of Purchase and from sales of properties subject to cancelled Contracts of Purchase; (iv) temporary investments, cash and funds and (v) certain other miscellaneous assets. Proceeds of Veterans G.O. Bonds may not be applied to payment of principal of, and interest or any redemption premium on, the Revenue Bonds. The holders of Veterans G.O. Bonds and Revenue Bonds are not entitled to compel the sale of Contracts of Purchase and the properties to which they relate. Holders of Revenue Bonds are entitled to receive payment out of the Revenues derived from those Contracts of Purchase and properties, subject to the prior claims of the holders of the Veterans G.O. Bonds and of the State for reimbursement of debt service payments made on Veterans G.O. Bonds.

In addition to financing Contracts of Purchase and paying or reimbursing debt service on the Veterans G.O. Bonds and paying debt service on the Revenue Bonds, as described below, moneys in the 1943 Fund are used to pay administrative costs of the Department, and to fund certain losses from and reserves for property insurance, mortgages losses and life and disability insurance described in "THE PROGRAM – Property Insurance – Life and Disability Insurance." However, amounts in the Pooled Self-Insurance Fund (which are used to pay certain disaster indemnity, fire and hazard, Legacy Plan Beneficiaries' self-insured disability, and primary mortgage insurance benefits) are not held within the 1943 Fund. See "THE PROGRAM – Property Insurance," "—Life and Disability Insurance" and "—Pooled Self-Insurance Fund" regarding pooling of certain funds and accounts.

For financial information concerning the 1943 Fund, see EXHIBIT 1 to this APPENDIX B – "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) FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014."

The Veterans' Revenue Debenture Act of 1970, as amended (the "Act") within the Veterans Code provides that the undivided interest created by the Revenue Bond Resolution in favor of the holders of Revenue Bonds in the assets of the 1943 Fund is secondary and subordinate to the interest of the people of the State and the holders of Veterans G.O. Bonds. As described in "AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS – Security for and Sources of Payment of Veterans G.O. Bonds," the Veterans Code requires that on the dates when funds are to be remitted to bondholders for the payment of debt service on Veterans G.O. Bonds, there shall be transferred to the Veterans' Bonds Payment Fund to pay the debt service on such Veterans G.O. Bonds all of the money in the 1943 Fund (but not in excess of the amount of debt service then due and payable). Debt service on Veterans G.O. Bonds is payable first from the moneys required under the Veterans Code to be transferred from the 1943 Fund to the Veterans' Bonds Payment Fund and second, if the moneys transferred from the 1943 Fund to the Veterans' Bonds Payment Fund are less than debt service then due and payable, the balance is payable from the General Fund. The 1943 Fund is required to transfer to the General Fund, as soon as it becomes available, an amount equal to the amount paid by the General Fund, if any, together with interest thereon from the remittance date until paid, at the same rate of interest as borne by the applicable Veterans G.O. Bonds, compounded semiannually. The Veterans Code does not grant any lien on the 1943 Fund or the moneys therein to the holders of any Veterans G.O. Bonds. The 1943 Fund is required to reimburse the General Fund for any debt service payments on the Veterans G.O. Bonds paid by the General Fund to the extent of any shortfalls in transfers from the 1943 Fund to the Veterans' Bonds Payment Fund, including to pay interest thereon to the General Fund as described above, before the 1943 Fund may make payments on Revenue Bonds (although payments on Revenue Bonds may be made from amounts on deposit in any reserve accounts established for the benefit of Revenue Bonds and, if any, in the loan loss account held in the Veterans Debenture Revenue Fund).

As of July 1, 2015, there were outstanding approximately $466,190,000 aggregate principal amount of Veterans G.O. Bonds and there were no outstanding commercial paper notes. As of July 1, 2015, $428,610,000 of Veterans G.O. Bonds are authorized but not issued. As of July 1, 2015, there were approximately $359,745,000 aggregate principal amount of Revenue Bonds outstanding. Under the Act, Revenue Bonds in an aggregate principal amount not to exceed $1,500,000,000, at any given time, may be outstanding. The State Legislature may increase the amount of Revenue Bonds that can be outstanding under the Act or may decrease such amount to an amount not less than the amount of Revenue Bonds then outstanding. Voters in the State or the State Legislature, as applicable, may authorize increases or decreases in the amount of Veterans G.O. Bonds authorized but not issued. Additional information about outstanding Veterans G.O. Bonds and Revenue Bonds is in EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Veterans G.O. Bonds and Revenue Bonds."

For additional information regarding the existing interest rates of, and setting interest rates on, Contracts of Purchase, see "—Contracts of Purchase" herein and EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA."

Selected Financial Data of the 1943 Fund and the Program and Department's Discussion

The following table (the "Selected Financial Data") contains selected financial data of the 1943 Fund and the Program for fiscal years ended June 30, 2015 and 2014 which has been derived from the financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund included in EXHIBIT 1 to this APPENDIX B and the Department's accounting records. The Selected Financial Data contains the comparable financial data of the 1943 Fund and the Program for fiscal years ended June 30, 2013, 2012 and 2011 which have been derived from the audited financial statements of the 1943 Fund that are not included herein. Certain information for the Fiscal Years ended June 30, 2011 through June 30, 2013 has been reclassified to conform to June 30, 2015 presentation.

This Selected Financial Data should be read in conjunction with the audited financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund and notes thereto contained in said EXHIBIT 1 to this APPENDIX B and the Department's Discussion of Financial Data contained herein.

The information presented in the Selected Financial Data and presented under "—Department's Discussion of Financial Data" distinguishes between information relating to the Program (which includes the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund) and the separate funds thereunder. Investors should note the differences and recognize that the financial information of the 1943 Fund may not be, and in most cases, is not, the same as the financial information of the Program.

Non-GAAP Financial Measures

In addition to the results reported in the following tables in accordance with generally accepted accounting principles for governmental units as presented by the Governmental Accounting Standards Board, as in effect from time to time in the United States ("GAAP") included in this Official Statement, the Department has provided certain information regarding the Selected Financial Data. These non-GAAP measures, when read in conjunction with the audited financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund, provide information that may assist readers to:

- make period-to-period comparisons of the 1943 Fund's and the Program's ongoing operating results;
- identify trends in the 1943 Fund's and the Program's underlying business;
- gain additional information about how the Department plans and measures the 1943 Fund's and the Program's underlying business; and
- compare the 1943 Fund's and the Program's most recent results of operations against possible investor and analyst financial models.

Non-GAAP measures should not be considered a substitute or an alternative to computations calculated in accordance with and required by GAAP.

SELECTED FINANCIAL DATA
(Dollars in Thousands)

	For Fiscal Years Ended on				
	June 30, 2015	**June 30, 2014**	**June 30, 2013[1]**	**June 30, 2012[1]**	**June 30, 2011[1]**
ASSETS AND LIABILITIES RELATED TO LENDING AND FINANCING ACTIVITIES OF THE 1943 FUND:					
CASH AND INVESTMENTS					
Cash and amounts on deposit in SMIF	$ 109,989	$ 61,397	$ 148,657	$ 143,868	$ 87,909
Guaranteed Investment Contracts	1,327	10,327	7,850	9,490	10,046
Investments With Insurance Administrators[2]	16,642	14,875	14,851	14,037	6,650
Total Cash and Investments	$ 127,958	$ 86,599	$ 171,358	$ 167,395	$ 104,605
Due From Other Funds[3]	$ 1,356	$ 951	$ 2,329	$ 5,463	$ -
Other Current Assets	4,323	4,473	6,375	7,820	8,966
Net Other Non-Current Assets	2,979	3,300	3,386	5,179	2,983
CONTRACTS OF PURCHASE					
Performing Contracts	$ 819,346	$ 835,611	$ 931,791	$ 1,160,062	$ 1,342,471
Non Performing Contracts (REO)	1,280	3,343	18,792	24,266	28,855
Total	$ 820,626	$ 838,954	$ 950,583	$ 1,184,328	$ 1,371,326
Allowance For Contract Losses[4]	$ (4,963)	$ (6,103)	$ (10,495)	$ (14,125)	$ (16,972)
Reduction of REO to Fair Value	-	(190)	(5,812)	(8,050)	(10,108)
Total Valuation Allowances	$ (4,963)	$ (6,293)	$ (16,307)	$ (22,175)	$ (27,080)
TOTAL ASSETS	$ 952,279	$ 927,984	$ 1,117,724	$ 1,348,010	$ 1,460,800
Deferred Outflows of Resources	3,334	2,113	2,371	10,329	8,476
Total Assets and Deferred Outflows of Resources	$ 955,613	$ 930,097	$ 1,120,095	$ 1,358,339	$ 1,469,276
BONDS PAYABLE					
Veterans G.O. Bonds and Notes	$ (466,190)	$ (433,645)	$ (585,361)	$ (757,560)	$ (799,475)
Revenue Bonds	(359,745)	(372,705)	(420,325)	(471,880)	(546,660)
Unamortized Premiums/Discounts	1,047	1,130	1,374	1,437	1,275
Total	$ (824,888)	$ (805,220)	$ (1,004,312)	$ (1,228,003)	$ (1,344,860)
Other Current Liabilities	$ (11,014)	$ (10,733)	$ (12,213)	$ (14,422)	$ (13,398)
Non-Current Liabilities	(18,528)	(1,564)	(1,316)	(1,089)	(878)
TOTAL LIABILITIES	(854,430)	(817,517)	(1,017,841)	(1,243,514)	(1,359,136)
Deferred Inflows of Resources	(2,440)	-	-	-	-
Total Liabilities and Deferred Inflows of Resources	(856,870)	(817,517)	(1,017,841)	(1,243,514)	(1,359,136)
1943 Fund Net Assets Lending & Financing Activities	$ 98,743	$ 112,580	$ 102,254	$ 114,825	$ 110,140
DUE FROM VETERANS DEBENTURE FUND[5][7]	-	-	$ 15,742	$ 15,742	$ 19,742
DUE FROM POOLED SELF-INSURANCE FUND[6][7]	-	-	24,871	24,372	26,766
Total	-	-	$ 40,613	$ 40,114	$ 46,508
Net Position of the 1943 Fund	$ 98,743	$ 112,580	$ 142,867	$ 154,939	$ 156,648
Net Position Veterans Debenture Fund	11,742	13,742	-	-	-
Net Position Pooled Self-Insurance Fund	25,296	24,560	(568)	(703)	-
Net Position of the Program	$ 135,781	$ 150,882	$ 142,299	$ 154,236	$ 156,648
SUMMARY OF CERTAIN PROGRAM INFORMATION:[8]					
Total Program Assets and Deferred Outflows of Resources[9]	$ 994,168	$ 969,462	$ 1,160,895	$ 1,396,202	$ 1,516,578
Total Program Liabilities and Deferred Inflows of Resources[10]	$ (858,387)	$ (818,580)	$ (1,018,596)	$ (1,241,966)	$ (1,359,930)
Total Number of Contracts of Purchase	5,802	6,237	7,158	8,584	9,786
Total Program Assets to Liabilities Ratio	1.16	1.18	1.14	1.12	1.12

(1) Certain prior year information has been reclassified to conform to current year presentation.
(2) Consists of amounts held in accordance with the Experience Rating Refund Agreement with Standard for the Department's Life and Disability Plan.
(3) Consists of recognized receivables in favor of the 1943 Fund for amounts from the Pooled Self-Insurance Fund, the Veterans Debenture Revenue Fund and certain other funds.
(4) This allowance is an amount that Department management believes will be adequate to absorb losses inherent in existing Contracts of Purchase and commitments to extend credit based on various factors. See Exhibit 1 to APPENDIX B.
(5) The Veterans Debenture Revenue Fund is not part of the 1943 Fund, consists of the bond reserve account and is pledged to the payment of Revenue Bonds.
(6) The Pooled Self-Insurance Fund is not part of the 1943 Fund and is comprised of moneys of the Department previously on deposit in the Disaster Indemnity Fund, the Fire and Hazard Insurance Account, the Legacy Self-Insured Disability Coverage Account and the Primary Mortgage Insurance Account. See "THE PROGRAM – Pooled Self-Insurance Fund."
(7) For the Fiscal Years ended June 30, 2011 through 2013, the Department recognized a receivable in favor of the 1943 Fund for the net position of Pooled Self-Insurance Fund and the Veterans Debenture Revenue Fund. See "– Department's Discussion of Financial Data."
(8) The Program includes the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund. Of such funds, debt service on Veterans G.O. Bonds is payable from the 1943 Fund. See "AUTHORIZATION OF AND SECURITY FOR THE OFFERED VETERANS G.O. BONDS – Security for and Sources of Payment of Veterans G.O. Bonds."
(9) Derived from Exhibit 1 to APPENDIX B and includes Cash; Cash Equivalents and Investments; Receivables under Contracts of Purchase – Net; and other receivables and assets of the Program described therein.
(10) Derived from Exhibit 1 to APPENDIX B and includes Bonds Payable and other payables of the Program described therein.

SELECTED FINANCIAL DATA
(Dollars in Thousands)

	For Fiscal Years Ended on				
	June 30, 2015	**June 30, 2014**	**June 30, 2013[1]**	**June 30, 2012[1]**	**June 30, 2011[1]**
NET INCOME (EXPENSE) FROM LENDING AND FINANCING ACTIVITIES OF THE 1943 FUND:					
INTEREST INCOME					
Interest on Contracts of Purchase	$ 43,307	$ 47,461	$ 58,970	$ 70,857	$ 80,412
Interest on Investments	2,273	1,051	2,498	8,431	3,068
Total	$ 45,580	$ 48,512	$ 61,468	$ 79,288	$ 83,480
BOND INTEREST EXPENSE	$ (33,446)	$ (37,138)	$ (47,624)	$ (58,772)	$ (69,515)
Net Interest Income	12,134	11,374	13,844	20,516	13,965
Amortization Of Bond Premium/Discount	$ (280)	$ (501)	$ (255)	$ (4,091)	$ (2,763)
Insurance Reimbursement For Contract Losses	1,583	4,982	-	-	-
CONTRACTS OF PURCHASE					
Net Loss on Sale of REO	$ (491)	$ (1)	$ (4,305)	$ (6,665)	$ (12,888)
Reversal of (Provision) for Allowance for Contract Losses and REO	46	3,586	(3,936)	(6,654)	(10,477)
Total	$ (445)	$ 3,585	$ (8,241)	$ (13,319)	$ (23,365)
Net Lending/Financing Activities Income (Expense)	$ 12,992	$ 19,440	$ 5,348	$ 3,106	$ (12,163)
NET (EXPENSE) FROM ADMINISTRATION ACTIVITIES					
Operating Revenues	$ 5,030	$ 2,499	$ 1,979	$ 1,516	$ 1,546
Operating Expenses (excluding OPEB)	(15,431)	(13,898)	(11,826)	(9,958)	(12,114)
Net Administration Activities Expense	$ (10,401)	$ (11,399)	$ (9,847)	$ (8,442)	$ (10,568)
Total Lending/Financing Activities Net Income	$ 2,591	$ 8,041	$ (4,499)	$ (5,336)	$ (22,731)
NON-LENDING/FINANCING ACTIVITIES CHANGES IN NET POSITION					
GASB Adjustment	$ (14,589)[2]	$ -	$ (7,766)[3]	$ -	$ -
Other postemployment benefits expense (OPEB)	(3,869)	(250)	(227)	(211)	(878)
Interfund Transfers	2,030	(38,078)	420	3,838	18,538
Total	$ (16,428)	$ (38,328)	$ (7,573)	$ 3,627	$ 17,660
Change In Net Position Of The 1943 Fund	$ (13,837)	$ (30,287)	$ (12,072)	$ (1,709)	$ (5,071)
OTHER INCOME/EXPENSE					
Total Change In Net Position of the Veterans Debenture Fund	$ 11,742	$ 13,742	-	-	-
Total Change In Net Position of the Pooled Self-Insurance Fund	$ 25,296	$ 24,560	$ (568)	$ (703)	-
NET POSITION OF THE PROGRAM – BEGINNING OF THE YEAR	$ 112,580	$ 142,867	$ 154,939	$ 156,648	$ 161,719
NET POSITION OF THE PROGRAM – END OF THE YEAR	$ 135,781	$ 150,882	$ 142,299	$ 154,236	$ 156,648

[1] Certain prior year information has been reclassified to conform to current year presentation.

[2] GASB 68 Adjustment.

[3] GASB 65 Adjustment.

Department's Discussion of Financial Data

Included as part of the financial statements contained in EXHIBIT 1 to APPENDIX B is the section entitled "Management's Discussion and Analysis" which presents management's discussion in relation to the financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund for the fiscal years ended June 30, 2015 and June 30, 2014 and the changes from prior periods (the "Management Discussion and Analysis"). The Selected Financial Data appearing on the preceding two pages are presented only to provide a summary of the financial position and operations over a longer period of time, and a presentation of the significant changes that have occurred. Dollar amounts therein have been rounded. Certain limited aspects of the Selected Financial Data are discussed below; however, such discussion contains information that is not included in and is derived from sources other than the Selected Financial Data.

As noted above, the information presented in the Selected Financial Data and presented under this subheading "—Department's Discussion of Financial Data" distinguishes between information relating to the Program (which includes the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund) and the separate funds thereunder. Investors should note the differences and recognize that the financial information of the 1943 Fund may not, and in most cases, is not the same as the financial information of the Program. Totals may not sum due to rounding.

This discussion should be read in conjunction with the Management Discussion and Analysis and with EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA."

Fiscal Years Ended June 30, 2015 and 2014

Certain information for the Fiscal Years ended June 30, 2011 through June 30, 2013 has been reclassified to conform to June 30, 2015 presentation.

Assets, Liabilities and Net Position

For the Fiscal Year ended June 30, 2015, the total assets of the 1943 Fund increased by approximately $24.3 million from approximately $928.0 million at June 30, 2014 to approximately $952.3 million at June 30, 2015. For the Fiscal Year ended June 30, 2015, the total cash equivalents and investments of the 1943 Fund increased by approximately $41.4 million from approximately $86.6 million at June 30, 2014 to approximately $128.0 million at June 30, 2015. This increase was primarily due to the State'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 which were used to fund Contracts of Purchase, while excess revenues from prepayments of Contracts of Purchase were held for future needs and were also applied to redeem approximately $90.4 million of Veterans G.O. Bonds and Revenue Bonds. Additionally, the increase in total cash and investments was due to 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 rather than principal repayments. The principal repayments of Contracts of Purchase were in the approximate amount of $160.6 million for the Fiscal Year ended June 30, 2015. For the Fiscal Year ended June 30, 2015, the net receivables under outstanding Contracts of Purchase decreased by approximately $15.1 million from approximately $829.5 million at June 30, 2014 to approximately $814.4

million at June 30, 2015. The decrease was a function of repayments of Contracts of Purchase offsetting the volume of new Contacts of Purchase originated during the Fiscal Year ended June 30, 2015. Other receivables and assets remained the same at $8.7 million between June 30, 2014 and June 30, 2015. Other real estate owned balances have declined due to increased sales of repossessed properties and fewer Contracts of Purchase being foreclosed and transferred to other REO. 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") Statement No. 68 ("GASB 68"). GASB issued GASB 68, in which GASB 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 revised and implemented new note disclosures and required supplementary information. The GASB 68 standards apply to financial reporting but not to the actuarial calculation of annual employer pension contributions, which continue to be determined actuarially by each plan. The provisions in GASB 68 are effective for fiscal years beginning after June 15, 2014.

For the Fiscal Year ended June 30, 2015, the total liabilities of the 1943 Fund increased by approximately $36.9 million from approximately $817.5 million at June 30, 2014 to approximately $854.4 million at June 30, 2015. This increase was primarily due to an increase in Veterans G.O. 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 Fiscal Year ended June 30, 2015, the net position of the 1943 Fund decreased by approximately $13.8 million from approximately $112.6 million at June 30, 2014 to approximately $98.7 million at June 30, 2015. This decrease was primarily the result of the restatement due to the GASB 68 implementation of approximately $14.6 million and was offset by deficiency of revenues over expenses of approximately $500 thousand.

For the Fiscal Year ended June 30, 2015, the net position of the Veterans Debenture Revenue Fund, as shown in the supplementary information to the financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund for the Fiscal Year ended June 30, 2015, decreased approximately $2.0 million from approximately $13.7 million at June 30, 2014 to approximately $11.7 million at June 30, 2015. For the Fiscal Year ended June 30, 2015, the total cash and cash equivalents of the Veterans Debenture Revenue Fund decreased approximately $2.0 million from approximately $13.7 million at June 30, 2014 to approximately $11.7 million at June 30, 2015. For the Fiscal Year ended June 30, 2015, the net position of the Pooled Self-Insurance Fund, as shown in the supplementary information to the financial statements of the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund for the Fiscal Year ended June 30, 2015, increased approximately $736 thousand from a net position of $24.6 million at June 30, 2014 to a net position of approximately $25.3 million at June 30, 2015. The increase in net position of the Pooled Self-Insurance Fund was due to an excess of revenues over expenses. For the Fiscal Year ended June 30, 2015, the total cash and cash equivalents of the Pooled Self-Insurance Fund

increased by approximately $1.6 million from approximately $26.5 million at June 30, 2014 to approximately $28.1 million at June 30, 2015.

Accordingly, for the Fiscal Year ended June 30, 2015, the net position of the Program (i.e., the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund) decreased by approximately $15.1 million from approximately $150.9 million at June 30, 2014 to approximately $135.8 million at June 30, 2015. At June 30, 2015, the total assets to liabilities ratio of the Program decreased to approximately 1.16 from approximately 1.18 at June 30, 2014.

Operations Revenues and Expenses

For the Fiscal Year ended June 30, 2015, operations revenues of the 1943 Fund (comprised primarily of interest revenues of Contracts of Purchase, revenues from investments and insurance revenue and claims reimbursement) decreased by approximately $6.3 million from approximately $53.5 million for the Fiscal Year ended June 30, 2014 to approximately $47.2 million for the Fiscal Year ended June 30, 2015. This decrease was primarily due to the following factors:

- Interest revenues of the 1943 Fund from Contracts of Purchase decreased by approximately $4.2 million from approximately $47.5 million for the Fiscal Year ended June 30, 2014 to approximately $43.3 million for the Fiscal Year ended June 30, 2015, primarily due to a decrease in the average balance of Contracts of Purchase outstanding during the Fiscal Year ended June 30, 2015.

- Revenues of the 1943 Fund from investments increased by approximately $1.2 million from approximately $1.1 million for the Fiscal Year ended June 30, 2014 to approximately $2.3 million for the Fiscal Year ended June 30, 2015, primarily due to an overall positive returns during the year in connection with the Experience Rating Refund Agreement.

- Insurance revenue and claims reimbursement of the 1943 Fund decreased by approximately $3.4 million from approximately $5.0 million for the Fiscal Year ended June 30, 2014 to approximately $1.6 million for the Fiscal Year ended June 30, 2015, 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.

For the Fiscal Year ended June 30, 2015, operations expenses of the 1943 Fund decreased by approximately $400 thousand from approximately $34.1 million for the Fiscal Year ended June 30, 2014 to approximately $33.7 million for the Fiscal Year ended June 30, 2015. This decrease was primarily due to the following factors:

- Interest expense of the 1943 Fund decreased by approximately $3.9 million from approximately $37.6 million for the Fiscal Year ended June 30, 2014 to approximately $33.7 million for the Fiscal Year ended June 30, 2015, primarily due to the strategic redemptions of Veterans G.O. Bonds and Revenue Bonds.

- The provisions for Program losses of the 1943 Fund increased by approximately $3.6 million from a reversal of the expense of approximately $3.6 million for the Fiscal Year ended June 30, 2014 to a reversal of the expense of approximately $46 thousand for the Fiscal Year ended June 30, 2015, primarily due to continued credit quality improvement associated with outstanding Contracts of Purchase.

Accordingly, for the Fiscal Year ended June 30, 2015, operations revenues over operations expenses of the 1943 Fund decreased by approximately $5.9 million from approximately $19.4 million for the Fiscal Year ended June 30, 2014 to approximately $13.5 million for the Fiscal Year ended June 30, 2015.

Program Administration

For the Fiscal Year ended June 30, 2015, total Program administration revenues of the 1943 Fund (i.e., origination fee, late payment fees and rent on REO) increased by approximately $2.5 million from approximately $2.5 million for the Fiscal Year ended June 30, 2014 to approximately $5.0 million for the Fiscal Year ended June 30, 2015. For the Fiscal Year ended June 30, 2015, total Program administration expenses of the 1943 Fund, excluding the recognition of OPEB expenses of approximately $3.9 million for the Fiscal Year ended June 30, 2015 and $250 thousand for the Fiscal Year ended June 30, 2014, increased by approximately $1.5 million from approximately $13.9 million for the Fiscal Year ended June 30, 2014 to approximately $15.4 million for the Fiscal Year ended June 30, 2015, primarily due to an increase in staffing, payroll and other support expenditures.

For the Fiscal Year ended June 30, 2015, the total excess revenues over expenses of the 1943 Fund increased by approximately $31.1 million from a net deficiency of approximately $30.3 million for the Fiscal Year ended June 30, 2014 to a net excess of approximately $752 thousand for the Fiscal Year ended June 30, 2015. This was due to the recognition of an outgoing transfer to the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund which for the Fiscal Year ended June 30, 2014 totaled approximately $38.1 million. For the Fiscal Year ended June 30, 2015 the 1943 Fund recognized an incoming transfer of approximately $2.0 million due primarily to a transfer from the Veterans Debenture Revenue Fund due to a reduction in required reserves. The increase in total excess revenues over expenses of the 1943 Fund was also due to a reduction in losses and write downs from the sale or write down of REO. For the Fiscal Year ended June 30, 2015, losses of the 1943 Fund from the sale or write down of REO of the 1943 Fund were approximately $500 thousand, compared to a loss of approximately $1,000 for the Fiscal Year ended June 30, 2014. For the Fiscal Year ended June 30, 2015, holdings of REO properties, net of valuation allowances, of the 1943 Fund decreased from approximately $3.2 million for the Fiscal Year ended June 30, 2014 to approximately $1.3 million for the Fiscal Year ended June 30, 2015.

Fiscal Years Ended June 30, 2015 through 2011

The following discussion illustrates certain information regarding performance of the 1943 Fund and the Program over the past five Fiscal Years. Certain information for the Fiscal Years ended June 30, 2011 through June 30, 2013 has been reclassified to conform to June 30, 2015 presentation.

Assets, Liabilities and Net Position

For the Fiscal Year ended June 30, 2015, the total assets of the 1943 Fund decreased by approximately $508.7 million from approximately $1.461 billion at June 30, 2011 to approximately $952.3 million at June 30, 2015. For the Fiscal Year ended June 30, 2015, the total cash and investments of the 1943 Fund increased by approximately $23.4 million from approximately $104.6 million for the Fiscal Year ended June 30, 2011 to approximately $128.0 million at June 30, 2015. This increase was primarily due to the issuance of the Series CJ Bonds,

described above, and certain strategic redemptions of Veterans G.O. Bonds and Revenue Bonds in the aggregate principal amount of approximately $1.176 billion during the Fiscal Years ended June 30, 2011 through June 30, 2015. Additionally, the decrease in total assets was due to a decrease in the aggregate principal amount of outstanding Contracts of Purchase of approximately $523 million since June 30, 2011. This decrease was a function of repayments of Contracts of Purchase outpacing the origination of new Contracts of Purchase due to limited demand stemming from the interest rate environment within the California market during this period.

For the Fiscal Year ended June 30, 2015, the total liabilities of the 1943 Fund decreased by approximately $504.6 million from approximately $1.359 billion at June 30, 2011 to approximately $854.4 million at June 30, 2015. Again, this decrease was primarily due to the strategic redemptions of Veterans G.O. Bonds and Revenue Bonds.

Accordingly, for the Fiscal Year ended June 30, 2015, the net position of the 1943 Fund decreased by approximately $57.9 million from approximately $156.6 million at June 30, 2011 to approximately $98.7 million at June 30, 2015. This decrease was due in part to the recognition of an outgoing transfer to the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund totaling $38.1 million during the Fiscal Year ended June 30, 2014. The remaining decrease is attributable to net losses incurred by the 1943 Fund between June 30, 2011 and June 30, 2015. At June 30, 2015, the total assets of the Veterans Debenture Revenue Fund decreased by approximately $8.1 million from approximately $19.8 million at June 30, 2011 to approximately $11.7 million at June 30, 2015. At June 30, 2015, the net position of the Veterans Debenture Revenue Fund increased by approximately $11.7 million from zero at June 30, 2011. This increase was due to the recognition of the transfer in from the 1943 Fund as noted above. At June 30, 2015, the net position of the Pooled Self-Insurance Fund at June 30, 2015 increased by approximately $25.3 million from a net position of approximately zero at June 30, 2011 to approximately $25.3 million at June 30, 2015. This increase was due to the recognition of the transfer in from the 1943 Fund as noted above, offset by a liability for incurred, but not reported insurance claims. Accordingly, at June 30, 2015, the net position of the Program (i.e., the 1943 Fund, the Veterans Debenture Revenue Fund and the Pooled Self-Insurance Fund/reserves) decreased by approximately $20.8 million from approximately $156.6 million at June 30, 2011 to approximately $135.8 million at June 30, 2015. At June 30, 2015, the total assets to liabilities ratio of the Program increased to approximately 1.16 from approximately 1.12 at June 30, 2011.

Operations Revenues and Expenses

For the Fiscal Year ended June 30, 2015, operations revenues of the 1943 Fund totaled approximately $47.1 million as compared with approximately $83.5 million recognized for the Fiscal Year ended June 30, 2011, resulting in a decrease of approximately $36.3 million. This decrease was primarily due to the following factors:

- Interest revenues from Contracts of Purchase totaled approximately $43.3 million for the Fiscal Year ended June 30, 2015. In contrast, approximately $80.4 million was recognized in Fiscal Year ended June 30, 2011, resulting in a decrease of approximately $37.1 million primarily due to a decrease in the average balance of Contracts of Purchase outstanding since the Fiscal Year ended June 30, 2011.

- Interest revenues in investments totaled approximately $2.3 million for the Fiscal Year ended June 30, 2015. In contrast, approximately $3.1 million was recognized in Fiscal Year ended June 30, 2011, resulting in a decrease of approximately $800 thousand primarily due to a decrease in the average balance of investments outstanding since the Fiscal Year ended June 30, 2011.

- Insurance revenue and claims reimbursement totaled approximately $1.6 million for the Fiscal Year ended June 30, 2015. In contrast, no insurance revenue and claims reimbursement was recognized for the Fiscal Year ended June 30, 2011.

For the Fiscal Year ended June 30, 2015, operations expenses of the 1943 Fund totaled approximately $33.7 million. In contrast, for the Fiscal Year ended June 30, 2011, operations expense of the 1943 Fund totaled approximately $81.9 million, resulting in a decrease of approximately $48.2 million between the two periods. This decrease was primarily due to the following factors:

- Interest expense totaled approximately $33.7 million, for the Fiscal Year ended June 30, 2015. In contrast, for the Fiscal Year ended June 30, 2011 approximately $72.3 million was recognized, resulting in a decrease of approximately $38.6 million between the two periods primarily due to the strategic redemptions of Veterans G.O. Bonds and Revenue Bonds.

- The provisions for Program losses of the 1943 Fund reflected a recovery of the provision for Program losses of the 1943 Fund of approximately $46 thousand, for the Fiscal Year ended June 30, 2015. For the Fiscal Year ended June 30, 2011, the provisions for Program losses of the 1943 Fund totaled approximately $9.6 million, resulting in a decrease of approximately $9.6 million when comparing the two periods, primarily due to improved credit quality associated with outstanding Contracts of Purchase.

Accordingly, for the Fiscal Year ended June 30, 2015, operations revenues over operations expenses of the 1943 Fund totaled approximately $13.5 million. In contrast, for the Fiscal Year ended June 30, 2011, the 1943 Fund reported net of expenses over revenue of approximately $3.7 million, resulting in an increase in operations revenue over operations expenses of approximately $9.8 million when comparing these two periods.

Program Administration

For the Fiscal Year ended June 30, 2015, total Program administration revenues (i.e., origination fee, late payment fees and rent on REO) totaled approximately $5 million. In contrast, for the Fiscal Year ended June 30, 2011, Program administration revenues of the 1943 Fund totaled approximately $4.6 million, resulting in an increase of approximately $400 thousand when comparing these two periods. For the Fiscal Year ended June 30, 2015, total Program administration expenses of the 1943 Fund, excluding the recognition of OPEB expenses of approximately $3.9 million for the Fiscal Year ended June 30, 2015, totaled approximately $15.4 million. In contrast, for the Fiscal Year ended June 30, 2011, Program administration expenses of the 1943 Fund, excluding the recognition of OPEB expenses of approximately $878 thousand for the Fiscal Year ended June 30, 2011, totaled approximately $12.1 million, resulting

in an increase of approximately $3.3 million when comparing these two periods. The increase was primarily due to changes in staffing, payroll and other support expenditures.

For the Fiscal Year ended June 30, 2015, total excess revenues over expenses of the 1943 Fund totaled approximately $752 thousand. In contrast, for the Fiscal Year ended June 30, 2011, the 1943 Fund reported a net deficiency of expenses over revenues of approximately $5.1 million, resulting in an increase of approximately $5.8 million when comparing these two periods. The increase was due to the reasons noted above and due to a reduction in losses and write downs from the sale or write down of REO which was a function of the improved credit quality associated with outstanding Contracts of Purchase and increased in real estate values. For the Fiscal Year ended June 30, 2015, losses from the sale or write down of REO of the 1943 Fund resulted in a net loss of approximately $491 thousand compared to a net loss from the sale or write down of REO of approximately $12.9 million for the Fiscal Year ended June 30, 2011.

Summary

Over the periods from Fiscal Year ended June 30, 2011 through Fiscal Year ended June 30, 2015, the Department utilized cash assets to redeem certain of its higher interest maturities of Veterans G.O. Bonds and Revenue Bonds, in order to, among other things, reduce its annual debt service. The Department, subject to applicable bond authorizing resolutions, may apply Excess Revenues to redeem any Veterans G.O. Bonds or Revenue Bonds eligible for redemption, and has done so and may continue to do so. Through the reduction of annual debt service, the Department has been able to lower the interest rate the Department can offer on Contracts of Purchase. During such periods, the interest rate offered on Contracts of Purchase has been as high as 6.20%; however, as of the date of this Official Statement the Department is able to offer an interest rate as low as 3.50% See "—Contracts of Purchase-Post-December 2011 Contracts of Purchase" and EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA."

When the interest rates offered on the Contracts of Purchase were higher than presently offered, the rate of origination of Contracts of Purchase was substantially reduced as compared to previous periods. The ability to offer Contracts of Purchase at the lower rates has enabled the Department to be more competitive in the mortgage lending market, and is well-timed for possible increases in interest rates offered by lenders other than the Department. The principal amount of Contracts of Purchase originated for the Fiscal Year ended June 30, 2015 was approximately $144.1 million, an increase of approximately $126.8 million over the Fiscal Year ended June 30, 2011. The principal amount of Contracts of Purchase originated for the Fiscal Years ended June 30, 2012 through 2014 was substantially lower. See EXHIBIT 2 to APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – New Contracts of Purchase During the Fiscal Year" for information regarding the recent rate of originations of Contracts of Purchase, and "— Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds."

During periods of reduced origination of Contracts of Purchase, including in recent years, the aggregate principal amount of Contracts of Purchase has been reduced due to such lower levels of origination, as well as due to principal repayments and veterans refinancing their loans with other lending sources. These factors, coupled with recent economic growth within the State and national economies and increases in housing prices, have resulted in Contracts of Purchase

recently experiencing decreased delinquencies, cancellations, REO and losses on the Contracts of Purchase. See "—Delinquencies and Cancellations" and EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Cancellations and Delinquencies."

At the same time the Department has endeavored to improve its underwriting and servicing processes in order to better manage Contracts of Purchase and to prepare the Department for an increased level of origination and servicing of Contract of Purchase. For example, the Department has deployed resources within the Program to ensure adequate staffing. The Department is also developing new avenues for origination opportunities. These include innovative programs such as the CalVet REN Program which is designed to yield higher LTV Contracts of Purchase with lower delinquency rates due to the significant amount of credit counseling and support provided to the veterans by the affordable homebuilders who are expected to participate in the CalVet REN Program.

The implementation of the strategic planning of the Department has already resulted in positive trend as the Program's asset to liability ratio has increased from 1.12 at June 30, 2011 to 1.16 at June 30, 2015.

Program Features Designed to Mitigate Market Downturns

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

- Interest rates on Contracts of Purchase originated after January 1, 2011 are fixed for the entire term of the loan. Interest rates on Contracts of Purchase originated prior to January 1, 2011 are fixed, subject to periodic adjustment as described in "THE PROGRAM—Interest Rates" below.
- The Department requires that, at the time of financing, Program participants reside in the home purchased under the Contracts of Purchase.
- The Department's underwriting requirements, according to an internal unaudited survey by the Department, have resulted in average borrower FICO credit scores at the time of origination in excess of 720 for transactions originated between January 1, 2005 and June 30, 2015.
- Since 2009, all new Contracts of Purchase require a minimum 1.25% funding fee to offset the cost of the USDVA Guaranty or for deposit in the Primary Mortgage Insurance Account.
- Certain of the Department's Contracts of Purchase are guaranteed by the USDVA. See "THE PROGRAM – USDVA Guaranty Program; Loan Insurance" and EXHIBIT 2 to this APPENDIX B - "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Existing Contracts of Purchase – Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2015."
- The Department is participating in the Keep Your Home California program. See "THE PROGRAM – Contracts of Purchase – Keep Your Home California."

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

Department Outlook

The ability of the Department to maintain an excess of revenues over expenses in future periods and the financial performance of the 1943 Fund depend upon a variety of factors including, among others: (a) the level of interest rates available on short-term investments (including the rate paid on the Surplus Money Investment Fund ("SMIF"), an investment fund established under the California Government Code, which is part of the Pooled Money Investment Account ("PMIA"), which fund invests money according to an investment policy established by the State Treasurer's Office, and including the rate paid on investment contracts as such contracts may be acquired) relative to the level of interest rates on outstanding Veterans G.O Bonds and Revenue Bonds; (b) the rate of origination and the rate of prepayment of Contracts of Purchase, which will directly affect the amount of bond proceeds, recycling funds and revenues held in such investments; (c) the interest rates established from time to time by the Department for newly originated Contracts of Purchase relative to the interest cost on bonds issued to finance such Contracts of Purchase; (d) the interest rates on outstanding Contracts of Purchase relative to the interest cost on outstanding bonds; (e) the Department's ability to use special and optional redemption provisions to minimize the overall cost of outstanding debt; (f) the market prices that can be achieved upon the sale of repossessed properties relative to the balances of then outstanding Contracts of Purchase; (g) the level of administrative expenses relative to the rate of origination and outstanding balances of the Contracts of Purchase; (h) counter party performance under the Department's investment arrangements; (i) uncertainties, disruption or volatility in the financial markets, generally, and in the mortgage and residential real estate markets, specifically; (j) the accuracy of certain projections and assumptions upon which the Department's financial planning may be based, including, among other things, the rate of repayment of Contracts of Purchase, levels of defaults and delinquencies and losses on Contracts of Purchase; (k) the issuance and structuring of any additional Veterans G.O. Bonds or additional Revenue Bonds; (l) the implementation of any new programs of the Department; and (m) changes in law, including changes which may affect the timing and the amount the Department may recover from Contracts of Purchase. The Department expects that there will be significant variations in results in future periods, including additional periods in which there may be a deficit of revenues over expenses. Consideration should be given to these factors, among others, in connection with the purchase of the Offered Veterans G.O. Bonds. See "INTRODUCTION – "Forward-Looking Statements" in this APPENDIX B.

Investments of the 1943 Fund

The Department currently invests nearly all of its cash of the 1943 Fund in the SMIF. The Department also invests certain moneys of the 1943 Fund as described under EXHIBIT 2 to this APPENDIX B – "CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA – Additional Investments." All investments, including those in the SMIF, contain certain risks, some of which may be material. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. These risks may be mitigated, but are not eliminated, by limitations imposed on the portfolio management process by the State Treasurer's PMIA investment policy, which may change from time to time.

Excess Revenues

The Department has covenanted with the holders of its Revenue Bonds to apply Revenues received with respect to Contracts of Purchase, after payment or reimbursement of debt service on Veterans G.O. Bonds, in a specified order of priority. The availability and use of Revenues may provide moneys for special redemption of the Offered Veterans G.O. Bonds (see "THE OFFERED VETERANS G.O. BONDS – Redemption – Special Redemption from Excess Revenues"). For this purpose, "Revenues" means all moneys received by or on behalf of the Department representing (i) principal and interest payments on the Contracts of Purchase including all prepayments representing the same and all prepayment premiums or penalties received by or on behalf of the Department in respect to the Contracts of Purchase, (ii) interest earnings received on the investment of amounts to the extent deposited in the revenue account established under the Revenue Bond Resolution, (iii) amounts transferred to the revenue account from the bond reserve account or the loan loss account established under the Revenue Bond Resolution, and (iv) any other amounts payable by parties executing Contracts of Purchase or private participants in the Program or related to recoveries on defaulted Contracts of Purchase, including origination and commitment fees, servicing acquisition fees, liquidation proceeds, and insurance proceeds, *except* to the extent not included as "Revenues" pursuant to the provisions of any resolution authorizing the issuance of a series of Revenue Bonds.

The Department has covenanted with the Revenue Bond holders to administer the Program and perform its obligations under the Revenue Bond Resolution in accordance in all material respects with the then-current Program Operating Procedures. The Program Operating Procedures are operating policies of the Department governing the discretionary activities of the Department under the Revenue Bond Resolution. The Department may amend the Program Operating Procedures. The Program Operating Procedures will affect the Excess Revenues that will become available to redeem the Offered Veterans G.O. Bonds.

The Department has covenanted with the Revenue Bond holders to apply Revenues in the following order, after paying, or reimbursing for payments of, debt service on Veterans G.O. Bonds, including the costs of liquidity and credit enhancement facilities related thereto, and setting aside moneys as required under the Federal Tax Code to preserve the tax-exempt status of certain Veterans G.O. Bonds and Revenue Bonds, (1) to pay debt service on Revenue Bonds, (2) to pay the costs associated with liquidity and credit enhancement facilities, if any, for Revenue Bonds, (3) to replenish certain reserve funds established for the Revenue Bonds, (4) if the Department elects, to pay Department expenses, (5) to set aside a monthly accrual of Veterans G.O. Bond debt service, (6) if the Department elects, to finance Contracts of Purchase, and (7) with respect to Excess Revenues and certain tax restricted moneys, to redeem Veterans G.O. Bonds, including the Offered Veterans G.O. Bonds, and Revenue Bonds. For such purposes:

(a) "Excess Revenues" means, as of any date of calculation, Revenues in excess of Accrued Debt Service;

(b) "Accrued Debt Service" means, as of any date of determination and, as the context requires, with respect to all Revenue Bonds and Veterans G.O. Bonds (including the Offered Veterans G.O. Bonds), the sum of:

(i) the aggregate amount of scheduled interest and principal (except to the extent otherwise to be redeemed pursuant to clause (ii) or (iii) below) to become due after such date but on or before the end of the current debt service year, *less* the product of (x) the number

of whole months remaining in the current debt service year and (y) the Monthly Debt Service Requirement;

(ii) the redemption price of bonds for which notice of redemption has been issued, provided such redemption price is to be paid from amounts on deposit in the revenue account created under the Revenue Bond Resolution; and

(iii) the redemption price of bonds that the Department will be obligated to redeem prior to the end of the next succeeding debt service year under the terms of any resolution governing Revenue Bonds or Veterans G.O. Bonds, to the extent that such obligation arises on account of amounts on deposit in the revenue account created under the Revenue Bond Resolution; and

(c) "Monthly Debt Service Requirement" means, as of any date of determination, one-twelfth of the aggregate amount of scheduled interest and principal to become due during the debt service year in which such date falls, as computed on the first day of such debt service year.

Maintenance of Fund Parity

The Revenue Bond Resolution requires the Department to calculate "Fund Parity" at least annually. "Fund Parity" means, on any determination date (a) an amount equal to the difference between (i) all assets in the 1943 Fund and in the accounts established under the Revenue Bond Resolution, and (ii) the aggregate principal amount of all Revenue Bonds and Veterans G.O. Bonds outstanding (plus accrued interest); reduced by (b) defined allowances and reserves for loss coverage on Contracts of Purchase and life and disability coverage on persons obligated under Contracts of Purchase. If any such calculation shall not reflect that Fund Parity at least equals the percentage required by the Revenue Bond Resolution, the Department may be required to expend Excess Revenues to redeem Revenue Bonds until its recalculations of Fund Parity meet the test required by the Revenue Bond Resolution. Currently the applicable required percentage of Fund Parity is 25%. Such applicable percentage has been subject to rating agency confirmation.

EXHIBIT 1
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) FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

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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MOSS-ADAMS LLP
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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.

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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.

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

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	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

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

	YEARS ENDING JUNE 30,	
	2015	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	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

VETERANS' FARM AND HOME PURCHASE PROGRAM
DEPARTMENT OF VETERANS AFFAIRS, STATE OF CALIFORNIA
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.

SUPPLEMENTARY INFORMATION

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

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

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

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

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

EXHIBIT 2
CERTAIN DEPARTMENT FINANCIAL INFORMATION AND OPERATING DATA

Contracts of Purchase

Set forth below is certain financial information regarding Contracts of Purchase. Capitalized terms not defined herein shall have the meaning ascribed to them in the forepart of this Official Statement.

Existing Contracts of Purchase

The following charts describe the LTV ratio of Contracts of Purchase based on the original appraised value of the applicable properties, geographic distribution, portfolio age data, and high LTV distribution of Contracts of Purchase financed under the Program as of June 30, 2015 using proceeds of Veterans G.O. Bonds and Commercial Paper Notes, Revenue Bonds and other amounts under the 1943 Fund. Current appraised value may be higher or lower than original appraised value. The appraisals reflect the market conditions at the time the appraisals were conducted, may not reflect current values, are not guarantees and may not be fully indicative of present or future values.[1]

Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2015[2]

	Uninsured	Original Radian Insured[3]	Additional Radian Insured[3]	USDVA Guaranteed	Total
Single Family Homes					
Less than 30% LTV	$ 18,654	$ 1,882	$ 391	$ 466	$ 21,393
30-49% LTV	58,016	11,725	3,039	3,116	75,896
50-59% LTV	54,729	10,815	4,455	5,360	75,359
60-69% LTV	47,327	8,511	35,816	13,862	105,516
70-79% LTV	20,347	2,251	91,932	33,844	148,374
Sub-total	$ 199,073	$ 35,184	$ 135,633	$ 56,648	$ 426,538
80-84% LTV	$ 9,009	$ -	$ 25,887	$ 26,532	$ 61,428
85-89% LTV	16,014	-	7,443	49,181	72,638
90-94% LTV	14,331	-	-	43,151	57,482
95-97% LTV	4,251	-	-	32,266	36,517
Sub-total	$ 43,605	$ -	$ 33,330	$ 151,130	$ 228,065
Greater than 97% LTV	$ 1,093	$ -	$ -	$ 109,095	$ 110,188
Other Property Types					
Farms	$ 1,471	$ 120	$ 431	$ -	$ 2,022
Mobile Homes in Parks	13,402	153	11,904	-	25,459
Home Improvement Loans	11,286	-	-	-	11,286
Homes under Construction	9,322	-	-	-	9,322
Sub-total	$ 35,481	$ 273	$ 12,335	$ -	$ 48,089
Special Status Contracts of Purchase					
Real Estate Owned[4]	$ 408	$ -	$ 729	$ 143	$ 1,280
Cancelled	1,526	49	3,366	820	5,761
Disability Program[5]	449	372	107	-	928
Sub-total	$ 2,383	$ 421	$ 4,202	$ 963	$ 7,969
Total Portfolio	$ 281,635	$ 35,878	$ 185,500	$ 317,836	$ 820,849

Source: Department of Veterans Affairs.

(1) For many properties financed with Contracts of Purchase, the appraised value as of June 30, 2015 is lower than the original appraised value.

(2) Amounts in thousands. LTV based on Contracts of Purchase balance as of June 30, 2015 divided by original appraised value of the property, except where the Department has updated the appraised value of the applicable home after a veteran has applied for a home improvement loan. In such cases, the LTV is calculated with the new appraised value.

(3) The Radian Policies issued by Radian provide coverage for aggregate losses incurred on covered Contracts of Purchase following property disposition, above an aggregate 2% deductible based upon the originally insured balances of the Contracts of Purchase originally included in the applicable group identified by Radian Policy coverage dates. As many of the Contracts of Purchase insured under the Original Radian Policy have high originally insured balances but have been paid down significantly over the life of such Contracts of Purchase, the Department does not anticipate that it will incur losses on Contracts of Purchase in excess of the aggregate 2% deductible in the Original Radian Policy. For the Additional Radian Policy, Radian's aggregate 2% deductible was met and Radian is now paying claims under the Additional Radian Policy. See "THE PROGRAM – USDVA Guaranty Program; Loan Insurance – USDVA Guaranty Program" and "—Primary Mortgage Insurance" above and "Primary Mortgage Insurance Coverage" below.

(4) REO by the Department on financial statements.

(5) Contracts of Purchase where payments are made on behalf of veterans by the Department's life and disability coverage plan.

Geographic Distribution of Contracts of Purchase
Approximate Principal Balance Outstanding
as of June 30, 2015[1]

County	
Riverside	$ 84,883
San Diego	78,148
Los Angeles	70,230
Sacramento	69,644
San Bernardino	54,693
Fresno	44,481
Kern	39,644
Shasta	27,371
Solano	26,921
Contra Costa	20,338
San Joaquin	19,811
Placer	18,392
Butte	18,183
Kings	14,937
Orange	14,581
Other Northern California Counties	125,751
Other Central California Counties	75,316
Other Southern California Counties	17,525
Statewide—California	$ 820,849

Source: Department of Veterans Affairs.
(1) Amounts in thousands. Approximate Principal Balance Outstanding of Contracts of Purchase include the principal balance of delinquent Contracts of Purchase, cancelled or foreclosed upon Contracts of Purchase and REO in inventory.

Portfolio Age Data for Outstanding Contracts of Purchase as of June 30, 2015

Origination Date	Number of Contracts of Purchase	% of Outstanding Contracts of Purchase	Outstanding Principal Balance[1]	Outstanding Principal Balance as a Percent of Total Portfolio
1999 and Prior	1,175	20.25%	$ 63	7.63%
2000	294	5.07	26	3.15
2001	97	1.67	8	1.02
2002	205	3.53	23	2.78
2003	542	9.34	80	9.69
2004	610	10.51	97	11.79
2005	391	6.74	57	6.94
2006	414	7.14	70	8.56
2007	451	7.77	78	9.52
2008	400	6.90	71	8.71
2009	157	2.71	17	2.14
2010	115	1.98	10	1.17
2011	62	1.07	6	0.68
2012	60	1.03	6	0.68
2013	115	1.98	24	2.88
2014	376	6.48	96	11.75
2015	338	5.83	89	10.91
Total	5,802	100.00%	$ 821	100.00%

Source: Department of Veterans Affairs.
(1) Amounts in millions. Outstanding principal balance of Contracts of Purchase includes the principal balance of delinquent Contracts of Purchase, cancelled or foreclosed upon Contracts of Purchase and REO in inventory.

Contracts of Purchase[1] with 97% LTV[2] or Higher as of June 30, 2015

County	USDVA Guaranteed	No USDVA Guaranty or other Primary Mortgage Insurance	Total Contracts of Purchase with 97% or Higher LTV	Outstanding Balance of Contracts of Purchase with 97% or Higher LTV[3]
Riverside	43	0	43	$ 14,204
Sacramento	41	0	41	11,570
Los Angeles	35	0	35	11,336
San Bernardino	26	1	27	7,875
Kern	24	0	24	5,628
All Other Counties[4]	208	2	210	67,324
Total	377	3	380	$ 117,937

Source: Department of Veterans Affairs.

(1) Includes "Single Family Homes," "Other Property Types" and "Special Status Contracts of Purchase" as described in the table titled "Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2015." Excludes Home Improvement Loans, as described in the table titled "Loan-to-Value Ratio of Contracts of Purchase Based on Original Appraised Value as of June 30, 2015."

(2) LTV based on Contracts of Purchase balance as of June 30, 2015 divided by original appraised value of the property, except where the Department has updated the appraised value of the applicable home after a veteran has applied for a home improvement loan. In such cases, the LTV is calculated with the new appraised value. The appraisals reflect the market conditions at the time the appraisals were conducted, may not reflect current values, are not guarantees and may not be fully indicative of present or future values. For many properties financed with Contracts of Purchase, the appraised value as of June 30, 2015 is lower than the original appraised value.

(3) Amounts in thousands.

(4) All counties not listed individually had less than 24 total contracts with a LTV of 97% or higher, as described above.

Primary Mortgage Insurance Coverage

The Contracts of Purchase insured under Radian Policies are divided into four sub-groups. The following table describes the sub-groups and outstanding Contracts of Purchase, insured under Radian Policies, as of June 30, 2015.

Group	Approximate Contracts of Purchase Coverage Dates[5]	Total Contracts of Purchase	Percentage of Radian Insured Portfolio[1]	Percentage of Radian Insured Portfolio of Department Total Portfolio[1]	Loan-to-Value Ratio Radian Insured[2][3]	Original Aggregate Sub-group Deductible[4]	Remaining Aggregate Sub-group Deductible
Original Radian Policy							
1	Prior to 2/3/1998	424	10.47%	2.79%	43.17%	$ 14,024,312	$ 12,636,937
2	2/3/1998 – 11/30/1998	48	1.22%	0.33%	46.96%	2,101,257	2,027,113
3	12/1/1998 – 6/30/2000	7	0.32%	0.09%	61.06%	568,391	568,391
Additional Radian Policy							
4	7/1/2000 – 3/31/2008	1,238	87.99%	23.43%	70.88%	24,252,550	0[4]
	Total	1,717	100.00%	26.64%	66.00%		

Source: Department of Veterans Affairs.

(1) Percentage based on outstanding Contract of Purchase principal amounts.

(2) Calculated as the ratio of the outstanding principal amount of the aggregate Contracts of Purchase during the applicable period as compared to the aggregate original appraised value of the properties subject to such Contracts of Purchase at origination. The appraisals reflect the market conditions at the time the appraisals were conducted, may not reflect current values, are not guarantees and may not be fully indicative of present or future values.

(3) For many properties financed with Contracts of Purchase, the appraised value as of June 30, 2015 is lower than the original appraised value.

(4) The Radian Policies provide coverage for aggregate losses incurred on covered Contracts of Purchase following property disposition, above an aggregate 2% deductible based upon the originally insured balances of the Contracts of Purchase originally included in the applicable group identified by Radian policy coverage dates. As many of the Contracts of Purchase insured under the Original Radian Policy have high originally insured balances but have been paid down significantly over the life of such Contracts of Purchase, the Department does not anticipate that it will incur losses on Contracts of Purchase in excess of the aggregate 2% deductible in the Original Radian Policy. For the Additional Radian Policy, Radian's aggregate 2% deductible was met and Radian is now paying claims under the Additional Radian Policy. See "THE PROGRAM – USDVA Guaranty Program; Loan Insurance – Primary Mortgage Insurance."

(5) "Coverage Date" is the respective Radian Policy date. As of April 1, 2008, the Department discontinued purchase of Radian mortgage insurance coverage.

Contracts of Purchase Origination and Principal Repayment Experience

The following tables represent, respectively, a historical picture of Contract of Purchase originations since the fiscal year ended June 30, 1990 and selected principal repayments with respect to Contracts of Purchase since the fiscal year ended June 30, 1990.

Contracts of Purchase Originated During the Fiscal Year

Fiscal Year Ending	Veterans G.O. Bonds		Pre-Ullman Moneys		Revenue Bonds		Total	
June 30	Number[1]	Amount	Number[1]	Amount	Number[1]	Amount	Number[1]	Amount
1990	2,097	$187,445,600	--	--	522	$38,150,800	2,619	$225,596,400
1991	1,927	200,393,500	--	--	359	29,189,600	2,286	229,583,100
1992	1,086	111,600,500	--	--	388	34,671,600	1,474	146,272,100
1993	740	94,417,100	--	--	286	27,443,800	1,026	121,860,900
1994	843	117,213,779	--	--	337	34,740,536	1,180	151,954,315
1995	2,109	286,178,376	--	--	822	84,860,894	2,931	371,039,270
1996	762	107,751,444	--	--	222	22,723,617	984	130,475,061
1997	766	118,344,636	--	--	201	21,853,933	967	140,198,569
1998	615	99,224,002	188	$17,716,376	164	18,871,066	967	135,811,444
1999	758	129,521,359	575	92,728,280	274	33,284,343	1,607	255,533,982
2000	1,045	185,180,534	1,725	333,328,690	708	92,214,409	3,478	610,723,633
2001	844	135,498,480	1,211	232,445,146	697	101,175,512	2,752	469,119,138
2002	334	56,887,867	416	74,915,487	204	27,178,525	954	158,981,879
2003	357	68,105,508	508	99,105,265	123	16,285,625	988	183,496,398
2004	444	97,223,818	1173	274,187,085	165	26,109,792	1,782	397,520,696
2005	285	72,958,181	702	181,075,275	178	37,152,048	1,165	291,185,504
2006	198	48,999,641	898	230,993,270	5	831,638	1,101	280,824,549
2007	74	19,751,777	764	173,744,639	68	11,349,372	906	204,845,788
2008	214	38,721,589	428	139,470,089	417	111,589,399	1,059	289,781,076
2009	255	83,697,271	161	42,079,390	263	66,032,084	679	191,808,746
2010	34	10,805,881	31	8,170,125	74	13,122,489	139	32,098,495
2011	23	5,741,933	92	7,235,231	41	7,027,890	156	20,005,054
2012	13	3,694,109	44	3,619,080	26	4,170,377	83	11,483,566
2013	7	2,821,875	29	2,619,739	13	3,686,085	49	9,127,700
2014	172	57,114,169	25	5,718,970	38	7,547,436	235	70,380,575
2015	307	104,057,536	108	17,620,828	70	15,103,528	485	136,781,892

Source: Department of Veterans Affairs.

(1) Number of Contracts of Purchase originated does not include home improvement loans or construction loans not fully funded.

Selected Principal Flows with respect to Contracts of Purchase Funded by both Veterans G.O. Bonds and Revenue Bonds (Dollar Amounts in Thousands)

Fiscal Year Ending June 30	Contracts of Purchase Funded During Year[1]	Contracts of Purchase Prepayments During Year	Other Principal Receipts-Losses During Year	Contracts of Purchase Balance at End of Year	Average Rate on all Outstanding Contracts of Purchase	Average of Monthly FHLMC 30-year Conventional Loan Rate	Annual Average Prepayment Rate	Annual Average Origination Rate
	Principal Flows				Rates			
1990	$ 225,596	$ 232,085	$ 96,639	$ 3,037,766	8.0%	10.1%	7.5%	7.3%
1991	229,583	191,895	92,722	2,982,732	8.0	9.9	6.4	7.6
1992	146,272	246,150	92,975	2,789,879	8.0	9.0	8.5	5.1
1993	121,861	273,817	105,629	2,532,294	8.0	8.0	10.3	4.6
1994	151,954	359,749	98,773	2,225,726	8.0	7.3	15.1	6.4
1995	371,039	111,984	74,706	2,410,075	7.8	8.7	4.8	16.0
1996	130,475	141,767	92,521	2,306,262	8.0	7.5	6.0	5.5
1997	140,199	111,254	106,027	2,229,180	8.0	7.9	4.9	6.2
1998	135,812	172,134	94,106	2,098,752	7.7	7.2	8.0	6.3
1999	255,534	183,776	101,254	2,069,256	6.9	6.9	8.8	12.3
2000	610,724	138,401	106,522	2,435,056	6.8	8.1	6.1	27.1
2001	469,119	189,902	91,033	2,623,241	6.8	7.5	7.5	18.5
2002	158,982	330,068	86,556	2,365,599	6.8	6.9	13.2	6.4
2003	183,496	701,785	74,643	1,772,667	6.7	5.9	33.9	8.9
2004	397,521	576,907	53,833	1,539,448	6.3	5.9	34.8	24.0
2005	291,186	272,044	70,564	1,488,026	5.9	5.8	18.0	19.2
2006	280,825	204,037	51,481	1,513,333	5.8	6.2	13.6	18.7
2007	204,846	132,207	50,403	1,535,569	5.8	6.4	8.7	13.4
2008	289,781	82,575	53,915	1,688,860	5.8	6.2	5.1	18.0
2009	191,809	84,010	56,756	1,739,903	5.9	5.6	4.9	11.2
2010	32,098	139,533	77,901	1,554,567	5.7	5.0	8.5	1.9
2011	20,005	123,520	74,199	1,376,853	5.7	4.6	8.4	1.4
2012	11,484	136,078	66,662	1,185,597	5.7	4.0	10.6	0.9
2013	9,128	187,623	54,740	952,362	5.6	3.5	17.6	0.9
2014	73,508	142,868	43,697	839,305	5.5	4.2	16.0	8.2
2015	143,538	129,325	32,669	820,849	5.2	3.9	15.6	17.3
	$ 5,276,375	$ 5,595,494	$ 2,000,926					

Source: Department of Veterans Affairs.

[1] Number of Contracts of Purchase Funded includes disbursements for home improvement loans and constructions loans.

Reservation rates on Contracts of Purchase originated for period:

Period	Veterans G.O. Bonds[1]	Pre-Ullman Funds[1]	Revenue Bonds
Prior to January 1, 1999, substantially all newly originated Contracts of Purchase have the same rate as the then outstanding Contracts of Purchase.			
January 1, 1999 through June 30, 2000	6.65%	6.65%	5.95%
July 1, 2000 through February 28, 2001	7.50	7.95	6.95
March 1, 2001 through May 31, 2001	6.50	7.95	6.40
June 1, 2001 through August 31, 2001	6.50	7.10	6.40
September 1, 2001 through April 1, 2002	6.25	6.50	6.00
April 2, 2002 through July 31, 2002	5.90	5.50	5.80
August 1, 2002 through December 1, 2002	5.50	6.00	5.80
December 2, 2002 through June 15, 2003	4.99	5.40	5.25
June 16, 2003 through September 1, 2003	4.25	4.50	4.50
September 1, 2003 through September 15, 2003	4.25	4.99	4.50
September 16, 2003 through May 5,2004	4.50	4.99	4.50
May 6, 2004 through June 1, 2004	4.75	5.25	4.75
June 2, 2004 through December 13, 2004	4.95	5.50	5.10
December 14, 2004 through April 3, 2005	4.95	5.50	5.50
April 4, 2005 through December 9, 2005	5.15	5.50	5.50
December 10, 2005 through February 5, 2006	5.50	5.50	5.50
February 6, 2006 through March 14, 2006	5.70	5.70	5.70
March 15, 2006 through April 25, 2006	6.00	6.00	6.00
April 26, 2006 through July 5, 2006	6.25	6.25	6.25
July 6, 2006 through December 19, 2006	6.50	6.50	6.50
December 20, 2006 through March 15, 2007	5.50	6.10	5.75
March 16, 2007 through July 9, 2007	5.50	6.10	5.25
July 10, 2007 through August 12, 2007	5.50	6.45	5.25
August 13, 2007 through October 14, 2007	5.50	6.55	5.25
October 15, 2007 through February 6, 2008	5.50	6.55	5.45
February 7, 2008 through June 25, 2008	5.50	6.10	5.45
June 26, 2008 through January 28, 2009	5.95	6.20	5.50
January 29, 2009 through February 13, 2011	5.95	6.20	5.75
February 14, 2011 through October 2, 2011	5.70	5.95	5.50
October 3, 2011 through February 29, 2012	5.50	5.95	5.25
March 1, 2012 through May 31, 2012	5.50	5.95	4.95
June 1, 2012 through July 31, 2012	4.95	5.95	4.60
August 1, 2012 through February 3, 2013	4.95	5.95	4.25
February 4, 2013 through February 28, 2013	4.50	5.50	4.25
March 1, 2013 through May 5, 2013	4.15	5.50	4.25
May 6, 2013 through November 30, 2014	3.90	5.50	4.25
December 1, 2014 to February 2, 2015	3.75	5.50	4.25
February 3, 2015 to June 14, 2015	3.50[2]/3.75	5.50	4.25
June 15, 2015 to June 30, 2015	3.50[2]/3.90	5.50	4.25

Source: Department of Veterans Affairs.

[1] Rates for Contracts of Purchase for mobile homes in mobile home parks are 1% higher than the applicable established rates.

[2] Rates for Contracts of Purchase with terms of up to 20 years.

Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments

The following table shows amounts expected to be available to fund Contracts of Purchase from funds related to Veterans G.O. Bonds and Revenue Bonds. Additional moneys may become available to finance Contracts of Purchase through the future issuances of Veterans G.O. Bonds and Revenue Bonds. The Department has full discretion, subject to eligibility requirements and the requirements of the Federal Tax Code, in applying the proceeds of Veterans G.O. Bonds, Revenue Bonds and other available moneys in the 1943 Fund to finance the Program in any order of priority it chooses. As of June 30, 2015, the Department had 112 pending applications for Contracts of Purchase in the aggregate amount of approximately $33,636,152.

Amounts Expected to be Available to Fund Contracts of Purchase[1]

	Pre-Ullman Moneys			QVMB Proceeds			QMB Proceeds				
	Amount On Deposit on June 30, 2015	Amounts Expected to be Deposited or Applied to Contracts through Dec. 1, 2015	Amount Expected to be Available on Dec. 1, 2015	Amount On Deposit on June 30, 2015	Amounts Expected to be Deposited or Applied to Contracts through Dec. 1, 2015	Amount Expected to be Available on Dec. 1, 2015	Amount On Deposit on June 30, 2015	Amounts Expected to be Deposited or Applied to Contracts through Dec. 1, 2015	Amount Expected to be Available on Dec. 1, 2015	Current or Expected Investment	Contracted Investment Rate (%)
Veterans G.O. Bond Proceeds and Recycling Subaccounts											
Pre-Ullman Moneys	$ 2,095	$ (1,500)	$ 595	$ 0	$ 0	$ 0				SMIF[2]	Variable
QVMB Reimbursement	14,115	$ (14,000)	115	0	0	0				SMIF[2]	Variable
Series CK	0	0	0	0	0	0				SMIF[2]	Variable
Series CL	0	0	0	0	36,000	36,000				SMIF[2]	Variable
Series CM	0	0	0	0	0	0				SMIF[2]	Variable
Other G.O. Bond Series	0	0	0	0	0	0				N.A	N.A
Total	$ 16,210	$ (15,500)	$ 710	$ 0	$ 36,000	$ 36,000					
Revenue Bond Proceeds and Recycling Subaccounts											
QMB Reimbursement	$ 4,972	$ (3,500)	$ 1,472				$ 0	$ 0	$ 0	SMIF[2]	Variable
Other Revenue Bond Series	0	0	0				0	0	0	N.A.	N.A.
Total	$ 4,972	$ (3,500)	$ 1,472				$ 0	$ 0	$ 0		
Grand Total	**$ 21,182**	**$ (19,000)**	**$ 2,182**	**$ 0**	**$ 36,000**	**$ 36,000**	**$ 0**	**$ 0**	**$ 0**		

Source: Department of Veterans Affairs.

(1) Amounts in thousands.

(2) Amounts invested in SMIF may be withdrawn and reinvested at any time.

Cancellations and Delinquencies

Set forth in the tables below are (i) a comparative chart of delinquent, cancelled and repossessed Contracts of Purchase and certain comparative information regarding USDVA guaranteed loans during the same period, and a breakdown of delinquencies by county and origination date, (ii) the distribution of delinquencies with respect to Contracts of Purchase by county and (iii) delinquencies with respect to Contracts of Purchase by origination date.

Percentage of Number of Contracts of Purchase in the Department's Portfolio which are Delinquent	**2002[1]**	**2003[1]**	**2004[1]**	**2005[1]**	**2006[1]**	**2007[1]**	**2008[1]**	**2009[1]**	**2010[1]**	**2011[1]**	**2012[1]**	**2013[1]**	**2014[1]**	**2015[1]**
30-60 days[2]	3.52%	3.13%	2.97%	3.18%	2.93%	2.68%	2.75%	3.30%	3.61%	3.43%	3.12%	3.70%	3.27%	2.74%
60+ days[2]	2.43	2.03	1.43	1.48	0.85	1.13	1.64	3.30	3.68	3.72	3.72	3.09	2.42	1.84
Foreclosures in inventory (Cancelled Contracts)[2][3]	0.25	0.23	0.18	0.13	0.09	0.15	0.29	0.58	0.85	0.69	0.89	1.12	0.30	0.45
Real Estate Owned in inventory[3]	0.16	0.09	0.04	0.02	0.01	0.06	0.21	0.55	0.62	0.85	0.71	0.47	0.37	0.17
Percentage of Number of USDVA Guaranteed Loans in the U.S. which are Delinquent[4]														
30-60 days	4.87	4.83	4.53	4.49	3.81	3.66	3.76	3.76	3.65	3.45	3.06	2.98	2.51	2.28
60+ days	2.85	3.15	2.90	3.10	2.53	2.44	2.90	4.01	3.83	3.33	3.38	2.99	2.70	2.31
Foreclosures in inventory	1.72	1.49	1.45	1.50	1.10	1.02	1.33	2.07	2.50	2.30	2.28	1.88	1.56	1.37
Percentage of Number of USDVA Guaranteed Loans in California which are Delinquent[4]														
30-60 days	4.57	4.67	4.09	3.52	2.92	2.56	2.64	2.57	2.55	2.37	2.16	2.08	1.81	1.64
60+ days	2.57	2.79	2.34	2.11	1.30	1.33	1.82	2.78	3.09	2.42	2.53	2.18	1.70	1.41
Foreclosures in inventory	1.12	0.93	0.69	0.60	0.36	0.44	0.82	1.50	1.90	1.40	1.32	0.73	0.60	0.51
Percentage of Number of Prime Loans in the U.S. which are Delinquent[4]														
30-60 days	2.17	1.84	1.69	1.55	1.54	1.78	2.08	2.49	2.39	2.33	2.11	1.89	1.66	1.50
60+ days	0.83	0.67	0.63	0.60	0.70	0.85	1.65	3.52	4.27	3.04	2.59	1.96	1.81	1.50
Foreclosures in inventory	0.87	0.53	0.49	0.42	0.41	0.59	1.42	3.00	3.49	3.40	3.12	2.13	1.58	1.19
Percentage of Number of Prime Loans in California which are Delinquent[4]														
30-60 days	1.48	1.25	0.95	0.82	0.89	1.28	1.83	2.34	2.15	2.03	1.79	1.57	1.29	1.20
60+ days	0.45	0.39	0.26	0.20	0.27	0.62	2.19	5.39	6.80	4.75	3.27	2.21	1.44	1.09
Foreclosures in inventory	0.34	0.18	0.10	0.07	0.10	0.41	1.96	4.25	3.91	3.01	2.53	1.22	0.69	0.56

Percentage of Number of Contracts of Purchase in the Department's Portfolio which are Delinquent, Subject to Repayment/Forbearance Agreements or Cancelled Contracts	**2002[1]**	**2003[1]**	**2004[1]**	**2005[1]**	**2006[1]**	**2007[1]**	**2008[1]**	**2009[1]**	**2010[1]**	**2011[1]**	**2012[1]**	**2013[1]**	**2014[1]**	**2015[1]**
30-60 days (Delinquent)	2.95%	2.77%	2.72%	2.96%	2.84%	2.56%	2.58%	2.86%	3.18%	3.17%	2.99%	3.57%	3.08%	2.53%
30-60 days (Repayment/Forbearance Agreement)	0.57	0.36	0.25	0.22	0.09	0.12	0.17	0.44	0.43	0.26	0.13	0.13	0.19	0.21
Total	3.52	3.13	2.97	3.18	2.93	2.68	2.75	3.30	3.61	3.43	3.12	3.70	3.27	2.74
60+ days (Delinquent)	1.38	1.32	1.08	1.17	0.75	1.03	1.29	2.25	2.19	2.78	2.87	2.32	1.99	1.58
60+ days (Repayment/Forbearance Agreement)	1.05	0.71	0.35	0.31	0.10	0.10	0.35	1.05	1.49	0.94	0.85	0.77	0.43	0.26
Total	2.43	2.03	1.43	1.48	0.85	1.13	1.64	3.30	3.68	3.72	3.72	3.09	2.42	1.84
Foreclosures in Inventory (Cancelled Contracts)	0.23	0.22	0.15	0.13	0.09	0.15	0.26	0.56	0.80	0.62	0.84	1.05	0.30	0.45
"Repayment/Forbearance Agreement"	0.02	0.01	0.03	0.00	0.00	0.00	0.03	0.02	0.05	0.07	0.05	0.07	0.00	0.00
Total	0.25	0.23	0.18	0.13	0.09	0.15	0.29	0.58	0.85	0.69	0.89	1.12	0.30	0.45

Source: Department of Veterans Affairs.

(1) For the Fiscal Year ended June 30.

(2) The Department has adjusted the criteria used to identify delinquent Contracts of Purchase from $25 or more delinquent to over $3 delinquent. Represents the breakout of delinquent, repayment/forbearance agreements and cancelled Contracts of Purchase. These figures include Contracts of Purchase that were the subject of forbearance or repayment agreements between the Department and the Contracts of Purchase holder.

(3) Bankruptcies are included in cancelled Contracts of Purchase statistics and do not exceed in any period more than 10% of total cancellations and bankruptcy category. Federal bankruptcy law precludes repossession action of Contracts of Purchase when veteran is in bankruptcy proceedings until the automatic stay is lifted.

(4) Source: National Delinquency Survey published by the Mortgage Bankers Association of America (the "Survey"). Data reported for 2002 is for "Conventional Loans." In subsequent Surveys, loans are categorized as prime loans or otherwise based upon the Survey respondents' internal classifications.

Distribution of Contracts of Purchase Delinquencies by County as of June 30, 2015[1][2]

County	Contracts of Purchase Delinquent 30 days	Contracts of Purchase Delinquent 60 days	Contracts of Purchase Delinquent 90+ days	Total Delinquent Contracts of Purchase	Total Delinquent Account Balance[3]
Riverside	12	10	10	32	$ 6,892
San Bernardino	15	7	4	26	3,651
Fresno	14	4	6	24	3,811
San Diego	12	7	5	24	4,305
Sacramento	13	4	3	20	3,135
Kern	11	3	3	17	2,411
San Joaquin	8	4	4	16	2,679
All Other[4]	74	22	47	143	22,921
Total	159	61	82	302	$ 49,805

Source: Department of Veterans Affairs.

(1) The Department has adjusted the criteria used to identify delinquent Contracts of Purchase from $25 or more delinquent to over $3 delinquent.

(2) Includes REO and cancelled Contracts of Purchase.

(3) Amounts in thousands.

(4) "All Other" counties had fewer than 16 delinquent Contracts of Purchase outstanding.

Contracts of Purchase Delinquencies by Origination Date as of June 30, 2015[1][2]

Origination Year	Contracts of Purchase Delinquent 30-60 days	Outstanding Balance of Contracts of Purchase Delinquent 30-60 days [3]	Contracts of Purchase Delinquent 60-90 days	Outstanding Balance of Contract of Purchase Delinquent 60-90 days[3]	Contracts of Purchase Delinquent 90+ days	Outstanding Balance of Contract of Purchase Delinquent 90+ days[3]	Total Contracts of Purchase Delinquent	Total Outstanding Balance of Contracts of Purchase Delinquent[3]
Pre-2006	98	$ 11,776	39	$ 6,094	36	$ 4,519	173	$ 22,389
2006	12	2,651	9	1,943	10	2,176	31	6,770
2007	17	3,971	2	920	18	3,370	37	8,261
2008	14	2,486	4	803	11	2,332	29	5,621
2009	2	117	2	445	2	275	6	837
2010	3	831	0	0	2	435	5	1,266
2011	1	154	1	100	1	102	3	356
2012	3	252	1	95	0	0	4	347
2013	3	1,077	2	476	3	1,198	8	2,751
2014	6	1,207	0	0	0	0	6	1,207
2015	0	0	0	0	0	0	0	0
Total	159	$ 24,522	60	$ 10,876	83	$ 14,407	302	$ 49,805

Source: Department of Veterans Affairs.

(1) Includes REO and cancelled Contracts of Purchase.

(2) The Department has adjusted the criteria used to identify delinquent Contracts of Purchase from $25 or more delinquent to over $3 delinquent.

(3) Amounts in thousands.

Veterans G.O. Bonds and Revenue Bonds

Selected Information with Respect to Veterans G.O. Bonds and Revenue Bonds

Veterans G.O. Bonds

Series	Bonds Outstanding[1] as of June 30, 2015	Expected Bonds Outstanding[1] as of November 30, 2015	Final Maturity Date of Series as of November 30, 2015	Next Optional Call as of November 30, 2015	Call Price on Such Date	Maximum Coupon subject to Optional Call	Bonds Subject to Special Redemption[2]
BR	$ 100,000	$ 100,000	December 1, 2019	Anytime	100%	5.125%	Excess Revenues
BZ	100,000	100,000	December 1, 2021	Anytime	100	5.350	Excess Revenues
CB[3]	9,315,000	0	N.A.	N.A.	N.A.	N.A.	Excess Revenues
CC/CD[3]	307,775,000	0	N.A.	N.A.	N.A.	N.A.	Excess Revenues
CF	36,240,000	36,240,000	December 1, 2017	N.A.	N.A.	N.A.	Excess Revenues
CG	2,660,000	2,660,000	December 1, 2017	N.A.	N.A.	N.A.	Excess Revenues
CJ	110,000,000	110,000,000	December 1, 2035	June 1, 2024[4]	100	3.750	Excess Revenues
CK	0	152,295,000	December 1, 2040	December 1, 2024	100	5.000	Excess Revenues[5]
CL	0	128,610,000	December 1, 2034	December 1, 2024	100	5.000	Excess Revenues/Unexpended proceeds[5][6]
CM	0	164,795,000	December 1, 2036	December 1, 2024	100	4.125	Excess Revenues/PAC
Sub-total	$ 466,190,000	$ 594,800,000					
Commercial Paper Notes	$ 0	$ 0	N.A.	N.A.	N.A.	N.A.	N.A.
Total Veterans G.O. Bonds	$ 466,190,000	$ 594,800,000					

Home Purchase Revenue Bonds

Revenue Bonds Issued as Qualified Mortgage Bonds under the Federal Tax Code

2007 A	$ 50,425,000	$ 50,425,000	December 1, 2042	December 1, 2016	100%	5.000%	Excess Revenues
2007 B	4,970,000	4,970,000	December 1, 2017	December 1, 2016	100	4.400	Excess Revenues
Sub-total	$ 55,395,000	$ 55,395,000					

Revenue Bonds Issued to Refund Bonds Issued Prior to Mortgage Subsidy Bond Tax Act of 1980

2005 A	$ 4,130,000	$ 4,130,000	December 1, 2017	Anytime	100%	4.450%	Excess Revenues
2011 A	79,785,000	79,785,000	December 1, 2028	June 1, 2021	100	4.500	Excess Revenues
2012 A	220,435,000	220,435,000	December 1, 2028	June 1, 2021	100	3.875	Excess Revenues
Sub-total	$ 304,350,000	$ 304,350,000					
Total Revenue Bonds	$ 359,745,000	$ 359,745,000					

Source: Department of Veterans Affairs.

(1) With respect to Revenue Bonds, "Outstanding" is as defined in the Revenue Bond Resolution.

(2) Excess Revenues includes, but is not limited to, principal prepayments on Contracts of Purchase. The Department, subject to applicable bond authorizing resolutions, may apply Excess Revenues to redeem any Veterans G.O. Bonds or Revenue Bonds eligible for redemption, and has done so and may continue to do so.

(3) All of the Series CB Veterans G.O. Bonds, Series CC Veterans G.O. Bonds and Series CD Veterans G.O. Bonds are expected to be refunded with a portion of the proceeds of the Offered Veterans G.O. Bonds.

(4) The Series CJ Bonds maturing on December 1 in the years 2031, 2032, 2033 and 2035 are subject to such optional redemption.

(5) The Series CK Bonds maturing on December 1, 2029 and December 1, 2033 and the Series CL Bonds maturing on December 1, 2031 are not subject to special redemption from Excess Revenues prior to December 1, 2024 unless such special redemption prior to December 1, 2024 would be required to maintain the tax-exempt status of the Offered Veterans G.O. Bonds.

(6) Unexpended proceeds call not to exceed $20 million.

Additional Investments (as of June 30, 2015)

As noted above under "Amounts Expected to be Available to Fund Contracts of Purchase and Related Investments," the Department invests a material portion of the cash of the 1943 Fund in SMIF. Amounts invested in SMIF may be withdrawn and reinvested at any time.

In connection with life and disability insurance, the Department maintains an Experience Rating Refund Agreement with Standard, pursuant to which The Bank of New York Mellon, as trustee (the "Trustee"), administers a claims fluctuation reserve account. At June 30, 2015, that account held approximately $16,641,630, all of which was invested in government securities. Under the Experience Rating Refund Agreement, the annual interest rate used in determining the experience rating refund is (i) the rate paid by the Trustee plus 0.5% if the interest rate paid by the Trustee on funds in the claims fluctuation reserve account is less than 3.5%, (ii) 4% if the interest rate paid by the Trustee on funds in the claims fluctuation reserve account is at least 3.5% but less than 4%, and (iii) the rate paid by the Trustee if the interest rate paid by the Trustee on funds in the claims fluctuation reserve account is 4% or more.

The following additional investments have been made or will be made with respect to moneys in the 1943 Fund, which is the source of payment of the Revenue Bonds and the Veterans G.O. Bonds.

Bond Series	Account Designation[1]	Amount (000s)	Investment Provider[3]	Initial Investment Date	Investment Maturity Date	Interest Rate (%)
BQ/BR	Revenue	Variable[2]	Portigon AG[4]	4/28/99	6/30/16[5]	5.37

Source: Department of Veterans Affairs.

(1) The account was established in the Revenue Bond Resolution and is authorized by the resolutions related to the applicable Veterans G.O. Bonds.

(2) As of December 31, 2014, the investment agreement was amended to provide, among other things, that the Department may deposit no more than $100,000 in the aggregate in any given month regardless of any withdrawals that may be made during such month.

(3) As of May 21, 2015, Portigon AG had a long term default rating of "A+" by Fitch. For liabilities entered into before July 19, 2001, and liabilities entered into between July 19, 2001 and July 18, 2005 that mature no later than December 31, 2015, Portigon AG's guaranteed long-term ratings are "Aa1" by Moody's and "AAA" by Fitch. Portigon AG is not rated by S&P. An explanation of the significance and status of such credit ratings may be obtained from the rating agencies furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised, qualified, or withdrawn entirely by any such rating agencies if, in their respective judgments, circumstances so warrant.

(4) Portigon AG was formerly known as Westdeutsche Landesbank Girozentrale until July 2012.

(5) The investment agreement provides for earlier termination in certain circumstances, including upon the withdrawal of all invested moneys and earnings and notice from the State Treasurer that no additional payments will be deposited.

All investments contain certain risks, some of which may be material. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. For moneys invested in SMIF these risks may be mitigated, but are not eliminated, by limitations imposed on the portfolio management process by the State Treasurer's investment policies, which may change from time to time.

APPENDIX C

DTC AND THE BOOK-ENTRY SYSTEM

The information in the following section entitled "DTC and the Book-Entry System" has been provided by DTC for use in securities offering documents, and the State and the Department take no responsibility for the accuracy or completeness thereof. The State and the Department cannot and do not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners either (a) payments of interest, principal or redemption proceeds with respect to the Offered Veterans G.O. Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Offered Veterans G.O. Bonds, or that they will so do on a timely basis or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Offered Veterans G.O. Bonds. The Offered Veterans G.O. Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Offered Veterans G.O. Bond certificate will be issued for each maturity of the Offered Veterans G.O. Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of

AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. Nothing contained on such web site is incorporated herein.

Purchases of Offered Veterans G.O. Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Offered Veterans G.O. Bonds on DTC's records. The ownership interest of each actual purchaser of each Offered Veterans G.O. Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Offered Veterans G.O. Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Offered Veterans G.O. Bonds, except in the event that use of the book-entry system for the Offered Veterans G.O. Bonds is discontinued.

To facilitate subsequent transfers, all Offered Veterans G.O. Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Offered Veterans G.O. Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Offered Veterans G.O. Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Offered Veterans G.O. Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The State Treasurer will not have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Offered Veterans G.O. Bonds.

Beneficial Owners of Offered Veterans G.O. Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Offered Veterans G.O. Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Offered Veterans G.O. Bond documents. For example, Beneficial Owners of Offered Veterans G.O. Bonds may wish to ascertain that the nominee holding the Offered Veterans G.O. Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Offered Veterans G.O. Bonds within a maturity is being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Offered Veterans G.O. Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State Treasurer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Offered Veterans G.O. Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Without limiting the generality of the foregoing, the State Treasurer and the Department have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership or interests in the Offered Veterans G.O. Bonds.

Principal, interest payments and redemption proceeds on the Offered Veterans G.O. Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State Treasurer, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the State Treasurer or the Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption proceeds, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State Treasurer or the Department, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Offered Veterans G.O. Bonds at any time by giving reasonable notice to the State Treasurer. Under such circumstances, in the event that a successor depository is not obtained, Offered Veterans G.O. Bond certificates are required to be printed and delivered.

The State Treasurer and the Department cannot and do not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments with respect to the Offered Veterans G.O. Bonds received by DTC or its nominee as the registered owner, or any redemption or other notices to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in the manner described in this Official Statement.

The State Treasurer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Offered Veterans G.O. Bond certificates will be printed and delivered to DTC.

If the State Treasurer determines not to continue the DTC book-entry only system, or DTC discontinues providing its services with respect to the Offered Veterans G.O. Bonds and the State Treasurer does not select another qualified securities depository, the State Treasurer shall deliver physical Offered Veterans G.O. Bond certificates to the Beneficial Owners. The Offered

Veterans G.O. Bonds may thereafter be transferred upon the books of the State Treasurer by the registered owners, in person or by authorized attorney, upon surrender of Offered Veterans G.O. Bonds at the Office of the State Treasurer in Sacramento, California, accompanied by delivery of an executed instrument of transfer in a form approved by the State Treasurer and upon payment of any charges provided for in the Resolutions. Certificated Offered Veterans G.O. Bonds may be exchanged for Offered Veterans G.O. Bonds of other authorized denominations of the same aggregate principal amount and maturity at the Office of the State Treasurer in Sacramento, California, upon payment of any charges provided for in the Resolutions. No transfer or exchange of Offered Veterans G.O. Bonds will be made by the State Treasurer during the period between the record date and the next Interest Payment Date.

THE STATE TREASURER, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE OFFERED VETERANS G.O. BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS TO ONLY DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE OFFERED VETERANS G.O. BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Offered Veterans G.O. Bonds, payment of principal of and interest and other payments with respect to the Offered Veterans G.O. Bonds to Direct Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Offered Veterans G.O. Bonds and other related transactions by and between DTC, the Direct Participants, the Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the Direct Participants, the Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the Participants, as the case may be.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE OFFERED VETERANS G.O. BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OF THE OFFERED VETERANS G.O. BONDS (OTHER THAN UNDER THE CAPTION "TAX MATTERS" IN THE OFFICIAL STATEMENT) SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE OFFERED VETERANS G.O. BONDS.

According to DTC, the foregoing information with respect to DTC has been provided for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

APPENDIX D

FORMS OF CONTINUING DISCLOSURE CERTIFICATES

STATE TREASURER'S DISCLOSURE CERTIFICATE

STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS

$152,295,000	**$128,610,000**	**$164,795,000**
Series CK (Non-AMT)	**Series CL (Non-AMT)**	**Series CM (AMT)**

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered as of October 29, 2015, by the Treasurer of the State of California (the "State Treasurer") in connection with the issuance of the above-referenced State of California Veterans General Obligation Bonds (collectively, the "Bonds") as authorized by various general obligation bond acts described in Exhibit B (collectively, as amended, the "Bond Acts"). The Bonds are being issued pursuant to those certain resolutions adopted by the Veterans Finance Committee of 1943 as described in Exhibit B (collectively, as amended, the "Resolutions"), designated under the Bond Acts. Pursuant to the Resolutions, the State Treasurer, on behalf of the State of California (the "State"), covenants and agrees as follows:

SECTION 1. Nature of the Disclosure Certificate. This Disclosure Certificate is executed and delivered for the benefit of the Holders and Beneficial Owners (as defined below) of the Bonds from time to time, and in order to assist the Participating Underwriters (as defined below) in complying with the Rule (as defined below), but shall not be deemed to create any monetary liability on the part of the State or the State Treasurer to any other persons, including Holders or Beneficial Owners of the Bonds based on the Rule. The sole remedy in the event of any failure of the State Treasurer to comply with this Disclosure Certificate shall be an action to compel performance of any act required hereunder.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolutions, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the State Treasurer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean the State Treasurer, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the State Treasurer and which has filed with the State Treasurer a written acceptance of such designation.

"Holder" shall mean any person listed on the registration books of the State Treasurer as the registered owner of any Bonds.

"Listed Event" shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports or notices pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Official Statement" shall mean the Official Statement relating to the Bonds, dated October 8, 2015.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" shall mean the Securities and Exchange Commission.

"State" shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The State Treasurer on behalf of the State shall, or shall cause the Dissemination Agent to, not later than April 1 of each year in which the Bonds are outstanding, commencing with the report for the 2014-15 fiscal year (which is due not later than April 1, 2016), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that the audited financial statements of the State may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date in accordance with Section 4(a). If the State's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f). The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to said date, the State Treasurer shall provide the Annual Report to the Dissemination Agent (if other than the State Treasurer). If the State Treasurer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the State Treasurer shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the State Treasurer) file a report with the State Treasurer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Reports. The Annual Report shall contain or include by reference the following:

(a) The audited Basic Financial Statements of the State for the fiscal year ended on the previous June 30, prepared in accordance with generally accepted accounting principles promulgated to apply to government entities from time to time by the Governmental Accounting Standards Board. If the State's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) Financial information relating to the State's General Fund budget for the fiscal year ended on the previous June 30 and information concerning the State budget for the fiscal year in which the Annual Report is issued. Such information shall describe the sources of revenues, the principal categories of expenditures, and changes in fund balances, a summary of expected State revenues and budgeted expenditures, and significant assumptions relating to revenue and expenditure expectations; including updating the following tables which appear under the caption APPENDIX A – "THE STATE OF CALIFORNIA – CURRENT STATE BUDGET" in the Official Statement:

Tables Entitled

- Statement of Estimated Revenues, Expenditures, and Changes in Fund Balance—General Fund

- General Fund Revenue Sources and Expenditures

(c) Information concerning the total amount of the State's authorized and outstanding debt, long-term lease obligations and other long-term liabilities as of the most recent June 30, which debt is supported by payments from the State's General Fund and which includes short-term debt. Such information shall include schedules of debt service for outstanding general obligation bonds and lease-purchase debt. This shall be accomplished by updating the following tables which appear under the caption APPENDIX A—"THE STATE OF CALIFORNIA—STATE DEBT TABLES" in the Official Statement.

Tables Entitled

- Outstanding State Debt

- Authorized and Outstanding General Obligation Bonds

- General Obligation and Revenue Bonds—Summary of Debt Service Requirements

- Schedule of Debt Service Requirements for General Fund—Non-Self Liquidating Bonds—Fixed Rate

- Schedule of Debt Service Requirements for General Fund—Non-Self Liquidating Bonds—Variable Rate

- Schedule of Debt Service Requirements for Enterprise Fund—Self Liquidating Bonds—Fixed Rate

- Schedule of Debt Service Requirements for Lease-Revenue Debt – Fixed Rate

- State Public Works Board and Other Lease-Revenue Financing Outstanding Issues

- State Agency Revenue Bonds and Conduit Financing

Notwithstanding the foregoing, information referenced in this Section 4(c) will no longer be updated for any twelve month period ended June 30 that commences after all of the debt, long-term lease obligations, other long-term liabilities and/or short-term debt referenced in the respective table, as applicable, is no longer outstanding.

(d) Financial information relating to the State referenced in section 4(b) and 4(c) may be updated from time to time, and such updates may involve displaying data in a different format or table or eliminating data that is no longer available.

(e) The Annual Report may consist of one or more documents. Any or all of the items listed above may be included in the Annual Report by reference to other documents that have been filed by the State with the MSRB, including any final official statement (in which case such final official statement must also be available from the MSRB). The State Treasurer shall clearly identify in the Annual Report each such document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The State Treasurer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;

2. Unscheduled draws on debt service reserves reflecting financial difficulties;

3. Unscheduled draws on credit enhancements reflecting financial difficulties;

4. Substitution of credit or liquidity providers, or their failure to perform;

5. Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 – TEB);

6. Tender offers;

7. Defeasances;

8. Rating changes; or

9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or Federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The State Treasurer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;

2. Modifications to rights of Bond holders;

3. Optional, unscheduled or contingent Bond calls;

4. Release, substitution, or sale of property securing repayment of the Bonds;

5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the

obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The State Treasurer notes that Sections 5(a)(2), (3) and (4) and 5(b)(4) are not applicable to the Bonds.

(d) The State Treasurer shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3(a), as provided in Section 3(b).

(e) Whenever the State Treasurer obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the State Treasurer shall determine if such event would be material under applicable Federal securities laws.

(f) Any notice required to be given pursuant to subsection (a) or (b) above shall be filed with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notice of the Listed Event described in subsection (b)(3) need not be given under this subsection any earlier than the notice of the underlying event is given to Holders of affected Bonds pursuant to the Resolutions.

SECTION 6. Termination of Reporting Obligation. The State's obligations under Sections 3, 4 and 5 of this Disclosure Certificate shall terminate upon the maturity, legal defeasance, prior redemption or acceleration of such Bonds.

SECTION 7. Dissemination Agent. The State Treasurer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out the obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State Treasurer pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the State Treasurer shall be the Dissemination Agent. The initial Dissemination Agent shall be the State Treasurer.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the State Treasurer may amend any provision of this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 3(a), 4, 5(a), (b), (d) or (f), or 8(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of 60 percent of the Bonds outstanding or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

Notwithstanding the foregoing, the State may also amend this Disclosure Certificate without approval by the Holders to the extent permitted by rule, order or other official pronouncement of the SEC. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the State Treasurer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the State. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(b), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the State Treasurer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the State Treasurer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State Treasurer shall not have any obligation under this Disclosure Certificate to update such information or include it in any Annual Report or future notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the State or State Treasurer to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the State or State Treasurer to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the State or State Treasurer to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity (except the right of the Dissemination Agent or any Holder or Beneficial Owner to enforce the provisions of this Disclosure Certificate on behalf of the

Holders). This Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule.

SECTION 12. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the State Treasurer shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof, and the Holders of the Bonds shall retain all the benefits afforded to them hereunder. The State Treasurer hereby declares that he would have executed and delivered this Disclosure Certificate and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 13. Governing Law. The laws of the State shall govern this Disclosure Certificate, the interpretation thereof and any right or liability arising hereunder. Any action or proceeding to enforce or interpret any provision of this Disclosure Certificate shall be brought, commenced or prosecuted in any courts of the State located in Sacramento County, California.

[Signature Page to Follow]

IN WITNESS WHEREOF, the State Treasurer has executed this Disclosure Certificate as of the date first above written.

TREASURER OF THE STATE OF CALIFORNIA

By:_____
Deputy Treasurer
For California State Treasurer John Chiang

EXHIBIT A

FORM OF NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	STATE OF CALIFORNIA
Name of Bond Issue:	STATE OF CALIFORNIA Veterans General Obligation Bonds, Series CK (Non-AMT), Series CL (Non-AMT) and Series CM (AMT)
Date of Issuance:	October 29, 2015

NOTICE IS HEREBY GIVEN that the State has not provided an Annual Report with respect to the above-named Bonds as required by Section 4 of the Continuing Disclosure Certificate of the State, dated the Date of Issuance. [The State anticipates that the Annual Report will be filed by _____.]

Dated:_____

STATE OF CALIFORNIA

By _____[to be signed only if filed]___

EXHIBIT B

Bond Series	Bond Act	Resolution Number	Date of Adoption of Veterans' Finance Committee Resolution
CM	Veterans' Bond Act of 1986	XIX	March 18, 2009
CK, CM	Veterans' Bond Act of 1988	XII	March 18, 2009
CM	Veterans' Bond Act of 1990	XII	March 18, 2009
CK, CM	Veterans' Bond Act of 1996	VII	March 18, 2009
CL	Veterans' Bond Act of 2000	II	January 18, 2006
CK, CM	Veterans' Bond Act of 2000	IV	August 19, 2009

DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA CONTINUING DISCLOSURE CERTIFICATE

I, Vito Imbasciani, M.D., the Secretary of Veterans Affairs, on behalf of the Department of Veterans Affairs of the State of California (the "**Department**"), with regard to the offering by the State of California of its (i) $152,295,000 Veterans General Obligation Bonds, Series CK (Non-AMT); $128,610,000 Veterans General Obligation Bonds, Series CL (Non-AMT); and $164,795,000 Veterans General Obligation Bonds, Series CM (AMT) (collectively, the "**Subject Bonds**"), DO HEREBY CERTIFY, as follows:

ARTICLE I

DEFINITIONS

Section 1.1. **Definitions**. Any capitalized terms not otherwise defined in this Continuing Disclosure Certificate (this "**Disclosure Certificate**") shall have the respective meanings set forth in the Resolutions (as defined below). The following terms used in this Disclosure Certificate shall have the following respective meanings:

(a) "**Annual Financial Information**" means, collectively, (1) financial information or operating data applicable to the Department's most recent Fiscal Year on and after the fiscal year ending on or after June 30, 2015 of the types included in the Official Statement in Exhibit 2 to APPENDIX B thereto, and (2) the information regarding amendments to this Disclosure Certificate required pursuant to Sections 4.2(c) and (d) of this Disclosure Certificate. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

(b) "**Audited Financial Statements**" means annual financial statements, if any, of the 1943 Fund and the Pooled Self-Insurance Fund, audited by such auditor as shall then be required or permitted by State law. Audited Financial Statements shall be prepared in accordance with GAAP applied on a consistent basis; *provided, however,* that the Department may from time to time, in order to comply with Federal or State legal requirements, modify the basis upon which its financial statements are prepared. Notice of any such modification shall be provided to (i) the State Treasurer and (ii) the MSRB, and shall include a reference to the specific Federal or State law or regulation describing such accounting basis.

(c) "**Beneficial Owner**" means any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Subject Bonds (including persons holding Subject Bonds through nominees, depositories or other intermediaries).

(d) "**Fiscal Year**" means that period established by the Department with respect to which its, as applicable, Audited Financial Statements or Unaudited Financial Statements are prepared. As of the date of the Department's Disclosure Certificate, the Department's Fiscal Year begins on July 1 and ends on June 30 of the next calendar year.

(e) "**GAAP**" means generally accepted accounting principles as prescribed from time to time by the Financial Accounting Standards Board.

(f) "**Holder**" means any person listed on the registration books of the State Treasurer as the registered owner of any Subject Bonds.

(g) "**MSRB**" means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports or notices pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

(h) "**Notice**" means written notice, sent for overnight delivery via the United States Postal Service or a private delivery service which provides evidence of delivery.

(i) "**Notice Address**" means with respect to the Department:

State of California Department of Veterans Affairs
1227 O Street
Sacramento, CA 95814
Attention: Bond Finance Division

(j) "**Official Statement**" means the Official Statement relating to the Subject Bonds, dated October 8, 2015.

(k) "**Program**" means the Veterans' Farm and Home Purchase Program of the Department.

(l) "**Resolutions**" means those certain resolutions, as amended, adopted by the Veterans Finance Committee of 1943 as described in Exhibit A attached hereto.

(m) "**Rule**" means Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

(n) "**SEC**" means the Securities and Exchange Commission.

(o) "**Securities Counsel**" means legal counsel with an expertise in Federal securities law.

(p) "**State**" means the State of California.

(q) "**State Treasurer**" means the Treasurer of the State of California.

(r) "**Subject Bonds**" has the meaning set forth in the first paragraph of this Disclosure Certificate.

(s) "**Unaudited Financial Statements**" means the same as Audited Financial Statements, except that they shall not have been audited.

(t) "**Underwriters**" means any original underwriters of the offering of the Subject Bonds required to comply with the Rule, as the same may be amended from time to time.

ARTICLE II

THE UNDERTAKING

Section 2.1. **Purpose**. This Disclosure Certificate is executed for the benefit of the Holders and Beneficial Owners of the Subject Bonds from time to time, and in order to assist the Underwriters in complying with the Rule, but shall not be deemed to create any monetary liability on the part of the State, the State Treasurer or the Department to any other persons, including Holders or Beneficial Owners of the Subject Bonds based on the Rule. The sole remedy in the event of any failure of the State Treasurer or the Department to comply with this Disclosure Certificate shall be an action to compel performance of any act required hereunder.

Section 2.2. **Annual Financial Information.**

(a) The Department shall provide Annual Financial Information with respect to each Fiscal Year to the State Treasurer and to the MSRB in the form required by the MSRB, by no later than April 1 of each year the Subject Bonds are outstanding.

(b) The Department shall provide, in a timely manner, notice of any failure by it to provide Annual Financial Information to the MSRB and the State Treasurer on or before the date required by Section 2.2(a) hereof.

(c) Annual Financial Information shall be provided at least annually, *notwithstanding* any Fiscal Year longer than 12 calendar months. The Department shall promptly notify the State Treasurer and the MSRB, of any change in its Fiscal Year.

(d) Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 2.3. **Audited Financial Statements.** If not provided as part of Annual Financial Information by the date required by Section 2.2(a) hereof, the Department shall provide Audited Financial Statements, when and if available, to the State Treasurer and to the MSRB.

Section 2.4. **Additional Disclosure Obligations**. The Department acknowledges and understands that other state and Federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Department, and that under some circumstances compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the Department under such laws.

Section 2.5. **Additional Information**. Nothing in this Disclosure Certificate shall be deemed to prevent the Department from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Financial Information, in addition to that which is required by this Disclosure Certificate. If the Department chooses to include any information in

any Annual Financial Information in addition to that which is specifically required by this Disclosure Certificate, the Department shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Financial Information.

ARTICLE III

OPERATING RULES

Section 3.1. **Fiscal Year**. Annual Financial Information shall be provided at least annually, *notwithstanding* any Fiscal Year longer than 12 calendar months. The Department shall promptly notify the State Treasurer and the MSRB, of any change in its Fiscal Year.

Section 3.2. **Incorporation by Reference**. It shall be sufficient for purposes of Section 2.2 hereof if the Department provides Annual Financial Information by specific reference to documents previously either (i) provided to the MSRB or (ii) filed with the SEC. If such a document is a final official statement within the meaning of the Rule, it must be available from the MSRB.

Section 3.3. **Submission of Information**. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 3.4. **Transmission of Information and Notices**. *Unless* otherwise required by law and, in the Department's sole determination, subject to technical and economic feasibility, the Department shall employ such methods of information and notice transmission as shall be required, requested or recommended by the herein-designated recipients of the Department's information and notices.

ARTICLE IV

TERMINATION, AMENDMENT AND ENFORCEMENT

Section 4.1. **Termination**.

(a) The Department's obligations under this Disclosure Certificate with respect to Subject Bonds shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the Subject Bonds or if less than all of the Subject Bonds are defeased, with respect to those Subject Bonds, so defeased.

(b) This Disclosure Certificate, or any provision hereof, shall be null and void to the extent set forth in an opinion of Securities Counsel obtained by the Department, and addressed to the Department and the State Treasurer, to the effect that those portions of the Rule which require the provisions of this Disclosure Certificate, or any of such provisions, do not or no longer apply to any or all of the Subject Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and delivers notice to such effect to the State Treasurer.

Section 4.2. **Amendment**.

(a) This Disclosure Certificate may be amended, and any provision of this Disclosure Certificate may be waived, without the consent of the Holders or Beneficial Owners, except to the extent required pursuant to clause (4)(ii) below, if all of the following conditions are satisfied: (1) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Department or the type of business conducted thereby, (2) this Disclosure Certificate as so amended or waived would have complied with the requirements of the Rule as of the date of the primary offering of the Subject Bonds affected by such amendment or waiver, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Department shall have obtained an opinion of Securities Counsel, addressed to the Department and the State Treasurer, to the same effect as set forth in clause (2) above, (4) either (i) a party unaffiliated with the Department (such as bond counsel), acceptable to the Department, has determined that the amendment or waiver does not materially impair the interests of the Beneficial Owners, or (ii) the applicable Holders of 60% of the Subject Bonds outstanding consent to the amendment to or waiver of this Disclosure Certificate and (5) the Department shall have delivered copies of such amendment or waiver to the State Treasurer and to the MSRB.

(b) In addition to clause (a) above, the Department may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if (i) the Department shall have received an opinion of Securities Counsel, addressed to the Department and the State Treasurer, to the effect that the adoption and the terms of such amendment or waiver would not, in and of themselves, cause the undertakings herein to violate the Rule, taking into account any subsequent change in or official interpretation of the Rule or (ii) to the extent permitted by rule, order or other official pronouncement of the SEC.

(c) To the extent any amendment to this Disclosure Certificate results in a change in the type of financial information or operating data provided pursuant to this Disclosure Certificate, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment, and the impact of the change.

(d) If a change is made to the basis on which financial statements are prepared, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 4.3. **Benefit; Third-Party Beneficiaries; Enforcement.**

(a) The provisions of this Disclosure Certificate shall inure solely to the benefit of the Holders from time to time; *except* that Beneficial Owners shall be third-party beneficiaries of this Disclosure Certificate.

(b) *Except* as provided in this subsection (b), the provisions of this Disclosure Certificate shall create no rights in any other person or entity. Except as limited by the succeeding sentence, the obligation of the Department to comply with the provisions of this Disclosure Certificate shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any Beneficial Owner of outstanding Subject Bonds, or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Holder of not less than 25% in aggregate principal amount of the Subject Bonds at the time outstanding.

(c) The right to enforce the provisions of this Disclosure Certificate shall be limited to a right, by action in mandamus or for specific performance, to compel performance of the Department's obligations under this Disclosure Certificate. Any failure by the Department to perform in accordance with this Disclosure Certificate shall not constitute a default or any Event of Default under the Subject Bonds, and the rights and remedies provided by the Subject Bonds upon the occurrence of a default or an Event of Default shall not apply to any such failure.

ARTICLE V

MISCELLANEOUS

Section 5.1 **Counterparts**. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 5.2. **Governing Law**. The laws of the State shall govern this Disclosure Certificate, the interpretation thereof and any right or liability arising hereunder. Any action or proceeding to enforce or interpret any provision of this Disclosure Certificate shall be brought, commenced or prosecuted in any court of the State located in Sacramento County, California.

[Signature Page to Follow]

IN WITNESS WHEREOF, I have here unto set my hand this 29th day of October, 2015.

DEPARTMENT OF VETERANS AFFAIRS OF
THE STATE OF CALIFORNIA

By: _____
Its: _____

[Department of Veterans Affairs Continuing Disclosure Certificate Signature Page]

EXHIBIT A

Bond Series	Bond Act	Resolution Number	Date of Adoption of Veterans' Finance Committee Resolution
CM	Veterans' Bond Act of 1986	XIX	March 18, 2009
CK, CM	Veterans' Bond Act of 1988	XII	March 18, 2009
CM	Veterans' Bond Act of 1990	XII	March 18, 2009
CK, CM	Veterans' Bond Act of 1996	VII	March 18, 2009
CL	Veterans' Bond Act of 2000	II	January 18, 2006
CK, CM	Veterans' Bond Act of 2000	IV	August 19, 2009

APPENDIX E

CERTAIN FEDERAL TAX CODE REQUIREMENTS

The Federal Tax Code substantially restricts the use of proceeds of tax-exempt obligations used to finance mortgage loans for single family housing or to refund such obligations.

Those Federal Tax Code restrictions are not the same for all such tax-exempt bonds. There are three types of such tax-exempt bonds: (i) qualified mortgage bonds, which provide QMB Proceeds, (ii) qualified veterans' mortgage bonds, which provide QVMB Proceeds, and (iii) Pre-Ullman or taxable bonds, which provide Pre-Ullman Moneys. Revenue Bonds may be either qualified mortgage bonds or Pre-Ullman bonds. ("Pre-Ullman bonds" are bonds issued before 1981, or bonds issued to refund such bonds.) Veterans G.O. Bonds may be either qualified veterans' mortgage bonds or Pre-Ullman bonds. The principal Federal Tax Code restrictions relate to: (i) the use of proceeds of the bond issue, (ii) the yield on the financed mortgage loans and from certain non-mortgage investments related to the issue, (iii) for qualified mortgage bonds and qualified veterans' mortgage bonds, loan eligibility requirements, (iv) for qualified mortgage bonds, the availability of proceeds of the issue for financing housing located in "targeted areas," and (v) certain matters relating to the issue itself.

See "TAX MATTERS" for information regarding the requirements applicable to the Offered Veterans G.O. Bonds.

Failure to comply with the applicable provisions of the Federal Tax Code may result in interest on the applicable issue of bonds being included in gross income for Federal income tax purposes retroactive to the date of issuance thereof.

Loan Eligibility Requirements Imposed by the Federal Tax Code on QMB Proceeds and QVMB Proceeds

QMB Proceeds

The Federal Tax Code contains the following loan eligibility requirements with respect to QMB Proceeds, except that the requirements described under "First-Time Homebuyer Requirement," "Purchase Price Limitation," and "Other Requirements Imposed by the Federal Tax Code – Recapture Provision Applicable to Qualified Mortgage Bonds" do not apply to home improvement loans, and the requirements described under "Qualified Home Improvement Loans" do not apply to loans for the acquisition of single family homes. None of these requirements applies to Pre-Ullman bonds or qualified veterans' mortgage bonds.

Residence Requirement. The Federal Tax Code requires that each of the premises financed with the lendable proceeds of qualified mortgage bonds be a one-to-four-family residence, one unit of which can reasonably be expected to become the principal residence of the veteran within a reasonable time after the financing is provided. Certain documents adopted by the Department establish procedures to be followed in connection with Contracts of Purchase which finance the acquisition of single family homes in order to assure that interest paid on the qualified mortgage bonds not be included in gross income for Federal income tax purposes under the Federal Tax Code (the "Single Family Program Documents"). Certain documents adopted by the Department establish procedures to be followed in connection with Contracts of Purchase to finance home improvement loans intended to assure that interest paid on the qualified mortgage bonds is not included in gross income for Federal income tax purposes under the Federal Tax

Code (the "Home Improvement Program Documents," together with the Single Family Program Documents, the "Program Documents").

First-Time Homebuyer Requirement. The Federal Tax Code requires that, subject to certain exceptions, the lendable proceeds of qualified mortgage bonds be used to provide financing to borrowers who have not had a present ownership interest in their principal residence during the three-year period prior to execution of the mortgage loan. Veterans are excluded from the foregoing requirement but may only receive financing once pursuant to such exception. All financing with respect to targeted area residences and residences on land possessed under certain contract for deed agreements is treated as satisfying the first time homebuyer requirement.

New Mortgage Requirement. The Federal Tax Code requires that, with certain limited exceptions, the lendable proceeds of qualified mortgage bonds finance new mortgage loans only and that no proceeds may be used to acquire or replace an existing mortgage loan, which would include the refinancing of a pre-existing mortgage loan.

Purchase Price Limitation. The Federal Tax Code requires that the purchase price of the residence financed with the lendable proceeds of qualified mortgage bonds may not exceed 90% of the average area purchase price applicable to such residence or 110% of the applicable average area purchase price in the case of residences located in targeted areas.

Income Limitation. The Federal Tax Code requires that all mortgage loans made from the lendable proceeds of qualified mortgage bonds be made only to borrowers whose family income does not exceed 115% (for mortgage loans made to families with fewer than three members, 100%) of the applicable median family income. An exception is provided for mortgage loans financed with the lendable proceeds of qualified mortgage bonds made with respect to targeted area residences that permits two-thirds in aggregate amount of such mortgage loans to be made with respect to borrowers whose family income does not exceed 140% (for mortgage loans made to families with fewer than three members, 120%) of the applicable median family income and one–third in aggregate amount of such loans to be made without regard to any income limitation.

Federal tax law permits higher income limits for persons financing residences located in certain "high housing cost areas." A high housing cost area is a statistical area for which the ratios of the area's average purchase price for existing and new single family houses to the area's median income exceed 120% of the same ratios determined on a national basis. These ratios are determined separately with respect to new and existing single family residences. An area is a high housing cost area only if the ratios for both new and existing houses meet the 120% test. In high housing cost areas, the veteran income limits are increased above 115% (or 100%, as applicable) by one percent for each percentage point (1%) by which the new or existing housing price ratio, whichever is smaller, exceeds 120%. However, the new limit cannot exceed 140% (or 120%, as applicable) of the income limits otherwise applicable. Certain areas of the State may qualify as high housing cost areas.

Family income includes income of all individuals executing both the note and mortgage and occupying the dwelling as their principal residence.

Requirements as to Assumptions. The Federal Tax Code provides that a mortgage loan may be assumed only if each of the then applicable residence requirements,

first-time-homebuyer requirement, purchase price limitation, and income limitation is met with respect to such assumption.

Qualified Home Improvement Loans. The Federal Tax Code requires that a home improvement loan financed with the lendable proceeds of qualified mortgage bonds not exceed $15,000, be made only with respect to an owner-occupied residence, and finance alterations, repairs, and improvements on or in connection with an existing one-to-four-family residence by the owner thereof, but only if such alterations, repairs and improvements substantially protect or improve the basic livability or energy efficiency of the property.

General. Qualified mortgage bonds treated under the Federal Tax Code as one bond issue for Federal tax purposes ("qualified mortgage issue") are deemed to meet the loan eligibility requirements of the Federal Tax Code if (i) the issuer in good faith attempted to meet all the loan eligibility requirements before the mortgage loans were executed, (ii) any failure to comply with the loan eligibility requirements is corrected within a reasonable period after such failure is first discovered, and (iii) 95% or more of the proceeds of the issue used to make mortgage loans was used to finance residences that met all such requirements at the time the mortgage loans were executed.

QVMB Proceeds

The Federal Tax Code requires that each mortgagor to whom financing is provided under a qualified veterans' mortgage bond issue have served on active duty and apply for financing before the date 25 years after the last date on which such veteran left active duty. The Department has established and has covenanted to comply with such requirements.

Generally, only the loan eligibility requirements stated above under "QMB Proceeds – Residence Requirement," "– New Mortgage Requirement" and "– Qualified Home Improvement Loans" (*except* the $15,000 maximum loan amount) apply to QVMB Proceeds.

Other Requirements Imposed by the Federal Tax Code

General. The Federal Tax Code provides that gross income for Federal income tax purposes does not include interest on a mortgage revenue bond if it is a qualified mortgage bond or a qualified veterans' mortgage bond. A qualified mortgage bond is a part of an issue of a state or political subdivision all the proceeds of which (net of amounts applied to any costs of issuance thereof and to fund a reasonably required reserve) are used to finance (or to refund bonds all of such net proceeds of which were used to finance) owner-occupied residences. A qualified veterans' mortgage bond is part of an issue 95 percent or more of the net proceeds of which are used to provide residences to veterans. In addition, in order to be a qualified mortgage bond or a qualified veterans' mortgage bond, a bond must be part of an issue that meets certain (i) general requirements, (ii) arbitrage restrictions on the use and investment of proceeds of the issue, and (iii) loan eligibility requirements set forth in the Federal Tax Code and as more fully described above under "Loan Eligibility Requirements Imposed by the Federal Tax Code."

Volume Limitation, Targeted Area and Required Reports. The first general requirement of the Federal Tax Code, applicable to qualified mortgage bonds, is that the aggregate amount of private activity bonds (exclusive of qualified veterans' mortgage bonds) that may be issued by the Department in any calendar year (or previous years' carried forward amount) must not exceed the portion of the private activity bond volume limit for the State for such calendar year that is allocated by the State to the Department. With respect to qualified veterans' mortgage

bonds, a separate limit is based on statutory formulae. The second general requirement of the Federal Tax Code applicable to qualified mortgage bonds is that at least 20% of the lendable proceeds of an issue of bonds which are not refunding bonds (if such set-aside was satisfied with respect to the bonds being refunded) must be made available (and applied with reasonable diligence) for owner-financing of residences in targeted areas (as defined by the Federal Tax Code) for at least one year after the date on which such funds are first available for such owner-financing (the "targeted area requirement"). The third general requirement of the Federal Tax Code requires the issuer of qualified mortgage bonds and qualified veterans' mortgage bonds to file with the Internal Revenue Service reports on the issuance of its qualified mortgage bonds or qualified veterans' mortgage bonds following such issuance, as well as an annual qualified mortgage loan information report.

Yield Limitations and Rebate. The Federal Tax Code requires that the effective interest rate on mortgage loans financed with the lendable proceeds of qualified mortgage bonds and qualified veterans' mortgage bonds may not exceed the yield on the issue by more than 1.125% (1.50% for Pre-Ullman bonds), and that certain investment earnings on non-mortgage investments, calculated based upon the extent such investment earnings exceed the amount that would have been earned on such investments if the investments were invested at a yield equal to the yield on the issue, be rebated to the United States or to veterans. These requirements apply to both Revenue Bonds and Veterans G.O. Bonds, except that for Revenue Bonds, rebate is paid to the United States and that for Veterans G.O. Bonds, rebate, absent an election to pay to the United States, is paid to veterans. See APPENDIX B – "THE DEPARTMENT OF VETERANS AFFAIRS OF THE STATE OF CALIFORNIA, THE PROGRAM AND THE 1943 FUND – THE PROGRAM – Contracts of Purchase" for discussions of provisions of the Veterans Code which affect the Department's ability to establish and to change interest rates on Contracts of Purchase.

Recapture Provision Applicable to Qualified Mortgage Bonds. For certain mortgage loans made after December 31, 1990 from the lendable proceeds of qualified mortgage bonds issued after August 15, 1986 (not including the Offered Veterans G.O. Bonds), and for assumptions of such mortgage loans, the Federal Tax Code requires a payment to the United States from certain borrowers upon sale or other disposition of their homes (the "Recapture Provision"). The Recapture Provision requires that an amount determined to be the subsidy provided by a qualified mortgage bond financing to a borrower be paid to the United States on disposition of the residence (but not in excess of 50% of the gain realized by the borrower). The recapture amount (i) increases over the period of ownership, with full recapture occurring if the residence is sold between four and five full years after the closing of the mortgage loan and (ii) decline ratably to zero with respect to sales occurring between five and nine full years after the closing of the mortgage loan. An exception excludes from recapture part or all of the subsidy in the case of certain borrowers whose incomes are less than prescribed amounts at the time of the disposition. The Federal Tax Code requires an issuer to inform borrowers of certain information with respect to the Recapture Provision.

Required Redemptions. For qualified mortgage bonds issued after 1988, the Federal Tax Code requires redemption of certain qualified mortgage bonds issued after 1988 from unexpended proceeds required to be used to make mortgage loans that have not been used within 42 months from the date of issuance (or the date of issuance of the original bonds in the case of refundings of unexpended proceeds), except for a $250,000 de minimis amount. As a result, the

redemption of Revenue Bonds that are qualified mortgage bonds from proceeds attributable to such Revenue Bonds not used to make Contracts of Purchase may be required. Additionally, for bonds issued after 1988, the Federal Tax Code permits repayments (including prepayments) of principal of mortgage loans financed with the proceeds of an issue of such bonds to be used to make additional mortgage loans for only 10 years from the date of issuance of the bonds (or the date of issuance of the original bonds in the case of refundings), after which date such amounts must be used to redeem bonds, except for a $250,000 *de minimis* amount. As a result, the Department is required by the Federal Tax Code to redeem Revenue Bonds which are qualified mortgage bonds from repayments (including prepayments) of principal of certain Contracts of Purchase not later than the close of the semiannual period after the payment is received.

Compliance. The Federal Tax Code states that an issuer will be treated as meeting the targeted area requirement, the arbitrage restrictions on mortgage loans, and the recapture information requirements if it in good faith attempted to meet all such requirements and any failure to meet such requirements was due to inadvertent error after taking all reasonable steps to comply with such requirements.

APPENDIX F

PROPOSED FORM OF LEGAL OPINION OF ATTORNEY GENERAL

[Closing Date]

The Honorable John Chiang
State Treasurer
Sacramento, California

$445,700,000
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
$152,295,000 Series CK (Non-AMT)
$128,610,000 Series CL (Non-AMT)
$164,795,000 Series CM (AMT)

The Honorable John Chiang:

We have acted as counsel to the State of California (the "State") in connection with the issuance by the State of $445,700,000 aggregate principal amount of State of California Veterans General Obligation Bonds, all dated October 29, 2015, and issued as three separate series under five bond acts, all as identified in Schedule A hereto, which is incorporated by reference (collectively, the "Bonds"). The Bonds are authorized pursuant to the respective veterans bond acts identified in Schedule A (collectively, the "Bond Acts") and are issued pursuant to Chapter 4 of Part 3 of Division 4 of Title 2 of the California Government Code and to resolutions adopted by the Veterans' Finance Committee of 1943 (as amended, the "Resolutions"), as identified in Schedule B hereto, which is incorporated by reference.

In such connection, we have examined the record of proceedings submitted to us relative to the issuance of the Bonds, including the Resolutions, certifications of officials of the State, and such other documents and matters deemed necessary by us to render the opinions set forth herein, although in doing so, we have not undertaken to verify independently and have assumed the accuracy of the factual matters represented, warranted or certified therein.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof and we disclaim any obligation to update this letter. We have neither undertaken to determine, nor to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. We have assumed the genuineness of all documents and signatures presented to us, the conformity to original documents and certificates of all documents and certificates submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents and certificates. Furthermore, we have assumed compliance with the agreements and covenants contained in the Resolutions.

We call attention to the fact that the rights and obligations under the Bonds and the Resolutions and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations contained in state law regarding legal remedies against the State. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, severability or waiver provisions contained in the foregoing documents. We express no opinion as to whether interest on the Bonds is excluded from gross income for Federal income tax purposes or exempt from state personal income taxes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement dated October 8, 2015, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the opinion that the State has lawful authority for the issuance of the Bonds, and the Bonds constitute the valid and binding general obligations of the State. The full faith and credit of the State are pledged to the punctual payment of the principal of and interest on the Bonds, as the principal and interest become due and payable. The Bonds are payable from the Veterans' Bonds Payment Fund and the General Fund of the State in accordance with the Bond Acts.

Sincerely,

Deputy Attorney General

For KAMALA D. HARRIS
Attorney General

SCHEDULE A

$152,295,000 Series CK

$200,000 principal amount of State of California Veterans General Obligation Bonds, Series CK, authorized under the Veterans' Bond Act of 1988

$31,820,000 principal amount of State of California Veterans General Obligation Bonds, Series CK, authorized under the Veterans' Bond Act of 1996

$120,275,000 principal amount of State of California Veterans General Obligation Bonds, Series CK, authorized under the Veterans' Bond Act of 2000

$128,610,000 Series CL

$128,610,000 principal amount of State of California Veterans General Obligation Bonds, Series CL, authorized under the Veterans' Bond Act of 2000

$164,795,000 Series CM

$8,060,000 principal amount of State of California Veterans General Obligation Bonds, Series CM, authorized under the Veterans' Bond Act of 1986

$26,095,000 principal amount of State of California Veterans General Obligation Bonds, Series CM, authorized under the Veterans' Bond Act of 1988

$45,810,000 principal amount of State of California Veterans General Obligation Bonds, Series CM, authorized under the Veterans' Bond Act of 1990

$76,415,000 principal amount of State of California Veterans General Obligation Bonds, Series CM, authorized under the Veterans' Bond Act of 1996

$8,415,000 principal amount of State of California Veterans General Obligation Bonds, Series CM, authorized under the Veterans' Bond Act of 2000

SCHEDULE B

Bond Series	Bond Act	Resolution Number	Date of Adoption of Veterans' Finance Committee Resolution
CM	Veterans' Bond Act of 1986	XIX	March 18, 2009
CK, CM	Veterans' Bond Act of 1988	XII	March 18, 2009
CM	Veterans' Bond Act of 1990	XII	March 18, 2009
CK, CM	Veterans' Bond Act of 1996	VII	March 18, 2009
CL	Veterans' Bond Act of 2000	II	January 18, 2006
CK, CM	Veterans' Bond Act of 2000	IV	August 19, 2009

APPENDIX G

PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL TO THE STATE

The Honorable John Chiang
State Treasurer
Sacramento, California

Ladies and Gentlemen:

We have acted as bond counsel to the State of California (the "State"), and in such capacity we have examined upon request copies of proceedings taken by the State in connection with the issuance of the State's $152,295,000 aggregate principal amount Veterans General Obligation Bonds, Series CK (the "Series CK Bonds"), $128,610,000 aggregate principal amount Veterans General Obligation Bonds, Series CL (the "Series CL Bonds") and $164,795,000 aggregate principal amount Veterans General Obligation Bonds, Series CM (the "Series CM Bonds," and together with the Series CK Bonds and the Series CL Bonds, the "Bonds") and the sale of the Bonds to the initial purchasers thereof. The Bonds are issued pursuant to (i) the Veterans' Bond Acts identified in Schedule A hereto (collectively, as amended, the "Law"), which is incorporated by reference, each of which was approved by the electors of the State, (ii) Part 3 of Division 4 of Title 2 of the California Government Code, and (iii) resolutions (as amended, the "Resolutions") adopted by the Veterans' Finance Committee of 1943 and identified in Schedule B hereto, which is incorporated by reference.

The Bonds are dated, mature on the dates in the principal amounts, bear interest, if any, and are payable as provided in the Resolutions. The Bonds are subject to redemption prior to maturity in whole or in part as provided in the Resolutions.

Applicable Federal tax law establishes certain requirements that must be met subsequent to the issuance of the Bonds in order that interest on the Bonds not be included in gross income for Federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Federal Tax Code"). Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Department of Veterans Affairs of the State of California (the "Department") has adopted documents with respect to its program (the "Program Documents") that establish procedures under which, if followed, such requirements can be met. The State and the Department have covenanted in the Resolutions and in tax certificates and other documents applicable to the issuance of the Bonds (collectively with the Program Documents, the "Documents"), to at all times perform all acts and things permitted by law and necessary and desirable in order to assure that interest paid on the Bonds shall not be included in gross income for Federal income tax purposes under the Federal Tax Code. In rendering this opinion, we have relied upon such covenants and have assumed compliance by the State and the Department with the provisions of such Documents.

In connection with the issuance of the Bonds, we have examined (a) a copy of the Resolutions, and (b) such other opinions, documents, certificates and letters as we deem relevant and necessary in rendering this opinion.

From such examination, we are of the opinion that:

(1) The State has lawful authority for the issuance of the Bonds, and the Bonds constitute the valid and binding general obligations of the State. The full faith and credit of the State are pledged to the punctual payment of the principal of and interest on the Bonds, as the principal and interest become due and payable. The Bonds are payable from the Veterans' Bonds Payment Fund and the General Fund of the State in accordance with the Law.

(2) Under existing statutes and court decisions and assuming compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Federal Tax Code; (ii) interest on the Series CK Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Federal Tax Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations; (iii) interest on the Series CL Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Federal Tax Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax; and (iv) interest on the Series CM Bonds is treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Federal Tax Code.

(3) For any Bonds having original issue discount (the "Discount Bonds"), original issue discount that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Federal Tax Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Bonds.

(4) Interest on the Bonds is exempt from State personal income taxation under State law as of the issue date.

We express no opinion regarding any other Federal or state tax consequences with respect to the Bonds. We render our opinion under existing statutes and court decisions under State law as of the issue date, and assume no obligation to update our opinion after the issue date to reflect any future action, fact or circumstance or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds, or under state and local tax law. We undertake no responsibility for the accuracy, completeness or fairness of any official statement or other offering materials relating to the Bonds and express herein no opinion relating thereto.

In rendering this opinion, we are advising you that the enforceability of the Bonds may be limited by bankruptcy, moratorium, insolvency, or other laws affecting creditors' rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Very truly yours,

SCHEDULE A

$152,295,000 Series CK

$200,000 principal amount of State of California Veterans General Obligation Bonds, Series CK, authorized under the Veterans' Bond Act of 1988

$31,820,000 principal amount of State of California Veterans General Obligation Bonds, Series CK, authorized under the Veterans' Bond Act of 1996

$120,275,000 principal amount of State of California Veterans General Obligation Bonds, Series CK, authorized under the Veterans' Bond Act of 2000

$128,610,000 Series CL

$128,610,000 principal amount of State of California Veterans General Obligation Bonds, Series CL, authorized under the Veterans' Bond Act of 2000

$164,795,000 Series CM

$8,060,000 principal amount of State of California Veterans General Obligation Bonds, Series CM, authorized under the Veterans' Bond Act of 1986

$26,095,000 principal amount of State of California Veterans General Obligation Bonds, Series CM, authorized under the Veterans' Bond Act of 1988

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$8,415,000 principal amount of State of California Veterans General Obligation Bonds, Series CM, authorized under the Veterans' Bond Act of 2000

SCHEDULE B

Bond Series	Bond Act	Resolution Number	Date of Adoption of Veterans' Finance Committee Resolution
CM	Veterans' Bond Act of 1986	XIX	March 18, 2009
CK, CM	Veterans' Bond Act of 1988	XII	March 18, 2009
CM	Veterans' Bond Act of 1990	XII	March 18, 2009
CK, CM	Veterans' Bond Act of 1996	VII	March 18, 2009
CL	Veterans' Bond Act of 2000	II	January 18, 2006
CK, CM	Veterans' Bond Act of 2000	IV	August 19, 2009

APPENDIX H

LETTERS FROM CERTAIN UNDERWRITERS

August 21, 2015

Mr. Blake Fowler, Director
Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 261
Sacramento, CA 95814
Email: blake.fowler@treasurer.ca.gov

Re: California State Veterans General Obligation Bonds

Dear Sir:

Academy Securities, Inc., Joint Senior Managing Underwriter of California State Veterans General Obligation Bonds, intends to enter into distribution agreements (the "Distribution Agreements") with BNY Mellon Capital Markets LLC, SWBC Investment Services LLC, W.H. Mell Associates, Inc., UBS Financial Services Inc., TD Ameritrade Inc., Ladenburg Thalmann & Co Inc., R. Seelaus & Co., Winslow Evans & Crocker, Commonwealth Equity Services, NBC Securities, Inc., Intercoastal Capital Markets, Inc., Crews & Associates Inc., UnionBanc Investment Services LLC, Ross, Sinclaire & Associates, Inc., Harvestons Securities, Janney Montgomery Scott LLC, Municipal Capital Markets Group, Inc., and World First Financial Services Inc. for the retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to these Distribution Agreements (if applicable for this transaction), Academy Securities, Inc. may share a portion of its underwriting compensation with these firms.

ACADEMY SECURITIES, INC.

GREAT PACIFIC
SECURITIES

August 20, 2015

Mr. Blake Fowler
Director, Public Finance Division
Office of the Treasurer of the State of California
915Capitol Mall, Room 216
Sacramento, CA 95814

RE: State of California Veterans General Obligation Bonds
Series CK, CL and CM

Dear Mr. Fowler:

Great Pacific Securities ("GPS"), one of the Underwriters of the Bonds, has entered into a negotiated dealer agreement (a "Dealer Agreement") with Wedbush Securities Inc ("Wedbush") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Dealer Agreement (if applicable to this transaction), Wedbush will purchase Bonds from GPS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that Wedbush sells.

Great Pacific Securities

151 Kalmus Drive, Suite H8 ▪ Costa Mesa, California ▪ 92626 ▪ Phone: (714) 619-3000 ▪ Fax: (714) 619-3019
E-mail: info@greatpac.com ▪ Member NASD/SIPC/MSRB

A Service

Disabled

Veterans

Business

Enterprise

August 21, 2015

Mr. Blake Fowler
Director
Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 110
Sacramento, CA 95814

Re: State of California
Veterans General Obligations Bonds
Series CK, Series CL & Series CM (AMT)

Dear Mr. Fowler:

Mischler Financial Group, Inc. ("Mischler"), one of the underwriters of the above referenced bonds (the " Bonds"), has entered into separate distribution agreements (each a "Distribution Agreement") with Higgins Capital Management, Inc., IFS Securities, Newbridge Securities Corp. and TD Ameritrade for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Distribution Agreement, Higgins Capital Management, Inc., IFS Securities, Newbridge Securities Corp. and TD Ameritrade may purchase Bonds from Mischler at the original issue prices less a negotiated portion of the takedown applicable to any Bonds such firm sells.

Sincerely

Mischler Financial Group, Inc.

1111 Bayside Drive, Suite 100
Corona Del Mar, CA 92625
Tel (949) 720-0640
Tel (800) 820-0640
Fax (949) 720-0229
www.mischlerfinancial.com
Email dholmes@mischlerfinancial .com

Morgan Stanley

August 19, 2015

Mr. Blake Fowler
Director of Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 261
Sacramento, CA 95814

RE: State of California Veterans General Obligation Bonds, Series CK, CL, and CM

Dear Mr. Fowler:

Morgan Stanley & Co. LLC is providing the following language for inclusion in the Official Statement.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

Morgan Stanley & Co. LLC

APPENDIX I

AUDITED BASIC FINANCIAL STATEMENTS OF THE STATE FOR THE FISCAL YEAR ENDED JUNE 30, 2014

State of California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

BETTY T. YEE

California State Controller's Office

STATE OF CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2014

Prepared by
The Office of the State Controller

BETTY T. YEE
California State Controller

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Introductory Section

BETTY T. YEE
California State Controller

BETTY T. YEE
California State Controller

March 26, 2015

To the Citizens, Governor, and Members of the Legislature of the State of California:

I am pleased to submit the State of California Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2014. This report meets the requirements of Government Code section 12460 for an annual report prepared strictly in accordance with accounting principles generally accepted in the United States and contains information to help readers gain a reasonable understanding of the State's financial activities.

For the first time in five years, the State's fiscal year ended with a positive net position of $7.3 billion for the primary government. Overall, revenues exceeded expenses by $9.7 billion. On a cash basis, the State also ended the fiscal year with a strong positive cash balance of $1.9 billion in the General Fund and $1.1 billion in the Special Fund for Economic Uncertainties to meet General Fund cash needs.

California experienced a firm rebound in economic activity and success in efforts to rein in government spending. The 2014-15 Budget, enacted on June 20, 2014, advances a multiyear plan that is balanced, pays down budgetary debt from past years, saves for a rainy day, and makes wise investments in education, the environment, public safety, infrastructure, and California's extensive safety net.

The preparation of this report would not have been possible without the skill, effort, and dedication of the entire staff of the State Controller's Office. I thank them and all government departments for their assistance in providing the data necessary to prepare this report. Credit is also due to the California State Auditor and her audit staff for their continued support for maintaining the highest standards of professionalism in the management of the State's finances.

The State Controller's Office will continue to ensure the proper accounting and reporting of the State's fiscal resources, offer fiscal guidance to local governments, and uncover fraud and abuse of taxpayer dollars.

Sincerely,

Original signed by:

BETTY T. YEE
California State Controller

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Report Overview

The State's management assumes responsibility for the accuracy, completeness, and fairness of information presented in the CAFR, including all disclosures, based upon a comprehensive framework of internal controls established for this purpose. The internal control structure is designed to provide reasonable, but not absolute, assurance that the financial statements are free of material misstatements. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Legislature and Governor.

The California State Auditor has issued an unmodified opinion on the financial statements for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States.

The State of California also is required to undergo an annual single audit in conformity with the provisions of the United States Office of Management and Budget's Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. This report is issued separately.

The Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and contains an introduction, overview, and analysis of the financial statements. The MD&A also contains information regarding California's economy for the year ending June 30, 2014, and its economic performance as of January 31, 2015, for the 2014-15 fiscal year. The MD&A complements this transmittal letter and should be read in conjunction with it.

Profile of the State of California

The State of California was admitted to the Union on September 9, 1850. The State's population is estimated for 2014 to be nearly 39 million residents. The State's government is divided into three branches: Executive, Legislative, and Judicial. Executive power is vested in the Governor. Other members of the executive branch include the Lieutenant Governor, Attorney General, Secretary of State, State Treasurer, State Controller, Insurance Commissioner, and the State Superintendent of Public Instruction. All officers of the executive branch are elected to a four-year term. The Legislative branch of government is the State's law-making authority and is made up of two houses: the Senate and the Assembly. The Judicial branch is charged with interpreting the laws of the State of California. It provides settlement of disputes between parties in controversy, determines the guilt or innocence of those accused of violating laws, and protects the rights of Californians.

California's government includes control agencies that help to regulate internal governmental operations. The State Controller's Office, the State's independent fiscal watchdog, ensures that the State's budget is spent properly, offers fiscal guidance to local governments, and uncovers fraud and abuse of taxpayer dollars. The Department of Finance, part of the Executive branch of government, establishes fiscal policies to carry out the State's programs and serves as the Governor's chief fiscal policy advisor. The California State Auditor promotes the efficient and effective management of public funds through independent evaluations of state and local governments.

The State of California provides a wide range of services to its citizens, including social, health, and human services; kindergarten through 12th grades (K-12) and higher education; and business and transportation, consumer services, general government, and correctional programs. The State is also financially accountable for legally separate entities (component units) that provide post-secondary education programs, promote agricultural activities and financial assistance to small business, and finance coastal and inland urban waterfront restoration projects. These component units are

separately reported in the State's financial statements. The State, through its related organizations (organizations for which the primary government is not financially accountable), provides services such as the operation of the statewide energy transmission grid; earthquake insurance for homeowners and renters; workers' compensation insurance; health insurance for individuals, families, and employees of small businesses; financing for pollution control facilities, and for acquiring, constructing, and equipping health facilities; and loans to students attending public and private nonprofit colleges and universities. The financial information of these institutions is not included in the State's financial statements.

The State Legislature approves an annual budget that contains estimates of revenues and expenditures for the ensuing fiscal year. This budget is the result of negotiations between the Governor and the Legislature. The State Controller's Office is statutorily responsible for controlling revenues due to the primary government and for expenditures of each appropriation contained in the budget. The State's annual budget is submitted no later than January 10 preceding the beginning of the fiscal year on July 1, and must be approved by the Legislature by June 15 each year. This annual budget serves as the foundation for the State's financial planning and control. Additional information on the budgetary basis of accounting can be found in Note 2, Budgetary and Legal Compliance, and in the Required Supplementary Information section of the CAFR that follows the Notes to the Financial Statements.

Overview of the State's Economy

The State of California is ranked first in population and third in land area in the U.S., and contains some of the most renowned resources and riches in the world. It is home to the most productive agricultural counties in the nation, with more than 80,000 farms and ranches contributing more than $44 billion annually to its agricultural industry. California has the largest and most diverse natural and cultural heritage of any state in the nation. In 2012, California's national parks generated nearly $1.5 billion in economic benefit to the State from visitor spending. California's Gross Domestic Product (GDP) makes up more than 13% of the United States' total GDP and ranks eighth in the top ten in the world economy. The five largest sectors of California's economy in terms of jobs are retail and wholesale trade; government; professional and business services; health care and social assistance; and food services and hotels.

Budget Outlook

2014-15 Fiscal Year

The 2014-15 Budget presents a multi-year balanced budget plan, maintains a $1.6 billion "rainy day" reserve, pays down budgetary debt, and shores up the teachers' pension system. Total resources available, including General Fund revenues and transfers, are estimated to be $109.4 billion, with estimated expenditures of $108 billion, resulting in a General Fund balance of $1.4 billion at the end of the 2014-15 fiscal year.

2015-16 Fiscal Year

The Governor released his proposed 2015-16 Budget on January 9, 2015, and sees maintaining a balanced budget as an ongoing challenge for the long term, requiring both fiscal restraint and prudence. The Budget proposes to end the fiscal year with $3.4 billion in total reserves, which includes $2.8 billion in the Budget Stabilization Account and $534 million in the General Fund's traditional budget reserve. The Budget commits over $60 billion for K-12 and higher education, and

an additional $1.2 billion for adult education, career technical education, workforce investment, and apprenticeships. $1.1 billion is appropriated for the State's flood protection, with an additional $115 million for drought response. The Budget commits an additional $1.2 billion to pay off loans and liabilities from Proposition 98; repays $1 billion in deferrals to schools and community colleges; makes the final payment on $15 billion in Economic Recovery Bonds; and repays $533 million in mandated reimbursements to local governments. The Budget begins to address $66 billion in deferred maintenance needs related to the State's infrastructure by appropriating $478 million for critical deferred maintenance at universities and community colleges, state parks, prisons, hospitals, and other state facilities.

Long-term Financial Planning

The following are some of the long-term financial planning initiatives that will impact the State's long-term financial goals.

- Proposition 98, approved by voters in November 1988, funds preschools, K-12 education, community colleges, and other state education programs. The Proposition 98 guarantee experienced volatility during the recent economic downturn, which led to significant and damaging budget reductions. On November 4, 2014, voters approved Proposition 2—the budget reserve and debt payment measure—which requires a deposit in the State Proposition 98 Rainy Day Fund under specified future conditions. The Governor's 2015-16 Budget provides $65.7 billion in total Proposition 98 funding, an increase of 4% from the revised 2014-15 Budget. This will increase the ongoing K-12 funding to $9,571 per student.

- The California Department of Transportation's upcoming five-year Infrastructure Plan estimates $26.6 billion, which includes investments in state transportation systems for maintenance, preservation, and safety; and State Transportation Improvement Program projects, which include expansion of capacity on highways and rail, both of which are vital to moving passengers and freight.

- Proposition 1, approved by voters in November 2014 as the Water Quality, Supply, and Infrastructure Improvement Act of 2014, provides $7.5 billion in general obligation bonds for water storage, water quality, flood protection, and watershed protection and restoration projects. The Bay Delta Conservation Plan (BDCP) estimates a total cost of $24.8 billion over a 50-year term to help secure California's water supply, by building new water delivery infrastructure and operating systems to improve the ecological health of the Delta. The BDCP includes conservation measures to restore or protect approximately 145,000 acres of habitat, provide more reliable water operations, and secure water supplies for 25 million Californians and the agricultural industry.

- The California High-Speed Rail Authority is responsible for the development and construction of a high-speed passenger train service between San Francisco and Los Angeles/Anaheim, with extensions to San Diego, Sacramento, and points in-between. In addition to 800 miles of rail line, the system will include up to 24 stations, 150 miles of bridges, viaducts, and elevated structures, 35 miles of tunnels, 610 grade separations, and 510,000 square yards of retaining walls. When fully completed, the service will be accessible to more than 90% of the State's residents. The Authority assumes that $25.4 billion from various funds, including federal, Cap and Trade, Proposition 1A bond, and other sources will be available to help accomplish its goals over the next five years.

- In 2014, the Governor signed a new funding plan to close a $74 billion shortfall in teachers' pensions over the next three decades. The 2015-16 Budget includes $1.4 billion to implement the second year of the plan.

- The Governor is proposing a plan to address unfunded state retiree health care benefits. The most recent valuation estimates an unfunded liability of $72 billion exists as of June 30, 2014. Paying down the retiree health care unfunded liability is a shared responsibility between employer and employees. The administration has indicated that, as collective bargaining contracts expire, it will negotiate, with each bargaining unit, a plan to jointly fund retiree health care benefits in the future.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of California for its comprehensive annual financial report for the fiscal year ended June 30, 2013. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

Principal Officials of the State of California

Executive Branch

Edmund G. Brown, Jr.
Governor

Gavin Newsom
Lieutenant Governor

Betty T. Yee
State Controller

Kamala D. Harris
Attorney General

John Chiang
State Treasurer

Alex Padilla
Secretary of State

Tom Torlakson
Superintendent of Public Instruction

Dave Jones
Insurance Commissioner

Board of Equalization
George Runner, Member, First District
Fiona Ma, Member, Second District
Jerome E. Horton, Member, Third District
Diane L. Harkey, Member, Fourth District

Legislative Branch

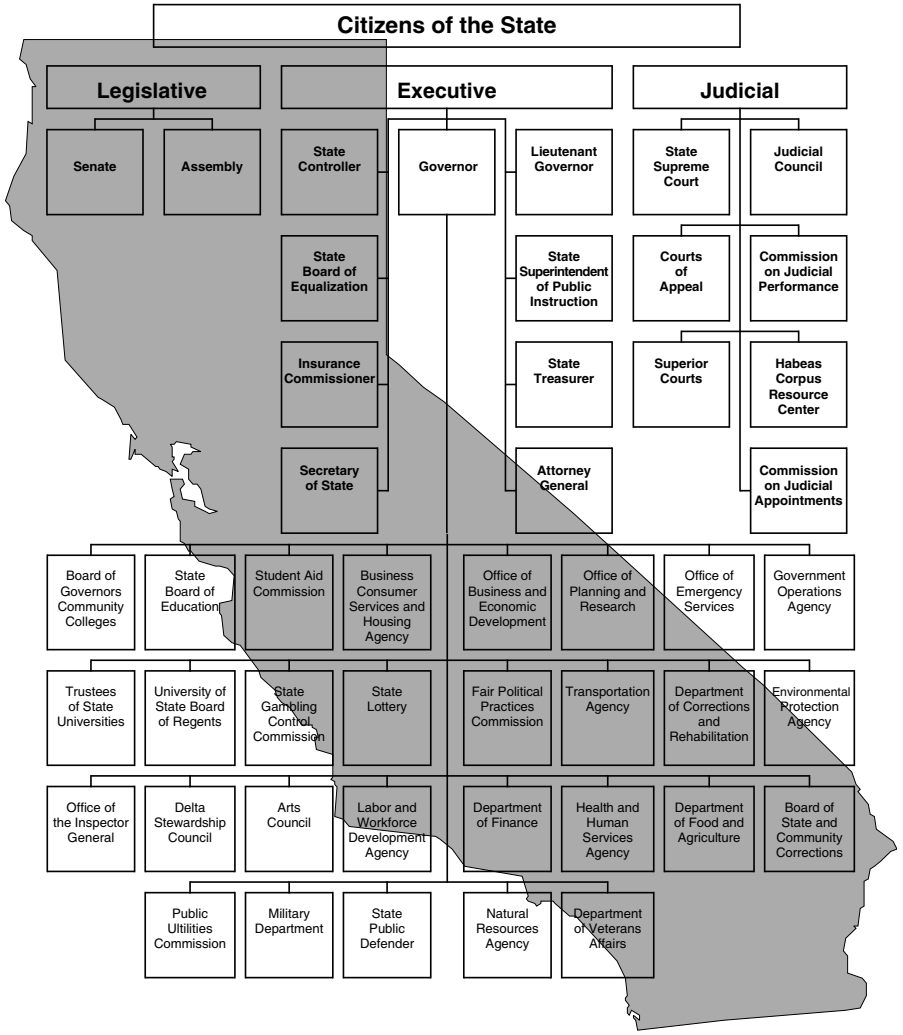
Kevin de León
President pro Tempore, Senate

Toni G. Atkins
Speaker of the Assembly

Judicial Branch

Tani Cantil-Sakauye
Chief Justice, State Supreme Court

Organization Chart of the State of California



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Financial Section

California State Auditor

Elaine M. Howle State Auditor
Doug Cordiner Chief Deputy

Independent Auditor's Report

THE GOVERNOR AND THE LEGISLATURE OF THE
STATE OF CALIFORNIA

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State's basic financial statements 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 audit. We did not audit the financial statements of the following:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 79 percent of the assets and deferred outflows, and 30 percent of the revenues of the business-type activities.
- The University of California and the California Housing Finance Agency that represent 93 percent of the assets and deferred outflows, and 93 percent of the revenues of the discretely presented component units.

Fund Financial Statements

- The Safe Drinking Water State Revolving fund, that represents 15 percent of the assets and deferred outflows, and 6 percent of the additions, revenues, and other financing sources of the Environmental and Natural Resources fund, a major governmental fund.
- The following major enterprise funds: Electric Power fund, Water Resources fund, State Lottery fund, and California State University fund.
- The Golden State Tobacco Securitization Corporation, the Public Building Construction, the Public Employees' Retirement, the State Teachers' Retirement, the State Water Pollution Control, and the 1943 Veterans Farm and Home Building funds, that represent 85 percent of the assets and deferred outflows, and 58 percent of the additions, revenues and other financing sources of the aggregate remaining fund information.
- The discretely presented component units noted above.

555 Capitol Mall, Suite 300 Sacramento, CA 95814 916.445.0255 916.327.0019 fax www.auditor.ca.gov

The related financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those funds and entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Golden State Tobacco Securitization Corporation, the Public Building Construction, the Public Employees' Retirement, the State Lottery, the Water Resources, and the 1943 Veterans Farm and Home Building funds were not audited in accordance with *Government Auditing Standards*.

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 we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United State of America require that a discussion and analysis by management, schedule of funding progress, infrastructure information, budgetary comparison information, reconciliation of budgetary and GAAP-basis fund balances, and related notes 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 which 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 and the other auditors 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section, combining financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

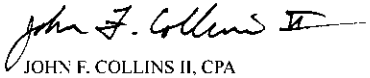
The combining financial statements are the responsibility of management and were derived from, and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of other auditors, the combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2015 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

CALIFORNIA STATE AUDITOR



JOHN F. COLLINS II, CPA
Deputy State Auditor

March 19, 2015

Management's Discussion and Analysis

The following Management's Discussion and Analysis is required supplementary information to the State of California's financial statements. It describes and analyzes the financial position of the State, providing an overview of the State's activities for the year ended June 30, 2014. We encourage readers to consider the information we present here in conjunction with the information presented in the Controller's letter of transmittal at the front of this report and in the State's financial statements and notes, which follow this section.

Financial Highlights – Primary Government

Government-wide Highlights

California experienced a solid rebound in economic activity during the 2013-14 fiscal year and its financial health is clearly on the mend. The State's general revenues increased by $7.1 billion (6.0%) over the prior year. Expenses for the State's governmental activities also increased but were less than revenues received, resulting in a $7.8 billion increase in the governmental activities' net position and yielding the first positive net position since the 2008-09 fiscal year. Total revenues and transfers for the State's business-type activities also surpassed expenses by $1.9 billion in fiscal year 2013-14.

Net Position – The primary government's net position as of June 30, 2014, was $7.3 billion. The total net position is reduced by $96.1 billion for net investment in capital assets and by $29.8 billion for restricted net position, yielding a negative unrestricted net position of $118.6 billion. Restricted net position is dedicated for specified uses and is not available to fund current activities. More than half of the negative $118.6 billion consists of $66.7 billion in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. The bonded debt reduces the unrestricted net position; however, local governments, not the State, own the capital assets that would offset this reduction.

Fund Highlights

Governmental Funds – As of June 30, 2014, the primary government's governmental funds reported a combined ending fund balance of $19.8 billion, an increase of $8.1 billion over the prior fiscal year, as restated. The unrestricted fund balance, comprised of committed, assigned, and unassigned balances, was negative $5.1 billion. The nonspendable and restricted fund balances were $156 million and $24.7 billion, respectively.

Proprietary Funds – As of June 30, 2014, the primary government's proprietary funds reported a combined ending net position of $5.9 billion, an increase of $1.7 billion over the prior fiscal year, as restated. The total net position is reduced by $2.3 billion for net investment in capital assets, expendable restrictions of $5.2 billion, and nonexpendable restrictions of $16 million, yielding a negative unrestricted net position of $1.6 billion.

Noncurrent Assets and Liabilities

As of June 30, 2014, the primary government's noncurrent assets totaled $145.4 billion, of which $125.1 billion is related to capital assets. State highway infrastructure assets of $65.3 billion represent the largest portion of the State's capital assets.

The primary government's noncurrent liabilities totaled $161.0 billion, which consists of $79.9 billion in general obligation bonds, $30.3 billion in revenue bonds, and $50.8 billion in remaining noncurrent liabilities. During the 2013-14 fiscal year, the primary government's noncurrent liabilities decreased by $3.3 billion (2.0%) from the prior fiscal year. This decrease was primarily the result of a $4.4 billion decrease in capital lease obligations, an increase of $3.2 billion in net other postemployment benefits obligations, a decrease of $1.3 billion in revenue bonds payable, and a $952 million decrease in loans payable.

Overview of the Financial Statements

This discussion and analysis is an introduction to the section presenting the State's basic financial statements, which includes four components: (1) government-wide financial statements, (2) fund financial statements, (3) discretely presented component units financial statements, and (4) notes to the financial statements. This report also contains required supplementary information and combining financial statements and schedules.

Government-wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the State's finances. The government-wide financial statements do not include fiduciary programs and activities of the primary government and component units because fiduciary resources are not available to support state programs.

To help readers assess the State's economic condition at the end of the fiscal year, the statements provide both short-term and long-term information about the State's financial position. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting, similar to methods used by most businesses. These statements take into account all revenues and expenses connected with the fiscal year, regardless of when the State received or paid the cash. The government-wide financial statements include two statements: the Statement of Net Position and the Statement of Activities.

- The *Statement of Net Position* presents all of the State's financial and capital resources in a format in which assets and deferred outflows of resources equal liabilities and deferred inflows of resources, plus net position. Over time, increases or decreases in net position indicate whether the financial position of the State is improving or deteriorating.

- The *Statement of Activities* presents information showing how the State's net position changed during the most recent fiscal year. The State reports changes in net position as soon as the event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, this statement reports revenues and expenses for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

The government-wide financial statements separate into different columns the three types of state programs and activities: governmental activities, business-type activities, and component units.

- *Governmental activities* are mostly supported by taxes, such as personal income and sales and use taxes, and intergovernmental revenues, primarily federal grants. Most services and expenses normally associated with state government fall into this activity category, including general government, education (public kindergarten through 12th grade [K-12] schools and institutions of higher education), health and human services, resources, state and consumer services, business and transportation, correctional programs, and interest on long-term debt.

- *Business-type activities* typically recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business-type activities of the State of California include providing unemployment insurance programs, providing housing loans to California veterans, providing water to local water districts, providing services to California State University students, selling California State Lottery tickets, and selling electric power. These activities are carried out with minimal financial assistance from the governmental activities or general revenues of the State.

- *Component units* are organizations that are legally separate from the State, but are at the same time related to the State financially (i.e., the State is financially accountable for them) or the nature of their relationship with the State is so significant that their exclusion would cause the State's financial statements to be misleading or incomplete. The State's financial statements include the information for blended, fiduciary, and discretely presented component units.

  - *Blended component units*, although legally separate entities, are in substance a part of the primary government's operations. Therefore, for reporting purposes, the State integrates data from blended component units into the appropriate funds. The Golden State Tobacco Securitization Corporation and certain building authorities are blended component units of the State and are included in governmental activities.

  - *Fiduciary component units* are legally separate from the primary government but, due to their fiduciary nature, are included with the primary government's fiduciary funds. The California Public Employees' Retirement System and the California State Teachers' Retirement System are fiduciary component units that are included with the State's pension and other employee benefit trust funds, which are not included in the government-wide financial statements.

  - *Discretely presented component units* are legally separate from the primary government and provide services to entities and individuals outside the primary government. The activities of discretely presented component units are presented in a single column in the government-wide financial statements.

Most component units prepare their own separately issued financial statements. For information regarding obtaining the financial statements of the individual component units, refer to Note 1A, Reporting Entity.

Fund Financial Statements

Fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and discretely presented component units. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State of California, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal and contractual requirements. Following are general descriptions of the three types of funds:

- *Governmental funds* are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements. This approach is known as the *flow of current financial resources measurement* focus and the *modified accrual basis of accounting*. These governmental fund statements provide a detailed short-term view of the State's finances, enabling readers to determine whether adequate financial resources exist to meet the State's current needs.

  Because governmental fund financial statements provide a narrower focus than do government-wide financial statements, it is useful to compare governmental fund statements to the governmental activities information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Reconciliations located on the pages immediately following the fund statements show the differences between the government-wide statements and the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances. Primary differences between the government-wide and fund statements relate to noncurrent assets, such as land and buildings, and noncurrent liabilities, such as bonded debt and amounts owed for compensated absences and capital lease obligations, which are reported in the government-wide statements but not in the fund-based statements.

- *Proprietary funds* show activities that operate more like those found in the private sector. The State of California has two proprietary fund types: enterprise funds and internal service funds.

  - *Enterprise funds* record activities for which a fee is charged to external users; they are presented as business-type activities in the government-wide financial statements.

  - *Internal service funds* accumulate and allocate costs internally among the State of California's various functions. For example, internal service funds provide public building construction, information technology, printing, fleet management, and architectural services primarily for state departments. As a result, their activity is considered governmental.

- *Fiduciary funds* account for resources held for the benefit of parties outside the State. Fiduciary funds and the activities of fiduciary component units are not reflected in the government-wide financial statements because the resources of these funds are not available to support State of California programs. The accounting used for fiduciary funds and similar component units is similar to that used for proprietary funds.

Discretely Presented Component Units Financial Statements

The State has financial accountability for discretely presented component units, which have certain independent qualities and operate in a similar manner as private-sector businesses. The activities of the discretely presented component units are classified as enterprise activities.

Notes to the Financial Statements

The notes to the financial statements in this publication provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements, which describe particular accounts in more detail, are located immediately following the discretely presented component units' financial statements.

Required Supplementary Information

A section of required supplementary information follows the notes to the basic financial statements in this publication. This section includes a schedule of funding progress for certain pension and other postemployment benefit trust funds, information on infrastructure assets based on the modified approach, a budgetary comparison schedule, and a reconciliation of the budgetary basis and the GAAP basis fund balances for the major governmental funds presented in the governmental fund financial statements.

Combining Financial Statements and Schedules

The Combining Financial Statements and Schedules – Nonmajor and Other Funds section presents combining statements that provide separate financial statements for nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor component units. The basic financial statements present only summary information for these activities.

Government-wide Financial Analysis

Net Position

The primary government's combined net position (governmental and business-type activities) increased by more than 409%, from a negative $2.4 billion, as restated at June 30, 2013, to a positive $7.3 billion a year later.

The primary government's $96.1 billion net investment in capital assets, such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets) comprise a significant portion of its net position. This amount of capital assets is net of any outstanding debt used to acquire those assets. The State uses capital assets when providing services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, the resources needed to repay this debt must come from other sources because the State cannot use the capital assets to pay off the liabilities.

Another $29.8 billion of the primary government's net position represents resources that are externally restricted as to how they may be used, such as resources pledged to debt service. Internally imposed earmarking of resources is not presented in this publication as restricted net position. As of June 30, 2014, governmental activities reported an unrestricted net deficit of $116.9 billion and business-type activities showed an unrestricted net deficit of $1.7 billion.

A large portion of the unrestricted net deficit of governmental activities consists of $66.7 billion in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. Because the State does not own these capital assets, neither the assets nor the related bonded debt is included in the portion of net position reported as "net investment in capital assets." Instead, the bonded debt is reported as a noncurrent liability that increases the State's unrestricted net position deficit. The State can expect continued deficits in the unrestricted net position of governmental activities as long as it has significant outstanding obligations for school districts and other local governmental entities.

Table 1 presents condensed financial information derived from the Statement of Net Position for the primary government.

Table 1

Net Position – Primary Government
June 30, 2014 and 2013
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
ASSETS						
Current and other assets	$ 70,798	$ 55,358	$ 24,345	$ 34,996	$ 95,143	$ 90,354
Capital assets	116,369	108,668	8,735	9,959	125,104	118,627
Total assets	**187,167**	**164,026**	**33,080**	**44,955**	**220,247**	**208,981**
DEFERRED OUTFLOWS OF RESOURCES	**986**	**911**	**242**	**480**	**1,228**	**1,391**
Total assets and deferred outflows of resources	**$ 188,153**	**$ 164,937**	**$ 33,322**	**$ 45,435**	**$ 221,475**	**$ 210,372**
LIABILITIES						
Noncurrent liabilities	$ 137,522	$ 128,052	$ 23,506	$ 36,282	$ 161,028	$ 164,334
Other liabilities	48,456	44,863	3,676	4,616	52,132	49,479
Total liabilities	**185,978**	**172,915**	**27,182**	**40,898**	**213,160**	**213,813**
DEFERRED INFLOWS OF RESOURCES	**171**	**159**	**823**	**471**	**994**	**630**
Total liabilities and deferred inflows of resources	**186,149**	**173,074**	**28,005**	**41,369**	**214,154**	**214,443**
NET POSITION						
Net investment in capital assets	94,001	84,931	2,066	1,719	96,067	86,650
Restricted	24,951	24,316	4,913	5,172	29,864	29,488
Unrestricted	(116,948)	(117,384)	(1,662)	(2,825)	(118,610)	(120,209)
Total net position (deficit)	**2,004**	**(8,137)**	**5,317**	**4,066**	**7,321**	**(4,071)**
Total liabilities, deferred inflows of resources, and net position	**$ 188,153**	**$ 164,937**	**$ 33,322**	**$ 45,435**	**$ 221,475**	**$ 210,372**

Changes in Net Position

The expenses of the primary government totaled $237.1 billion for the year ended June 30, 2014. Of this amount, $120.5 billion (50.8%) was funded with program revenues (charges for services or program-specific grants and contributions), leaving $116.6 billion to be funded with general revenues (mainly taxes). The primary government's general revenues of $126.3 billion exceeded net unfunded expenses by $9.7 billion, resulting in a positive net position for the first time in five years.

Table 2 presents condensed financial information derived from the Statement of Activities for the primary government.

Table 2

Changes in Net Position – Primary Government
Years ended June 30, 2014 and 2013
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program Revenues:						
Charges for services	$ 22,274	$ 23,102	$ 25,284	$ 28,379	$ 47,558	$ 51,481
Operating grants and contributions	69,861	60,944	1,491	1,323	71,352	62,267
Capital grants and contributions	1,516	1,669	81	142	1,597	1,811
General Revenues:						
Taxes	125,812	118,645	—	—	125,812	118,645
Investment and interest	81	57	—	—	81	57
Miscellaneous	488	552	—	—	488	552
Total revenues	**220,032**	**204,969**	**26,856**	**29,844**	**246,888**	**234,813**
EXPENSES						
Program Expenses:						
General government	14,292	15,390	—	—	14,292	15,390
Education	54,720	50,586	—	—	54,720	50,586
Health and human services	105,037	94,070	—	—	105,037	94,070
Resources	5,855	5,671	—	—	5,855	5,671
State and consumer services	590	1,475	—	—	590	1,475
Business and transportation	13,427	12,836	—	—	13,427	12,836
Correctional programs	11,235	10,082	—	—	11,235	10,082
Interest on long-term debt	4,699	4,350	—	—	4,699	4,350
Electric Power	—	—	835	488	835	488
Water Resources	—	—	983	1,127	983	1,127
Public Buildings Construction	—	—	—	410	—	410
State Lottery	—	—	5,079	4,499	5,079	4,499
Unemployment Programs	—	—	13,673	17,599	13,673	17,599
California State University	—	—	6,545	6,197	6,545	6,197
Other enterprise programs	—	—	143	140	143	140
Total expenses	**209,855**	**194,460**	**27,258**	**30,460**	**237,113**	**224,920**
Excess (deficiency) before transfers	**10,177**	**10,509**	**(402)**	**(616)**	**9,775**	**9,893**
Transfers	(2,296)	(1,998)	2,296	1,998	—	—
Special item	(55)	—	(27)	—	(82)	—
Change in net position	7,826	8,511	1,867	1,382	9,693	9,893
Net position, beginning (restated)	**(5,822)**	**(16,648)**	**3,450**	**2,684**	**(2,372)**	**(13,964)**
Net position (deficits), ending	**$ 2,004**	**$ (8,137)**	**$ 5,317**	**$ 4,066**	**$ 7,321**	**$ (4,071)**

Governmental Activities

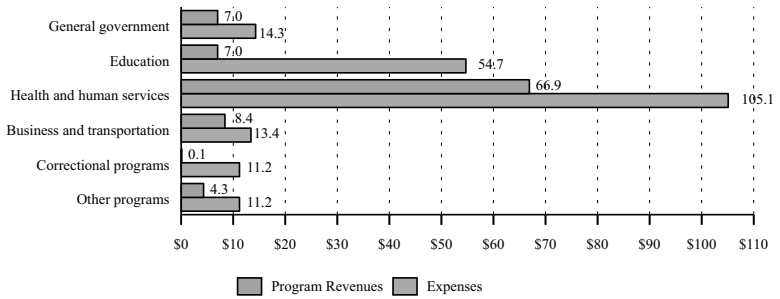
Governmental activities' expenses, transfers, and a special item totaled $212.2 billion. Program revenues totaling $93.7 billion, including $71.4 billion received in federal grants, funded 44.1% of expenses and transfers, leaving $118.5 billion to be funded with general revenues (mainly taxes). General revenues for governmental activities totaled $126.3 billion, and the governmental activities' total restated net deficit

position of $5.8 billion at the end of fiscal year 2012-13 improved to a positive net position of $2.0 billion for the year ended June 30, 2014, an increase of $7.8 billion (134.4%).

Chart 1 presents a comparison of governmental activities' expenses by program, with related revenues.

Chart 1

Expenses and Program Revenues – Governmental Activities
Year ended June 30, 2014
(amounts in billions)



For the year ended June 30, 2014, total state tax revenues collected for governmental activities increased by $6.6 billion (5.8%) over the prior year. Personal income taxes increased by $1.3 billion (1.9%) as a result of California's stronger job market; the continued effect of Proposition 30, which increased personal income tax on earnings above $250,000; increased capital gains taxes from a strong stock market; and increasing home prices. Sales and use tax revenue increased by $2.6 billion (7.8%) due to the 0.25% increase in the State's sales tax effective on January 1, 2013, and increased consumer spending caused by increased consumer confidence in the improving economy and a reduction in the unemployment rate. Corporate taxes increased by $1.8 billion (24.9%) due to the State's ongoing economic recovery as well as the passage of Proposition 39, which required multistate corporations to calculate their California income tax liability on the percentage of their sales in California.

Overall expenses for governmental activities increased by $15.4 billion (7.9%) over the prior year. The largest increase of expenditures, $11.0 billion (11.7%), occurred in health and human services programs, the majority of which is attributable to the Department of Health Care Services, which administers the State's Medi-Cal program. The growth in spending for health and humans services was due to an increased Medi-Cal caseload, the increased utilization of health care services, the rising costs of those services, and the added costs associated with implementing the Patient Protection and Affordable Care Act—also known as federal health care reform. State and consumer services expenses decreased by $886 million (60.0%) largely due to the shift of certain state and consumer services expenses to general government as a result of the Governor's Reorganization Plan No. 2.

Charts 2 and 3 present the percentage of total expenses for each governmental activities program and the percentage of total revenues by source.

Chart 2

Expenses by Program
Year ended June 30, 2014
(as a percent)

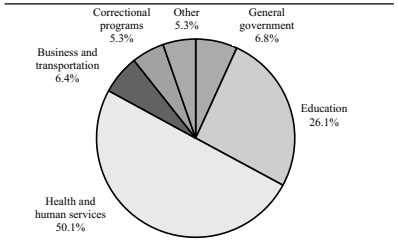
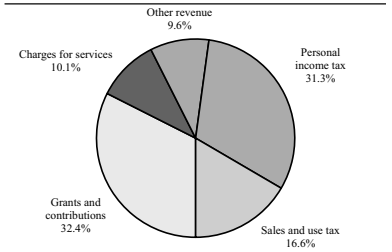


Chart 3

Revenues by Source
Year ended June 30, 2014
(as a percent)



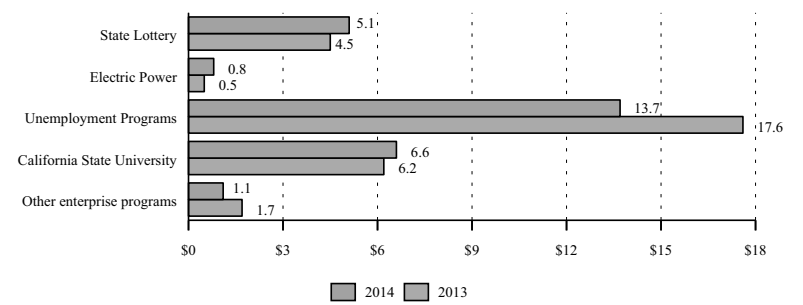
Business-type Activities

Business-type activities' expenses totaled $27.3 billion. Program revenues of $26.9 billion, primarily generated from charges for services, and $2.3 billion in transfers were sufficient to cover these expenses. Consequently, the business-type activities' total net position increased by $1.9 billion, or 54.1%, during the year ended June 30, 2014.

Chart 4 presents a two-year comparison of the expenses of the State's business-type activities.

Chart 4

Expenses – Business-type Activities – Two-year Comparison
Year ended June 30, 2014 and 2013
(amounts in billions)



Fund Financial Analysis

The State's governmental funds had an $8.1 billion increase in fund balance over the prior year's restated ending fund balance. Proprietary funds' net position increased by $1.9 billion for the fiscal year 2013-14, of which $1.5 billion was in the Unemployment Programs Fund, reducing its net position deficit to $2.7 billion.

Governmental Funds

The governmental funds' Balance Sheet reported $74.3 billion in assets, $54.6 billion in liabilities and deferred inflows of resources, and $19.8 billion in fund balance as of June 30, 2014. Total assets of governmental funds increased by 15.8%, while total liabilities increased by 5.1%, resulting in a total fund balance increase of $8.1 billion (69.2%) over the prior fiscal year.

Within the governmental funds' total fund balance, $156 million is classified as nonspendable because this amount consists of long-term interfund receivables and loans receivable, or due to legal or contractual requirements. Additionally, $24.7 billion is classified as restricted for specific programs by external constraints such as debt covenants and contractual obligations, or by constitutional provisions or enabling legislation. Furthermore, of the total fund balance, $3.0 billion is classified as committed for specific purposes and $19 million is classified as assigned for specific purposes. The unassigned balance of the governmental funds is a negative $8.1 billion.

The Statement of Revenues, Expenditures and Changes in Fund Balances of the governmental funds reported $219.9 billion in revenues, $218.3 billion in expenditures, and a net $6.6 billion in receipts from other financing sources. The ending fund balance of the governmental funds for the year ended June 30, 2014, was $19.8 billion, an $8.1 billion increase over the prior year's restated ending fund balance of $11.7 billion. The primary reason for the increase in fund balance was an increase in the year-end balances of cash reserves and receivables, primarily from tax revenue and federal grants.

Personal income taxes, which account for 54.6% of tax revenues and 31.3% of total governmental fund revenues, increased by $1.3 billion over the prior fiscal year. Sales and use taxes, which account for 28.9% of tax revenues and 16.6% of total governmental fund revenues, increased by $2.5 billion over the prior fiscal year. Corporation taxes, which account for 7.3% of tax revenues and 4.2% of total governmental fund revenues, increased by $2.0 billion over the prior fiscal year. Governmental fund expenditures increased by $16.2 billion over the prior fiscal year, primarily for education and health and human services. General obligation bonds and commercial paper of $5.1 billion were issued during the 2013-14 fiscal year, an increase of $1.0 billion over the prior fiscal year.

The State's major governmental funds are the General Fund, the Federal Fund, the Transportation Fund, and the Environmental and Natural Resources Fund. The General Fund ended the fiscal year with a fund deficit of $7.4 billion. The Federal Fund, the Transportation Fund, and the Environmental and Natural Resources Fund ended the fiscal year with fund balances of $212 million, $7.5 billion, and $7.6 billion, respectively. The nonmajor governmental funds ended the fiscal year with a total fund balance of $11.9 billion.

General Fund: As shown on the Balance Sheet, the General Fund (the State's main operating fund) ended the fiscal year with assets of $19.4 billion; liabilities and deferred inflows of resources of $26.9 billion; and nonspendable, restricted, and committed fund balances of $129 million, $394 million, and $125 million, respectively, leaving the General Fund with a negative unassigned fund balance of $8.1 billion. Total assets of the General Fund increased by $3.8 billion (24.1%) over the prior fiscal year, while the total liabilities and deferred inflows of resources of the General Fund decreased by $3.0 billion (10.2%). Total net fund deficit balance decreased by $7.6 billion (50.6%).

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances, the General Fund had an excess of revenues over expenditures of $8.9 billion ($104.2 billion in revenues and $95.3 billion in expenditures). Approximately 95.1% of General Fund revenue ($99.1 billion) is derived from the State's largest three taxes—personal income taxes ($67.6 billion), sales and use taxes ($22.3 billion), and corporation taxes ($9.2 billion). As a result of fund classifications made to comply with governmental accounting standards, a total of $244 million in revenue, essentially all from unemployment programs, is included in the General Fund. These revenues are not considered General Fund revenues for any budgetary purposes or for the State's Budgetary/Legal Basis Annual Report.

During the 2013-14 fiscal year, total General Fund revenue increased by $4.8 billion (4.8%). The increase is a result of increases in corporation taxes of $2.0 billion (27.3%), sales and use taxes of $1.9 billion (9.1%), and personal income taxes of $1.4 billion (2.1%).

General Fund expenditures increased by $5.2 billion (5.8%). The largest increases were in education and health and human services expenditures, which were up $3.9 billion and $961 million, respectively. The General Fund's deficit for the year ended June 30, 2014, was $7.4 billion, a decrease of $7.6 billion from the prior year's restated ending fund deficit of $15.1 billion.

Federal Fund: This fund reports federal grant revenues and related expenditures to support the grant programs. The largest of these programs is for health and human services, which accounted for $58.1 billion (82.4%) of the total $70.5 billion in Federal Fund expenditures. The Medical Assistance program and the Temporary Assistance for Needy Families program are included in this program area. Education programs also constituted a large part of the Federal Fund expenditures, amounting to $6.9 billion (9.8%). The Federal Fund's revenue increased by $8.8 billion, which was approximately the same amount of the increase in combined expenditures and transfers, resulting in only a $14 million fund balance increase from the prior year's ending fund balance of $198 million.

Transportation Fund: This fund accounts for fuel taxes, bond proceeds, and other revenues used primarily for highway and passenger rail maintenance and construction. The Transportation Fund's revenues increased by 7.0% and expenditures increased by 10.4%. Other financing sources provided net receipts of $2.2 billion. The Transportation Fund ended the fiscal year with a $7.5 billion fund balance, an increase of $236 million over the prior year.

Environmental and Natural Resources Fund: This fund accounts for fees, bond proceeds, and other revenues that are used for maintaining the State's natural resources and improving the environmental quality of its air, land, and water. Other financing sources provided net receipts of $640 million. The Environmental and Natural Resources Fund ended the fiscal year with a $7.6 billion fund balance, a decrease of $187 million (2.4%) from the prior year.

Proprietary Funds

During the fiscal year, the Public Buildings Construction Fund was reclassified from an enterprise fund to an internal service fund, causing restated beginning net positions and large differences in lease receivables, revenue bonds payable, and related revenues and expenses for both fund types.

Enterprise Funds: The total net position of the enterprise funds at June 30, 2014, was $5.3 billion—$1.9 billion greater than the prior year's restated ending net position of $3.4 billion. The Unemployment Programs Fund had a decrease in its deficit net position of $1.5 billion, while the California State University Fund and nonmajor enterprise funds increased their net positions by $264 million and $111 million, respectively.

As shown on the Statement of Net Position of proprietary funds, total assets and deferred outflows of resources of the enterprise funds was $33.7 billion as of June 30, 2014. Of this amount, current assets totaled $11.2 billion, noncurrent assets totaled $22.3 billion, and deferred outflows of resources totaled $242 million. The total liabilities and deferred inflows of resources of the enterprise funds was $28.4 billion. The largest liabilities of the enterprise funds are $13.0 billion of revenue bonds payable and $7.6 billion of noncurrent loans payable. During the 2013-14 fiscal year, the State reduced the balance of the loans from the U.S Department of Labor that covered prior year deficits in the Unemployment Programs Fund, by $952 million, leaving a balance of $7.6 billion as of June 30, 2014.

Total net position consisted of four segments: net investment in capital assets of $2.1 billion, a nonexpendable restricted net position of $16 million, a restricted expendable net position of $4.9 billion, and an unrestricted net deficit of $1.7 billion.

As shown on the Statement of Revenues, Expenses, and Changes in Fund Net Position of proprietary funds, the enterprise funds ended the year with operating revenues of $24.2 billion, operating expenses of $24.7 billion, and net revenues from other transactions of $49 million. The largest sources of operating revenue were unemployment and disability insurance receipts of $15.2 billion in the Unemployment Programs Fund, and lottery ticket sales of $5.0 billion collected by the State Lottery Fund. The unemployment and disability insurance receipts in the Unemployment Programs Fund decreased by $3.4 billion from $18.6 billion in the prior fiscal year. These receipts came primarily from the federal government unemployment account to pay unemployment and disability benefits. The largest operating expenses were distributions of $13.4 billion to beneficiaries by the Unemployment Programs Fund, and personal services of $4.0 billion by the California State University Fund.

Internal Service Funds: The total net position of the internal service funds was $547 million as of June 30, 2014. The net position consists of three segments: net investment in capital assets of $245 million, restricted net position of $287 million, and unrestricted net position of $15 million.

Fiduciary Funds

The State of California has four types of fiduciary funds: private purpose trust funds, pension and other employee benefit trust funds, investment trust funds, and agency funds. The private purpose trust funds ended the fiscal year with net position of $6.1 billion. The pension and other employee benefit trust funds ended the fiscal year with net position of $510.2 billion. The State's only investment trust fund, the Local Agency Investment Fund, ended the fiscal year with net position of $21.1 billion. Agency funds act as clearing accounts and thus do not have a net position.

For the year ended June 30, 2014, the fiduciary funds' combined net position was $537.5 billion, a $67.9 billion increase over the prior year net position. The net position increased primarily because contributions received and investment income in pension and other employee benefit trust funds exceeded payments made to participants.

General Fund Budget Highlights

The original General Fund budget of $95.3 billion was increased by $4.1 billion. This increase is mainly comprised of funding augmentations for health and human services, education, and correctional programs. The increase in health and human services program funding is primarily due to the implementation of the Patient Protection and Affordable Care Act, as well as caseload increases and augmentations for program contingencies. The Proposition 98 minimum guarantee increased education funding as the result of increased General Fund revenue in the 2013-14 fiscal year. The augmentation of correctional programs was authorized by the California Community Corrections Perfomance Incentive Act for the purpose of providing

probation-failure-reduction incentive payments and high-performance grants. During fiscal year 2013-14, the General Fund actual budgetary basis expenditures were $98.0 billion, or $1.4 billion less than the final budgeted amount of $99.4 billion.

Table 3 presents a summary of the General Fund original and final budgets.

Table 3

General Fund Original and Final Budgets
Year ended June 30, 2014
(amounts in millions)

	Original	Final	Increase
Budgeted amounts			
State and consumer services	$ 14	$ 14	$ —
Business and transportation	91	91	—
Resources	1,109	1,263	154
Health and human services	27,518	29,390	1,872
Correctional programs	8,610	9,349	739
Education	48,409	49,570	1,161
General government:			
Tax relief	422	425	3
Debt service	4,801	4,801	—
Other general government	4,328	4,478	150
Total	**$ 95,302**	**$ 99,381**	**$ 4,079**

Capital Assets and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounted to $125.1 billion (net of accumulated depreciation/amortization). The State's capital assets include land, state highway infrastructure, collections, buildings and other depreciable property, intangible assets, and construction in progress. The buildings and other depreciable property account includes buildings, improvements other than buildings, equipment, certain infrastructure assets, certain books, and other capitalized and depreciable property. Intangible assets include computer software, land use rights, patents, copyrights, and trademarks. Infrastructure assets are items that normally are immovable, such as roads and bridges, and can be preserved for a greater number of years than can most capital assets.

As of June 30, 2014, the State's capital assets increased $6.5 billion over the prior fiscal year. The majority of this increase occurred in buildings and other depreciable property, and construction in progress. Included in the capital assets increase is a $2.2 billion beginning balance restatement, primarily for understated state highway infrastructure construction in progress.

Note 7, Capital Assets, includes additional information on the State's capital assets.

Table 4 presents a summary of the primary government's capital assets for governmental and business-type activities.

Table 4

Capital Assets
June 30, 2014
(amounts in millions)

	Governmental Activities	Business-type Activities	Total
Land	$ 18,258	$ 222	$ 18,480
State highway infrastructure	65,269	—	65,269
Collections – nondepreciable	23	7	30
Buildings and other depreciable property	27,554	11,738	39,292
Intangible assets – amortizable	1,091	336	1,427
Less: accumulated depreciation/amortization	(12,150)	(4,581)	(16,731)
Construction in progress	14,858	764	15,622
Intangible assets – nonamortizable	1,466	249	1,715
Total	**$ 116,369**	**$ 8,735**	**$ 125,104**

Modified Approach for Infrastructure Assets

The State has elected to use the modified approach for capitalizing infrastructure assets of the state highway system (state roadways and bridges). Under the modified approach, the State does not report depreciation expense for its roads and bridges but capitalizes all costs that add to their capacity and efficiency. All maintenance and preservation costs are expensed and not capitalized. Under the modified approach, the State maintains an asset management system to demonstrate that the infrastructure is preserved at or above established condition levels. During the 2013-14 fiscal year, the actual amount spent on preservation was 29.6% of the estimated budgeted amount needed to maintain the infrastructure assets at the established condition levels. Although the amount spent fell short of the budgeted amount, the assessed condition of the State's bridges and roadways is better than the established condition baselines. The State is responsible for maintaining 49,718 lane miles and 13,120 bridges.

The Required Supplementary Information includes additional information on how the State uses the modified approach for infrastructure assets; it also presents the established condition standards, condition assessments, and preservation costs.

Debt Administration

The State's largest long-term obligations are its bonded debt. At June 30, 2014, the primary government had total bonded debt outstanding of $115.9 billion. Of this amount, $84.0 billion (72.5%) represents general obligation bonds, which are backed by the full faith and credit of the State. Included in the $84.0 billion of general obligation bonds is $4.6 billion of Economic Recovery bonds that are secured by a pledge of revenues derived from dedicated sales and use taxes. The current portion of general obligation bonds outstanding is $4.0 billion and the long-term portion is $80.0 billion. The remaining $31.9 billion (27.5%) of bonded debt outstanding represents revenue bonds, which are secured solely by specified revenue sources. The current portion of revenue bonds outstanding is $1.6 billion and the long-term portion is $30.3 billion. During the fiscal year, the State issued $5.9 billion in new general obligation bonds for transportation projects, housing

and emergency shelters, stem cell research, children's hospitals, various water and flood control projects, and to refund previously outstanding general obligation bonds and commercial paper.

Table 5 presents a summary of all the primary government's long-term obligations for governmental and business-type activities.

Table 5

Long-term Obligations
June 30, 2014
(amounts in millions)

	Governmental Activities	Business-type Activities	Total
Government-wide noncurrent liabilities			
General obligation bonds	$ 79,287	$ 617	$ 79,904
Revenue bonds payable	18,270	12,070	30,340
Net other postemployment benefits obligation	18,617	628	19,245
Mandated cost claims payable	7,715	—	7,715
Loans payable	—	7,633	7,633
Compensated absences payable	3,751	183	3,934
Workers compensation benefits payable	3,291	3	3,294
Net pension obligation	3,238	—	3,238
Capital lease obligations	200	1,180	1,380
Certificates of participation and commercial paper	589	51	640
Other noncurrent liabilities	2,563	1,141	3,704
Total noncurrent liabilities	137,521	23,506	161,027
Current portion of long-term obligations	5,807	1,931	7,738
Total long-term obligations	**$ 143,328**	**$ 25,437**	**$ 168,765**

During the year ended June 30, 2014, the primary government's total long-term obligations increased by $2.9 billion over the prior year's restated balance. The prior year balance was restated primarily for the elimination of the governmental activities' capital lease obligation for lease-purchase agreements between the State Public Works Board, and governmental funds when the Public Buildings Construction Fund was reclassified from an enterprise fund (business-type activity) to an internal service fund (governmental activity). Net other postemployment benefits obligation increased the most ($3.2 billion) during the fiscal year, but other notable increases occurred in state-mandated cost claims payable ($1.1 billion) and general obligation bonds payable ($717 million). The net other postemployment benefits obligation increased because the State does not fully fund the annual cost of these benefits. The largest decreases were in revenue bonds payable ($1.4 billion) and loans payable to the U.S. Department of Labor for prior year shortfalls in the unemployment program ($952 million).

Note 10, Long-term Obligations, and Notes 11 through 16 include additional information on the State's long-term obligations.

In August 2013, Fitch raised the State's general obligation rating to "A" from "A-", citing the State's institutional changes to fiscal management and its ongoing economic and revenue recovery. In June 2014, Moody's raised the State's general obligation rating to "Aa3" from "A1", citing the State's rapidly improving financial position, high but declining debt metrics, adjusted net pension liability ratios that are close to the state median, strong liquidity, and robust employment growth. During the 2013-14 fiscal year, the rating from Standard and Poor's remained unchanged at "A".

Economic Condition and Future Budgets

The Economy for the Year Ending June 30, 2014

The U.S. economy completed its fifth year of recovery as California ended its fiscal year on June 30, 2014. National economic growth was somewhat erratic, with a difficult winter quarter followed by a solid spring rebound. The U.S. real gross domestic product (GDP) had a moderate 2.5% increase over the 12 months spanning the State's fiscal year.

California's income growth outperformed the nation in the 2013-14 fiscal year. The State's total personal income increased 3.5% during the fiscal year versus the 2.6% increase the nation experienced. As personal income grew, consumer spending increased, as substantiated by the 6.6% increase in auto registrations, for a total of 1.7 million registered vehicles for the 12 months ended June 30, 2014.

The State's real estate market showed signs of stabilizing at the end of the fiscal year compared to the market a year earlier, in which it was common for multiple offers to be made on a property and for it to be sold for more than its list price. As of June 2014, prices were significantly higher, 6.6% over the prior year, but sales were down by about 5%. Homebuilding in California picked up substantially, as permits issued during the fiscal year increased approximately 12%, to more than 82,000 units. Similarly, nonresidential building rebounded during the fiscal year; the value of nonresidential permits increased 44% to $23 billion. Retail stores, hotels, amusement parks, offices, and renovations contributed to the large increase.

California's job market both illustrated the State's recovery and contributed to it during the fiscal year. In June 2014, nonfarm employment surpassed its pre-recession high. With a 12-month gain of 347,500 jobs, employment was 2.3% higher than in June 2013. Job growth was widespread, with notable increases in construction, trade, leisure and hospitality, health care, and business and public services. Financial services, nondurable goods manufacturing, and the federal government were the only areas that experienced job losses. The improvement in the labor market was demonstrated by the drop in the State's unemployment rate from 9.0% in June 2013 to 7.4% in June 2014.

California ended the 2013-14 fiscal year with impressive economic gains. Consumers benefited from gains in jobs, personal income, home prices, and the stock market. California's economic and financial health was clearly on the mend even though the unemployment rate remained relatively high at the end of the fiscal year.

Economic Performance for the 2014-15 Fiscal Year as of January 31, 2015

California's economy continued to improve during the first several months of fiscal year 2014-15. Job gains, falling unemployment, increases in personal income, higher auto sales, and rising construction in both the residential and nonresidential markets demonstrate the continuing economic recovery.

Employment gains averaged 30,000 jobs per month during the first six months of the fiscal year, and as of December 2014, nonfarm employment increased 2.3% over its June 2014 level. Job increases were spread across a wide array of industries and sectors, and by December 2014, 11 of California's major metropolitan areas (representing 36% of the State's total labor market) had returned to their pre-recession job peaks. California's unemployment rate continued to fall during the first six months of the 2014-15 fiscal year; by December 2014, it had receded to 7.0% from 7.4% in June 2014.

The State began the first quarter of the new fiscal year with a solid gain of 3.9% in total personal income compared with the prior quarter. Job gains, personal income increases, and low interest rates, spurred a 9%

increase in new auto registrations during the first four months of the fiscal year over the same period in the prior fiscal year.

The housing market returned to a more normal and sustainable pace as of December 2014. The stabilizing of home prices in recent months put home prices a moderate 3% above their prior year level as of December 2014. Although December's year-over-year rise in home sales was just 0.6%, it was the first increase in nearly a year and a half.

New construction activity continued to advance. On the housing front, building permits during the first six months of the 2014-15 fiscal year increased 5.7% over the total recorded during the first half of the prior fiscal year. The value of nonresidential permits gained 8.3%, with solid increases in industrial, office, retail, hotel, and building improvements.

California continues to make particular strides in technology, as evidenced by the advances of California businesses in web applications, biotech, mobile devices, alternative energy, and environmental science. During the first few months of the 2014-15 fiscal year, the State attracted $12.9 billion of venture capital, representing more than half of the national total.

As California moves into the remaining months of the 2014-15 fiscal year, it appears well positioned for further economic gains. Although challenged by an ongoing drought, economic and other instabilities abroad, and continuing budget pressures, the State's economy is clearly making progress on many fronts. The expected further growth in technology, health care, tourism, business and professional services, and construction all promise to deepen and broaden the State's economic expansion.

California's 2014-15 Budget

California's 2014-15 Budget Act was enacted on June 20, 2014. The Budget Act appropriated $156.3 billion: $108.0 billion from the General Fund, $44.3 billion from special funds, and $4.0 billion from bond funds. The General Fund's budgeted expenditures increased $7.3 billion (7.2%) over last year's General Fund budget and included a $1.6 billion supplemental payment to pay off the remaining balance of the State's prior deficit financing bonds, known as Economic Recovery bonds. The General Fund's available resources were projected to be $105.5 billion, after a projected $1.6 billion transfer to the Budget Stabilization Account (Rainy Day Fund). General Fund revenue comes predominantly from taxes, with personal income taxes expected to provide 65.6% of total revenue. California's major taxes (personal income, sales and use, and corporation taxes) are projected to supply approximately 96.2% of the General Fund's resources in the 2014-15 fiscal year.

The 2014-15 budget continued the Governor's multi-year financial plan for the State of California, and for the third consecutive year, it projected a surplus in the General Fund. The 2014-15 fiscal year is projected to end with $2.1 billion in total reserves—$1.6 billion in the Budget Stabilization Account and $449 million reserved for economic uncertainties. The 2014-15 budget made targeted augmentations in a few key areas while paying down several billion dollars of existing liabilities, including the Economic Recovery bonds mentioned above.

Budget-related legislation was enacted to erase the California State Teachers' Retirement System' (CalSTRS) $74 billion unfunded liability in 32 years by increasing contributions from the State, school and community college districts, and teachers. The State is responsible for approximately $20 billion of the unfunded liability. The 2014-15 budget provided $1.5 billion in state contributions to CalSTRS, of which $59 million will be used toward reducing the State's share of the unfunded liability.

The 2014-15 budget included an increase of $2.6 billion over the prior year revised estimate, to $60.9 billion, for the minimum annual funding guarantee for schools and community colleges (Proposition 98 funding). The budget also provided $5.2 billion to reduce the Proposition 98 funding deferrals accumulated in prior years, leaving a balance of $992 million by the end of the 2014-15 fiscal year. However, this balance may be fully eliminated if, in the May 2015 budget revision, the minimum guarantee for fiscal years 2013-14 and 2014-15 is higher than assumed in the 2014-15 budget package.

The spending plan for fiscal year 2014-15 includes General Fund money for health programs of $19.3 billion, which is an increase of almost $700 million, or 3.7%, over the 2013-14 funding level. This increase primarily addresses increased Medi-Cal program costs due to the implementation of the Patient Protection and Affordable Care Act, as well as increases in caseload and the need for health care services. It is estimated that approximately 825,000 additional people who were previously eligible for Medi-Cal, but who were unenrolled, will receive benefits during the 2014-15 fiscal year under the current 50-50 state-federal cost sharing arrangement.

General Fund revenues and expenditures tend to peak in different months, and the State typically experiences spending in excess of revenues during the first several months of the fiscal year. During the 2014-15 fiscal year, this gap has been significantly smaller than projected in the 2014-15 budget. As of December 1, 2014, revenues were $1.3 billion more than forecasted, while total disbursements were $1.3 billion below estimates. As a result, the General Fund's increase in temporary borrowing was $2.7 billion less than projected, leaving a balance of $18.5 billion in short-term borrowing—$15.7 billion of internal borrowing from other state funds and $2.8 billion from revenue anticipation notes issued in September 2014.

California's 2015-16 Budget

The Governor released his proposed 2015-16 budget on January 9, 2015; he sees maintaining a balanced budget as an ongoing challenge for the long term, requiring both fiscal restraint and prudence. The budget assumes the continued moderate expansion of the economy, and continues with the Governor's multi-year plan to build reserves and pay down outstanding debt. Proposition 2 was approved by voters in November 2014 and affects the budget for the first time in fiscal year 2015-16. Proposition 2 gives the State an opportunity to avoid budget shortfalls that are driven by ongoing spending commitments based on temporary spikes in revenues from capital gains. Under Proposition 2, spikes in capital gains will instead be used to save money for the next recession and to pay down the State's debts and unfunded liabilities. The budget proposes total reserves of $3.4 billion by the end of the 2015-16 fiscal year—$2.8 billion in the Budget Stabilization Account required under Proposition 2 and $534 million in the General Fund's reserve for economic uncertainties. In addition to the required reserve, Proposition 2 requires an equivalent amount be used to pay down existing debts. During the 2015-16 fiscal year, the Governor proposes to pay down the General Fund's loans from special funds and Proposition 98 obligations by a total of $1.2 billion.

The 2015-16 Governor's Budget projects that General Fund revenues and transfers will be $113.4 billion and expenditures will be $113.3 billion, with an estimated $1.5 billion year-end balance, which includes the $534 million reserve. In the proposed budget, the General Fund began fiscal year 2014-15 with a surplus balance of $5.1 billion; it is projected to begin fiscal year 2015-16 with a surplus of approximately $1.4 billion. Estimated General Fund revenues and transfers are 4.9% more than the revised 2014-15 estimate of $108.0 billion, while the 2014-15 expenditures are 1.4% greater than the revised 2014-15 estimate of $111.7 billion.

Personal income tax is projected to increase by $3.5 billion (4.9%) over the prior year revised estimate. This represents a major component of the $5.0 billion General Fund revenue increase. Sales and use taxes are also projected to increase by $1.7 billion (7.4%) and corporation tax by $0.6 billion (5.8%). The budget's projected increases in General Fund revenue trigger higher education spending through the Proposition 98 minimum

funding guarantees for both the 2014-15 and 2015-16 fiscal years. The Governor's budget includes $7.8 billion in Proposition 98 funding increases, with a large portion of new funding ($5.0 billion) dedicated to implementation of the Local Control Funding Formula (LCFF), a package of workforce education and training initiatives, and various community college augmentations. The Governor's budget package also provides $2.8 billion to significantly reduce the State's outstanding Proposition 98 obligations (including eliminating all remaining school and community college payment deferrals and reducing the backlog of education mandate claims).

The Governor's budget for fiscal year 2014-15 assumes increased spending for health and human services of $1.4 billion, or 4.7%, mainly within the Medi-Cal program. The increase will ensure continued implementation of federal health care reform, which will enable millions of Californians to obtain health care coverage. Numerous recent federal actions in the health and human services area have increased State costs or created substantial fiscal uncertainty. Therefore, assumptions made in the 2014-15 budget could ultimately turn out differently and result in either additional costs or budget savings. The 2014-15 proposed budget provides additional funding to resources and environmental protection programs for flood prevention, water projects, drought-related activities, and greenhouse-gas-emissions reduction. The budget also proposes a small one-time allocation to address some of the State's $66 billion infrastructure deferred maintenance backlog.

According to the Legislative Analyst's Office (LAO), California's nonpartisan fiscal and policy advisor, the Governor's plan is reasonable—dedicating most new ongoing funding to the State's high-priority program needs and most one-time funding to paying off outstanding obligations. The LAO indicates that there is a strong possibility that revenues for the 2014-15 fiscal year will be significantly above the Governor's projections, which will result in even more funding in fiscal year 2014-15 for schools and community colleges under the Proposition 98 minimum funding guarantee, and could result in higher ongoing payments to schools. As further evidence of the improvement in the State's finances in recent years, the Governor's cash flow projections assume that the State will not need to issue a revenue anticipation note (RAN) to meet cash flow needs during 2015-16. If the projections hold, fiscal year 2015-16 would be only the second year since the mid-1980s that the State has not issued a RAN. However, LAO cautions that this level of peak revenue will likely not last, and that the higher current-year revenue and resulting increase in ongoing school spending, present a potential challenge for the State's 2015-16 budget and beyond.

Future Changes in Pension Plan Reporting

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 67, No. 68, and No. 71 amending accounting and financial reporting standards for defined benefit and defined contribution pension plans for employers and pension plan sponsors nationwide. The initial phase of the implementation was completed by the State's pension plan sponsors—the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS). Both CalPERS and CalSTRS prepared financial statements for the fiscal year ended June 30, 2014, in conformity with GASB Statement No. 67. The next phase of implementation requires additional actuarial and accounting information to be reported in the State of California's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2015, in conformity with GASB Statements No. 68 and No. 71; this one-year lag is allowable in the new standards. Therefore, the disclosure in Note 24, Pension Trusts and the Schedule of Funding Progress included in the required supplementary information in this year's CAFR is largely the same as the previous years' information, but next year it will be significantly different.

The effect of the new standards' implementation is arguably the largest accounting and financial reporting change to state and local governments nationwide in over a decade. However, the economic and budgetary impact of the change is expected to be minimal. The State will be presenting new accounting information, note disclosures, and required supplementary information as a result of the implementation.

There are four major changes that will occur in the State's CAFR for the fiscal year ending June 30, 2015:

- The State's net pension liability (NPL) will be presented in the government-wide Statement of Net Position. The NPL consists of the fair value of the State's investments in CalPERS' pension plans, less current payables and the total pension liability attributable to the State's workforce for services rendered to the date of valuation. An additional liability will be reported for the State's obligations to CalSTRS' pension plans in accordance with the provisions of the California Education Code.

- The State's pension expense reported in the government-wide Statement of Activities will reflect the change in the pension obligation that occurred during the fiscal year. Pension expense will be comprised of the pensionable service cost of current employees, as adjusted for investment return and amortization of various prior gains and losses, as well as other demographic and plan changes.

- The notes to the financial statements related to pension trusts will be revised to include new required disclosures including information from the pension plans' actuarial valuations and from other sources. In most instances, the information will be from the previous year as recommended by the new standards.

- The required supplementary information related to pension plans will dramatically change. The Schedule of Funding Progress will be discontinued and the information required by the new standards will grow to include sets of ten-year schedules.

The accounting changes needed to implement GASB Statement No. 68 and No. 71 will require the restatement of the beginning net position in the government-wide financial statements as of July 1, 2014. The amount of this restatement is currently being calculated.

The State's timely and successful implementation of GASB's new pension plan standards is the result of an intensive and collaborative effort by officials of the State's pension plan sponsors (CalPERS and CalSTRS), the State Controller's Office, and the California State Auditor's Office.

Requests for Information

The State Controller's Office designed this financial report to provide interested parties with a general overview of the State of California's finances. Address questions concerning the information provided in this report or requests for additional information through email to the State Controller's Office, Division of Accounting and Reporting at StateGovReports@sco.ca.gov. This report is also available on the State Controller's Office website at www.sco.ca.gov.

Basic Financial Statements

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Government-wide Financial Statements

Statement of Net Position

June 30, 2014
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and pooled investments	$ 26,565,130	$ 5,433,555	$ 31,998,685	$ 2,353,088
Amount on deposit with U.S. Treasury	—	25,215	25,215	—
Investments	634,223	2,530,307	3,164,530	5,222,524
Restricted assets:				
Cash and pooled investments	3,339,603	676,975	4,016,578	128,517
Investments	—	—	—	15,929
Due from other governments	—	20,182	20,182	—
Net investment in direct financing leases	100,829	11,442	112,271	—
Receivables (net)	16,404,305	1,970,482	18,374,787	3,787,272
Internal balances	(329,500)	329,500	—	—
Due from primary government	—	—	—	206,341
Due from other governments	16,372,910	285,990	16,658,900	97,342
Prepaid items	124,378	48,396	172,774	1,276
Inventories	76,700	15,813	92,513	194,615
Recoverable power costs (net)	—	156,000	156,000	—
Other current assets	98,740	5,304	104,044	255,168
Total current assets	63,387,318	11,509,161	74,896,479	12,262,072
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	402,394	711,814	1,114,208	26,725
Investments	—	372,388	372,388	14,286
Loans receivable	—	305,278	305,278	—
Investments	—	1,178,561	1,178,561	27,930,558
Net investment in direct financing leases	851,240	358,915	1,210,155	—
Receivables (net)	2,058,389	286,011	2,344,400	2,741,342
Loans receivable	4,076,416	3,879,070	7,955,486	4,067,009
Recoverable power costs (net)	—	4,490,000	4,490,000	—
Long-term prepaid charges	21,885	1,230,632	1,252,517	—
Capital assets:				
Land	18,258,395	222,138	18,480,533	1,002,521
State highway infrastructure	65,268,686	—	65,268,686	—
Collections – nondepreciable	22,630	7,711	30,341	390,678
Buildings and other depreciable property	27,553,863	11,738,198	39,292,061	43,499,890
Intangible assets – amortizable	1,090,970	336,051	1,427,021	835,971
Less: accumulated depreciation/amortization	(12,150,010)	(4,581,349)	(16,731,359)	(20,542,756)
Construction in progress	14,857,774	764,065	15,621,839	3,661,522
Intangible assets – nonamortizable	1,466,407	248,601	1,715,008	5,082
Other noncurrent assets	—	23,173	23,173	353,936
Total noncurrent assets	123,779,039	21,571,257	145,350,296	63,986,764
Total assets	**187,166,357**	**33,080,418**	**220,246,775**	**76,248,836**
DEFERRED OUTFLOWS OF RESOURCES	**986,477**	**242,167**	**1,228,644**	**3,737,238**
Total assets and deferred outflows of resources	**$ 188,152,834**	**$ 33,322,585**	**$ 221,475,419**	**$ 79,986,074**

The notes to the financial statements are an integral part of this statement.

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	$ 25,731,972	$ 313,160	$ 26,045,132	$ 1,838,598
Due to component units	206,341	—	206,341	—
Due to other governments	7,111,861	129,160	7,241,021	54,967
Revenues received in advance	1,395,296	322,669	1,717,965	1,127,716
Tax overpayments	4,872,567	—	4,872,567	—
Deposits	396,868	—	396,868	790,051
Contracts and notes payable	615	—	615	16,326
Unclaimed property liability	730,564	—	730,564	—
Interest payable	1,292,513	72,632	1,365,145	60,934
Securities lending obligations	—	—	—	1,269,083
Benefits payable	—	482,396	482,396	—
Current portion of long-term obligations	5,807,107	1,930,899	7,738,006	3,805,538
Other current liabilities	910,628	424,932	1,335,560	1,821,788
Total current liabilities	48,456,332	3,675,848	52,132,180	10,785,001
Noncurrent liabilities:				
Loans payable	—	7,633,391	7,633,391	—
Lottery prizes and annuities	—	683,180	683,180	—
Compensated absences payable	3,750,543	182,859	3,933,402	275,284
Workers compensation benefits payable	3,290,898	2,538	3,293,436	321,338
Certificates of participation, commercial paper, and other borrowings	589,575	51,106	640,681	20,255
Capital lease obligations	200,192	1,180,232	1,380,424	448,648
General obligation bonds payable	79,287,287	617,317	79,904,604	—
Revenue bonds payable	18,270,478	12,069,907	30,340,385	19,187,901
Mandated cost claims payable	7,715,179	—	7,715,179	—
Net other postemployment benefits obligation	18,616,859	628,422	19,245,281	8,580,247
Net pension obligation	3,237,785	—	3,237,785	7,725,075
Revenues received in advance	—	11,460	11,460	—
Other noncurrent liabilities	2,562,633	446,048	3,008,681	1,924,267
Total noncurrent liabilities	137,521,429	23,506,460	161,027,889	38,483,015
Total liabilities	**185,977,761**	**27,182,308**	**213,160,069**	**49,268,016**
DEFERRED INFLOWS OF RESOURCES	**170,802**	**822,886**	**993,688**	**7,110,123**
Total liabilities and deferred inflows of resources	**$ 186,148,563**	**$ 28,005,194**	**$ 214,153,757**	**$ 56,378,139**

(continued)

The notes to the financial statements are an integral part of this statement.

Statement of Net Position (continued)

June 30, 2014
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
NET POSITION				
Net investment in capital assets	$ 94,001,659	$ 2,065,550	$ 96,067,209	$ 12,682,963
Restricted:				
Nonexpendable – endowments	—	16,219	16,219	5,289,548
Expendable:				
Endowments and gifts	—	—	—	9,912,926
Business and transportation	10,350,504	6,683	10,357,187	—
Resources	4,946,088	569,826	5,515,914	—
Health and human services	3,762,680	146,192	3,908,872	—
Education	1,141,458	79,018	1,220,476	1,708,757
General government	3,946,835	251,141	4,197,976	—
Unemployment programs	—	3,800,470	3,800,470	—
State and consumer services	801,248	32,133	833,381	—
Correctional programs	1,927	11,851	13,778	—
Indenture	—	—	—	491,187
Statute	—	—	—	1,268,261
Other purposes	—	—	—	25,769
Total expendable	24,950,740	4,897,314	29,848,054	13,406,900
Unrestricted	(116,948,128)	(1,661,692)	(118,609,820)	(7,771,476)
Total net position	**2,004,271**	**5,317,391**	**7,321,662**	**23,607,935**
Total liabilities, deferred inflows of resources, and net position	**$ 188,152,834**	**$ 33,322,585**	**$ 221,475,419**	**$ 79,986,074**

(concluded)

The notes to the financial statements are an integral part of this statement.

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The notes to the financial statements are an integral part of this statement.

Statement of Activities

Year Ended June 30, 2014
(amounts in thousands)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position – Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units
Primary government								
Governmental activities:								
General government	$ 14,292,179	$ 5,994,608	$ 1,011,594	$ —	$ (7,285,977)		$ (7,285,977)	
Education	54,719,677	67,165	6,943,619	—	(47,708,893)		(47,708,893)	
Health and human services	105,037,102	7,961,897	58,943,872	—	(38,131,333)		(38,131,333)	
Resources	5,854,685	3,403,524	261,832	—	(2,189,329)		(2,189,329)	
State and consumer services	589,715	586,055	5,358	—	1,698		1,698	
Business and transportation	13,427,229	4,247,258	2,606,718	1,515,890	(5,057,363)		(5,057,363)	
Correctional programs	11,234,705	13,645	88,137	—	(11,132,923)		(11,132,923)	
Interest on long-term debt	4,699,265	—	—	—	(4,699,265)		(4,699,265)	
Total governmental activities	209,854,557	22,274,152	69,861,130	1,515,890	(116,203,385)		(116,203,385)	
Business-type activities:								
Electric Power	835,000	835,000	—	—		$ —	—	
Water Resources	983,048	983,048	—	—		—	—	
State Lottery	5,078,935	5,077,976	—	—		(959)	(959)	
Unemployment Programs	13,673,403	15,167,258	—	—		1,493,855	1,493,855	
California State University	6,544,936	3,014,030	1,491,559	—		(2,039,347)	(2,039,347)	
High Technology Education	847	424	—	—		(423)	(423)	
State Water Pollution Control Revolving	5,072	62,985	—	80,903		138,816	138,816	
Housing Loan	57,206	65,247	—	—		8,041	8,041	
Other enterprise programs	79,641	77,671	—	—		(1,970)	(1,970)	
Total business-type activities	27,258,088	25,283,639	1,491,559	80,903		(401,987)	(401,987)	
Total primary government	**$ 237,112,645**	**$ 47,557,791**	**$ 71,352,689**	**$ 1,596,793**	**$ (116,203,385)**	**$ (401,987)**	**$ (116,605,372)**	
Component Units								
University of California	28,714,112	16,945,088	8,051,387	473,464				$ (3,244,173)
California Housing Finance Agency	235,164	38,783	53,462	—				(142,919)
Nonmajor component units	2,017,379	1,069,909	564,519	9,147				(373,804)
Total component units	**$ 30,966,655**	**$ 18,053,780**	**$ 8,669,368**	**$ 482,611**				**$ (3,760,896)**
General revenues:								
Personal income taxes					$ 68,793,292	$ —	$ 68,793,292	$ —
Sales and use taxes					36,477,724	—	36,477,724	—
Corporation taxes					9,102,128	—	9,102,128	—
Motor vehicle excise tax					5,777,167	—	5,777,167	—
Insurance taxes					3,359,043	—	3,359,043	—
Other taxes					2,302,231	—	2,302,231	—
Investment and interest					80,969	—	80,969	3,397,201
Escheat					487,937	—	487,937	—
Other					—	—	—	2,959,253
Transfers					(2,296,010)	2,296,010	—	—
Special item - Loss on early extinguishment of debt					(54,537)	(26,913)	(81,450)	—
Total general revenues and transfers					**124,029,944**	**2,269,097**	**126,299,041**	**6,356,454**
Change in net position					7,826,559	1,867,110	9,693,669	2,595,558
Net position (deficit) - beginning, restated					**(5,822,288)**	**3,450,281**	**(2,372,007)**	**21,012,377**
Net position – ending					**$ 2,004,271**	**$ 5,317,391**	**$ 7,321,662**	**$ 23,607,935**

The notes to the financial statements are an integral part of this statement.

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Fund Financial Statements

Balance Sheet

Governmental Funds

June 30, 2014
(amounts in thousands)

	General	Federal	Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
ASSETS						
Cash and pooled investments	$ 4,246,074	$ 458,076	$ 3,567,889	$ 5,709,974	$ 11,588,042	$ 25,570,055
Investments	—	—	—	—	634,223	634,223
Receivables (net)	13,165,951	12,520	1,129,154	523,853	3,456,906	18,288,384
Due from other funds	1,510,895	—	970,675	48,240	1,206,195	3,736,005
Due from other governments	305,388	15,569,689	4,647	60,380	411,764	16,351,868
Interfund receivables	49,234	—	3,362,281	829,227	1,332,720	5,573,462
Loans receivable	126,121	201,804	—	1,113,482	2,635,009	4,076,416
Other assets	11,816	—	56,443	—	30,481	98,740
Total assets	**$ 19,415,479**	**$ 16,242,089**	**$ 9,091,089**	**$ 8,285,156**	**$ 21,295,340**	**$ 74,329,153**
LIABILITIES						
Accounts payable	$ 1,358,333	$ 808,321	$ 421,430	$ 358,736	$ 934,782	$ 3,881,602
Due to other funds	9,273,689	12,837,772	120,638	47,238	2,765,819	25,045,156
Due to component units	206,341	—	—	—	—	206,341
Due to other governments	1,501,160	2,250,533	359,446	30,013	3,514,917	7,656,069
Interfund payables	6,123,537	—	2,316	25,000	8,584	6,159,437
Revenues received in advance	718,477	101,103	19,810	147,753	93,131	1,080,274
Tax overpayments	4,872,567	—	—	—	—	4,872,567
Deposits	1,683	—	2,243	349	392,164	396,439
Interest payable	—	2,583	—	—	113,669	116,252
Unclaimed property liability	730,564	—	—	—	—	730,564
General obligation bonds payable	—	—	—	—	1,164,630	1,164,630
Other liabilities	573,453	18,136	522,340	6,270	140,394	1,260,593
Total liabilities	**25,359,804**	**16,018,448**	**1,448,223**	**615,359**	**9,128,090**	**52,569,924**
DEFERRED INFLOWS OF RESOURCES	**1,500,271**	**12,067**	**176,642**	**39,243**	**265,790**	**1,994,013**
Total liabilities and deferred inflows of resources	**26,860,075**	**16,030,515**	**1,624,865**	**654,602**	**9,393,880**	**54,563,937**
FUND BALANCES						
Nonspendable	128,609	—	—	—	27,260	155,869
Restricted	394,246	211,574	7,398,858	6,321,107	10,337,554	24,663,339
Committed	125,120	—	67,366	1,321,111	1,526,270	3,039,867
Assigned	—	—	—	—	18,857	18,857
Unassigned	(8,092,571)	—	—	(11,664)	(8,481)	(8,112,716)
Total fund balances (deficit)	**(7,444,596)**	**211,574**	**7,466,224**	**7,630,554**	**11,901,460**	**19,765,216**
Total liabilites, deferred inflows of resources, and fund balances	**$ 19,415,479**	**$ 16,242,089**	**$ 9,091,089**	**$ 8,285,156**	**$ 21,295,340**	**$ 74,329,153**

The notes to the financial statements are an integral part of this statement.

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

(amounts in thousands)

Total fund balances – governmental funds		**$ 19,765,216**
Amounts reported for governmental activities in the Statement of Net Position are different from those in the Governmental Funds Balance Sheet because:		
• The following capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Land	18,256,083	
State highway infrastructure	65,268,686	
Collections – nondepreciable	22,630	
Buildings and other depreciable property	26,893,376	
Intangible assets – amortizable	1,027,753	
Less: accumulated depreciation/amortization	(11,604,161)	
Construction in progress	13,916,388	
Intangible assets – nonamortizable	1,375,240	
		115,155,995
• State revenues that are earned and measurable, but not available within 12 months of the end of the reporting period, are reported as deferred inflows of resources in the funds.		1,994,013
• Internal service funds are used by management to charge the costs of certain activities, such as building construction, architectural, procurement, and technology services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position, excluding amounts for activity between the internal service funds and governmental funds.		(5,483,510)
• Bond premiums/discounts and prepaid insurance charges are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Position.		(3,521,677)
• Deferred inflows and outflows of resources resulting from bond refunding gains and losses, respectively, are amortized over the life of the bonds and are not reported in the funds.		761,882
• General obligation bonds and related accrued interest totaling $80,162,120, revenue bonds totaling $7,065,437, and certificates of participation and commercial paper totaling $598,094 are not due and payable in the current period and are not reported in the funds.		(87,825,651)
• The following liabilities are not due and payable in the current period and are not reported in the funds:		
Compensated absences	(3,588,310)	
Capital leases	(260,088)	
Net other postemployment benefits obligation	(18,172,547)	
Mandated costs	(7,715,179)	
Workers' compensation	(3,247,861)	
Proposition 98 funding guarantee	(1,519,468)	
Net pension obligation	(3,237,785)	
Pollution remediation obligations	(1,081,966)	
Other noncurrent liabilities	(18,793)	
		(38,841,997)
Net position of governmental activities		**$ 2,004,271**

The notes to the financial statements are an integral part of this statement.

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Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2014
(amounts in thousands)

	General	Federal	Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
REVENUES						
Personal income taxes	$ 67,584,256	$ —	$ —	$ —	$ 1,187,411	$ 68,771,667
Sales and use taxes	22,287,696	—	638,691	—	13,482,924	36,409,311
Corporation taxes	9,242,454	—	—	—	—	9,242,454
Motor vehicle excise taxes	—	—	5,777,167	—	—	5,777,167
Insurance taxes	2,372,326	—	—	—	986,717	3,359,043
Other taxes	720,206	—	5,755	135,662	1,435,402	2,297,025
Intergovernmental	—	71,364,926	—	—	1,635,674	73,000,600
Licenses and permits	9,278	—	4,050,999	367,484	2,529,356	6,957,117
Charges for services	271,117	—	123,437	116,427	258,321	769,302
Fees	12,015	—	18,686	2,282,398	6,306,159	8,619,258
Penalties	226,493	26	39,261	56,252	816,186	1,138,218
Investment and interest	22,578	—	10,433	48,219	56,524	137,754
Escheat	487,869	—	2	—	1,074	488,945
Other	945,837	—	69,078	658,946	1,229,474	2,903,335
Total revenues	**104,182,125**	**71,364,952**	**10,733,509**	**3,665,388**	**29,925,222**	**219,871,196**
EXPENDITURES						
Current:						
General government	4,209,653	1,051,312	199,058	97,949	9,220,242	14,778,214
Education	45,443,261	6,931,926	2,222	3,194	928,833	53,309,436
Health and human services	29,126,074	58,139,464	2,620	153,680	17,359,656	104,781,494
Resources	1,144,226	259,857	244,712	3,625,155	234,910	5,508,860
State and consumer services	13,494	5,358	101,221	62,587	438,377	621,037
Business and transportation	6,735	3,968,256	11,462,522	8,329	275,690	15,721,532
Correctional programs	8,958,251	88,137	—	—	1,348,846	10,395,234
Capital outlay	1,486,204	—	—	253,153	169,653	1,909,010
Debt service:						
Bond and commercial paper retirement	1,995,536	74,400	712,871	280,502	3,939,632	7,002,941
Interest and fiscal charges	2,953,651	9,889	4,303	8,436	1,344,761	4,321,040
Total expenditures	**95,337,085**	**70,528,599**	**12,729,529**	**4,492,985**	**35,260,600**	**218,348,798**
Excess (deficiency) of revenues over (under) expenditures	8,845,040	836,353	(1,996,020)	(827,597)	(5,335,378)	1,522,398
OTHER FINANCING SOURCES (USES)						
General obligation bonds and commercial paper issued	—	—	3,211,565	182,365	1,688,375	5,082,305
Refunding debt issued	—	—	95,830	351,155	1,630,345	2,077,330
Payment to refund long-term debt	—	—	—	(154,651)	(173,373)	(328,024)
Premium on bonds issued	199,162	—	83,282	43,970	178,612	505,026
Capital leases	1,486,204	—	—	—	—	1,486,204
Transfers in	996,459	—	25	240,099	2,804,667	4,041,250
Transfers out	(3,915,547)	(822,732)	(1,159,155)	(22,663)	(383,950)	(6,304,047)
Total other financing sources (uses)	**(1,233,722)**	**(822,732)**	**2,231,547**	**640,275**	**5,744,676**	**6,560,044**
Net change in fund balances	7,611,318	13,621	235,527	(187,322)	409,298	8,082,442
Fund balances (deficit) – beginning	**(15,055,914)** *	**197,953**	**7,230,697**	**7,817,876**	**11,492,162** *	**11,682,774**
Fund balances (deficit) – ending	**$ (7,444,596)**	**$ 211,574**	**$ 7,466,224**	**$ 7,630,554**	**$ 11,901,460**	**$ 19,765,216**

* Restated

The notes to the financial statements are an integral part of this statement.

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

(amounts in thousands)

Net change in fund balances – total governmental funds		**$ 8,082,442**

Amounts reported for governmental activities in the Statement of Activities are different from those in the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds because:

- Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current year, these amounts are:

Depreciation expense, net of asset disposal	(666,151)	
Disposal of assets	(1,797,155)	
Purchase of assets	5,739,067	
		3,275,761

- Some revenues in the Statement of Activities do not provide current financial resources, and therefore are unavailable in governmental funds. 95,078

- Internal service funds are used by management to charge the costs of certain activities, such as architectural, procurement, and technology services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities, excluding amounts for activity between the internal service funds and governmental funds. (124,281)

- Bonds and other noncurrent financing instruments provide current financial resources to governmental funds in the form of debt, which increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. The following amounts represent the difference between proceeds and repayments:

General obligation bonds	(304,472)	
Revenue bonds	94,211	
Certificates of participation and commercial paper	(59,568)	
		(269,829)

- The following expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated absences	368,404	
Capital leases	(23,783)	
Net other postemployment benefits obligation	(2,978,601)	
Mandated costs	(1,018,589)	
Workers' compensation	(188,809)	
Proposition 98 funding guarantee	394,596	
Net pension obligation	40,990	
Pollution remediation obligations	(72,750)	
Other noncurrent liabilities	245,930	
		(3,232,612)
Change in net position of governmental activities		**$ 7,826,559**

The notes to the financial statements are an integral part of this statement.

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Statement of Net Position

Proprietary Funds

June 30, 2014
(amounts in thousands)

	Business-type Activities – Enterprise Funds						Governmental Activities
	Electric Power	Water Resources	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
ASSETS								
Current assets:								
Cash and pooled investments	$ —	$ 466,978	$ 316,261	$ 3,540,926	$ 445,974	$ 663,416	$ 5,433,555	$ 995,075
Amount on deposit with U.S. Treasury	—	—	—	25,215	—	—	25,215	—
Investments	—	—	116,629	—	2,413,678	—	2,530,307	—
Restricted assets:								
Cash and pooled investments	651,000	—	—	—	—	25,975	676,975	3,339,603
Due from other governments	—	—	—	—	—	20,182	20,182	—
Net investment in direct financing leases	—	—	—	—	11,442	—	11,442	406,075
Receivables (net)	—	35,068	404,239	1,307,800	191,054	32,321	1,970,482	109,934
Due from other funds	3,000	1,129	295	38,516	1,105	672	44,717	441,922
Due from other governments	—	39,429	—	40,063	—	206,498	285,990	21,042
Prepaid items	—	—	—	5,223	43,146	27	48,396	124,378
Inventories	—	5,203	7,486	—	—	3,124	15,813	76,700
Recoverable power costs (net)	156,000	—	—	—	—	—	156,000	—
Other current assets	—	—	5,304	—	—	—	5,304	—
Total current assets	810,000	547,807	850,214	4,957,743	3,106,399	952,215	11,224,378	5,514,729
Noncurrent assets:								
Restricted assets:								
Cash and pooled investments	629,000	82,728	—	—	86	—	711,814	402,394
Investments	300,000	72,388	—	—	—	—	372,388	—
Loans receivable	—	—	—	—	—	305,278	305,278	—
Investments	—	—	796,206	—	357,153	25,202	1,178,561	—
Net investment in direct financing leases	—	—	—	—	358,915	—	358,915	6,576,903
Receivables (net)	—	—	—	32,109	253,902	—	286,011	—
Interfund receivables	—	91,517	—	611,690	—	5,600	708,807	15,774
Loans receivable	—	15,232	—	—	88,251	3,775,587	3,879,070	—
Recoverable power costs (net)	4,490,000	—	—	—	—	—	4,490,000	—
Long-term prepaid charges	—	1,214,450	16,182	—	—	—	1,230,632	8,329
Capital assets:								
Land	—	137,033	6,469	—	77,364	1,272	222,138	2,312
Collections – nondepreciable	—	—	—	—	7,711	—	7,711	—
Buildings and other depreciable property	—	4,736,960	157,283	20,103	6,805,714	18,138	11,738,198	660,487
Intangible assets – amortizable	—	36,796	—	166,966	130,789	1,500	336,051	63,217
Less: accumulated depreciation/amortization	—	(1,994,695)	(68,421)	(16,476)	(2,484,444)	(17,313)	(4,581,349)	(545,849)
Construction in progress	—	402,520	—	—	361,545	—	764,065	941,386
Intangible assets – non-amortizable	—	151,047	—	86,302	11,030	222	248,601	91,167
Other noncurrent assets	—	—	—	—	17,587	5,586	23,173	—
Total noncurrent assets	5,419,000	4,945,976	907,719	900,694	5,985,603	4,121,072	22,280,064	8,216,120
Total assets	**6,229,000**	**5,493,783**	**1,757,933**	**5,858,437**	**9,092,002**	**5,073,287**	**33,504,442**	**13,730,849**
DEFERRED OUTFLOWS OF RESOURCES	**80,000**	**116,741**	**—**	**—**	**45,426**	**—**	**242,167**	**118,169**
Total assets and deferred outflows of resources	**$ 6,309,000**	**$ 5,610,524**	**$ 1,757,933**	**$ 5,858,437**	**$ 9,137,428**	**$ 5,073,287**	**$ 33,746,609**	**$ 13,849,018**

(continued)

The notes to the financial statements are an integral part of this statement.

The notes to the financial statements are an integral part of this statement.

Statement of Net Position (continued)

Proprietary Funds

June 30, 2014
(amounts in thousands)

	Business-type Activities – Enterprise Funds						Governmental Activities
	Electric Power	Water Resources	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
LIABILITIES								
Current liabilities:								
Accounts payable	$ 6,000	$ 78,158	$ 52,691	$ 19	$ 173,638	$ 2,637	$ 313,143	$ 503,197
Due to other funds	—	47,681	314,912	59,896	—	1,552	424,041	100,637
Due to other governments	—	85,725	—	43,428	—	7	129,160	879
Revenues received in advance	—	—	2,979	63,017	256,641	32	322,669	315,022
Deposits	—	—	—	—	—	—	—	429
Contracts and notes payable	—	—	—	—	—	—	—	15,202
Interest payable	48,000	13,188	—	—	—	11,444	72,632	118,944
Benefits payable	—	—	—	482,396	—	—	482,396	—
Current portion of long-term obligations	694,000	191,637	559,401	—	459,605	26,256	1,930,899	504,843
Other current liabilities	—	—	9	53,247	371,550	126	424,932	105,562
Total current liabilities	748,000	416,389	929,992	702,003	1,261,434	42,054	4,099,872	1,664,715
Noncurrent liabilities:								
Interfund payables	—	—	—	—	—	—	—	138,606
Loans payable	—	—	—	7,633,391	—	—	7,633,391	—
Lottery prizes and annuities	—	—	683,180	—	—	—	683,180	—
Compensated absences payable	384	29,765	—	51,428	98,543	2,739	182,859	166,723
Workers' compensation benefits payable	—	—	2,538	—	—	—	2,538	43,037
Certificates of participation, commercial paper, and other borrowings	—	36,136	—	—	14,970	—	51,106	—
Capital lease obligations	—	—	—	—	1,180,232	—	1,180,232	—
General obligation bonds payable	—	184,960	—	—	—	432,357	617,317	—
Revenue bonds payable	5,555,000	2,532,234	—	—	3,567,026	415,647	12,069,907	10,822,897
Net other postemployment benefits obligation	5,616	176,769	41,114	129,505	267,013	8,405	628,422	444,312
Revenues received in advance	—	—	—	—	11,460	—	11,460	—
Other noncurrent liabilities	—	205,957	—	—	166,382	73,709	446,048	21,329
Total noncurrent liabilities	5,561,000	3,165,821	726,832	7,814,324	5,305,626	932,857	23,506,460	11,636,904
Total liabilities	**6,309,000**	**3,582,210**	**1,656,824**	**8,516,327**	**6,567,060**	**974,911**	**27,606,332**	**13,301,619**
DEFERRED INFLOWS OF RESOURCES	—	**822,886**	—	—	—	—	822,886	—
Total liabilities and deferred inflows of resources	**6,309,000**	**4,405,096**	**1,656,824**	**8,516,327**	**6,567,060**	**974,911**	**28,429,218**	**13,301,619**
NET POSITION								
Net investment in capital assets	—	994,561	95,330	256,895	714,940	3,824	2,065,550	245,439
Restricted:								
Nonexpendable – endowments	—	—	—	—	16,219	—	16,219	—
Expendable:								
Construction	—	210,867	—	—	34,199	—	245,066	282,605
Debt service	—	—	—	—	139	25,975	26,114	4,796
Security for revenue bonds	—	—	—	—	—	325,460	325,460	—
Lottery	—	—	101,109	—	—	—	101,109	—
Unemployment programs	—	—	—	3,800,470	—	—	3,800,470	—
Other purposes	—	—	—	—	44,680	354,415	399,095	—
Total expendable	—	210,867	101,109	3,800,470	79,018	705,850	4,897,314	287,401
Unrestricted	—	—	(95,330)	(6,715,255)	1,760,191	3,388,702	(1,661,692)	14,559
Total net position (deficit)	—	**1,205,428**	**101,109**	**(2,657,890)**	**2,570,368**	**4,098,376**	**5,317,391**	**547,399**
Total liabilities, deferred inflows of resources, and net position	**$ 6,309,000**	**$ 5,610,524**	**$ 1,757,933**	**$ 5,858,437**	**$ 9,137,428**	**$ 5,073,287**	**$ 33,746,609**	**$ 13,849,018**

(concluded)

The notes to the financial statements are an integral part of this statement.

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

Year Ended June 30, 2014
(amounts in thousands)

	Business-type Activities – Enterprise Funds					Governmental Activities
	Electric Power	Water Resources	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
OPERATING REVENUES								
Unemployment and disability insurance	$ —	$ —	$ —	$ 15,160,251	$ —	$ —	$ 15,160,251	$ —
Lottery ticket sales	—	—	5,034,661	—	—	—	5,034,661	—
Power sales	(44,000)	131,952	—	—	—	—	87,952	—
Student tuition and fees	—	—	—	—	2,123,212	—	2,123,212	—
Services and sales	—	841,556	—	—	458,527	83,524	1,383,607	2,543,093
Investment and interest	—	—	—	—	—	116,677	116,677	8,173
Rent	—	—	—	—	—	1,044	1,044	418,574
Grants and contracts	—	—	—	—	73,343	—	73,343	—
Other	—	—	—	—	178,656	3,807	182,463	5,143
Total operating revenues	**(44,000)**	**973,508**	**5,034,661**	**15,160,251**	**2,833,738**	**205,052**	**24,163,210**	**2,974,983**
OPERATING EXPENSES								
Lottery prizes	—	—	3,082,376	—	—	—	3,082,376	—
Power purchases (net of recoverable power costs)	(61,000)	241,444	—	—	—	—	180,444	—
Personal services	—	311,144	66,109	163,545	4,033,120	14,961	4,588,879	913,906
Supplies	—	—	16,371	—	1,221,702	—	1,238,073	9,821
Services and charges	15,000	246,065	537,078	85,466	—	87,003	970,612	1,587,712
Depreciation	—	68,896	6,075	7,423	259,201	461	342,056	47,903
Scholarships and fellowships	—	—	—	—	862,479	—	862,479	—
Distributions to beneficiaries	—	—	—	13,416,969	—	—	13,416,969	—
Interest expense	—	—	—	—	—	38,486	38,486	440,300
Amortization (recovery) of long-term prepaid charges	—	—	—	—	—	—	—	1,496
Other	—	—	—	—	—	1,491	1,491	9,393
Total operating expenses	**(46,000)**	**867,549**	**3,708,009**	**13,673,403**	**6,376,502**	**142,402**	**24,721,865**	**3,010,531**
Operating income (loss)	2,000	105,959	1,326,652	1,486,848	(3,542,764)	62,650	(558,655)	(35,548)
NONOPERATING REVENUES (EXPENSES)								
Donations and grants	—	—	—	—	1,491,559	—	1,491,559	—
Private gifts	—	—	—	—	39,636	—	39,636	—
Investment and interest income	879,000	—	43,288	7,007	43,610	1,275	974,180	575
Interest expense and fiscal charges	(881,000)	(115,499)	(42,998)	—	(168,434)	(355)	(1,208,286)	(3)
Lottery payments for education	—	—	(1,327,928)	—	—	—	(1,327,928)	—
Loss on early extinguishment of debt	—	—	—	—	—	(26,913)	(26,913)	(54,537)
Other	—	9,540	27	—	97,046	(9)	106,604	(1,555)
Total nonoperating revenues (expenses)	**(2,000)**	**(105,959)**	**(1,327,611)**	**7,007**	**1,503,417**	**(26,002)**	**48,852**	**(55,520)**
Income (loss) before capital contributions and transfers	—	—	(959)	1,493,855	(2,039,347)	36,648	(509,803)	(91,068)
Capital contributions	—	—	—	—	—	80,903	80,903	—
Transfers in	—	—	—	—	2,302,858	—	2,302,858	76,657
Transfers out	—	—	—	—	—	(6,848)	(6,848)	(109,870)
Change in net position	—	—	(959)	1,493,855	263,511	110,703	1,867,110	(124,281)
Total net position (deficit) – beginning	**—**	**1,205,428**	**102,068**	**(4,151,745)**	**2,306,857** *	**3,987,673**	**3,450,281**	**671,680** *
Total net position (deficit) – ending	**$ —**	**$ 1,205,428**	**$ 101,109**	**$ (2,657,890)**	**$ 2,570,368**	**$ 4,098,376**	**$ 5,317,391**	**$ 547,399**

*Restated

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Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2014
(amounts in thousands)

	Electric Power	Water Resources	Business-type Activities – Enterprise Funds: State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Governmental Activities: Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from customers/employers	$ (38,000)	$ 986,586	$ 5,013,487	$ 15,150,430	$ 2,583,311	$ 367,535	$ 24,063,349	$ 3,328,192
Receipts from interfund services provided	—	—	—	—	—	419	419	131,813
Payments to suppliers	(38,000)	(461,499)	(218,881)	(85,464)	(1,175,200)	(85,538)	(2,064,582)	(1,563,512)
Payments to employees	(4,000)	(311,144)	(50,726)	(143,569)	(3,951,474)	(13,533)	(4,474,446)	(843,001)
Payments for interfund services used	—	—	(15,070)	(35,075)	—	(950)	(51,095)	(93,495)
Payments for Lottery prizes	—	—	(3,567,224)	—	—	—	(3,567,224)	—
Claims paid to other than employees	—	—	(345,503)	(13,698,487)	—	—	(14,043,990)	—
Other receipts (payments)	—	46,099	499,198	135,638	(651,704)	(260,098)	(230,867)	(451,504)
Net cash provided by (used in) operating activities	**(80,000)**	**260,042**	**1,315,281**	**1,323,473**	**(3,195,067)**	**7,835**	**(368,436)**	**508,493**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Changes in interfund payables and loans payable	—	—	—	(951,927)	(1,213)	—	(953,140)	567
Receipt of bond charges	864,000	—	—	—	—	—	864,000	—
Retirement of general obligation bonds	—	—	—	—	—	(151,715)	(151,715)	—
Retirement of revenue bonds	(611,000)	—	—	—	—	(85,391)	(696,391)	—
Interest paid on operating debt	(312,000)	—	—	—	—	(2,080)	(314,080)	(415)
Transfers in	—	—	—	—	2,302,858	—	2,302,858	76,657
Transfers out	—	—	—	—	—	(6,848)	(6,848)	(109,870)
Grants received	—	—	—	—	1,618,834	—	1,618,834	—
Lottery payments for education	—	—	(1,415,702)	—	—	—	(1,415,702)	—
Net cash provided by (used in) noncapital financing activities	**(59,000)**	**—**	**(1,415,702)**	**(951,927)**	**3,920,479**	**(246,034)**	**1,247,816**	**(33,061)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Acquisition of capital assets	—	(210,594)	(19,178)	(2,824)	(430,502)	(430)	(663,528)	(1,338,493)
Proceeds from sale of capital assets	—	—	39	14,467	405	—	14,911	18,558
Proceeds from notes payable and commercial paper	—	108,765	—	—	17,733	—	126,498	—
Principal paid on notes payable and commercial paper	—	(123,134)	—	—	—	—	(123,134)	—
Proceeds from capital leases	—	—	—	—	68,756	—	68,756	—
Payment on capital debt and leases	—	—	—	—	(384,777)	—	(384,777)	—
Retirement of general obligation bonds	—	(61,085)	—	—	—	—	(61,085)	—
Proceeds from revenue bonds	—	180,159	—	—	464,372	—	644,531	2,323,173
Retirement of revenue bonds	—	(114,775)	—	—	(349,702)	—	(464,477)	(412,085)
Interest paid	—	(120,230)	—	—	—	—	(120,230)	—
Grants received	—	—	—	—	26,473	82,351	108,824	—
Net cash provided by (used in) capital and related financing activities	**—**	**(340,894)**	**(19,139)**	**11,643**	**(587,242)**	**81,921**	**(853,711)**	**591,153**
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchase of investments	—	(252,174)	(65,037)	—	(7,743,216)	(2,500)	(8,062,927)	—
Proceeds from maturity and sale of investments	—	252,174	134,853	14,748	7,497,304	—	7,899,079	—
Change in interfund receivables and loans receivable	—	1,237	—	—	—	—	1,237	—
Earnings on investments	18,000	7,758	23,080	7,007	20,721	1,310	77,876	576
Net cash provided by (used in) investing activities	**18,000**	**8,995**	**92,896**	**21,755**	**(225,191)**	**(1,190)**	**(84,735)**	**576**
Net increase (decrease) in cash and pooled investments	(121,000)	(71,857)	(26,664)	404,944	(87,021)	(157,468)	(59,066)	1,067,161
Cash and pooled investments – beginning	**1,401,000**	**621,563**	**342,925**	**3,135,982**	**533,081**	**846,859**	6,881,410	**3,669,911**
Cash and pooled investments – ending	**$ 1,280,000**	**$ 549,706**	**$ 316,261**	**$ 3,540,926**	**$ 446,060**	**$ 689,391**	$ 6,822,344	**$ 4,737,072**

(continued)

The notes to the financial statements are an integral part of this statement.

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2014
(amounts in thousands)

	Electric Power	Water Resources	Business-type Activities – Enterprise Funds: State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Governmental Activities: Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES								
Operating income (loss)	$ 2,000	$ 105,959	$ 1,326,652	$ 1,486,848	$ (3,542,764)	$ 62,650	$ (558,655)	$ (35,548)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Interest expense on operating debt	—	—	—	—	—	—	—	412
Depreciation	—	68,896	6,075	7,423	259,201	461	342,056	47,903
Provisions and allowances	—	—	922	—	—	(3,586)	(2,664)	—
Amortization of premiums and discounts	—	—	—	—	—	505	505	(44,113)
Amortization of long-term prepaid charges and credits	—	(11,996)	3,230	—	—	948	(7,818)	18,058
Other	—	46,098	12	—	(3,678)	(8,480)	33,952	8,598
Change in assets and liabilities:								
Receivables	—	57,304	(42,663)	33,778	8,258	2,208	58,885	9,177
Due from other funds	—	—	—	(7,220)	1,105	11	(6,104)	71,084
Due from other governments	—	(19,202)	—	97,362	—	1,450	79,610	5,312
Prepaid items	—	—	—	—	(4,187)	(26)	(4,213)	(14,686)
Inventories	—	2,211	377	—	—	(425)	2,163	16,304
Net investment in direct financing leases	—	—	—	—	—	8,468	8,468	389,895
Recoverable power costs (net)	(94,000)	—	—	—	—	—	(94,000)	—
Other current assets	14,000	—	464	—	—	98	14,562	—
Loans receivable	—	—	—	—	(1,459)	(63,829)	(65,288)	—
Accounts payable	(3,000)	25,290	(1,812)	2	(9,710)	(1,662)	9,108	2,795
Due to other funds	—	(1,490)	(145)	8,777	—	(966)	6,176	(59,044)
Due to component units	—	—	—	—	—	—	—	(2,059)
Due to other governments	—	(13,028)	—	(6,885)	—	4	(19,909)	585
Deposits	—	—	—	—	196	—	196	(47)
Contracts and notes payable	—	—	—	—	—	—	—	4,487
Interest payable	—	—	—	—	—	(106)	(106)	(3,370)
Revenues received in advance	—	—	(161)	23,957	15,728	(11)	39,513	7,008
Other current liabilities	—	—	794	8,529	5,006	10,744	25,073	(1,306)
Benefits payable	—	—	—	(281,518)	18,839	80	(262,599)	64,971
Lottery prizes and annuities	—	—	14,210	—	—	—	14,210	—
Compensated absences payable	1,000	—	7,326	(3,868)	10,402	24	14,884	(5,593)
Other noncurrent liabilities	—	—	—	23,844	47,996	(725)	71,115	27,670
Total adjustments	(82,000)	154,083	(11,371)	(95,819)	347,697	(54,815)	257,775	544,041
Net cash provided by (used in) operating activities	**$ (80,000)**	**$ 260,042**	**$ 1,315,281**	**$ 1,391,029**	**$ (3,195,067)**	**$ 7,835**	**$ (300,880)**	**$ 508,493**
Noncash investing, capital, and financing activities:								(concluded)
Interest accreted on annuitized prizes	$ —	$ —	$ 42,998	$ —	$ —	$ —	$ 42,998	$ —
Interest accreted on zero coupon bonds	—	—	15,608	—	—	—	15,608	—
Unclaimed Lottery prizes directly allocated to another entity	—	—	21,673	—	—	—	21,673	—
Impairment loss of utility plant	—	11,795	—	—	—	—	11,795	—
Contributed capital assets	—	—	—	—	20,588	—	20,588	—
Change in accrued capital asset purchases	—	—	—	—	8,945	—	8,945	—
Amortization of bond premium and discount	—	12,029	—	—	15,068	—	27,097	—
Issuance of notes receivable through proceeds from long-term debt	—	—	—	—	40,464	—	40,464	—
Proceeds from long-term debt received directly by discretely presented component units	—	—	—	—	40,464	—	40,464	—
Collection of notes reveivable used to directly pay long-term debt	—	—	—	—	11,685	—	11,685	—
Payment of long-term debt made directly by discretely presented component units	—	—	—	—	11,685	—	11,685	—
Debt restructure and termination of direct financing leases	—	—	—	—	—	22,006	22,006	114,285
Other miscellaneous noncash transactions	—	7,850	4,830	—	16,042	—	28,722	—

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Statement of Fiduciary Net Position

Fiduciary Funds and Similar Component Units

June 30, 2014
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment	Agency
ASSETS				
Cash and pooled investments	$ 49,896	$ 2,687,933	$ 21,131,371	$ 3,682,227
Investments, at fair value:				
Short-term	—	13,010,538	—	—
Equity securities	3,218,383	270,858,397	—	—
Debt securities	1,844,304	109,483,220	—	—
Real estate	188,273	53,253,600	—	—
Other	777,884	62,879,102	—	—
Securities lending collateral	—	39,699,637	—	—
Total investments	6,028,844	549,184,494	—	—
Receivables (net)	8,499	5,016,735	—	2,129,562
Due from other funds	85,929	567,552	—	20,693,709
Due from other governments	—	18,501	—	7,662
Prepaid items	—	—	—	28,928
Loans receivable	—	22,005	—	7,257
Other assets	172,661	930,877	—	93
Total assets	**6,345,829**	**558,428,097**	**21,131,371**	**$ 26,549,438**
LIABILITIES				
Accounts payable	31,335	2,966,302	45	$ 14,942,369
Due to other governments	—	—	11,251	9,984,233
Tax overpayments	—	—	—	4,632
Benefits payable	—	2,655,305	—	—
Revenues received in advance	—	—	—	22,125
Deposits	172,661	—	—	987,603
Securities lending obligations	—	39,546,799	—	—
Loans payable	—	944,269	—	—
Other liabilities	938	2,090,618	—	608,476
Total liabilities	**204,934**	**48,203,293**	**11,296**	**$ 26,549,438**
NET POSITION				
Restricted for pension benefits, pool participants, and other employee benefits	**$ 6,140,895**	**$ 510,224,804**	**$ 21,120,075**	

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Position

Fiduciary Funds and Similar Component Units

Year Ended June 30, 2014
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment
ADDITIONS			
Contributions:			
Employer	$ —	$ 14,397,367	$ —
Plan member	—	6,958,991	—
Total contributions	—	21,356,358	—
Investment income:			
Net appreciation (depreciation) in fair value of investments	512,830	71,480,345	—
Interest, dividends, and other investment income	244,806	8,581,008	50,201
Less: investment expense	(4,023)	(1,771,132)	—
Net investment income	753,613	78,290,221	50,201
Receipts from depositors	3,059,755	—	21,647,510
Other	—	32,452	—
Total additions	**3,813,368**	**99,679,031**	**21,697,711**
DEDUCTIONS			
Distributions paid and payable to participants	—	31,006,086	48,512
Refunds of contributions	—	444,619	—
Administrative expense	3	565,212	1,689
Interest expense	—	—	—
Payments to and for depositors	2,827,126	618,801	21,739,535
Total deductions	**2,827,129**	**32,634,718**	**21,789,736**
Change in net position	986,239	67,044,313	(92,025)
Net position – beginning	**5,154,656**	**443,180,491**	**21,212,100**
Net position – ending	**$ 6,140,895**	**$ 510,224,804**	**$ 21,120,075**

The notes to the financial statements are an integral part of this statement.

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Discretely Presented Component Units Financial Statements

Statement of Net Position

Discretely Presented Component Units – Enterprise Activity

June 30, 2014
(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
ASSETS				
Current assets:				
Cash and pooled investments	$ 322,711	$ 1,081,220	$ 949,157	$ 2,353,088
Investments	4,717,181	100,943	404,400	5,222,524
Restricted assets:				
Cash and pooled investments	—	—	128,517	128,517
Investments	—	—	15,929	15,929
Receivables (net)	3,167,380	172,460	447,432	3,787,272
Due from primary government	205,129	—	1,212	206,341
Due from other governments	97,342	—	—	97,342
Prepaid items	—	534	742	1,276
Inventories	194,615	—	—	194,615
Other current assets	208,674	14,145	32,349	255,168
Total current assets	8,913,032	1,369,302	1,979,738	12,262,072
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	—	—	26,725	26,725
Investments	—	—	14,286	14,286
Investments	25,686,412	403,112	1,841,034	27,930,558
Receivables (net)	2,488,712	—	252,630	2,741,342
Loans receivable	—	3,781,555	285,454	4,067,009
Long-term prepaid charges	—	—	—	—
Capital assets:				
Land	863,455	—	139,066	1,002,521
Collections – nondepreciable	382,277	—	8,401	390,678
Buildings and other depreciable property	41,502,981	1,782	1,995,127	43,499,890
Intangible assets – amortizable	823,393	—	12,578	835,971
Less: accumulated depreciation/amortization	(19,569,114)	(940)	(972,702)	(20,542,756)
Construction in progress	3,642,165	—	19,357	3,661,522
Intangible assets – non-amortizable	—	—	5,082	5,082
Other noncurrent assets	286,504	16,681	50,751	353,936
Total noncurrent assets	56,106,785	4,202,190	3,677,789	63,986,764
Total assets	**65,019,817**	**5,571,492**	**5,657,527**	**76,248,836**
DEFERRED OUTFLOWS OF RESOURCES	**3,705,459**	**25,710**	**6,069**	**3,737,238**
Total assets and deferred outflows of resources	**$ 68,725,276**	**$ 5,597,202**	**$ 5,663,596**	**$ 79,986,074**

(continued)

The notes to the financial statements are an integral part of this statement.

The notes to the financial statements are an integral part of this statement.

Statement of Net Position (continued)

Discretely Presented Component Units – Enterprise Activity

June 30, 2014
(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
LIABILITIES				
Current liabilities:				
Accounts payable	$ 1,483,299	$ 89,309	$ 265,990	$ 1,838,598
Due to other governments	—	—	54,967	54,967
Revenues received in advance	1,061,477	—	66,239	1,127,716
Deposits	561,009	227,493	1,549	790,051
Contracts and notes payable	—	—	16,326	16,326
Interest payable	—	58,170	2,764	60,934
Securities lending obligations	1,269,083	—	—	1,269,083
Current portion of long-term obligations	3,432,534	74,248	298,756	3,805,538
Other current liabilities	1,532,342	599	288,847	1,821,788
Total current liabilities	9,339,744	449,819	995,438	10,785,001
Noncurrent liabilities:				
Compensated absences payable	262,593	—	12,691	275,284
Workers' compensation benefits payable	321,055	—	283	321,338
Certificates of participation, commercial paper, and other borrowings	—	—	20,255	20,255
Capital lease obligations	88,622	—	360,026	448,648
Revenue bonds payable	15,424,508	3,526,190	237,203	19,187,901
Net other postemployment benefits obligation	8,440,303	22,295	117,649	8,580,247
Net pension obligation	7,725,075	—	—	7,725,075
Other noncurrent liabilities	1,206,888	201,429	515,950	1,924,267
Total noncurrent liabilities	33,469,044	3,749,914	1,264,057	38,483,015
Total liabilities	**42,808,788**	**4,199,733**	**2,259,495**	**49,268,016**
DEFERRED INFLOWS OF RESOURCES	**7,108,562**	**—**	**1,561**	**7,110,123**
Total liabilities and deferred inflows of resources	**49,917,350**	**4,199,733**	**2,261,056**	**56,378,139**
NET POSITION				
Net Investment in capital assets	12,166,807	842	515,314	12,682,963
Restricted:				
Nonexpendable – endowments	4,343,651	—	945,897	5,289,548
Expendable:				
Endowments and gifts	9,903,548	—	9,378	9,912,926
Education	783,994	—	924,763	1,708,757
Indenture	—	491,187	—	491,187
Employee benefits	—	—	—	—
Workers' compensation liability	—	—	—	—
Statute	—	986,565	281,696	1,268,261
Other purposes	—	—	25,769	25,769
Total expendable	10,687,542	1,477,752	1,241,606	13,406,900
Unrestricted	(8,390,074)	(81,125)	699,723	(7,771,476)
Total net position	**18,807,926**	**1,397,469**	**3,402,540**	**23,607,935**
Total liabilities, deferred inflows of resources, and net position	**$ 68,725,276**	**$ 5,597,202**	**$ 5,663,596**	**$ 79,986,074**

(concluded)

The notes to the financial statements are an integral part of this statement.

The notes to the financial statements are an integral part of this statement.

Statement of Activities

Discretely Presented Component Units – Enterprise Activity

Year Ended June 30, 2014

(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
OPERATING EXPENSES				
Personal services	$ 17,267,563	$ 29,703	$ 500,490	$ 17,797,756
Scholarships and fellowships	577,212	—	54,938	632,150
Supplies	2,584,968	—	10,726	2,595,694
Services and charges	290,444	29,572	1,272,317	1,592,333
Department of Energy laboratories	1,244,335	—	—	1,244,335
Depreciation	1,739,612	264	74,536	1,814,412
Interest expense and fiscal charges	617,000	122,277	34,895	774,172
Grants provided	642,809	—	—	642,809
Other	3,750,169	53,348	69,477	3,872,994
Total operating expenses	**28,714,112**	**235,164**	**2,017,379**	**30,966,655**
PROGRAM REVENUES				
Charges for services	16,945,088	38,783	1,069,909	18,053,780
Operating grants and contributions	8,051,387	53,462	564,519	8,669,368
Capital grants and contributions	473,464	—	9,147	482,611
Total program revenues	**25,469,939**	**92,245**	**1,643,575**	**27,205,759**
Net revenues (expenses)	(3,244,173)	(142,919)	(373,804)	(3,760,896)
GENERAL REVENUES				
Investment and interest income	2,972,157	171,294	253,750	3,397,201
Other	2,502,492	22,899	433,862	2,959,253
Total general revenues	**5,474,649**	**194,193**	**687,612**	**6,356,454**
Change in net position	2,230,476	51,274	313,808	2,595,558
Net position – beginning	**16,577,450 ***	**1,346,195 ***	**3,088,732 ***	**21,012,377**
Net position – ending	**$ 18,807,926**	**$ 1,397,469**	**$ 3,402,540**	**$ 23,607,935**

* Restated

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The notes to the financial statements are an integral part of this statement.

The notes to the financial statements are an integral part of this statement.

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The notes to the financial statements are an integral part of this statement.

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Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The provisions of the following Governmental Accounting Standards Board (GASB) Statements have been implemented for the year ended June 30, 2014:

GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements;* and

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires governments that extend a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

A. Reporting Entity

These financial statements present the primary government of the State and its component units. The **primary government** consists of all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from the State. **Component units** are organizations that are legally separate from the State, but for which the State is financially accountable or organizations whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading. Following is information on the blended, fiduciary, and discretely presented component units of the State.

1. Blended Component Units

Blended component units, although legally separate entities, are in substance part of the primary government's operations. Therefore, data from these blended component units are integrated into the appropriate funds for reporting purposes.

Building authorities are blended component units because they have been created through the use of joint exercise of powers agreements with various cities to finance the construction of state buildings. The building authorities are reported as capital projects funds. As a result, capital lease arrangements between the building authorities and the State have been eliminated from the financial statements. Instead, only the underlying capital assets and the debt used to acquire them are reported in the government-wide financial statements. For information regarding obtaining copies of the financial statements of the building authorities, email the State Controller's Office, Division of Accounting and Reporting at StateGovReports@sco.ca.gov.

The *Golden State Tobacco Securitization Corporation (GSTSC)* is a not-for-profit corporation established through legislation in September 2002 solely for the purpose of purchasing Tobacco Settlement Revenues

from the State. The five voting members of the State Public Works Board serve ex officio as the directors of the corporation. GSTSC is authorized to issue bonds as necessary to provide sufficient funds for carrying out its purpose. GSTSC is reported in the combining statements in the Nonmajor Governmental Funds section as a special revenue fund. For information regarding obtaining copies of the financial statements of GSTSC, contact the Department of Finance, Natural Resources, Energy, Environmental, and Capital Outlay Section, 915 L Street, 9th Floor, Sacramento, California 94814.

2. Fiduciary Component Units

The State has two legally separate fiduciary component units that administer pension and other employee benefit trust funds. The State appoints a voting majority of the board members of both plans which, due to their fiduciary nature, are presented in the Fiduciary Fund Statements as pension and other employee benefit trust funds, along with other primary government fiduciary funds.

The *California Public Employees' Retirement System (CalPERS)* administers pension plans for state employees, non-teaching school employees, and employees of California public agencies. Its Board of Administration has plenary authority and fiduciary responsibility for the investment of monies and the administration of the plan. CalPERS administers the following seven pension and other employee benefits trust funds: the Public Employees' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement Fund II, the Legislators' Retirement Fund, the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the Public Agency Deferred Compensation Plan, and the public employee Supplemental Contributions Program Fund. CalPERS' separately issued financial statements may be obtained from the California Public Employees' Retirement System on its website at www.CalPERS.ca.gov.

The *California State Teachers' Retirement System (CalSTRS)* administers pension benefit plans for California public school teachers and certain other employees of the public school system. The State is financially accountable for CalSTRS. CalSTRS administers the following four pension and other employee benefit trust funds: the Defined Benefit Program, the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. CalSTRS' separately issued financial statements may be obtained from the California State Teachers' Retirement System on its website at www.CalSTRS.com.

3. Discretely Presented Component Units

Enterprise activity of discretely presented component units is reported in a separate column in the government-wide financial statements. Discretely presented component units are legally separate from the primary government and primarily provide services to entities and individuals outside the primary government. Discretely presented component units that report enterprise activity include the University of California, the California Housing Finance Agency, and nonmajor component units. Most component units separately issue their own financial statements. In general, the notes to the financial statements in this publication do not include information found in the component units' separately issued financial statements. Instead, references to the individual component unit financial statements are provided where applicable.

The *University of California* was founded in 1868 as a public, state-supported, land grant institution. It was written into the State Constitution of 1879 as a public trust to be administered by a governing board, the Regents of the University of California (Regents). The University of California is a component unit of the State because the State appoints a voting majority of the Regents and provides financial assistance to the University. The University of California offers defined benefit pension plans and defined contribution pension plans to its employees through the University of California Retirement System (UCRS), a fiduciary responsibility of the Regents. The financial information of the UCRS is not included in the financial statements of this report due to its fiduciary nature. The University of California's financial statements may be obtained from the University of California on its website at www.ucop.edu.

The *California Housing Finance Agency (CalHFA)* was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act, as amended. CalHFA's purpose is financing the housing needs of persons and families of low and moderate income. It is a component unit of the State because the State appoints a voting majority of CalHFA's governing board and appoints the executive director who administers the day-to-day operations. CalHFA's financial statements may be obtained from the California Housing Finance Agency on its website at www.CalHFA.ca.gov.

State legislation created various nonmajor component units to provide certain services outside the primary government and to provide certain private and public entities with a low-cost source of financing for programs deemed to be in the public interest. California State University auxiliary organizations are considered component units because they exist entirely or almost entirely for the direct benefit of the universities. The remaining nonmajor component units are considered component units because the majority of members of their governing boards are appointed by or are members of the primary government, and the primary government can impose its will on the entity; or the entity provides a specific financial benefit to or imposes a financial burden on the primary government. For information regarding obtaining copies of the financial statements of these component units, email the State Controller's Office, Division of Accounting and Reporting at StateGovReports@sco.ca.gov.

The nonmajor consolidated component units segments are:

California State University auxiliary organizations, which provide services primarily to university students through foundations, associated student organizations, student unions, food service entities, book stores, and similar organizations.

Financing authorities, which provide financing for specific purposes. These agencies include:

- The *California Alternative Energy and Advanced Transportation Financing Authority*, which provides financing for alternative energy and advanced transportation technologies;
- The *California Infrastructure and Economic Development Bank*, which provides financing for business development and public improvements; and
- The *California Urban Waterfront Area Restoration Financing Authority*, which provides financing for coastal and inland urban waterfront restoration projects.

District agricultural associations, which exhibit all of the industries, industrial enterprises, resources, and products of the state (the district agricultural association's financial report is as of and for the year ended December 31, 2013).

Other component units, which include the following entities:

- The *University of California Hastings College of the Law*, which was established as the law department of the University of California to provide legal education programs and operates independently under its own board of directors. The college has a discretely presented component unit, the Foundation, which provides private sources of funds for academic programs, scholarships, and faculty research;
- The *State Assistance Fund for Enterprise, Business and Industrial Development Corporation*, which provides financial assistance to small business; and
- The *Public Employees' Contingency Reserve*, which provides health benefit plans for state employees and annuitants.

4. Joint Venture

A joint venture is an entity resulting from a contractual arrangement; it is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. In such an arrangement, the participants retain an ongoing financial interest or an ongoing financial responsibility in the entity. These entities are not part of the primary government or a component unit.

The State participates in a joint venture called the *Capitol Area Development Authority (CADA)*. CADA was created in 1978 by the joint exercise of powers agreement between the primary government and the City of Sacramento for the location of state buildings and other improvements. CADA is a public entity, separate from the primary government and the city, and is administered by a board of five members: two appointed by the primary government, two appointed by the city, and one appointed by the affirmative vote of at least three of the other four members of the board. The primary government designates the chairperson of the board. Although the primary government does not have an equity interest in CADA, it does have an ongoing financial interest. The primary government subsidizes CADA's operations by leasing land to CADA without consideration; however, the primary government is not obligated to do so. At June 30, 2014, CADA had total assets of $31.4 million, total liabilities of $19.7 million, and total net position of $11.7 million. Total revenues for the fiscal year were $10.5 million and expenses were $11.3 million, resulting in a decrease in net position of $800,000. Because the primary government does not have equity interest in CADA, CADA's financial information is not included in the financial statements of this report. Separately issued financial statements may be obtained from the Capitol Area Development Authority, 1522 14th Street, Sacramento, California 95814-5958 or on its website at www.cadanet.org.

5. Related Organizations

A related organization is an organization for which a primary government is accountable because that government appoints a voting majority of the organization's governing board, but for which it is not financially accountable.

Chapter 854 of the Statutes of 1996 created an *Independent System Operator (ISO)*, a state-chartered, nonprofit market institution. The ISO provides centralized control of the statewide electrical transmission grid to ensure the efficient use and reliable operation of the transmission system. The ISO is governed by a five-member board, the members of which are appointed by the Governor and confirmed by the Senate. The State's accountability for this institution does not extend beyond making the initial oversight board appointments. Because the primary government is not financially accountable for the ISO, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the ISO, contact the Independent System Operator, P.O. Box 639014, Folsom, California 95763-9014 or go to its website at www.caiso.com.

The *California Earthquake Authority (CEA)*, a legally separate organization, offers earthquake insurance for California homeowners, renters, condominium owners, and mobilehome owners. A three-member board of state-elected officials governs the CEA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CEA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CEA, contact the California Earthquake Authority, 801 K Street, Suite 1000, Sacramento, California 95814 or go to its website at www.earthquakeauthority.com.

The *State Compensation Insurance Fund (State Fund)* was established by the State of California through legislation enacted in 1913 to provide an available market for workers' compensation insurance to employees located in California. State Fund operates in competition with other insurance carriers to serve California businesses. The State appoints all 11 members of the State Fund's governing board. The State's accountability for this institution does not extend beyond making the initial oversight board appointments. Because the primary government is not financially accountable for the State Fund, the financial information of this institution is not included in the financial statement of this report. For information regarding obtaining copies of the financial statements of the State Fund, contact the State Compensation Insurance Fund, 333 Bush Street, 8th Floor, San Francisco, California 94104 or go to its website at www.statefundca.com.

The *California Health Benefit Exchange (the Exchange)*, an independent public entity, offers new health insurance to individuals, families, and small businesses. A five-member board of state-elected officials governs the Exchange. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the Exchange, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the Exchange, contact Covered California, P.O. Box 989725, West Sacramento, California 95798-9725.

The *California Pollution Control Financing Authority (CPCFA)* was created through the California Pollution Control Financing Authority Act of 1972. The CPCFA is a legally separate entity that provides financing for pollution control facilities. A three-member board of state-elected officials governs the CPCFA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CPCFA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CPCFA, contact the State Treasurer's Office, 915 Capitol Mall, Room 457, Sacramento, California 95814 or go to its website at www.treasurer.ca.gov/cpcfa.

The *California Health Facilities Financing Authority (CHFFA)* was established by the State of California through legislation enacted in 1979. The CHFFA is a legally separate entity that provides financing for the construction, equipping, and acquisition of health facilities. A nine-member board of state-elected officials and appointees govern the CHFFA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CHFFA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CHFFA, contact the State Treasurer's Office, 915 Capitol Mall, Suite 590, Sacramento, California 95814 or go to its website at www.treasurer.ca.gov/chffa.

The *California Educational Facilities Authority (CEFA)* was created by Board of Control approval in 1974. The CEFA is a legally separate entity established to issue revenue bonds to finance loans for students attending public and private colleges and universities, and to assist private educational institutions of higher learning in financing the expansion and construction of educational facilities. A five-member board of state-elected officials and appointees govern the CEFA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CEFA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements for the CEFA, contact the State Treasurer's Office, 915 Capitol Mall, Suite 590, Sacramento, California 95814 or go to its website at www.treasurer.ca.gov/cefa.

The *California School Finance Authority (CSFA)* was created in 1985. The CSFA is a legally separate entity that provides loans to school and community college districts to assist them in obtaining equipment and facilities. A three-member board of state officials governs the CSFA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CSFA, the financial information for this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CSFA, contact the State Treasurer's Office, 304 South Broadway, Suite 550, Los Angeles, California 90013 or go to its website at www.treasurer.ca.gov/csfa/.

B. Government-wide and Fund Financial Statements

Government-wide financial statements (the Statement of Net Position and the Statement of Activities) provide information on all of the nonfiduciary activities of the primary government and its component units. The primary government is reported separately from legally separate component units for which the State is financially accountable. Within the primary government, the State's governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The effect of interfund activity has been removed from the statements, with the exception of amounts between governmental and business-type activities, which are presented as internal balances and transfers. Centralized services provided by the General Fund for other funds are charged as direct costs to the funds that received those services. Also, the General Fund recovers the cost of centralized services provided to federal programs from the federal government.

The Statement of Net Position reports all of the financial and capital resources of the government as a whole in a format in which assets and deferred outflows of resources equal liabilities and deferred inflows of resources, plus net position. The Statement of Activities demonstrates the degree to which the expenses of a given function are offset by program revenues. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items that are not program-related are reported as general revenues.

Fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and discretely presented component units. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The State maintains the minimum number of funds consistent with legal and managerial requirements. Fiduciary funds, although excluded from the government-wide statements, are included in the fund financial statements. Major governmental and enterprise funds are reported in separate columns in the fund financial statements. Nonmajor governmental and proprietary funds are grouped into separate columns. Discretely presented component unit statements, which follow the fiduciary fund statements, also separately report the enterprise activity of the major discretely presented component units. In this report, the enterprise activity of nonmajor discretely presented component units is grouped in a separate column.

Governmental fund types are used to account for activities primarily supported by taxes, grants, and similar revenue sources.

The State reports the following major governmental funds:

The *General Fund* is the main operating fund of the State. It accounts for transactions related to resources obtained and used for those services that need not be accounted for in another fund.

The *Federal Fund* accounts for the receipt and use of grants, entitlements, and shared revenues received from the federal government that are all restricted by federal regulations.

The *Transportation Fund* accounts for fuel taxes, including the State's diesel, motor vehicle, and fuel use taxes; bond proceeds; automobile registration fees; and other revenues that are restricted for transportation purposes, including highway and passenger rail construction and transportation safety programs.

The *Environmental and Natural Resources Fund* accounts for fees, bond proceeds, and other revenues that are restricted for maintaining the State's natural resources and improving the environmental quality of its air, land, and water.

Proprietary fund types focus on the determination of operating income, changes in net position, financial position, and cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. For its proprietary funds, the State applies all applicable GASB pronouncements.

The State has two proprietary fund types: enterprise funds and internal service funds.

Enterprise funds record business-type activity for which a fee is charged to external users for goods and services. In addition, the State is required to report activities as enterprise funds in the context of the activity's principal revenue sources when any of the following criteria are met:

- The activity's debt is secured solely by fees and charges of the activity;
- There is a legal requirement to recover costs; or
- The pricing policies of fees and charges are designed to recover costs.

The State reports the following major enterprise funds:

The *Electric Power Fund* accounts for the acquisition and resale of electric power to retail end-use customers.

The *Water Resources Fund* accounts for charges to local water districts and the sale of excess power to public utilities.

The *State Lottery Fund* accounts for the sale of California State Lottery (Lottery) tickets and the Lottery's payments for education.

The *Unemployment Programs Fund* accounts for employer and worker contributions used for payments of unemployment insurance and disability benefits.

The *California State University Fund* accounts for student fees and other receipts from gifts, bequests, donations, federal and state grants, and loans that are used for educational purposes.

Nonmajor enterprise funds account for additional operations that are financed and operated in a manner similar to private business enterprises.

Additionally, the State reports *internal service funds* as a proprietary fund type with governmental activity. Internal service funds account for goods or services provided to other agencies, departments, or governments on a cost-reimbursement basis. The goods and services provided include: architectural services, public building construction and improvements, printing and procurement services, goods produced by inmates of state prisons, data processing services, and administrative services related to water delivery. Internal service funds are included in the governmental activities at the government-wide level.

Fiduciary fund types are used to account for assets held by the State. The State acts as a trustee or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds, including fiduciary component units, are not included in the government-wide financial statements.

The State has the following four fiduciary fund types:

Private purpose trust funds account for all trust arrangements, other than those properly reported in pension or investment trust funds, whereby principal and income benefit individuals, private organizations, or other governments. The following are the State's largest private purpose trust funds:

The *Scholarshare Program Trust Fund* accounts for money received from participants to fund their beneficiaries' higher education expenses at certain postsecondary educational institutions.

The *Unclaimed Property Fund* accounts for unclaimed money and properties held in trust by the State. Unclaimed property is remitted to the General Fund where it can be used by the State until it is claimed.

Pension and other employee benefit trust funds of the primary government and fiduciary component units account for transactions, assets, liabilities, and net position available for plan benefits of the retirement systems and for other employee benefit programs.

An *investment trust fund* accounts for the deposits, withdrawals, and earnings of the Local Agency Investment Fund, an external investment pool for local governments and public agencies.

Agency funds account for assets held by the State, which acts as an agent for individuals, private organizations, or other governments. The following are the State's largest agency funds:

The *Receipting and Disbursing Fund* accounts for the collection and disbursement of revenues and receipts on behalf of local governments. This fund also accounts for receipts from numerous state funds, typically for the purpose of writing a single warrant when the warrant is funded by multiple funding sources.

The *Deposit Fund* accounts for various deposits, such as those from condemnation and litigation proceedings.

Discretely presented component units consist of certain organizations that have enterprise activity. The enterprise activity component units are the University of California, the California Housing Finance Agency, and nonmajor component units. In this report, all of the enterprise activity of the discretely presented component units is reported in a separate column in the government-wide financial statements and on separate pages following the fund financial statements.

C. Measurement Focus and Basis of Accounting

1. Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when they are earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar transactions are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

2. Fund Financial Statements

The measurement focus and basis of accounting for the fund financial statements vary with the type of fund. **Governmental fund types** are presented using the current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets; the unassigned fund balance is a measure of available spendable resources.

The accounts of the governmental fund types are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. The State records revenue sources when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months. When an asset is recorded in a governmental fund statement, but the revenue is not available per the criterion described herein, the State reports a deferred inflow of resources until such time the revenue becomes available. Principal tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and corporation taxes), as sales are made (consumption and use taxes), and as the taxable event occurs (miscellaneous taxes), net of estimated tax overpayments.

Proprietary fund types, the **investment trust fund**, **private purpose trust funds**, and **pension and other employee benefit trust funds** are accounted for using the economic resources measurement focus. **Agency funds** are custodial in nature and do not measure the results of operations.

The accounts of the proprietary fund types, the investment trust fund, private purpose trust funds, pension and other employee benefit trust funds, and agency funds are reported using the accrual basis of accounting. Under the accrual basis, most transactions are recorded when they occur, regardless of when cash is received or disbursed.

Lottery revenue and the related prize expenses are recognized when sales are made. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future.

For purposes of the Statement of Cash Flows, all cash and pooled investments in the State Treasurer's pooled investment program are considered to be cash and cash equivalents.

Discretely presented component units are accounted for using the economic resources measurement focus and the accrual basis of accounting.

D. Cash and Investments

The State considers cash and pooled investments, for the purpose of the Statement of Cash Flows, as cash and cash equivalents. Cash and cash equivalents are considered to be cash on hand, deposits in the State's pooled investment program, restricted cash and pooled investments for debt service, construction and operations, restricted cash on deposit with fiscal agents (for example, revenue bond trustees), and highly liquid investments with an original maturity date of three months or less.

The State reports investments at fair value, as prescribed by GAAP. Additional information on the State's investments can be found in Note 3, Deposits and Investments.

E. Receivables

Amounts are aggregated into a single receivables account net of allowance for uncollectible amounts. The detail of the primary government's accounts receivable can be found in Note 4, Accounts Receivable.

F. Inventories

Inventories of supplies are reported at cost and inventories held for resale are stated at the lower of average cost or market. In the government-wide financial statements, inventories for both governmental and business-type activities are expensed when they are consumed and unused inventories are reported as an asset on the Statement of Net Position. In the fund financial statements, governmental funds report inventories as expenditures when purchased, and proprietary funds report inventories as expenditures when consumed. The discretely presented component units have inventory policies similar to those of the primary government.

G. Net Investment in Direct Financing Leases

The State Public Works Board accounts for its activities in the Public Buildings Construction Fund, an internal service fund, and has entered into lease-purchase agreements with various other primary government agencies and certain local agencies. The payments from these leases are used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the cost of projects such as acquisition and construction of facilities and equipment. Upon expiration of these leases, title to the facilities and projects transfers to the primary government agency or the local agency. The State Public Works Board records the net investment in direct financing leases at the net present value of the minimum lease payments in the internal service fund financial statements. As the majority of this lease receivable is from governmental funds, it is eliminated within the governmental activities column of the government-wide Statement of Net Position.

The California State University System (CSU) accounts for its lease activities in the California State University Fund, a major enterprise fund, and has entered into 30-year capital lease agreements with certain auxiliary organizations. These agreements lease existing and newly constructed facilities to the CSU auxiliary organizations. A portion of the proceeds from certain revenue bonds issued by CSU were used to finance the construction of these facilities.

H. Long-term Prepaid Charges

The long-term prepaid charges account in the enterprise funds primarily represents operating and maintenance costs that will be recognized in the Water Resources Fund as expenses over the remaining life of long-term state water supply contracts. These costs are billable in future years. In addition, the account includes unbilled interest earnings on unrecovered capital costs that are recorded as long-term prepaid charges. These charges

are recognized when billed in the future years under the terms of water supply contracts. The long-term prepaid charges for the Public Buildings Construction Fund include prepaid insurance costs on revenue bonds issued. Long-term prepaid charges are also included in the State Lottery Fund and nonmajor enterprise funds. These prepaid charges are incurred in connection with certain contracts that extend beyond a one-year period, which are amortized as expenses over the remaining life of the contracts. In the government-wide financial statements, the prepaid charges for governmental activities includes prepaid insurance costs on revenue bonds issued.

I. Capital Assets

Capital assets are categorized into land, state highway infrastructure, collections, buildings and other depreciable property, intangible assets, and construction in progress. The buildings and other depreciable property account includes buildings, improvements other than buildings, equipment, certain infrastructure assets, certain books, and other capitalized and depreciable property. Intangible assets include computer software, land use rights, patents, copyrights, and trademarks. The value of the capital assets, including the related accumulated depreciation and amortization, is reported in the applicable governmental, business-type, or component unit activities columns in the government-wide Statement of Net Position.

The primary government has a large collection of historical and contemporary treasures that have important documentary and artistic value. These assets are not capitalized or depreciated because they are cultural resources and cannot reasonably be valued and/or the assets have inexhaustible useful lives. These treasures and works of art include furnishings, portraits and other paintings, books, statues, photographs, and miscellaneous artifacts. These collections meet the conditions for exemption from capitalization because the collections are: held for public exhibition, education, or research in furtherance of public service, rather than financial gain; protected, kept unencumbered, cared for, and preserved; and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

In general, capital assets of the primary government are defined as assets that have a normal useful life of at least one year and a unit cost of at least $5,000. These assets are recorded at historical cost or estimated historical cost, including all costs related to the acquisition. Donated capital assets are recorded at the fair market value on the date the gift was received. Major capital asset outlays are capitalized as projects are constructed.

Buildings and other depreciable or amortizable capital assets are depreciated using the straight-line method with no salvage value for governmental activities. Generally, buildings and other improvements are depreciated over 40 years, equipment is depreciated over five years, and intangible assets are amortized over 10 to 20 years. Depreciable or amortizable assets of business-type activities are depreciated or amortized using the straight-line method over their estimated useful or service lives, ranging from three to 100 years.

California has elected to use the modified approach for capitalizing the infrastructure assets of the state highway system. The state highway system is maintained by the California Department of Transportation. By using the modified approach, the infrastructure assets of the state highway system are not depreciated and all expenditures made for those assets, except for additions and improvements, are expensed in the period incurred. All additions and improvements made after June 30, 2001, are capitalized. All infrastructure assets that are related to projects completed prior to July 1, 2001, are recorded at the historical costs contained in annual reports of the American Association of State Highway and Transportation Officials and the Federal Highway Administration.

The capital assets of the discretely presented component units are reported at cost at the date of acquisition or at fair market value at the date of donation, in the case of gifts. They are depreciated or amortized over their estimated useful service lives.

J. Long-term Obligations

Long-term obligations consist of certain unmatured general obligation bonds, certain unmatured revenue bonds, capital lease obligations, certificates of participation, commercial paper, the net pension obligation of the pension and other employee benefit trust funds, the net other postemployment benefits obligation (OPEB), the liability for employees' compensated absences and workers' compensation claims, pollution remediation obligations, amounts owed for lawsuits, reimbursement for costs mandated by the State, the outstanding Proposition 98 funding guarantee owed to schools, the liability for Lottery prizes and annuities, loans from other governments and fiduciary funds, and the primary government's share of the University of California pension liability that is due in more than one year. In the government-wide financial statements, current and noncurrent obligations are reported as liabilities in the applicable governmental activities, business-type activities, and component units columns of the Statement of Net Position.

Pollution remediation obligations are recorded by the State when one or more of the GASB Statement No. 49 obligating events have occurred and when a reasonable estimate of the remediation cost is available. These liabilities are measured using actual contract costs, where no change in cost is expected, or the expected cash flow technique. The remediation obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations, and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation.

Bond premiums and discounts for business-type activities and component units are deferred and amortized over the life of the bonds. In these instances, bonds payable is reported net of the applicable premium and discount. Bond premiums and discounts for governmental funds are reported as other financing sources (uses). However, in the government-wide financial statements, the bonds payable for governmental activities is reported net of the applicable unamortized premium and discount. Bond issuance costs, excluding prepaid insurance, are expensed when incurred.

With advance approval from the Legislature, certain authorities and state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds, building authorities, and agencies. The General Fund has no legal liability for payment of principal and interest on revenue bonds. With the exception of certain special revenue funds (Transportation and the Golden State Tobacco Securitization Corporation) and the building authorities capital projects fund, the liability for revenue bonds is recorded in the respective fund.

K. Compensated Absences

The government-wide financial statements report both the current and the noncurrent liabilities for compensated absences, which are vested unpaid vacation, annual leave, and other paid leave programs. However, unused sick-leave balances are not included in the compensated absences because they do not vest to employees. In the governmental fund financial statements, only the compensated absences liability for employees who have left state service and have unused reimbursable leave at year end is included. The amounts of vested unpaid vacation and annual leave accumulated by state employees are accrued in proprietary funds when incurred. In the discretely presented component units, the compensated absences are accounted for in the same manner as in the proprietary funds of the primary government.

L. Deferred Outflows and Deferred Inflows of Resources

The government-wide and fund financial statements report deferred outflows of resources and deferred inflows of resources.

1. Deferred Outflows of Resources

Deferred outflows of resources are the consumption of assets that are applicable to future reporting periods. Deferred outflows of resources are presented separately after "Total Assets" in the Balance Sheet and Statement of Net Position.

The State's deferred outflows of resources consist of the following transactions:

- *Loss on Refunding of Debt*: The defeasance of previously outstanding general obligation and revenue bonds resulted in deferred refunding losses for governmental activities, business-type activities, and component units. These deferred losses are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.
- *Decrease in Fair Value of Hedging Derivatives*: Negative changes in the fair value of hedging derivatives are reported for business-type activities and component units.
- *Net Pension Liability*: The University of California, a discretely presented component unit, reports the decreases in its net pension liability that were not included in its pension expense as deferred outflows of resources. Also, employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

2. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of assets that are applicable to future reporting periods. Deferred inflows of resources are presented separately after "Total Liabilities" in the Balance Sheet and Statement of Net Position.

The State's deferred inflows of resources consist of the following transactions:

- *Gain on Refunding of Debt*: The defeasance of previously outstanding general obligation and revenue bonds resulted in deferred refunding gains for governmental activities and discretely presented component units. These deferred gains are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.
- *Service Concession Arrangements*: The State and its component units have entered into service concession arrangements with third parties for park facility services, student housing, and certain other services. The upfront payment received or present value of installment payments expected to be received from the third parties are reported as deferred inflows of resources.
- *Net Pension Liability*: The University of California reports the increases in its net pension liability that were not included in pension expense as deferred inflows of resources.
- *Other Deferred Inflows of Resources*: Revenues generated from current rates charged by regulated business-type activities that are intended to recover costs expected to be incurred in the future are reported in the government-wide Statement of Net Position. Revenues that are earned and measurable, but not available within 12 months of the end of the reporting period, are reported in the governmental funds' balance sheet.

M. Abnormal Account Balances

In the 2013-14 fiscal year, the Water Resources Electric Power Fund had a net refund of $44 million of power charges revenue. The refund resulted from lower power sales, return of prior year over-collection, and return of reserves as lower levels of reserve were required. During the 2013-14 fiscal year, the fund returned $93 million through adjustments to power charges and through separate monthly payments to its ratepayers.

N. Nonmajor Enterprise Segment Information

Two nonmajor enterprise fund segments are displayed discretely in the Combining Statement of Net Position; the Combining Statement of Revenues, Expenses, and Changes in Fund Net Position; and the Statement of Cash Flows of the nonmajor enterprise funds. A *segment* is an identifiable activity reported as or within an enterprise fund or another stand-alone entity for which debt is outstanding and a revenue stream has been pledged in support of that debt. In addition, to qualify as a segment, an activity must be subject to an external requirement to separately account for revenues, expenses, gains and losses, assets and deferred outflows of resources, and liabilities and deferred inflows of resources. All of the activities reported for the fund segments listed below meet these requirements.

State Water Pollution Control Revolving Fund: Interest charged on loans to communities for construction of water pollution control facilities and projects.

Housing Loan Fund: Interest payments from low-interest, long-term farm and home mortgage loan contracts to eligible veterans living in California.

O. Net Position and Fund Balance

The difference between fund assets, deferred outflows of resources, liabilities, and deferred inflows of resources is called "net position" on the government-wide financial statements, the proprietary and fiduciary fund statements, and the component unit statements; it is called "fund balance" on the governmental fund statements. The government-wide financial statements include the following categories of net position:

Net investment in capital assets, represents capital assets, net of accumulated depreciation, reduced by the outstanding debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position results from transactions with purpose restrictions and is designated as either *nonexpendable* or *expendable*. *Nonexpendable restricted* net position is subject to externally imposed restrictions that must be retained in perpetuity. *Expendable restricted* net position is subject to externally imposed restrictions that can be fulfilled by actions of the State. As of June 30, 2014, the government-wide financial statements show restricted net position for the primary government of $28.9 billion, of which $6.8 billion is due to enabling legislation.

Unrestricted net position is neither restricted nor invested in capital assets.

In the fund financial statements, proprietary funds include categories of net position similar to those in the government-wide financial statements. Fund balance amounts for governmental funds are reported as nonspendable, restricted, committed, assigned, or unassigned.

Nonspendable fund balance includes amounts that cannot be spent because they are not in spendable form (inventories; prepaid amounts; long-term portion of loans or notes receivable; or property held for resale unless the proceeds are restricted, committed, or assigned) or they are legally or contractually required to remain intact.

Restricted fund balance has constraints placed upon the use of the resources either by an external party (creditors, grantors, contributors, or laws and regulations of other governments) or through a constitutional provision or enabling legislation.

Committed fund balance can be used only for specific purposes pursuant to constraints imposed by a formal action of the State's highest level of decision-making authority, the California State Legislature. The formal action that commits fund balance to a specific purpose occurred prior to the end of the reporting period, but the amount subject to the constraint may be determined in a subsequent period. Committed fund balance should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance: California does not have a formal policy to delegate authority to assign resources. However, fund balance can be classified as assigned when a purchase order creates an outstanding encumbrance amount, unless the purchase order relates to restricted or committed resources. Furthermore, all resources in governmental funds, other than the General Fund, that are not reported as nonspendable, restricted, or committed are classified as assigned for the purpose of the respective funds.

Unassigned fund balance is the residual amount of the General Fund not included in the four classifications described above. In other governmental funds in which expenditures incurred for specific purposes exceeded amounts restricted, committed, or assigned to those purposes, a negative unassigned fund balance is reported.

Fund balance spending order: For the purpose of reporting fund balance in this financial report under GASB Statement No. 54, the State considers resources to be spent in the following order when an expenditure is incurred for which these classifications are available: restricted, committed, assigned, and unassigned.

Fiduciary fund net position is amounts held in trust for benefits and other purposes.

P. Restatement of Beginning Fund Balances and Net Position

1. Fund Financial Statements

The beginning fund balance of *governmental funds* decreased by a net total of $566 million. This decrease is comprised of an understatement of $444 million for education expenditures that support community colleges and an overstatement of $357 million of retail sales tax revenue in the *General Fund*, and the following restatements in *nonmajor governmental funds*:

- $212 million increase as a result of a change in the tobacco settlement revenue recognition methodology in the *Golden State Tobacco Securitization Corporation Fund*;
- $26 million increase due to the understatement of retail sales tax revenue in the *Economic Recovery Bond Sinking Fund*; and
- $3 million decrease due to the movement of a fund previously reported within the *Financing for Local Governments and the Public* special revenue fund that is now administered by a discretely presented component unit reported within the *financing authorities* consolidated nonmajor component unit segment.

The beginning net position of the *internal service funds* increased by $419 million. This increase is comprised of $368 million, as adjusted for capitalized interest of $11.8 million, due to the reclassification of the *Public Building Construction Fund* from an enterprise fund to an internal service fund. The remaining $51 million increase resulted from understated capital assets and understated revenue in the *Financial Information Systems Fund*.

The beginning net position of the *enterprise funds* decreased by $616 million. The decrease is comprised of the $380 million prior year net position of the *Public Buildings Construction Fund* that was reclassified from an enterprise fund to an internal service fund and the $236 million transfer of capital lease obligation from governmental activities to the *California State University Fund*, a major enterprise fund.

Beginning net position of the *discretely presented component units* decreased by $6.3 billion. This decrease is primarily the result of the *University of California's* implementation of GASB Statement No. 65 and GASB Statement No. 68, as well as a change in its reporting entity. Further information related to these restatements is included in the University's separately issued financial statements which can be obtained from the University on its website at www.ucop.edu. In addition, other component units had small restatements to their beginning net position as follows:

- $39 million increase for understated loans receivable of the *California Housing Finance Agency*;
- $6 million decrease for OPEB obligation and other adjustments of the *California State University Auxiliary Organizations*;
- $3 million increase due to the movement of a fund previously reported as a special revenue fund by the primary government to the *financing authorities* consolidated nonmajor component unit segment; and
- $239,000 net increase for the implementation of GASB 65, understated liabilities, and unrecorded capital assets for the *district agricultural associations*.

2. Government-wide Financial Statements

The beginning net position of the *governmental activities* increased by $2.3 billion. In addition to the amounts described in the previous section for governmental funds, the restatement comprises a $2.2 billion increase for understated capital assets and the $236 million increase for the transfer from governmental activities of capital lease obligations of the *California State University Fund* described in the previous section for enterprise funds.

The beginning net position of *business-type activities* and *component units* were restated as described in the previous section for enterprise funds and discretely presented component units, respectively.

Q. Guaranty Deposits

The State is the custodian of guaranty deposits held to protect consumers, to secure the State's deposits in financial institutions, and to ensure payment of taxes and fulfillment of obligations to the State. Guaranty deposits of securities and other properties are not shown on the financial statements.

NOTE 2: BUDGETARY AND LEGAL COMPLIANCE

A. Budgeting and Budgetary Control

The State's annual budget is prepared primarily on a modified accrual basis for governmental funds. The Governor recommends a budget for approval by the Legislature each year. This recommended budget includes estimated revenues, but revenues are not included in the annual budget bill adopted by the Legislature. Under state law, the State cannot adopt a spending plan that exceeds estimated revenues.

Under the State Constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the Budget Act, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations and establish the legal level of control for the annual operating budget. The budget can be amended throughout the year by special legislative action, budget revisions by the Department of Finance, or executive orders of the Governor. Amendments to the original budget for the year ended June 30, 2014, increased spending authority for the budgetary/legal basis reported General Fund, and decreased spending authority for the Environmental and Natural Resources Funds and Transportation Funds.

Appropriations are generally available for expenditure or encumbrance either in the year appropriated or for a period of three years if the legislation does not specify a period of availability. At the end of the availability period, the encumbering authority for the unencumbered balance lapses. Some appropriations continue indefinitely, while others are available until fully spent. Generally, encumbrances must be liquidated within two years from the end of the period in which the appropriation is available. If the encumbrances are not liquidated within this additional two-year period, the spending authority for these encumbrances lapses.

B. Legal Compliance

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office is responsible for overall appropriation control and does not allow expenditures in excess of authorized appropriations.

Financial activities are mainly controlled at the appropriation level but can vary, depending on the presentation and wording contained in the Budget Act. The Budget Act appropriations are identified by department, reference item, and fund. The annual appropriated budget may establish detailed allocations to specific programs, projects, or sources of reimbursement within an appropriation. The Department of Finance can authorize adjustments between the detail allocations but cannot increase the amount of the overall appropriation. While the financial activities are controlled at various levels, the legal level of budgetary control—the extent to which management may amend the budget without seeking approval of the governing body—has been established in the Budget Act for the annual operating budget.

The Budgetary Comparison Schedule is not presented in this document at the legal level of budgetary control because such a presentation would be extremely lengthy and cumbersome. The State of California prepares a separate report, the Comprehensive Annual Financial Report Supplement, which includes statements that demonstrate compliance with the legal level of budgetary control in accordance with Government Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, Section 2400.121. The supplement includes the comparison of the annual appropriated budget with expenditures at the legal level of control. A copy of the Comprehensive Annual Financial Report Supplement is available upon request by emailing the State Controller's Office, Division of Accounting and Reporting at StateGovReports@sco.ca.gov.

NOTE 3: DEPOSITS AND INVESTMENTS

Cash balances not required for immediate use are invested by the State Treasurer. The State Treasurer administers a single pooled investment program comprising both an internal investment pool and an external investment pool (the Local Agency Investment Fund). A single portfolio of investments exists, with all participants having an undivided interest in the portfolio. Both pools are administered in the same manner.

A. Primary Government

1. Control of State Funds

The State's pooled investment program and certain funds of the primary government are allowed by state statutes, bond resolutions, and investment policy resolutions to invest in United States government securities, federal agency securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, other debt securities, repurchase agreements, reverse repurchase agreements, and other investments.

Certain discretely presented component units and a related organization participate in the State Treasurer's Office pooled investment program. As of June 30, 2014, the discretely presented component units and the related organization account for approximately 3.2% of the State Treasurer's pooled investment portfolio. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs.

Both deposits and investments are included in the State's investment program. For certain banks, the State Treasurer's Office maintains cash deposits that cover uncleared checks deposited in the State's accounts and that earn income that compensates the banks for their services.

Demand and time deposits held by financial institutions as of June 30, 2014, totaling approximately $7.3 billion, were insured by federal depository insurance or by collateral held by the State Treasurer's Office or an agent of the State Treasurer's Office in the State's name. The California Government Code requires that collateral pledged for demand and time deposits be deposited with the State Treasurer.

As of June 30, 2014, the State Treasurer's Office had on deposit with a fiscal agent amounts totaling $19 million related to principal and interest payments to bondholders. These deposits were insured by federal depository insurance or by collateral held by an agent of the State Treasurer's Office in the State's name.

Certain funds have elected to participate in the pooled investment program even though they have the authority to invest on their own. Others may be required by legislation to participate in the program; as a result, the deposits of these funds may be considered involuntary. However, these funds are part of the State's reporting entity. The remaining participant in the pool, the Local Agency Investment Fund, is voluntary.

Certain funds that have deposits in the State Treasurer's pooled investment program do not receive the interest earnings on their deposits. Instead, by law, the earnings are assigned to the State's General Fund. Most of the $16 million in interest revenue received by the General Fund from the pooled investment program in fiscal year 2013-14 was earned on balances in these funds.

Enterprise funds and special revenue funds also make separate investments, which are presented at fair value.

2. Valuation of State Investments

The State Treasurer's Office reports its investments at fair value. The fair value of securities in the State Treasurer's pooled investment program generally is based on quoted market prices. The State Treasurer's Office performs a quarterly fair market valuation of the pooled investment program portfolio. In addition, the State Treasurer's Office performs a monthly fair market valuation of all securities held against carrying cost. These valuations can be obtained from the State Treasurer's Office website at www.treasurer.ca.gov.

As of June 30, 2014, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 239 days. Weighted average maturity is the average number of days, given a dollar-weighted value of individual investments, that the securities in the portfolio have remaining from evaluation date to stated maturity.

3. Oversight of Investing Activities

The Pooled Money Investment Board (PMIB) provides oversight of the State Treasurer's pooled investment program. The purpose of the board is to design and administer an effective cash management and investment program, using all monies flowing through the State Treasurer's Office bank accounts and keeping all available funds invested in a manner consistent with the goals of safety, liquidity, and yield. The PMIB is comprised of the State Treasurer as chair, the State Controller, and the Director of Finance. This board designates the amounts of money available for investment. The State Treasurer is charged with making the actual investment transactions for this program. This investment program is not registered with the Securities and Exchange Commission as an investment company.

The value of the deposits in the State Treasurer's pooled investment program, including the Local Agency Investment Fund, 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, 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.

The State Treasurer's pooled investment program values participants' shares on an amortized cost basis. Specifically, the program distributes income to participants quarterly, based on their relative participation during the quarter. This participation is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and (4) investment and administrative expenses. This amortized cost method differs from the fair value method used to value investments in these financial statements; the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair value of the pool's investments. Because the total difference between the fair value of the investments in the pool and the value distributed to pool participants using the amortized cost method described above is not material, no adjustment was made to the financial statements. The State Treasurer's Office also reports participant fair value as a ratio of amortized cost on a quarterly basis. The State Treasurer's Office has not provided or obtained a legally binding guarantee to support the principal invested in the investment program.

As of June 30, 2014, medium-term asset-backed securities comprised approximately 1.19% of the pooled investments. The asset-backed securities consist of mortgage-backed securities, Small Business Administration (SBA) pools, and asset-backed commercial paper. The mortgage-backed securities are called real estate mortgage investment conduits (REMICs), and are securities backed by pools of mortgages. The REMICs in the State's portfolio have a fixed principal payment schedule. A portion of the asset-backed securities consisted of floating-rate SBA notes. For floating-rate SBA notes held in the portfolio during the

fiscal year, the interest received by the State Treasurer's pooled investment program rose or fell as the underlying index rate rose or fell. The structure of the floating-rate SBA notes in the State Treasurer's pooled investment program portfolio provided a hedge against the risk of increasing interest rates. A portion of the asset-backed portfolio holdings were short-term, asset-backed commercial paper (ABCP), which represented 0.84% of the pooled investments.

Table 1 identifies the investment types that are authorized by the California Government Code and the State Treasurer's Office investment policy for the pooled investment program. Maturities are limited by the State Treasurer's Office Investment Policy for the Pooled Money Investment Program. For commercial paper, the Investment Policy is more restrictive than the Government Code. For corporate bonds and notes, the Government Code requires that a security fall within the top three ratings of a nationally recognized statistical ratings organization (NASRO). Items reported as N/A have no limitation in either the Government Code or the State Treasurer's Office Investment Policy.

Table 1

Authorized Investments

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Credit Rating
U.S. Treasury securities	5 years	N/A	N/A	N/A
Federal agency and supranational securities	5 years	N/A	N/A	N/A
Certificates of deposit	5 years	N/A	N/A	N/A
Bankers acceptances	180 days	N/A	N/A	N/A
Commercial paper	180 days	30%	10 % of issuer's outstanding Commercial Paper	A-2/P-2/F-2
Corporate bonds/notes	5 years	N/A	N/A	A-/A3/A-
Repurchase agreements	1 year	N/A	N/A	N/A
Reverse repurchase agreements	1 year	10%	N/A	N/A

4. Risk of Investments

The following types of risks are common in deposits and investments, including those of the State:

Interest Rate Risk is the risk that the value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with longer time to maturity tend to be more sensitive to changes in interest rates than those with shorter durations.

Credit Risk is the risk that a debt 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.

Custodial Credit Risk is the risk that, in the event a financial institution or counterparty fails, the investor will not be able to recover the value of deposits, investments, or collateral.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

a. Interest Rate Risk

Table 2 presents the interest rate risk of the primary government's investments. In calculating SBA holdings' weighted average maturity, the State Treasurer's Office assumes that stated maturity is the quarterly reset date. Total pooled investments do not include $4.8 billion of time deposits and $314 million of internal loans to state funds. Repurchase agreements of the California State University system mature in one day. Most mortgage-backed securities are issued by U.S. government agencies, or government-sponsored enterprises such as the Federal National Mortgage Association, and entitle the purchaser to receive a share of the cash flows, such as principal and interest payments, from a pool of mortgages. Mortgage-backed securities are highly sensitive to interest rate changes because principal prepayments either increase (in a low interest rate environment) or decrease (in a high interest rate environment) the security yield. As of June 30, 2014, only $130 million, or 0.22% of the total pooled investments, was invested in mortgage-backed securities.

Table 2

Schedule of Investments – Primary Government – Interest Rate Risk
June 30, 2014
(amounts in thousands)

	Fair Value at Year End	Weighted Average Maturity (in years)
Pooled investments		
U.S. Treasury bills and notes	$ 34,926,335	0.94
U.S. Agency bonds and discount notes	4,685,570	0.50
Supranatural debentures and discount notes (IBRD)	150,040	1.56
Small Business Administration loans	581,690	0.25
Mortgage-backed securities	130,274	2.37
Certificates of deposit	11,993,881	0.22
Bank notes	599,930	0.14
Commercial paper	6,698,100	0.11
Total pooled investments	**59,765,820**	
Other primary government investments		
U.S. Treasuries and agencies	2,285,376	2.58
Commercial paper	252,683	0.73
Guaranteed investment contracts	210,327	8.66
Corporate debt securities	1,011,356	2.08
Repurchase agreements	2,274	0.00
Other	953,463	3.49
Total other primary government investments	**4,715,479**	
Funds outside primary government included in pooled investments		
Less: investment trust funds	21,104,087	
Less: other trust and agency funds	1,750,530	
Less: discretely presented component units and related organizations	1,901,592	
Total primary government investments	**$ 39,725,090**	

b. Credit Risk

Table 3 presents the credit risk of the primary government's debt securities. If a particular security has multiple ratings, the lowest rating of the three major NASROs is used. Similar to interest rate risk shown in Table 2, time deposits and internal loans to state funds are not included.

Table 3

Schedule of Investments in Debt Securities – Primary Government – Credit Risk
June 30, 2014
(amounts in thousands)

Credit Rating as of Year End		
Short-term	**Long-term**	**Fair Value**
Pooled investments		
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 10,594,908
A-1/P-1/F-1	AA/Aa/AA	13,532,613
Not rated		130,274
Not applicable		35,508,025
Total pooled investments		**$ 59,765,820**
Other primary government investments		
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 917,961
A-1/P-1/F-1	AA/Aa/AA	1,782,457
A-2/P-2/F-2	A/A/A	768,419
A-3/P-3/F-3	BBB/Baa/BBB	27,441
Not rated		444,488
Not applicable		774,713
Total other primary government investments		**$ 4,715,479**

c. Custodial Credit Risk

The State of California has a deposit policy for custodial credit risk that requires deposits held by financial institutions to be insured by federal depository insurance or secured by collateral. As of June 30, 2014, one guaranteed investment contract of the Electric Power Fund in the amount of $100 million was uninsured and uncollateralized.

d. Concentration of Credit Risk

The investment policy of the State Treasurer's Office contains no limitations on the amount that can be invested in any one issuer beyond those limitations stipulated in the California Government Code. As of June 30, 2014, the State did not hold debt securities in any one issuer (other than U.S. Treasury securities) that represented 5% or more of the primary government investments.

B. Fiduciary Funds

The fiduciary funds include pension and other employee benefit trust funds of the following fiduciary funds and component units: California Public Employees' Retirement System (CalPERS), California State Teachers' Retirement System (CalSTRS), the fund for the California Scholarshare program, and various other funds. CalPERS and CalSTRS account for 97% of these separately invested funds. CalPERS and CalSTRS exercise their authority under the State Constitution and invest in stocks, bonds, mortgages, real estate, and other investments, including derivative instruments.

Additional disclosure for CalPERS' investments and derivative instruments is included in CalPERS' separately issued financial statements, which can be obtained from CalPERS on its website at www.CalPERS.ca.gov. Additional disclosure for CalSTRS' investments and derivative instruments is included in CalSTRS' separately issued financial statements, which can be obtained from CalSTRS on its website at www.CalSTRS.com.

C. Discretely Presented Component Units

The discretely presented component units consist of the University of California and its foundation, the California Housing Finance Agency (CalHFA), and various nonmajor component units. The University and CalHFA constitute 93% of the total investments of discretely presented component units. State law, bond resolutions, and investment policy resolutions allow component units to invest in U.S. government securities, state and municipal securities, commercial paper, corporate bonds, investment agreements, real estate, and other investments. Additionally, a portion of the cash and pooled investments of CalHFA, and other nonmajor component units are invested in the State Treasurer's pooled investment program.

Additional disclosures for the University of California's investments and derivative instruments are included in the University's separately issued financial statements, which can be obtained from the University on its website at www.ucop.edu. Additional disclosure for CalHFA's investments and derivative instruments is included in CalHFA's separately issued financial statements, which can be obtained from CalHFA on its website at www.CalHFA.ca.gov.

NOTE 4: ACCOUNTS RECEIVABLE

Table 4 presents the disaggregation of accounts receivable attributable to taxes, interest expense reimbursements, Lottery retailer collections, the California State University, and unemployment program receipts. Other receivables are for interest, gifts, grants, various fees, penalties, and other charges.

Table 4

Schedule of Accounts Receivable
June 30, 2014
(amounts in thousands)

	Taxes	Lottery Retailers	Unemployment Programs	California State University	Other	Total
Current governmental activities						
General Fund	$ 12,482,261	$ —	$ —	$ —	$ 683,690	$ 13,165,951
Federal Fund	—	—	—	—	12,520	12,520
Transportation Fund	638,349	—	—	—	490,805	1,129,154
Environmental and Natural Resources Fund	—	—	—	—	523,853	523,853
Nonmajor governmental funds	435,737	—	—	—	3,021,169	3,456,906
Internal service funds	—	—	—	—	109,934	109,934
Adjustment:						
Unavailable revenue [1]	(1,608,039)	—	—	—	(385,974)	(1,994,013)
Total current governmental activities	**$ 11,948,308**	**$ —**	**$ —**	**$ —**	**$ 4,455,997**	**$ 16,404,305**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ 1,608,039**	**$ —**	**$ —**	**$ —**	**$ 450,350** [2]	**$ 2,058,389**
Current business-type activities						
Water Resources Fund	$ —	$ —	$ —	$ —	$ 35,068	$ 35,068
State Lottery Fund	—	404,239	—	—	—	404,239
Unemployment Programs Fund	—	—	1,307,800	—	—	1,307,800
California State University	—	—	—	191,054	—	191,054
Nonmajor enterprise programs	—	—	—	—	32,321	32,321
Total current business-type activities	**$ —**	**$ 404,239**	**$ 1,307,800**	**$ 191,054**	**$ 67,389**	**$ 1,970,482**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ —**	**$ —**	**$ 32,109**	**$ 253,902**	**$ —**	**$ 286,011**

[1] The unavailable revenue reported in the governmental fund financial statements represents revenues that are earned and measurable, but not available within 12 months of the end of the reporting period.
[2] Amount includes noncurrent receivables for service concession arrangements of $64 million that were not included in the governmental fund financial statements.

NOTE 5: RESTRICTED ASSETS

Table 5 presents a summary of the legal restrictions placed on assets of the primary government and the discretely presented component units.

Table 5

Schedule of Restricted Assets
June 30, 2014
(amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Governments	Loans Receivable	Total
Primary government					
Debt service	$ 1,725,392	$ 372,388	$ 20,182	$ 305,278	$ 2,423,240
Construction	3,254,758	—	—	—	3,254,758
Operations	147,000	—	—	—	147,000
Other	3,636	—	—	—	3,636
Total primary government	**5,130,786**	**372,388**	**20,182**	**305,278**	**5,828,634**
Discretely presented component units					
Debt service	155,242	30,215	—	—	185,457
Total discretely presented component units	**155,242**	**30,215**	**—**	**—**	**185,457**
Total restricted assets	**$ 5,286,028**	**$ 402,603**	**$ 20,182**	**$ 305,278**	**$ 6,014,091**

NOTE 6: NET INVESTMENT IN DIRECT FINANCING LEASES

The State Public Works Board (SPWB) accounts for its activities in the Public Buildings Construction Fund, an internal service fund, and has entered into lease-purchase agreements with various other primary government agencies and certain local agencies. Payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the SPWB. The lease-purchase activity between the SPWB and the primary government agencies shown in the schedule below represents only that activity with agencies reported as enterprise funds. The lease receivable of $6.0 billion from governmental funds along with the corresponding lease obligation was eliminated within the governmental activities column of the government-wide Statement of Net Position.

California State University System (CSU) accounts for its lease activities in the California State University Fund, a major enterprise fund, and has entered into capital lease agreements with certain auxiliary organizations. These agreements lease existing and newly constructed facilities to the auxiliary organizations. A portion of the proceeds from certain revenue bonds issued by CSU were used to finance the construction of these facilities.

Table 6 summarizes the minimum lease payments to be received by the primary government.

Table 6

Schedule of Minimum Lease Payments to be Received by the Primary Government
(amounts in thousands)

	State Public Works Board			
Year Ending June 30	**Primary Government Agencies**	**Local Agencies**	**Total**	**California State University**
2015	$ 96,981	$ 62,177	$ 159,158	$ 29,305
2016	93,299	53,892	147,191	26,639
2017	91,228	39,986	131,214	26,930
2018	78,068	32,698	110,766	27,014
2019	68,417	26,183	94,600	27,039
2020-2024	263,993	64,282	328,275	144,956
2025-2029	214,944	63,317	278,261	145,181
2030-2034	195,607	26,383	221,990	114,458
2035-2039	34,447	—	34,447	36,895
2040-2044	—	—	—	22,465
2045-2049	—	—	—	4,495
Total minimum lease payments	**1,136,984**	**368,918**	**1,505,902**	**605,377**
Less: unearned income	467,486	86,347	553,833	235,020
Net investment in direct financing leases	669,498	282,571	952,069	370,357
Less: current portion	52,638	48,191	100,829	11,442
Noncurrent net investment in direct financing leases	**$ 616,860**	**$ 234,380**	**$ 851,240**	**$ 358,915**

NOTE 7: CAPITAL ASSETS

Table 7 summarizes the capital activity for the primary government.

Table 7

Schedule of Changes in Capital Assets – Primary Government
June 30, 2014
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets not being depreciated/amortized				
Land	$ 17,871,142 *	$ 498,492	$ 111,239	$ 18,258,395
State highway infrastructure	64,183,838 *	1,213,741	128,893	65,268,686
Collections	22,645	—	15	22,630
Construction in progress	14,053,023 *	3,680,687	2,875,936	14,857,774
Intangible assets	1,106,355 *	377,103	17,051	1,466,407
Total capital assets not being depreciated/amortized	**97,237,003**	**5,770,023**	**3,133,134**	**99,873,892**
Capital assets being depreciated/amortized				
Buildings and improvements	20,448,490 *	1,626,299	16,820	22,057,969
Infrastructure	738,492	532	3,312	735,712
Equipment and other assets	4,654,507 *	372,011	266,336	4,760,182
Intangible assets	992,911 *	104,748	6,689	1,090,970
Total capital assets being depreciated/amortized	**26,834,400**	**2,103,590**	**293,157**	**28,644,833**
Less accumulated depreciation/amortization for:				
Buildings and improvements	6,841,635 *	538,495	10,287	7,369,843
Infrastructure	325,336	19,510	2,244	342,602
Equipment and other assets	3,903,250 *	307,322	247,150	3,963,422
Intangible assets	396,561 *	83,013	5,431	474,143
Total accumulated depreciation/amortization	**11,466,782**	**948,340**	**265,112**	**12,150,010**
Total capital assets being depreciated/amortized, net	**15,367,618**	**1,155,250**	**28,045**	**16,494,823**
Governmental activities, capital assets, net	**$ 112,604,621**	**$ 6,925,273**	**$ 3,161,179**	**$ 116,368,715**
Business-type activities				
Capital assets not being depreciated/amortized				
Land	$ 216,888	$ 5,395	$ 145	$ 222,138
Collections	6,051	1,680	20	7,711
Construction in progress	885,919 *	483,767	605,621	764,065
Intangible assets	403,979	16,596	171,974	248,601
Total capital assets not being depreciated/amortized	**1,512,837**	**507,438**	**777,760**	**1,242,515**
Capital assets being depreciated/amortized				
Buildings and improvements	10,451,931	838,891	465,750	10,825,072
Infrastructure	236,149	28,554	2,706	261,997
Equipment and other assets	576,331	88,915	14,117	651,129
Intangible assets	174,195 *	163,074	1,218	336,051
Total capital assets being depreciated/amortized	**11,438,606**	**1,119,434**	**483,791**	**12,074,249**
Less accumulated depreciation/amortization for:				
Buildings and improvements	4,164,763	256,776	440,014	3,981,525
Infrastructure	61,446	12,145	1,937	71,654
Equipment and other assets	347,815	53,901	11,194	390,522
Intangible assets	119,035	19,234	621	137,648
Total accumulated depreciation/amortization	**4,693,059**	**342,056**	**453,766**	**4,581,349**
Total capital assets being depreciated/amortized, net	**6,745,547**	**777,378**	**30,025**	**7,492,900**
Business-type activities, capital assets, net	**$ 8,258,384**	**$ 1,284,816**	**$ 807,785**	**$ 8,735,415**

* Restated

Table 8 summarizes the depreciation expense charged to the activities of the primary government.

Table 8

Schedule of Depreciation Expense – Primary Government
June 30, 2014
(amounts in thousands)

	Amount
Governmental activities	
General government	$ 130,960
Education	173,453
Health and human services	74,771
Resources	51,767
State and consumer services	66,722
Business and transportation	182,251
Correctional programs	220,513
Internal service funds (charged to the activities that utilize the fund)	47,903
Total governmental activities	**948,340**
Business-type activities	**342,056**
Total primary government	**$ 1,290,396**

Table 9 summarizes the capital activity for discretely presented component units.

Table 9

Schedule of Changes in Capital Assets – Discretely Presented Component Units
June 30, 2014
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets not being depreciated/amortized				
Land	$ 986,996 *	$ 28,058	$ 12,533	$ 1,002,521
Collections	362,373	28,441	136	390,678
Construction in progress	2,991,757 *	803,485	133,720	3,661,522
Intangible assets	5,131	—	49	5,082
Total capital assets not being depreciated/amortized	**4,346,257**	**859,984**	**146,438**	**5,059,803**
Capital assets being depreciated/amortized				
Buildings and improvements	31,251,445 *	1,578,315	46,088	32,783,672
Infrastructure	666,799	18,349	62	685,086
Equipment and other depreciable assets	9,822,467 *	566,709	358,044	10,031,132
Intangible assets	674,542	210,312	48,883	835,971
Total capital assets being depreciated/amortized	**42,415,253**	**2,373,685**	**453,077**	**44,335,861**
Less accumulated depreciation/amortization for:				
Buildings and improvements	11,724,481 *	1,153,760	17,902	12,860,339
Infrastructure	305,908	23,211	22	329,097
Equipment and other depreciable assets	6,807,869 *	612,565	358,877	7,061,557
Intangible assets	299,981	24,876	33,094	291,763
Total accumulated depreciation/amortization	**19,138,239**	**1,814,412**	**409,895**	**20,542,756**
Total capital assets being depreciated/amortized, net	**23,277,014**	**559,273**	**43,182**	**23,793,105**
Capital assets, net	**$ 27,623,271**	**$ 1,419,257**	**$ 189,620**	**$ 28,852,908**

* Restated

NOTE 8: ACCOUNTS PAYABLE

Accounts payable are amounts, related to different programs, that are due taxpayers, vendors, customers, beneficiaries, and employees. Table 10 presents details related to accounts payable.

The adjustment for the fiduciary funds represents amounts due fiduciary funds that were reclassified as external payables on the government-wide Statement of Net Position.

Table 10

Schedule of Accounts Payable
June 30, 2014
(amounts in thousands)

	Education	Health and Human Services	Resources	Business and Transportation	General Government and Others	Total
Governmental activities						
General Fund	$ 196,859	$ 547,660	$ 205,604	$ 628	$ 407,582	$ 1,358,333
Federal Fund	31,065	331,696	61,154	260,963	123,443	808,321
Transportation Fund	—	4	3,961	367,506	49,959	421,430
Environmental and Natural Resources Fund	500	1,101	349,490	—	7,645	358,736
Nonmajor governmental funds	26,285	301,260	20,287	6,441	580,509	934,782
Internal service funds	11	—	19,497	—	483,689	503,197
Adjustment:						
Fiduciary funds	5,911,355	14,646,519	—	54,684	734,615	21,347,173
Total governmental activities	**$ 6,166,075**	**$ 15,828,240**	**$ 659,993**	**$ 690,222**	**$ 2,387,442**	**$ 25,731,972**
Business-type activities						
Electric Power Fund	$ —	$ —	$ 6,000	$ —	$ —	$ 6,000
Water Resources Fund	—	—	78,158	—	—	78,158
State Lottery Fund	—	—	—	—	52,691	52,691
Unemployment Programs Fund	—	19	—	—	—	19
California State University	173,638	—	—	—	—	173,638
Nonmajor enterprise funds	—	88	—	—	2,549	2,637
Adjustment:						
Fiduciary funds	—	—	—	—	17	17
Total business-type activities	**$ 173,638**	**$ 107**	**$ 84,158**	**$ —**	**$ 55,257**	**$ 313,160**

NOTE 9: SHORT-TERM FINANCING

As part of its cash management program, the State regularly issues short-term obligations to meet cash flow needs. The State issues revenue anticipation notes (RANs) to partially fund timing differences between revenues and expenditures, because General Fund revenues and disbursements do not occur evenly throughout the fiscal year. If additional external cash flow borrowing is required, the State issues revenue anticipation warrants.

There were no outstanding RANs at the beginning of the fiscal year. To fund cash flow needs for fiscal year 2013-14, the State issued $5.5 billion in RANs on August 15, 2013. The RANs were repaid during May and June of 2014.

NOTE 10: LONG-TERM OBLIGATIONS

As of June 30, 2014, the primary government had long-term obligations totaling $168.8 billion. Of that amount, $7.7 billion is due within one year. For governmental activities, the beginning balance of revenue bonds increased $11.8 billion and the beginning balance of capital lease obligations decreased $5.1 billion as a result of the reclassification of the Public Buildings Construction Fund from an enterprise fund (business-type activity) to an internal service fund (governmental activity). This reclassification resulted in the elimination of the capital lease obligation of the governmental funds to the Public Buildings Construction Fund in the government-wide Statement of Net Position. After these beginning balance restatements, the largest changes in long-term obligations for governmental activities are an increase of $3.1 billion in net other postemployment benefits obligation and an increase of $1.1 billion in state-mandated cost claims payable. Another notable increase occurred in general obligation bonds payable. Notable decreases occurred in revenue bonds payable and compensated absences payable.

Not included in the mandated cost claims payable shown in Table 11 are certain state-mandated programs that are in the adjudication process. Until the Commission on State Mandates rules on a test claim, and the claim's parameters and guidelines are established, expected costs cannot be reasonably determined; however, a positive finding for any of the claimants could individually or in aggregate pose a significant cost to the State.

As of June 30, 2014, the pollution remediation obligations increased by $73 million to $1.1 billion. Under federal Superfund law, responsibility for pollution remediation is placed upon current and previous owners or operators of polluted sites. Currently, the State's most significant superfund site is the Stringfellow Class 1 Hazardous Waste Disposal Facility (Stringfellow) located in Riverside County. As of June 30, 2014, the State estimates that remediation costs at Stringfellow will total $385 million. At two other sites, Leviathan Mine and BKK Landfill, obligating events have occurred that will probably result in significant liability to the State, but reasonable estimates of the remediation costs cannot be made at this time. Currently, litigation is in process to determine the final terms of the settlement for Leviathan Mine. The State's activities at the site relate to water pollution remediation. BKK is a closed Class 1 landfill site at which the State is conducting post-closure care. In addition to superfund sites, the State's other pollution remediation efforts include underground storage tank removal and cleanup, cleanup of polluted groundwater, and contaminated soil removal and cleanup, as required by state law.

The other long-term obligations for governmental activities consist of $43 million owed for lawsuits, the University of California unfunded pension liability of $24 million, and the Technology Services Revolving Fund notes payable of $36 million. The compensated absences will be liquidated by the General Fund, special revenue funds, capital projects funds, and internal service funds. Workers' compensation and capital leases will be liquidated by the General Fund, special revenue funds, and internal service funds. The General Fund will liquidate net pension obligations, the Proposition 98 funding guarantee, lawsuits, reimbursement of costs incurred by local agencies and school districts for costs mandated by the State, and the University of California pension liability.

The largest changes in business-type long-term obligations are a decrease of $952 million for loans payable to the U.S. Department of Labor to cover shortfalls in the Unemployment Programs Fund and a decrease of $812 million in revenue bonds payable (after the previously discussed restatement of the beginning balance for the reclassification of the Public Buildings Construction Fund from an enterprise fund to an internal service fund).

Table 11 summarizes the changes in long-term obligations during the year ended June 30, 2014.

Table 11

Schedule of Changes in Long-term Obligations
(amounts in thousands)

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due Within One Year	Noncurrent Liabilities
Governmental activities						
Compensated absences payable	$ 4,135,101	$ 1,290,940	$ 1,670,152	$ 3,755,889	$ 5,346	$ 3,750,543
Workers' compensation benefits payable	3,507,477	639,244	445,289	3,701,432	410,534	3,290,898
Certificates of participation and commercial paper outstanding	538,715	1,254,265	1,194,810	598,170	8,565	589,605
Discounts	(122)	—	(46)	(76)	(46)	(30)
Total certificates of participation and commercial paper payable	538,593	1,254,265	1,194,764	598,094	8,519	589,575
Capital lease obligations	236,305 *	80,022	56,239	260,088	59,896	200,192
General obligation bonds outstanding	79,688,445	5,905,370	5,297,945	80,295,870	3,827,670	76,468,200
Premiums	2,657,766	505,026	182,315	2,980,477	161,390	2,819,087
Total general obligation bonds payable	82,346,211	6,410,396	5,480,260	83,276,347	3,989,060	79,287,287
Revenue bonds outstanding	18,590,437 *	2,293,720	2,945,896	17,938,261	580,591	17,357,670
Accreted interest	383,862	40,564	—	424,426	—	424,426
Premiums	519,230	184,986	147,748	556,468	66,666	489,802
Discounts	(2,003)	—	(291)	(1,712)	(292)	(1,420)
Total revenue bonds payable	19,491,526	2,519,270	3,093,353	18,917,443	646,965	18,270,478
Mandated cost claims payable	6,750,849	1,154,062	54,259	7,850,652	135,473	7,715,179
Net other postemployment benefits obligation	15,559,232	4,871,902	1,814,275	18,616,859	—	18,616,859
Net pension obligation	3,278,774	207,749	248,738	3,237,785	—	3,237,785
Other long-term obligations:						
Proposition 98 funding guarantee	1,914,064	17,523	2,505	1,929,082	409,614	1,519,468
Pollution remediation obligations	1,009,216	151,527	78,777	1,081,966	81,055	1,000,911
Other	140,198	22,132	59,431	102,899	60,645	42,254
Total other long-term obligations	3,063,478	191,182	140,713	3,113,947	551,314	2,562,633
Total governmental activities	**$ 138,907,546**	**$ 18,619,032**	**$ 14,198,042**	**$ 143,328,536**	**$ 5,807,107**	**$ 137,521,429**
Business-type activities						
Loans payable	$ 8,585,318	$ —	$ 951,927	$ 7,633,391	$ —	$ 7,633,391
Lottery prizes and annuities	1,198,904	3,624,432	3,588,896	1,234,440	551,260	683,180
Compensated absences payable	314,133	98,069	90,856	321,346	138,487	182,859
Workers' compensation benefits payable	2,078	460	—	2,538	—	2,538
Certificates of participation and commercial paper outstanding	77,560	262,036	134,949	204,647	153,541	51,106
Capital lease obligations	1,145,637	177,398	72,761	1,250,274	70,042	1,180,232
General obligation bonds outstanding	888,280	—	212,800	675,480	56,875	618,605
Discounts	(1,227)	—	61	(1,288)	—	(1,288)
Total general obligation bonds payable	887,053	—	212,861	674,192	56,875	617,317
Revenue bonds outstanding	13,080,438 *	470,300	1,216,405	12,334,333	842,670	11,491,663
Premiums	721,576	60,851	124,717	657,710	77,339	580,371
Discounts	(358)	—	1,769	(2,127)	—	(2,127)
Total revenue bonds payable	13,801,656	531,151	1,342,891	12,989,916	920,009	12,069,907
Net other postemployment benefits obligation	510,229	187,723	69,530	628,422	—	628,422
Other long-term obligations	482,571	37,540	21,918	498,193	40,685	457,508
Total business-type activities	**$ 27,005,139**	**$ 4,918,809**	**$ 6,486,589**	**$ 25,437,359**	**$ 1,930,899**	**$ 23,506,460**

* Restated

NOTE 11: CERTIFICATES OF PARTICIPATION

Table 12 shows debt service requirements for certificates of participation, which are financed by lease payments from governmental activities. The certificates of participation were used to finance the acquisition and construction of a state office building.

Table 12

Schedule of Debt Service Requirements for Certificates of Participation – Primary Government
(amounts in thousands)

Year Ending June 30	Principal	Interest	Total
2015	$ 8,565	$ 1,075	$ 9,640
2016	11,915	625	12,540
Total	**$ 20,480**	**$ 1,700**	**$ 22,180**

NOTE 12: COMMERCIAL PAPER AND OTHER LONG-TERM BORROWINGS

The primary government has two commercial paper borrowing programs: a general obligation commercial paper program and an enterprise fund commercial paper program for the Department of Water Resources. Under the general obligation and enterprise fund programs, commercial paper (new issuance or rollover notes) may be issued at the prevailing market rate, not to exceed 11%, for periods not to exceed 270 days from the date of issuance. The proceeds from the initial issuance of commercial paper are restricted primarily for construction costs of general obligation bond program projects and certain state water projects. For both commercial paper borrowing programs, the commercial paper is retired by the issuance of long-term debt, so commercial paper is considered a noncurrent liability.

To provide liquidity for the programs, the State has entered into revolving credit agreements with commercial banks. The "Letter of Credit" agreements for the general obligation commercial paper program authorize the issuance of notes in an aggregate principal amount not to exceed $1.7 billion. As of June 30, 2014, the general obligation commercial paper program had $578 million in outstanding commercial paper notes for governmental activities. The current agreement for the enterprise fund commercial paper program authorizes the issuance of notes in an aggregate principal amount not to exceed $140 million. As of June 30, 2014, the enterprise fund commercial paper program had $36 million in outstanding notes.

The primary government has a revenue bond anticipation note (BAN) program that consists of borrowing for capital improvements on certain California State University campuses. As of June 30, 2014, $169 million in outstanding BANs existed in anticipation of the primary government issuing revenue bonds to the public.

The University of California, a discretely presented component unit, has established a $2 billion commercial paper program with tax-exempt and taxable components. At June 30, 2014, outstanding taxable commercial paper totaled $994 million. The University has other borrowings consisting of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. Outstanding borrowings under these uncollateralized financing agreements total $262 million for general corporate purposes for the period ending June 30, 2014. For more information regarding the commercial paper program and other long-term borrowings of the University, refer to its separately issued financial report for fiscal year 2013-14 on its website at www.ucop.edu.

NOTE 13: LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30, 2014, was approximately $3.1 billion. Primary government leases that are classified as operating leases, in accordance with the applicable standards, contain clauses providing for termination. Operating lease expenditures are recognized as being incurred over the lease term. Operating lease expenditures for the year ended June 30, 2014, amounted to approximately $298 million for governmental activities and $29 million for business-type activities. It is expected that, in the normal course of business, most of these operating leases will be replaced by similar leases.

The total present value of net minimum capital lease payments for the primary government is $1.5 billion. Note 10, Long-term Obligations, reports current additions and deductions for these capital lease obligations. Included in the capital lease commitments are lease-purchase agreements, amounting to a present value of net minimum lease payments of $1.1 billion that the California State University, reported as an enterprise fund, has entered into with the State Public Works Board (SPWB), reported as an internal service fund. This amount represents 74.9% of the total present value of minimum capital lease payments of the primary government. Also included in the capital lease commitments are lease-purchase agreements to acquire equipment. Total assets related to capital leases have a net carrying value of $432 million for governmental activities and $808 million for business-type activities.

The capital lease commitments do not include $6.0 billion in lease-purchase agreements with the SPWB and $271 million in lease purchase agreements with building authorities that are blended component units. The SPWB and the building authorities acquire or develop office buildings and then lease the facilities to state agencies. Upon expiration of the lease, title passes to the primary government. The costs of the buildings and the related outstanding revenue bonds and certificates of participation are reported as governmental activities in the government-wide financial statements. Accordingly, the lease receivables and capital lease obligations associated with these buildings are not included in the government-wide financial statements.

The University of California, a discretely presented component unit, leases land, buildings, and equipment under agreements recorded as operating leases. Additional disclosure for the University's lease obligations is included in its separately issued financial statements that can be obtained from the University on its website at www.ucop.edu.

Table 13 summarizes future minimum lease commitments of the primary government.

Table 13

Schedule of Future Minimum Lease Commitments – Primary Government
(amounts in thousands)

Year Ending June 30	Governmental Activities Operating Leases	Governmental Activities Capital Leases	Business-type Activities Operating Leases	Business-type Activities Capital Leases	Total
2015	$ 239,809	$ 65,304	$ 25,216	$ 132,459	$ 462,788
2016	175,419	51,409	18,949	132,086	377,863
2017	124,533	39,989	17,861	127,679	310,062
2018	60,848	29,047	14,598	127,196	231,689
2019	29,916	26,019	11,107	103,219	170,261
2020-2024	46,904	53,337	32,165	439,038	571,444
2025-2029	23,990	4,369	16,373	385,756	430,488
2030-2034	18,555	4,531	9,941	347,503	380,530
2035-2039	101	3,833	3,031	149,000	155,965
2040-2044	101	1,519	968	4,775	7,363
2045-2049	101	—	397	—	498
2050-2054	101	—	178	—	279
2055-2059	74	—	32	—	106
2060-2064	5	—	32	—	37
2065-2069	—	—	32	—	32
2070-2074	—	—	32	—	32
2075-2079	—	—	32	—	32
2080-2084	—	—	32	—	32
2085-2089	—	—	32	—	32
2090-2094	—	—	32	—	32
2095-2099	—	—	33	—	33
Total minimum lease payments	**$ 720,457**	**279,357**	**$ 151,073**	**1,948,711**	**$ 3,099,598**
Less: amount representing interest		19,269		698,437	
Present value of net minimum lease payments		**260,088**		**1,250,274**	
Less: current portion		59,896		70,042	
Capital lease obligation, net of current portion		**$ 200,192**		**$ 1,180,232**	

NOTE 14: COMMITMENTS

As of June 30, 2014, the primary government had commitments of $7.7 billion for certain highway construction and high-speed rail projects. These commitments are not included as a liability in the Federal Fund or the Transportation Fund because future expenditures related to these commitments will be reimbursed with $1.0 billion from local governments and $6.7 billion from proceeds of approved federal grants. The primary government also had other commitments for which the future expenditures will be reimbursed by the proceeds of approved federal grants of $569 million for various education programs, $382 million for terrorism prevention and disaster-preparedness response projects, $286 million for services under the workforce development program, $160 million for services provided under various public health programs, $152 million for community service programs, $69 million for services provided under the welfare program, $30 million for services provided under the rehabilitation program, and $22 million for services provided under the child support program.

The primary government had other commitments, totaling $8.6 billion, that are not included as a liability on the Balance Sheet or the Statement of Net Position. The $8.6 billion in commitments includes grant agreements totaling approximately $5.5 billion to reimburse other entities for construction projects for school building aid, parks, transportation-related infrastructure, housing, and other improvements; and to reimburse counties and cities for costs associated with various programs. Any assets that have been constructed will not belong to the primary government, whose payments are contingent upon the other entities entering into construction contracts. The $8.6 billion in commitments includes $260 million in undisbursed loan commitments for various programs aimed at providing housing and emergency shelter to persons in need and $1.0 billion for undisbursed loan commitments to qualified agencies for clean water projects. In addition, the $8.6 billion in commitments includes $73 million in long-term contracts to purchase power. These contracts qualify for the Normal Purchase Normal Sale exception under GASB Statement No. 53 and, therefore, are not included on the Statement of Net Position of the Electric Power Fund nor disclosed as derivative financial instruments.

The $8.6 billion in commitments also includes contracts of $958 million for the construction of water projects and the purchase and transmission of power that are not included as a liability on the Statement of Net Position of the Water Resources Fund. Included in this amount are certain power purchase, sale, and exchange contracts. The primary government had commitments of $265 million for California State University (CSU) construction projects. CSU participates in forward-purchase contracts of natural gas and electricity. As of June 30, 2014, CSU's obligation under these special purchase arrangements requires it to purchase at fixed prices an estimated total of $21 million in electricity through December 2015 and $23 million in natural gas through June 2017. The primary government also had commitments of $18 million to veterans for the purchase of properties under contracts of sale. The California State Lottery Commission had commitments of $438 million for gaming and telecommunication systems and services. These are long-term projects, and all of the contracts' needs may not have been defined. The projects will be funded with existing and future program resources or with the proceeds of revenue and general obligation bonds.

As of June 30, 2014, the primary government encumbered expenditures of $784 million for the General Fund, $3.1 billion for the Transportation Fund, $1.1 billion for the Environmental and Natural Resources Fund, and $658 million for the nonmajor governmental funds. See Note 2A, Budgeting and Budgetary Control, for an explanation of the primary government's policy concerning encumbrances.

As of June 30, 2014, the discretely presented and fiduciary component units had other commitments that were not included as liabilities on the corresponding Statement of Net Position. Additional disclosure for the University of California's commitments is included in its separately issued financial statements, which can be obtained from the University on its website at www.ucop.edu. Additional disclosure for the California Housing Finance Agency's (CalHFA) commitments is included in its separately issued financial statements, which can be obtained from the CalHFA on its website at www.CalHFA.ca.gov. Additional disclosure for the California Public Employees' Retirement System's (CalPERS) commitments is included in its separately issued financial statements, which can be obtained from CalPERS on its website at www.CalPERS.ca.gov.

NOTE 15: GENERAL OBLIGATION BONDS

The State Constitution permits the primary government to issue general obligation bonds for specific purposes and in such amounts as approved by a two-thirds vote of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the State Constitution, the General Fund is used first to support the public school system and public institutions of higher education; the General Fund can then be used to service the debt on outstanding general obligation bonds. Enterprise funds and certain other funds reimburse the General Fund for any debt service it provides on their behalf. General obligation bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included as a liability of such funds in the financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such funds.

As of June 30, 2014, the State had $80.3 billion in outstanding general obligation bonds related to governmental activities and $675 million related to business-type activities. In addition, $26.5 billion of long-term general obligation bonds had been authorized but not issued, of which $25.8 billion is related to governmental activities and $706 million is related to business-type activities. The total amount authorized but not issued includes $17 billion authorized by the applicable finance committees for issuance in the form of commercial paper notes. Of this amount, $578 million in general obligation indebtedness in the form of commercial paper notes was not yet retired by long-term bonds.

A. Variable-rate General Obligation Bonds

The State issues both fixed and variable-rate general obligation bonds. As of June 30, 2014, the State had $3.0 billion of variable-rate general obligation bonds outstanding, consisting of $814 million in daily rate bonds with credit enhancement and $1.7 billion in weekly rate bonds with credit enhancement, and $498 million in weekly or monthly rate bonds without credit enhancement. During fiscal year 2013-14, the State issued $300 million of variable-rate general obligation bonds without credit enhancement. The interest rates associated with the credit-enhanced bonds are determined by the remarketing agents to be the lowest rate that would allow the bonds to sell on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest rates associated with the unenhanced Index Floating Rate Bonds are determined by the Securities Industry and Financial Markets Association (SIFMA) Index rate or percentage of the London Interbank Offered Rate (LIBOR) then in effect plus a pre-determined spread. The interest on all variable-rate bonds is paid on the first business day of each calendar month.

The credit-enhanced bonds are secured by letters of credit that secure payment of principal and interest on the bonds. The State has entered into different credit agreements with various banks for each series of credit-enhanced bonds. Under these credit agreements, the credit providers agree to pay all principal and interest payments or the commitment amounts to the bondholders; the State is then required to reimburse the credit providers for the amounts paid. In return, the credit providers are compensated with commitment fees that are calculated as a percentage of the bank commitment amounts. The bondholders have the right to tender the bonds daily if the bonds are in a daily rate mode and weekly if the bonds are in a weekly rate mode. Upon a tender, the remarketing agent will attempt to remarket the bonds to a new investor. If the remarketing of the bonds is unsuccessful, the bonds will enter into a bank bond period and accrue interest at higher rates, which cannot exceed 11% as permitted by law until remarketed or redeemed. If the bonds cannot be remarketed and remain in a bank bond period ranging from 45 days to 180 days, the bonds will be subject to term loan payment in 12 equal quarterly installments under the terms stated in the credit agreements. The term loan period may exceed the expiration dates of the credit agreements. The bonds may be remarketed at any time during the bank bond or term loan period. There were no bank bonds during fiscal year 2013-14.

The letters of credit for the Series 2003 variable-rate bonds have expiration dates of October 16, 2015; November 10, 2016; December 16, 2016; and April 12, 2017. The letters of credit for the Series 2004 variable-rate bonds have expiration dates of April 6, 2015; October 15, 2015; and November 10, 2016. The letters of credit for the Series 2005 variable-rate bonds have expiration dates of November 4, 2016; November 10, 2016; December 16, 2016; February 17, 2017; and April 11, 2017. The Series 2012A and 2013 C, D and E Index Floating Rate Bonds have mandatory purchase dates on May 1, 2015, December 1, 2016, December 1, 2017, or December 3, 2018. The Series 2012B SIFMA Index Floating Rate Bonds have final maturities from 2017 to 2020.

Based on the schedules provided in the Official Statements, any required sinking fund deposits for the variable-rate general obligation bonds will be set aside in a mandatory sinking fund at the beginning of each of the following fiscal years: 2015-16 through 2033-34, and 2039-40. The deposits set aside in any fiscal year may be applied, with approval of the State Treasurer and the appropriate bond finance committees, to the redemption of any other general obligation bonds then outstanding. To the extent that the deposit is not applied by January 31 of each fiscal year, the variable-rate general obligation bonds will be redeemed in whole or in part on an interest payment date in that fiscal year.

B. Economic Recovery Bonds

In 2004, voters approved the one-time issuance of Economic Recovery Bonds. The debt service for these bonds is payable from and secured by amounts available in the Economic Recovery Bond Sinking Fund, a debt service fund that consists primarily of revenues from a dedicated sales tax. However, the General Fund may be liable for the payment of any principal and interest on the bonds that cannot be paid from the Economic Recovery Bond Sinking Fund.

As of June 30, 2014, the State had $4.6 billion in Economic Recovery Bonds outstanding. Of the $4.6 billion outstanding, bonds totaling $110 million are variable-rate bonds in the daily-rate mode and $500 million are mandatory tender bonds. The interest rates associated with the daily-rate bonds are determined by the remarketing agent to be the lowest rates that would enable them to sell the bonds for delivery on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest is paid on the first business day of each calendar month. As described in the Official Statement for the variable-rate bonds, payment of principal, interest, and purchase price upon tender, is secured by a letter of credit. The State reimburses the credit provider for any amounts paid. The expiration date for the letter of credit is December 12, 2014.

C. Mandatory Tender Bonds

Of the $4.6 billion in outstanding Economic Recovery Bonds, $500 million were mandatory tender bonds and had an interest rate reset date of July 1, 2014. On that date, the bonds became subject to mandatory tender for purchase at a price equal to 100% of the principal amount, plus accrued interest, without premium. Upon mandatory tender, the State could have remarketed or redeemed these bonds. The State redeemed these bonds on July 1, 2014. The debt service requirements in Table 14 include the effect of this redemption in fiscal year ended June 30, 2015.

As of June 30, 2014, the State had $850 million in outstanding general obligation mandatory tender bonds, including $450 million with a fixed interest rate and $400 million with an index floating rate (discussed in Section A). On their respective mandatory tender dates, these bonds are subject to mandatory tender for purchase at a price equal to 100% of the principal amount, plus accrued interest, without premium, unless the bonds have been called for redemption on or prior to that day. These bonds have mandatory tender dates on May 1, 2015; December 1, 2016; December 1, 2017; and December 3, 2018. In the event of an unsuccessful remarketing of all the outstanding bonds on the scheduled mandatory tender dates, the bonds will enter into a

delayed remarketing period and accrue interest at a higher effective interest rate, gradually increasing on a stepped basis until they are remarketed, redeemed, or paid at maturity. Current state laws limit interest rates to 11% per annum. With respect to $100 million of the Index Floating Rate Bonds, beginning six months after the scheduled mandatory tender date, the bonds will be subject to special mandatory redemption in 20 equal quarterly installments until they are remarketed or refunded.

D. Build America Bonds

As of June 30, 2014, the State had $13.5 billion in taxable various-purpose general obligation bonds outstanding that were issued as "Build America Bonds" under the American Recovery and Reinvestment Act of 2009 (ARRA) signed into law on February 17, 2009. The bonds will mature between 2020 and 2040. Pursuant to ARRA, the State receives a cash subsidy payment from the United States Treasury equal to 35% of the interest payable by the State on the Build America Bonds on or near each interest payment date. Subsequent federal legislation reduced the Build America Bonds subsidy by 8.7% for the federal fiscal year ending September 30, 2013 and 7.2% for the federal fiscal year ending September 30, 2014. The cash payment does not constitute a full faith and credit guarantee of the federal government, but is required to be paid by the United States Treasury under ARRA. The subsidy payments are deposited into the state treasury.

E. Debt Service Requirements

Table 14 shows the debt service requirements for all general obligation bonds as of June 30, 2014. The estimated debt service requirements for the $3 billion variable-rate general obligation bonds and the $110 million variable-rate Economic Recovery Bonds are calculated using the actual interest rates in effect on June 30, 2014. For mandatory tender bonds, the debt service requirements shown in Table 14 are based on the assumption that the interest rate will remain in effect until the applicable reset dates and that the bonds will be fully redeemed on their scheduled maturity dates. The amounts do not reflect any interest subsidy under the Build America Bond program or any other offsets to general fund costs of debt service.

Table 14

Schedule of Debt Service Requirements for General Obligation Bonds
(amounts in thousands)

	Governmental Activities			Business-type Activities		
Year Ending June 30	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2015	$ 3,827,670	$ 4,117,916	$ 7,945,586	$ 56,875	$ 29,345	$ 86,220
2016	3,174,350	3,962,830	7,137,180	75,620	26,610	102,230
2017	2,759,560	3,829,238	6,588,798	61,895	23,909	85,804
2018	2,741,100	3,709,530	6,450,630	39,600	21,708	61,308
2019	3,323,295	3,574,474	6,897,769	26,800	20,220	47,020
2020 - 2024	14,025,615	15,563,258	29,588,873	75,475	85,212	160,687
2025 - 2029	12,781,005	12,597,373	25,378,378	55,265	74,625	129,890
2030 - 2034	14,788,660	9,438,265	24,226,925	157,965	45,129	203,094
2035 - 2039	15,559,405	5,130,596	20,690,001	91,605	17,834	109,439
2040 - 2044	7,315,210	942,934	8,258,144	34,380	1,600	35,980
Total	**$ 80,295,870**	**$ 62,866,414**	**$ 143,162,284**	**$ 675,480**	**$ 346,192**	**$ 1,021,672**

F. General Obligation Bond Defeasances

1. Current Year

On September 10, 2013, the primary government issued $559 million in general obligation bonds to current refund $586 million of outstanding general obligation bonds maturing in 2015 to 2033. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $80 million and resulted in an economic gain of $56 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 4.09% per year over the life of the new bonds.

On November 5, 2013, the primary government issued $723 million in general obligation bonds to current refund $782 million of outstanding general obligation bonds maturing in 2015 to 2033. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $122 million and resulted in an economic gain of $87 million, discounted at 3.90% per year over the life of the new bonds.

On March 27, 2014, the primary government issued $795 million in general obligation bonds to current and advance refund $880 million of outstanding general obligation bonds maturing in 2014 to 2034. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $161 million and resulted in an economic gain of $117 million, discounted at 3.43% per year over the life of the new bonds.

2. Prior Years

In prior years, the primary government placed the proceeds of the refunding bonds in a special irrevocable escrow trust account with the State Treasury to provide for all future debt service payments on defeased bonds. The assets of the trust accounts and the liability for defeased bonds are not included in the State's financial statements. As of June 30, 2014, the outstanding balance of general obligation bonds defeased in prior years was approximately $325 million.

NOTE 16: REVENUE BONDS

A. Governmental Activities

The State Treasurer is authorized by state law to issue Federal Highway Grant Anticipation Revenue Vehicles (GARVEE bonds). The purpose of these bonds is to accelerate the funding and construction of critical transportation infrastructure projects in order to provide congestion relief benefits to the public significantly sooner than with traditional funding mechanisms. These bonds are secured and payable from the annual federal appropriation for the State's federal-aid transportation projects. The primary government has no legal liability for the payment of principal and interest on these revenue bonds. Total principal and interest remaining on the bonds is $141 million, payable through 2020. In addition, the California Alternative Energy and Advanced Transportation Financing Authority is authorized to issue Clean Renewable Energy Bonds to fund the acquisition and installation of certain transportation-related solar energy facilities located throughout the state. Both of these bonds finance activity in the Transportation Fund and are included in the governmental activities column of the government-wide Statement of Net Position.

The Golden State Tobacco Securitization Corporation (GSTSC), a blended component unit, as authorized by state law, has issued asset-backed bonds to purchase 100% of the State's rights to future revenues from the Master Settlement Agreement with participating tobacco companies. These bonds are secured by and payable solely from future Tobacco Settlement Revenue and interest earned on that revenue. The primary government has no legal liability for the payment of principal and interest on the bonds; provided that, in connection with the issuance of the 2005 Bonds and the 2013 Bonds that refunded a portion of the 2005 Bonds, the Legislature has annually granted a General Fund appropriation for payment of debt service in the event tobacco settlement revenues and other available amounts prove insufficient to make these payments during the next succeeding fiscal year. However, the use of the appropriated monies has never been required. Total principal and interest remaining on all asset-backed bonds is $18.4 billion, payable through 2047. All of the Tobacco Settlement Revenue and interest has been pledged in support of these asset-backed bonds. Principal and interest paid in the current year totaled $377 million, while Tobacco Settlement Revenue and interest earned totaled $356 million. These bonds are included in the governmental activities column of the government-wide Statement of Net Position.

Under state law, State Public Works Board (SPWB), an agency that accounts for its activity in the Public Buildings Construction Fund, an internal service fund, and certain building authorities may issue revenue bonds. These bonds are issued for the purpose of constructing state office buildings. Leases with state agencies pay the principal and interest on the revenue bonds issued by the Public Buildings Construction Fund and building authorities. The General Fund has no legal liability for the payment of principal and interest on these revenue bonds. These revenue bonds are included in the governmental activities column of the government-wide Statement of Net Position.

B. Business-type Activities

Revenue bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included in the accounts of such funds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of agencies that issued the bonds. The General Fund has no legal liability for payment of principal and interest on revenue bonds.

Revenue bonds to acquire, construct, or renovate state facilities or to refund outstanding revenue bonds in advance of maturity are issued for water resources, financing of electric power purchases for resale to utility customers, state university campuses, and certain nonmajor enterprise funds.

C. Discretely Presented Component Units

The University of California issues revenue bonds to finance various auxiliary, administrative, academic, medical center, and research facilities. The revenue bonds are not collateralized by any encumbrance, mortgage, or other pledge of property except pledged revenues, and do not constitute general obligations of the University. For more information regarding revenue bonds, current year defeasances, and outstanding defeasances of the University, refer to its separately issued financial report for fiscal year 2013-14 on its website at www.ucop.edu.

Under state law, the California Housing Finance Agency (CalHFA) issues fixed-rate and variable-rate revenue bonds to fund loans to qualified borrowers for single-family houses and multifamily developments. Variable-rate debt is typically related to remarketed rates or common indices, such as the Securities Industry and Financial Markets Association (SIFMA) or the London Interbank Offered Rate (LIBOR) and is reset periodically. CalHFA issues both federally taxable and tax-exempt bonds. The bonds issued by CalHFA are payable solely from and collateralized by revenues and other pledged assets. For more information regarding revenue bonds, current year defeasances, and outstanding defeasances of the CalHFA, refer to its separately issued financial report for fiscal year 2013-14 on its website at www.CalHFA.ca.gov.

Table 15 shows outstanding revenue bonds of the primary government and the discretely presented component units.

Table 15

Schedule of Revenue Bonds Payable
June 30, 2014
(amounts in thousands)

Primary government	
Governmental activities	
Transportation Fund	$ 137,659
Public Buildings Construction Fund	11,323,687
Nonmajor governmental funds:	
Golden State Tobacco Securitization Corporation Fund	7,167,103
Building authorities	288,994
Total governmental activities	**18,917,443**
Business-type activities	
Electric Power Fund	6,249,000
Water Resources Fund	2,647,814
California State University	3,663,116
Nonmajor enterprise funds	429,986
Total business-type activities	**12,989,916**
Total primary government	**31,907,359**
Discretely presented component units	
University of California	16,561,052
California Housing Finance Agency	3,596,347
Nonmajor component units	246,756
Total discretely presented component units	**20,404,155**
Total revenue bonds payable	**$ 52,311,514**

Table 16 shows the debt service requirements for fixed-rate and variable-rate bonds. It excludes unamortized premiums and discounts that are included in Table 15.

Table 16

Schedule of Debt Service Requirements for Revenue Bonds
(amounts in thousands)

	Primary Government				Discretely Presented	
	Governmental Activities		Business-type Activities		Component Units	
Year Ending June 30	Principal	Interest	Principal	Interest	Principal	Interest *
2015	$ 580,591	$ 894,061	$ 842,670	$ 581,159	$ 388,475	$ 909,744
2016	545,951	870,953	922,715	543,053	452,003	881,647
2017	610,761	844,555	951,265	501,123	449,336	859,986
2018	649,146	813,396	985,515	456,399	435,674	838,259
2019	628,196	776,337	1,015,355	410,747	441,415	817,289
2020-2024	3,111,706	3,499,513	3,979,498	1,317,112	2,896,410	3,699,230
2025-2029	3,136,099	2,920,227	1,564,505	704,171	3,040,940	2,921,805
2030-2034	3,167,515	1,982,982	1,128,675	367,114	3,463,482	2,157,148
2035-2039	2,592,035	1,156,841	722,470	137,853	3,342,858	1,357,680
2040-2044	1,904,530	820,802	217,270	20,047	2,729,054	674,677
2045-2049	1,436,157	3,507,027	4,395	98	1,187,130	321,722
2050-2112	—	—	—	—	881,225	2,633,368
Total	**$ 18,362,687**	**$ 18,086,694**	**$ 12,334,333**	**$ 5,038,876**	**$ 19,708,002**	**$ 18,072,555**

* Includes interest on variable-rate bonds based on rates in effect on June 30, 2014.

D. Revenue Bond Defeasances

1. Current Year – Governmental Activities

In September 2013, the SPWB and the University of California entered into a series of restructuring agreements, in which bonds held by the SPWB for University projects were refunded by revenue bonds issued by the University. Additionally, on October 2, 2013, the SPWB entered into an escrow agreement with the State Treasurer. The cash transferred to the State Treasurer, along with deposits from the University from the refunding bonds, will be used to make principal and interest payments for the refunded debt, resulting in the legal defeasance of $2.2 billion in bonds payable. The restructuring was authorized in the 2013-14 budget.

The SPWB and the University also executed termination agreements relating to all leases relating to the defeased and redeemed bonds. As a result, all the net investment in direct financing leases, construction work in progress, and bonds payable related to these leases were removed from the Public Buildings Construction Fund Statement of Net Position. The net effect of these transactions was a loss of $55 million, as shown in the Public Buildings Construction Fund's Statement of Revenues, Expenses, and Changes in Fund Net Position.

2. Current Year – Business-type Activities

As discussed under governmental activities above, the restructuring agreement between the SPWB and the University and the escrow agreement between the SPWB and the State Treasurer resulted in the legal defeasance of all outstanding bonds reported in the High Technology Education Fund, a nonmajor enterprise fund. In addition, the related lease receivable was terminated and the High Technology Education Fund's remaining assets were transferred to the escrow account with the State Treasurer and the fund was dissolved. The net effect of the restructure and refunding was a loss of $27 million, as shown in the enterprise funds' Combining Statement of Revenues, Expenses, and Changes in Fund Net Position.

In August 2013, California State University issued $309 million in systemwide revenue refunding bonds to partially defease certain outstanding systemwide revenue bonds. A portion of the proceeds was deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered defeased and the liability for these bonds has been removed from the financial statements. This refunding will decrease debt service payments by $22 million over the life of the bonds and will result in an economic gain of $19 million for the refunded bonds.

3. Prior Years

In prior years, the primary government defeased certain bonds by placing the proceeds of new bonds in irrevocable trust accounts to provide for all future debt service requirements. Accordingly, the assets and liabilities for these defeased bonds are not included in the financial statements. As of June 30, 2014, the outstanding balance of revenue bonds defeased in prior years was $632 million for business-type activities. All previously defeased revenue bonds for governmental activities were redeemed by June 30, 2014.

NOTE 17: SERVICE CONCESSION ARRANGEMENTS

The State entered into various service concessions arrangements with independent third parties to develop, equip, operate, and maintain nonexclusive concessions at park grounds in exchange for fixed installment payments, for a fixed period of time. These third parties are compensated by user fees. These existing facilities are reported as capital assets by the State, the present value of installment payments are reported as receivables, and a corresponding deferred inflow of resources is reported in the government-wide Statement of Net Position. The State reserves the right to provide or modify the types of goods and services provided by the operator to ensure that the public receives fair pricing, proper service, and appropriate quality. The State is not obligated by the debts of the operator in the event of a default, nor does the State guarantee minimum revenue to the operator. The amount of the primary government's service concession arrangements can be found in Note 21, Deferred Outflows and Deferred Inflows of Resources.

The University of California, a discretely presented component unit, has entered into service concession arrangements with third parties for student housing and certain other faculty and student services. Payments received or to be received by the University from service concession arrangements are reported as deferred inflows of resources. Additional information on the University's service concession arrangements can be found in the University's separately issued financial statements on its website at www.ucop.edu.

NOTE 18: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Short-term interfund receivables and payables result from the time lag between the dates on which goods and services are delivered and the dates on which payments between entities are made. In addition, interfund borrowing, mainly from nonmajor governmental funds and fiduciary funds, is used to meet temporary imbalances of receipts and disbursements in the General Fund.

Table 17 shows the amounts due from and due to other funds.

Table 17

Schedule of Due From Other Funds and Due To Other Funds
June 30, 2014
(amounts in thousands)

	Due To											
Due From	General Fund	Transportation Fund	Environmental and Natural Resources Fund	Nonmajor Governmental Fund	Electric Power Fund	Water Resources Fund	State Lottery Fund	Unemployment Programs Fund	California State University Fund	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total Due to Other Funds
Governmental funds													
General Fund	$ —	$ —	$ —	$ 571,090	$ —	$ —	$ —	$ —	$ 257	$ —	$ 285,469	$ 8,416,873	$ 9,273,689
Federal Fund	632,163	919,991	37,392	248,038	—	—	—	36,689	—	169	10,870	10,952,460	12,837,772
Transportation Fund	19,052	—	—	34,836	—	—	—	—	—	—	12,660	54,090	120,638
Environmental and Natural Resources Fund	21,278	6,476	—	5	—	—	—	—	—	21	19,349	109	47,238
Nonmajor governmental funds	768,555	30,274	7,836	18,272	—	—	—	—	382	75	17,424	1,923,001	2,765,819
Total governmental funds	**1,441,048**	**956,741**	**45,228**	**872,241**	**—**	**—**	**—**	**36,689**	**639**	**265**	**345,772**	**21,346,533**	**25,045,156**
Enterprise funds													
Water Resources Fund	—	—	—	—	—	—	—	—	—	—	47,681	—	47,681
State Lottery Fund	137	155	—	314,620	—	—	—	—	—	—	—	—	314,912
Unemployment Programs Fund	59,896	—	—	—	—	—	—	—	—	—	—	—	59,896
Nonmajor enterprise funds	1,107	—	151	208	—	—	—	—	—	—	69	17	1,552
Total enterprise funds	**61,140**	**155**	**151**	**314,828**	**—**	**—**	**—**	**—**	**—**	**—**	**47,750**	**17**	**424,041**
Internal service funds	**8,707**	**13,779**	**2,861**	**19,126**	**3,000**	**1,129**	**295**	**1,827**	**466**	**407**	**48,400**	**640**	**100,637**
Total due from other funds	**$ 1,510,895**	**$ 970,675**	**$ 48,240**	**$ 1,206,195**	**$ 3,000**	**$ 1,129**	**$ 295**	**$ 38,516**	**$ 1,105**	**$ 672**	**$ 441,922**	**$ 21,347,190**	**$ 25,569,834**

Interfund receivables and payables are the result of interfund loans that are not expected to be repaid within one year. In addition to the temporary interfund cash-flow borrowing shown in Table 17, annual enacted budgets provide for long-term loans from many of the State's special funds—mainly the Transportation Fund, Environmental and Natural Resources Fund, and nonmajor governmental funds—to the General Fund. The $3.3 billion in Transportation Fund loans payable from the General Fund also includes $1.0 billion in deferred Proposition 42 transfers for traffic congestion relief and other direct loans from the Traffic Congestion Relief Program.

Table 18 shows the primary government's interfund receivables and payables.

Table 18

Schedule of Interfund Receivables and Payables
June 30, 2014
(amounts in thousands)

	Interfund Payables									
Interfund Receivables	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Funds**	**Nonmajor Governmental Fund**	**Water Resources Fund**	**Unemployment Programs Fund**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Total**
Governmental funds									
General Fund	$ —	$ 3,337,281	$ 829,227	$ 1,332,548	$ —	$ 611,690	$ 5,600	$ 7,191	$ 6,123,537
Transportation Fund	—	—	—	—	—	—	—	2,316	2,316
Environmental and Natural Resources Fund	—	25,000	—	—	—	—	—	—	25,000
Nonmajor governmental funds	8,584	—	—	—	—	—	—	—	8,584
Total governmental funds	**8,584**	**3,362,281**	**829,227**	**1,332,548**	**—**	**611,690**	**5,600**	**9,507**	**6,159,437**
Internal service funds	**40,650**	**—**	**—**	**172**	**91,517**	**—**	**—**	**6,267**	**138,606**
Total primary government	**$ 49,234**	**$ 3,362,281**	**$ 829,227**	**$ 1,332,720**	**$ 91,517**	**$ 611,690**	**$ 5,600**	**$ 15,774**	**$ 6,298,043**

The amounts shown as due from primary government and due to component units represent short-term receivables and payables between the primary government and component units resulting from the time lag between the dates on which goods and services are provided and received and the dates on which payments between entities are made.

Table 19 shows the amounts due from the primary government and due to component units.

Table 19

Schedule of Due from Primary Government and Due to Component Units
June 30, 2014
(amounts in thousands)

	Due To Component Units		
Due From	**University of California**	**Nonmajor Component Units**	**Total**
Governmental funds			
General Fund	$ 205,129	$ 1,212	$ 206,341
Total governmental funds	**205,129**	**1,212**	**206,341**
Total primary government	**$ 205,129**	**$ 1,212**	**$ 206,341**

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B. Interfund Transfers

Transfers move money collected by one fund to another fund, which then disburses it as required by law. The General Fund and certain other funds transfer money to support various programs accounted for in other funds. The largest transfer from the General Fund was $2.3 billion to the California State University, an enterprise fund. The General Fund also transferred $1.6 billion to nonmajor governmental funds mainly for support of trial courts and state and local government health care programs. The Transportation Fund transferred $1.0 billion of weight fee revenues to the Transportation Debt Service Fund, a nonmajor governmental fund, for reimbursement of debt service costs. The Federal Fund transferred $631 million to the General Fund for administration of the Unemployment Insurance Program.

Table 20 shows interfund transfers of the primary government.

Table 20

Schedule of Interfund Transfers
June 30, 2014
(amounts in thousands)

	Transferred To						
Transferred From	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Funds**	**Nonmajor Governmental Funds**	**California State University Fund**	**Internal Service Funds**	**Total**
Governmental funds							
General Fund	$ —	$ —	$ 28,853	$ 1,577,442	$ 2,302,858	$ 6,394	$ 3,915,547
Federal Fund	631,194	—	173,568	17,970	—	—	822,732
Transportation Fund	74,430	—	12,903	1,071,822	—	—	1,159,155
Environmental and Natural Resources Fund	8,849	—	—	13,814	—	—	22,663
Nonmajor governmental funds	273,021	25	24,775	86,129	—	—	383,950
Total governmental funds	**987,494**	**25**	**240,099**	**2,767,177**	**2,302,858**	**6,394**	**6,304,047**
Nonmajor enterprise funds	**199**	—	—	—	—	**6,649**	**6,848**
Internal service funds	**8,766**	—	—	**37,490**	—	**63,614**	**109,870**
Total primary government	**$ 996,459**	**$ 25**	**$ 240,099**	**$ 2,804,667**	**$ 2,302,858**	**$ 76,657**	**$ 6,420,765**

NOTE 19: FUND BALANCES, FUND DEFICITS, AND ENDOWMENTS

A. Fund Balances

Table 21 shows the composition of the governmental fund balances at June 30, 2014.

Table 21

Schedule of Fund Balances by Function
June 30, 2014
(amounts in thousands)

Year Ending June 30	General Fund	Federal Fund	Transportation Fund	Environmental and Natural Resources Fund	Nonmajor Governmental Funds
Nonspendable					
Long-term interfund receivables	$ 49,234	$ —	$ —	$ —	$ —
Long-term loans receivable	79,375	—	—	—	—
Other	—	—	—	—	27,260
Total nonspendable	**128,609**	**—**	**—**	**—**	**27,260**
Restricted					
General government	6,113	—	—	14,222	3,639,099
Education	284,204	296	4,824	—	852,134
Health and human services	101,301	257	—	1,365,893	2,295,229
Resources	—	9,217	—	4,838,324	98,547
State and consumer services	2,628	—	224,207	55,432	518,981
Business and transportation	—	201,804	7,169,827	47,236	2,931,637
Correctional programs	—	—	—	—	1,927
Total restricted	**394,246**	**211,574**	**7,398,858**	**6,321,107**	**10,337,554**
Committed					
General government	13,999	—	—	21,623	334,549
Education	3,023	—	—	—	30,777
Health and human services	4,445	—	1,430	—	269,511
Resources	455	—	10	1,275,839	740,043
State and consumer services	—	—	—	23,649	57,697
Business and transportation	—	—	65,926	—	87,123
Correctional programs	103,198	—	—	—	6,570
Total committed	**125,120**	**—**	**67,366**	**1,321,111**	**1,526,270**
Assigned – General government	**—**	**—**	**—**	**—**	**18,857**
Unassigned	**(8,092,571)**	**—**	**—**	**(11,664)**	**(8,481)**
Total fund balances (deficit)	**$ (7,444,596)**	**$ 211,574**	**$ 7,466,224**	**$ 7,630,554**	**$ 11,901,460**

B. Fund Deficits

Table 22 shows the funds that had deficit balances at June 30, 2014.

Table 22

Schedule of Fund Deficits
June 30, 2014
(amounts in thousands)

	Governmental Funds	Internal Service Funds	Enterprise Funds
General Fund	$ 7,444,596	$ —	$ —
Architecture Revolving Fund	—	26,660	—
Service Revolving Fund	—	172,160	—
Water Resources Fund	—	51,390	—
Unemployment Programs Fund	—	—	2,657,890
Total fund deficits	**$ 7,444,596**	**$ 250,210**	**$ 2,657,890**

C. Discretely Presented Component Unit Endowments and Gifts

The University of California, a discretely presented component unit, administers certain restricted nonexpendable, restricted expendable, and unrestricted endowments that are included in the related net position categories of the government-wide and fund financial statements. As of June 30, 2014, the total value of restricted endowments and gifts was $14.2 billion and unrestricted endowments and gifts was $2.1 billion. The University's policy is to retain realized and unrealized appreciation on investments with the endowment after an annual income distribution. The net appreciation available to meet future spending needs upon approval by the Board of Regents amounted to $2.1 billion at June 30, 2014. The portion of investment returns earned on endowments and distributed each year to support current operations is based on a rate approved by the Board of Regents. In addition, the California State University Auxiliary Organizations and the University of California Hastings College of the Law, nonmajor component units, have restricted nonexpendable and restricted expendable endowments of $946 million and $9 million, respectively.

NOTE 20: RISK MANAGEMENT

The primary government has elected, with a few exceptions, to be self-insured against loss or liability. The primary government generally does not maintain reserves. Losses are covered by appropriations from each fund responsible for payment in the year in which the payment occurs. The State is permissively self-insured and barring any extraordinary catastrophic event, the potential amount of loss faced by the State is not considered material in relation to the primary government's financial position. Generally, the exceptions are when a bond resolution or a contract requires the primary government to purchase commercial insurance for coverage against property loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, no insurance settlement in the last three years has exceeded insurance coverage. All claim payments are on a "pay-as-you-go" basis, with workers' compensation benefits for self-insured agencies initially being paid by the State Compensation Insurance Fund.

The discounted liability for unpaid self-insurance claims of the primary government is estimated to be $3.7 billion as of June 30, 2014. This estimate is based primarily on actuarial reviews of the State's workers' compensation program and includes indemnity payments to claimants, as well as all other costs of providing workers' compensation benefits, such as medical care and rehabilitation. The estimate also includes the liability for unpaid services fees, industrial disability leave benefits, and incurred-but-not-reported amounts. The estimated total liability of approximately $5.2 billion is discounted to $3.7 billion using a 3.5% interest rate. Of the total, $410 million is a current liability, of which $273 million is included in the General Fund, $134 million in the special revenue funds, and $3 million in the internal service funds. The remaining $3.3 billion is reported as other noncurrent liabilities in the government-wide Statement of Net Position.

The University of California, a discretely presented component unit, is self-insured or insured through a wholly-owned captive insurance company for medical malpractice, workers' compensation, employee health care, and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred but not reported. The estimated liabilities are based on an independent actuarial determination of the anticipated future payments, discounted at rates ranging from 2% to 5%.

Table 23 shows the changes in the self-insurance claims liability for the primary government and the discretely presented component units.

Table 23

Schedule of Changes in Self-Insurance Claims
Year Ended June 30
(amounts in thousands)

	Primary Government		Discretely Presented Component Unit University of California	
	2014	2013	2014	2013
Unpaid claims, beginning	$ 3,509,555	$ 3,204,635	$ 631,798	$ 599,176
Incurred claims	639,704	754,641	467,191	421,832
Claim payments	(445,289)	(449,721)	(454,411)	(389,210)
Unpaid claims, ending	**$ 3,703,970**	**$ 3,509,555**	**$ 644,578**	**$ 631,798**

NOTE 21: DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

In the fund financial statements, governmental funds reported deferred inflows of resources of $2.0 billion because this amount represents revenues that are earned and measurable, but not available within 12 months of the end of the reporting period.

Table 24 shows the detail of the deferred outflows of resources and deferred inflows of resources reported in the government-wide Statement of Net Position.

Table 24

Schedule of Deferred Outflows and Deferred Inflows of Resources
June 30, 2014
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Deferred outflows of resources:				
Loss on refunding of debt	$ 986,477	$ 242,167	$ 1,228,644	$ 346,480
Decrease in fair value of hedging derivatives	—	—	—	100,282
Net pension liability	—	—	—	3,290,476
Total deferred outflows of resources	**986,477**	**242,167**	**1,228,644**	**3,737,238**
Deferred inflows of resources:				
Gain on refunding of debt	106,426	—	106,426	1,561
Service concession arrangements	64,376	—	64,376	30,701
Net pension liability	—	—	—	7,077,861
Other deferred inflows	—	822,886	822,886	—
Total deferred inflows of resources	**$ 170,802**	**$ 822,886**	**$ 993,688**	**$ 7,110,123**

NOTE 22: NO COMMITMENT DEBT

Certain debt of the nonmajor component units is issued to finance activities such as the promotion of renewable energy sources and financing for economic development projects. This debt is secured by the credit of private and public entities and is administered by trustees independent of the State. As of June 30, 2014, these component units had approximately $4.3 billion of debt outstanding, which is not debt of the State.

The conduit obligations outstanding for the California Housing Finance Agency, a major component unit, amounted to $341 million, which is not debt of the State.

NOTE 23: CONTINGENT LIABILITIES

A. Litigation

The primary government is a party to numerous legal proceedings, many of which are not unusual for governmental operations. To the extent they existed, the following were accrued as a liability in the government-wide financial statements: legal proceedings that were decided against the primary government

before June 30, 2014; legal proceedings that were in progress as of June 30, 2014, and were settled or decided against the primary government as of March 19, 2015; and legal proceedings having a high probability of resulting in a decision against the primary government as of March 19, 2015, and for which amounts could be estimated. In the governmental fund financial statements, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability of the fund from which payment will be made. In the proprietary fund financial statements, the entire liability is recorded in the fund from which payment will be made.

In addition, the primary government is involved in certain other legal proceedings that, if decided against the primary government, may impair its revenue sources or require it to make significant expenditures. Because of the prospective nature of these proceedings, no provision for the potential liability has been made in the financial statements.

Following are the more significant lawsuits pending against the primary government.

The primary government is a defendant in two cases, *Bakersfield Mall, LLC v. Franchise Tax Board*, and *CA–Centerside II, LLC v. Franchise Tax Board*, both regarding the constitutionality of a fee imposed on limited-liability companies (LLC). Plaintiffs allege class action relief, declaratory relief, and seek attorney fees based on alleged violations to the state and federal constitutions. They seek certification of two classes of allegedly similarly situated LLCs and unspecified amount of refunds on behalf of the LLC classes, alleged to be in excess of 50,000 members. Briefing of the appeal was completed on December 17, 2014, and the parties are waiting for notice of oral argument.

In a previously settled case, *Northwest Energetic Services, LLC v. Franchise Tax Board*, the Court of Appeal found the fee unconstitutional only as applied to the plaintiff. The primary government has already begun to pay refunds to LLCs with the same facts as Northwest that have no income earned inside California. In another recently settled case, *Ventas Finance I, LLC v. Franchise Tax Board*, the Court of Appeal also ruled that the fee is unconstitutional as applied to the plaintiff, but it awarded only a partial refund because Ventas received income from both inside and outside of California. *Bakersfield Mall, LLC v. Franchise Tax Board* raised the same constitutional issues as Northwest and Ventas, but initially pertained to LLCs that conduct business solely within California. Bakersfield Mall, LLC later amended its complaint to reflect the fact that not all of its income is derived within the state, making it similar to the Ventas case. This plaintiff also intended to bring a class action suit for refund on behalf of all similarly situated LLCs and to declare the LLC fee unconstitutional. However, the Court of Appeal ruled that Bakersfield Mall, LLC did not follow mandatory class action claim procedures. *CA-Centerside II, LLC v. Franchise Tax Board* raised the same constitutional issues as the Bakersfield case, and alleges that the LLC fee is unconstitutional regarding any activities, whether in-state or out-of-state. Actual and expected future claims for refunds from LLCs are estimated to be as high as $1.2 billion.

The primary government is a defendant in a case, *Harley-Davidson, Inc. and Subsidiaries v. Franchise Tax Board* regarding the constitutionality of Revenue and Taxation Code section 25101.15 allowing intrastate unitary businesses the option of reporting the income of various entities within the unitary business on either a separate or combined basis. The plaintiff claims, among other things, that section 25101.15 unlawfully discriminates against them because it allows intrastate unitary businesses the option to report on either a separate or combined basis, and that they should be allowed to report the income of their business entities on a separate basis. The Franchise Tax Board prevailed in the trial court, and the case is fully briefed and awaiting oral argument on appeal. If section 25101.15 were invalidated, the dollar amount of potential refunds for past years is impossible to estimate, but could be substantial. The potential loss of future revenue is also impossible to estimate, but could be mitigated by legislative action.

The primary government is a defendant in another case, *Abercrombie & Fitch Co. & Subsidiaries v. Franchise Tax Board*, regarding constitutionality of Revenue and Taxation Code section 25101.15. The parties' cross-motions for summary judgment were heard on January 8, 2015. After that hearing, the superior court stayed further proceedings pending an appellate decision in the *Harley-Davidson* case. An estimate of potential loss is not possible.

The primary government is the defendant in a consolidated case, *The Gillette Company & Subsidiaries v. Franchise Tax Board*, formerly six cases, *Kimberly-Clark Worldwide, Inc. et al. v. Franchise Tax Board*; *Gillette Company v. Franchise Tax Board*; *Proctor & Gamble v. Franchise Tax Board*; *Sigma-Aldrich, Inc. v. Franchise Tax Board*; *RB Holdings (USA), Inc. v. Franchise Tax Board*; and *Jones Apparel Group Inc. v. Franchise Tax Board*, regarding the application of California's double-weighted sales factor apportionment formula under Revenue and Taxation Code section 25128. Multistate taxpayers claim that amended Revenue and Taxation Code section 25128 is invalid because California failed to repeal the entire Multistate Tax Compact. The case is fully briefed and before the California Supreme Court awaiting a hearing date. Taxpayers seek a combined refund totaling approximately $34 million (plus statutory interest) for taxable years 1993 through 2005. If amended section 25128 is found invalid, the potential total refunds to other taxpayers are impossible to estimate with precision, but could exceed $750 million.

The primary government is the defendant in the following cases: *Anthem Blue Cross v. David Maxwell-Jolly, et al.*; *Molina Family Health Plan v. DHCS*; *Health Net of California, Inc. v. DHCS*; and *Santa Clara Family Health Plan v. David Maxwell-Jolly et al.* regarding application of budget reduction factors to managed-care capitated rates. These cases have been settled on a contingent basis based on the plans' profitability. The estimated combined potential total loss is more than $400 million based on four separate settlement agreements that were entered into in 2013 and 2014.

B. Federal Audit Exceptions

The primary government receives substantial funding from the federal government in the form of grants and other federal assistance. The primary government, the University of California, California Housing Finance Agency (CalHFA), and certain nonmajor discretely presented component units are entitled to these resources only if they comply with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; they may spend these resources only for eligible purposes. If audits disclose exceptions, the primary government, the University, CalHFA, and certain nonmajor discretely presented component units may incur a liability to the federal government.

NOTE 24: PENSION TRUSTS

Two retirement systems, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), which are fiduciary component units, are included in the pension and other employee benefit trust funds column of the fiduciary funds and similar component units' financial statements.

Both CalPERS and CalSTRS retirement systems implemented the GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, in their fiscal year 2013-14 financial statements. The objective of GASB 67 is to improve financial reporting by state and local governmental pension plans and the decision-usefulness of reported pension information as well as to increase the transparency, consistency, and comparability of pension information across governments.

The California Legislature passed and the Governor signed the "Public Employees' Pension Reform Act of 2013" (PEPRA) on September 12, 2012. PEPRA contained a number of provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 31, 2012. The financial impact will be gradually realized as total pension costs and the employer share of those costs decrease.

CalPERS administers four defined benefit retirement plans: the Public Employees' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement Fund II, and the Legislators' Retirement Fund. CalPERS also administers three defined contribution plans: the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the Public Agency Deferred Compensation Plan, and the public employee Supplemental Contributions Program Fund. The predominance of both assets and liabilities reside in the Public Employees' Retirement Fund. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be obtained from the California Public Employees' Retirement System on its website at www.CalPERS.ca.gov.

CalPERS uses the accrual basis of accounting. Contributions to the pension trust funds are recognized in the period in which the contributions are due pursuant to legal requirements. Benefits and refunds in the defined benefit plans are recognized when due and payable in accordance with the terms of each plan.

CalSTRS administers four defined benefit retirement plans within the State Teachers' Retirement Plan: the Defined Benefit Program, the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. CalSTRS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be obtained from the California State Teachers' Retirement System on its website at www.CalSTRS.com.

CalSTRS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are earned. Employer and primary government contributions are recognized when earned and when the employer or the primary government has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable, in accordance with the retirement and benefits programs.

A. Public Employees' Retirement Fund

1. Fund Information

Plan Description: CalPERS administers the Public Employees' Retirement Fund (PERF). The PERF is comprised of and reported as three separate entities for accounting purposes. PERF A is comprised of agent multiple-employer plans, which includes State of California and most public agencies' rate plans with more

than 100 active members. PERF B is a cost-sharing multiple-employer plan of school employers consisting of non-teaching and non-certified employees. PERF C is a cost-sharing multiple-employer plan of public agencies plans with generally less than 100 active members. Employers participating in the PERF include the primary government and certain discretely presented component units, 1,517 school employers, and 1,746 public agencies as of June 30, 2014.

The amount by which the actuarial accrued liability exceeded the actuarial value of assets in the PERF for the primary government and other participating agencies was $36.4 billion at June 30, 2013, as a result of the difference between the actuarial value of assets of $111.0 billion and the actuarial accrued liability of $147.4 billion. Contributions are either actuarially determined or determined by statute.

2. Employer's Information

Plan Description: The primary government and certain discretely presented component units contribute to the PERF. CalPERS acts as a common investment and administrative agent of the primary government and the other member agencies. The primary government employees served by the PERF include first-tier and second-tier miscellaneous and industrial employees, California Highway Patrol employees, peace officers and firefighters, and other safety members. In the June 30, 2013 actuarial valuation, the payroll for primary government employees covered by the PERF for the 2012-13 fiscal year was $15.3 billion.

All employees in a covered class of employment who work half-time or more are eligible to participate in the PERF. The PERF provides benefits based on members' years of service, age, final compensation, and benefit formula. Vesting occurs after five years or after ten years for second-tier employees. The PERF provides death, disability, and survivor benefits. The benefit provisions are established by statute.

Funding Policy: Benefits are funded by contributions from members and the primary government and by earnings from investments. Member and primary government contributions are a percentage of applicable member compensation. Member rates are defined by law and based on the primary government's benefit formulas. The primary government contribution rates are determined by periodic actuarial valuations or by statute.

Employees, with the exception of employees in the State's Alternate Retirement Program, contribute to the fund based on the required contribution rates. The contribution rates of active plan members are based on a percentage of salary over a monthly base compensation ranging from $0 to $863. Employees' required contributions vary from 1.5% to 12.0% of their salaries over the base compensation amount.

All of the primary government employees served by the PERF are now covered by group term life insurance.

Table 25 shows the required employer contribution rates for the primary government.

Table 25

Schedule of Required Employer Contribution Rates for the Primary Government – By Member Category
Year Ended June 30, 2014

	Normal Cost	Unfunded Liability	Group Term Life Benefit	Total Rate
Miscellaneous members				
First tier	8.089 %	12.961 %	0.071 %	21.121 %
Second tier	7.960	12.961	0.071	20.992
Industrial (first and second tier)	10.325	5.357	0.000	15.682
California Highway Patrol	12.895	21.683	0.038	34.616
Peace officers and firefighters	15.489	15.006	0.000	30.495
Other safety members	12.007	5.198	0.000	17.205

For the year ended June 30, 2014, the annual pension cost (APC) and the amount of contributions made by the primary government were each $3.7 billion. The APC and the percentage of APC contributed for the last three years are shown in Table 27. Actuarial valuations of the PERF are performed annually. Information from the last valuation, which was performed as of June 30, 2013, is also shown in Table 27.

The Schedule of Funding Progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

B. Teachers' Retirement Fund

Plan Description: CalSTRS administers the Teachers' Retirement Fund, which is an employee benefit trust fund created to finance the State Teachers' Retirement Plan (STRP). The STRP is a defined benefit pension plan that provides for retirement, disability, and survivor benefits. Four programs comprise the STRP: the Defined Benefit (DB) Program, the Defined Benefit Supplement (DBS) Program, the Cash Balance (CB) Benefit Program, and the Replacement Benefit (RB) Program. The STRP is a cost-sharing, multiple-employer, defined-benefit retirement plan that provides pension benefits to teachers and certain other employees of the California public school system.

Membership in the DB Program is mandatory for all employees meeting the eligibility requirements. The DB Program provides benefits based on a member's age, final compensation, and years of service. Vesting occurs after five years. In addition, the retirement program provides benefits to members upon disability and to survivors upon the death of eligible members. The Teachers' Retirement Law establishes the benefits for the DB Program. The DB Program had 1,687 contributing employers at June 30, 2014 and, as of June 30, 2013, had 416,643 active and 182,576 inactive program members and 269,274 benefit recipients. The primary government is a nonemployer contributor to the DB Program. The payroll for employees covered by the DB Program for the year ended June 30, 2014, was approximately $27.1 billion.

Membership in the DBS Program is automatic for all members of the DB Program. The DBS Program provides benefits based on the amount of funds contributed. Vesting in the DBS Program occurs automatically with vesting in the DB Program. The Teachers' Retirement Law establishes the benefits for the DBS Program. The primary government does not contribute to the DBS Program.

The CB Benefit Program is designed for employees of California public schools who are hired to perform creditable service for less than 50% of the full-time equivalent for the position. Employer participation in the CB Benefit Program is optional. However, if the employer elects to offer the CB Benefit Program, each eligible employee will automatically be covered by the CB Benefit Program unless the member elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire or the election period determined by the employer. At June 30, 2014, the CB Benefit Program had 32 contributing school districts and 35,066 contributing participants.

The RB Program is a qualified excess benefits arrangement for DB Program members that is administered through a separate pension trust apart from the other three STRP programs and was established in accordance with Internal Revenue Code Section 415(m). Internal Revenue Code Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The program is funded as needed. Monthly contributions that would otherwise be credited to the DB program are instead credited to the RB Program to fund monthly program costs. Monthly employer contributions are received and paid to members in amounts equal to the benefits not paid as a result of Internal Revenue Code Section 415(b), subject to withholding for any applicable income or employment taxes. At June 30, 2014, the RB Program had 260 participants.

Funding Policy: DB Program benefits are funded by contributions from members, employers, the primary government, and earnings from investments. Members and employers contribute a percentage of applicable member earnings. The Teachers' Retirement Law governs member rates, employer contribution rates, and primary government contributions.

The DB Program contribution rate for members under the CalSTRS 2% at 60 formula is 8.00% of creditable compensation, while the contribution rate for members under the CalSTRS 2% at 62 formula is 50% of the normal cost of their retirement plan, which resulted in an 8.00% contribution rate of creditable compensation for the fiscal year 2013-14. The employer contribution rate is 8.25% of creditable compensation. In fiscal year 2013-14, the General Fund contribution was 2.017% of total creditable compensation of the fiscal year ending in the prior calendar year. Education Code section 22955(b) states that the General Fund will contribute additional quarterly payments at a contribution rate of 0.524% of creditable earnings of the fiscal year ending in the immediately preceding calendar year when there is an unfunded actuarial obligation or a normal cost deficit. The percentage is adjusted up to 0.25% per year to reflect the contributions required to fund the unfunded actuarial obligation or the normal cost deficit. However, the transfer may not exceed 1.505% of creditable compensation from the immediately preceding calendar year. The normal cost deficit is the difference between the normal cost rate and the member and employer contributions. Based on the actuarial valuation, as of June 30, 2012, there is no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. Therefore, the General Fund was required to contribute the additional quarterly payments at a contribution rate of 1.024% starting October 1, 2013. As of June 30, 2014, the state contributed $201 million of the $268 million total amount for fiscal year 2013-14.

Assembly Bill 1469 (AB 1469) was passed by the Legislature on June 15, 2014, signed into law on June 24, 2014, and took effect immediately. This bill was designed to address the long-term funding gap of the DB Program. It creates a plan to fully fund the DB Program by 2046 through increases in employer, State, and employee contributions. The portion of the state appropriation under Education Code section 22955(b) that is in addition to the 2.017% has been replaced by section 22955.1(b) in order to fully fund by 2046 the benefits in effect as of 1990.

As a result of AB 1469, the fourth quarterly payment of $67 million was included in an increased first-quarter payment of $94 million for fiscal year 2014-15, which was transferred on July 1, 2014.

Table 26 shows the CalSTRS' state contribution rates effective for fiscal year 2014-15 and beyond.

Table 26

Schedule of CalSTRS' State Contribution Rates

Effective Date	Base Rate	AB 1469 Increase for 1990 Benefit Structure	SBMA[1] Funding	Total State Appropriation to DB Program
July 1, 2014	2.017 %	1.437 %	2.50 %	5.954 %
July 1, 2015	2.017	2.874	2.50	7.391
July 1, 2016	2.017	4.311	2.50	8.828
July 1, 2017 to June 30, 2046	2.017	4.311	2.50	8.828
July 1, 2046 and thereafter	2.017	— [2]	2.50	4.517 [2]

[1] Supplemental Benefits Maintenance Account

[2] AB 1469 gives the CalSTRS board limited authority to adjust state contribution rates from July 1, 2017, through June 30, 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure shall be reduced to 0 percent. Rates in effect prior to July 1, 2014, are reinstated, if necessary, to address any remaining 1990 unfunded actuarial obligation from July 1, 2046, and thereafter.

The DBS Program member contribution rate for service that exceeds one full year during a fiscal year is 8.0% and the employer rate is 8.0%.

For the year ended June 30, 2014, the employer and primary government contributions were approximately $2.3 billion and $1.4 billion, respectively. Actuarial valuations of the DB Program are performed annually. Information from the last valuation is shown in Table 27.

Table 27

Actuarial Information – Pension Trusts – Public Employees' Retirement Fund and State Teachers' Retirement Defined Benefit Program Fund

Valuation Date as Indicated

	Public Employees' Retirement Fund	State Teachers' Retirement Defined Benefit Program Fund [1]
Last actuarial valuation	June 30, 2013	June 30, 2013
Actuarial cost method	Individual Entry Age Normal	Entry Age Normal
Amortization method	Level % of Payroll	Level % of Payroll, Open
Remaining amortization period	30 years	30 years
Asset valuation method	Smoothed Market Value	Expected Value, With 33% Adjustment to Market Value
Actuarial assumption		
Investment rate of return	7.50 %	7.50 %
Projected salary increase	3.20 - 18.60	3.75
Includes inflation at	2.75	3.00
Post-retirement benefit increases	2.00 - 3.00	2.00
Annual pension costs (in millions)		
Year ended 6/30/11	$ 3,277	$ 5,985
Year ended 6/30/12	2,928	6,230
Year ended 6/30/13	3,236	6,629
Year ended 6/30/14	3,749	— [2]
Percent contribution		
Year ended 6/30/11	100 %	47 %
Year ended 6/30/12	100	46
Year ended 6/30/13	100	44
Year ended 6/30/14	100	— [2]
Funding as of last valuation (in millions)		
Actuarial value – assets	$ 110,989	$ 148,614
Actuarial accrued liabilities (AAL) – entry age	147,392	221,861
Unfunded actuarial accrued liability (UAAL)	36,403	73,247
Covered payroll	15,346	27,117
Funded ratio	75.3 %	67.0 %
UAAL as percent of covered payroll	237.2 %	270.1 %

[1] The State is a nonemployer contributor to the State Teachers' Retirement Defined Benefit Program Fund, a cost-sharing multiple-employer plan. The annual pension cost includes the amount related to both the State and the local government employers. According to the provisions of the Teacher's Retirement Law and the related Education Codes, the State and local government employers contributed $1.4 billion and $2.3 billion, respectively, for the year ending June 30, 2014. Based on the most recent actuarial valuation, dated June 30, 2013, current statutory contributions are sufficient to fund normal costs but are not expected to be sufficient to amortize the unfunded actuarial obligation. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions, and other experience that may differ from the actuarial assumptions.

[2] CalSTRS implementation of GASB 67 in its 2013-14 fiscal year financial statements makes information related to the annual pension cost and the related percent contribution rates incomparable for financial presentation to prior years displayed.

NOTE 25: POSTEMPLOYMENT HEALTH CARE BENEFITS

State of California Other Postemployment Benefits Plan Description: The primary government provides health benefits (medical and prescription drug benefits) and dental benefits to annuitants of retirement systems through a substantive single-employer defined benefit plan to which the primary government contributes as an employer (State substantive plan). The primary government also offers life insurance, long-term care, and vision benefits to retirees; however, because these benefits are completely paid for by the retirees, the primary government has no liability. The design of health and dental benefit plans can be amended by the California Public Employees' Retirement System (CalPERS) Board of Administration and the California Department of Human Resources (CalHR), respectively. Employer and retiree contributions are governed by the primary government and can be amended by the primary government through the Legislature. The State contributes to the California Employers' Retiree Benefit Trust Fund (CERBTF). The CERBTF is a self-funded trust fund for the prefunding of health, dental, and other non-pension benefits. CalPERS reports on the CERBTF as part of its separately issued annual financial statements, which can be obtained from CalPERS on its website at www.CalPERS.ca.gov.

Fifty-eight county superior courts (trial courts) are included in the primary government. However, each trial court is a separate employer for GASB Statement No. 45 reporting purposes. Fifty trial courts have a single-employer defined benefit plan; these plans have separate biennial actuarial valuations. One trial court (San Diego) has a cost-sharing multiple-employer defined benefit plan. Seven trial courts (Alameda, Del Norte, Fresno, Mendocino, Modoc, San Benito, and Stanislaus) have no plan. Twenty-one plans are not accounted for in a trust fund and do not issue separate reports.

To be eligible for these benefits, primary government first-tier plan annuitants must retire on or after age 50 with at least five years of service, and second-tier plan annuitants must retire on or after attaining age 55 with at least 10 years of service. In addition, annuitants must retire within 120 days of separation from employment to be eligible to receive these benefits. During the 2013-14 fiscal year, approximately 168,200 annuitants were enrolled to receive health benefits and approximately 139,000 annuitants were enrolled to receive dental benefits. As of July 1, 2013, the most recent actuarial valuation date, the trial courts had approximately 4,200 enrolled retirees and spouses.

Funding Policy: The contribution requirements of plan members and the State are established and may be amended by the Legislature. In accordance with the California Government Code, the State generally pays 100% of the health insurance cost for annuitants, plus 90% of the additional premium required for the enrollment of family members of annuitants. The State generally pays all or a portion of the dental insurance cost for annuitants, depending upon the completed years of credited state service at retirement and the dental coverage selected by the annuitant, as specified in the California Government Code. The State funds the cost of providing health and dental insurance to annuitants primarily on a pay-as-you-go basis, with a modest amount of prefunding for members of Bargaining Units 5, 12, and 16. The maximum 2014 monthly State contribution was $642 for one-party coverage, $1,218 for two-party coverage, and $1,559 for family coverage.

Each of the trial courts determines its respective retirees' benefits and benefit levels as well as the funding policy for its respective plan. Twenty-one trial courts fund retirees' benefits on a strictly pay-as-you-go basis. The 2013 monthly contribution rate for the trial courts with single-employer defined benefit plans, the latest year for which contribution information is available, ranged from $8 to $1,134,429, with the average being $119,867. One trial court (Yolo) continuously contributes at least the annual required contribution (ARC) of the employer, 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 costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. Sonoma and Marin are on a pay-as-you-go plus 50% of direct-subsidy benefits funding policy (after

initial contribution) until their plans are fully funded. Orange contributed the larger of the ARC. or 3.5% of payroll, with at least the ARC contributed for 2014, with no commitment to future contributions. San Diego, a cost-sharing multiple-employer defined benefit plan, had a contribution rate of 1.94% of annual covered pension payroll. Seventeen other trial courts made contributions only in 2014, with five other trial courts contributing in other years (Placer in 2013 and 2014; San Mateo in 2013, 2014, and 2015; Nevada in 2012 and 2013; Santa Cruz in 2013; and Butte in 2014 and prior years, which fully funded the plan), but none of these 22 trial courts are committing to future trust contributions. Lassen is fully funded with no future contributions expected, Imperial has committed to $20,000 per year for future contributions, and Santa Clara funding policy is set by the County and will increase to 70% of the ARC long term. For the year ended June 30, 2014, the State contributed $1.9 billion toward annuitants' health and dental benefits. Of this amount, the trial courts represent $73 million and certain discretely presented component units represent $4 million.

Annual Other Postemployment Benefits (OPEB) Cost and Net OPEB Obligation: The State's annual OPEB cost (expense) is calculated based on the ARC. Table 28 presents the State's OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2014, and the two preceding years, including trial courts.

Table 28

Schedule of Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed and Net OPEB Obligation
(amounts in thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	$ 4,837,769	36.20 %	$ 13,440,768
June 30, 2013	4,992,924	35.33	16,267,964
June 30, 2014	5,129,284	37.20	19,489,030

Table 29 presents the components of the State's net OPEB obligation to the OPEB plan, including trial courts.

Table 29

Schedule of Net OPEB Obligations
June 30, 2014
(amounts in thousands)

	Amount
Annual required contribution	$ 5,046,539
Interest on net OPEB obligations	736,019
Adjustment to annual required contribution	(653,274)
Annual OPEB cost	**5,129,284**
Contributions made	(1,908,218)
Increase in net OPEB obligation	**3,221,066**
Net OPEB obligations – beginning of year	**16,267,964**
Net OPEB obligations – end of year	**$ 19,489,030**

Funded Status and Funding Progress: As of June 30, 2014—the most recent actuarial valuation date for the State substantive plan—the actuarial accrued liability (AAL) for benefits was $71.8 billion, and the actuarial value of assets was $41 million, resulting in an unfunded actuarial accrued liability (UAAL) of $71.8 billion. The covered payroll (annual payroll of active employees covered by the plan) was $19.3 billion, and the ratio of the UAAL to the covered payroll was 373%.

For the trial courts, as of July 1, 2013—the most recent actuarial valuation date—the AAL for benefits was $1.4 billion and the actuarial value of assets was $30 million, resulting in an UAAL of $1.4 billion. The covered payroll was $931 million and the ratio of the UAAL to covered payroll was 149%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality and the healthcare cost trend. Amounts determined regarding the plan's funded status and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective.

In the June 30, 2014 State substantive plan actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.25% investment rate of return and an annual health care cost trend rate of actual increases for 2015 and 8.00% in 2016 initially, reduced to an ultimate rate of 4.50% in 2021. Both rates included a 2.75% annual inflation assumption. Annual wage inflation is assumed to be 3.00%. The UAAL is being amortized as a level percentage of active member payroll on an open basis over 30 years.

In the July 1, 2013 biennial actuarial valuations, the entry age normal cost method was used for 50 of the trial courts. The actuarial assumptions included a 3.75% investment rate of return for 40 trial courts. There are 10 other trial courts with investment rates of return ranging from 4.75% to 7.50%. The actuarial assumptions included an annual health care cost trend rate of 8.25% for most trial courts initially, reduced incrementally to an ultimate trend rate of 5.00% after five years. Annual inflation and payroll growth are assumed to be 2.75% and 3.00%, respectively, for most trial courts. The UAAL is amortized on an open basis over 30 years as a level percentage of payroll for 46 trial courts. Three other trial courts (Lassen, Orange, and Yolo) amortize on a closed basis as a level percentage of payroll over 29, 24, and 25 years, respectively. Alpine is amortizing using the level dollar amount over 24 years on a closed basis.

NOTE 26: SUBSEQUENT EVENTS

The following information describes significant events that occurred subsequent to June 30, 2014, but prior to the date of the auditor's report.

A. Debt Issuances

Between September 2014 and March 2015, the primary government issued $5.5 billion in general obligation bonds to finance or refinance capital facilities or other voter-approved costs for public purposes, including children's hospitals; housing; prisons; libraries; earthquake safety and public building rehabilitation; transportation; highway safety, traffic reduction, air quality, and port security; public primary, secondary, community college and university education facilities; passenger rail; safe and clean drinking water; clean water; water security, clean air, parks, coastal and beach protection; seismic retrofit; high-speed rail; stem cell research; and veterans' homes.

In September 2014, the primary government issued $110 million in veterans general obligation bonds to finance or refinance obligations that were issued to provide funds for financing of contracts for the purchase of homes and farms for military veterans who reside in California.

In August 2014, the California State University issued $748 million in revenue bonds to refund certain maturities of Systemwide Revenue Bonds series 2004A, 2005A, and 2005C; repay bond anticipation notes, refund other outstanding bond indebtedness by an auxiliary organization; and fund new capital projects.

In October 2014, the State Public Works Board issued $250 million in lease revenue bonds to finance and refinance the cost of design and/or construction of various projects for the benefit of the Department of Corrections and Rehabilitation, Department of State Hospitals, and Judicial Council of California.

In October 2014 and November 2014, the Department of Water Resources issued a combined total of $795 million in water system revenue bonds to retire or redeem certain outstanding bonds and commercial paper notes, to fund deposits to the debt service reserve account, to fund capitalized interest, and to pay related issuance costs.

B. Cash Management

In September 2014, the State issued $2.8 billion of Revenue Anticipation Notes to fund, in part, the State's cash management needs of the 2014-15 fiscal year by supporting the cash flow needs of the General Fund.

C. Other

In August 2014, the Electric Power Fund received $142 million in energy settlements to resolve claims arising from events and transactions in Western Energy Markets during the period of January 1, 2000, through June 20, 2001.

In September 2014, CalPERS received a settlement check of $88 million from Citigroup MBS Securities related to residential mortgage-backed securities.

In October 2014, CalPERS received $249 million from Bank of America as part of a settlement related to mortgage-backed securities.

In the November 4, 2014 general election:

- Voters passed Proposition 1 authorizing the issuance of $7.1 billion of general obligation bonds and reallocating $425 million of unused bond authority from prior water bond acts for state water supply infrastructure projects.

- Voters passed Proposition 2 requiring the annual transfer of 1.5% of general fund revenue to the state budget stabilization account, and personal capital gain tax revenues exceeding 8% of general fund revenues to the budget stabilization account and, under certain conditions, a dedicated K-14 school reserve fund. The proposition also requires that half of the budget stabilization account revenues be used to repay state debts and unfunded liabilities. Proposition 2 allows limited use of the state budget stabilization account in the event of an emergency or if there is a state budget deficit. Proposition 2 caps the state budget stabilization account at 10% of general fund revenues, directing the remainder to infrastructure.

- Voters passed Proposition 47 requiring, absent prior conviction for certain serious offenses, misdemeanor sentencing for certain drug possession offenses and certain property crimes involving amounts of $950 or less. Proposition 47 requires the resentencing of persons serving felony sentences for these offenses unless the court finds unreasonable public safety risk. Any savings are to be applied to mental health and drug treatment programs, K-12 schools, and crime victims.

In November 2014, Standard and Poor's Rating Services raised the State's general obligation rating to "A+" from "A", citing as a motivating factor the November 4, 2014 voter approval of Proposition 2 that strengthens the budget stabilization account.

In November 2014, the primary government entered into a note purchase agreement with Bank of America allowing the State to request the bank to purchase up to $500 million of general obligation commercial paper.

In February 2015, Fitch raised the State's general obligation rating to "A+" from "A", citing the State's continued improvement in its fundamental fiscal position, institutionalized changes to its fiscal operations, and ongoing economic and revenue recovery as contributing to an improved financial position and enhancing the State's ability to address future fiscal challenges.

California's demand for unemployment insurance benefits required the State to continue borrowing from the U.S. Department of Labor during the 2014-15 fiscal year. As of June 30, 2014, the State had $7.6 billion in outstanding loans with the U.S. Department of Labor which were used to cover deficits in the Unemployment Programs Fund. As of March 19, 2015, the State had an outstanding loan balance of $8.1 billion. While the State continued to request additional loans during 2015, it estimates that these loans will be fully repaid by 2019.

Required Supplementary Information

Schedule of Funding Progress

(amounts in millions)

Public Employees' Retirement Fund – Primary Government

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
June 30, 2011	$ 102,452	$ 129,648	$ 27,196	79.0 %	$ 16,212	167.7 %
June 30, 2012	106,145	134,314	28,169	79.0	15,680	179.6
June 30, 2013	110,989	147,392	36,403	75.3	15,346	237.2

State Teachers' Retirement Defined Benefit Program

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
June 30, 2011	$ 143,930	$ 207,770	$ 63,840	69.3 %	$ 26,592	240.1 %
June 30, 2012	144,232	214,765	70,533	67.2	26,404	267.1
June 30, 2013	148,614	221,861	73,247	67.0	27,117	270.1

Other Postemployment Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State substantive plan						
June 30, 2012	$ 8	$ 63,845	$ 63,837	0.0 %	$ 18,710	341.2 %
June 30, 2013	10	64,585	64,574	0.0	18,060	357.6
June 30, 2014	41	71,814	71,773	0.0	19,250	372.8
Trial Courts [1]						
July 1, 2009	$ 9	$ 1,493	$ 1,484	0.6 %	$ 1,009	147.0 %
July 1, 2011	17	1,385	1,368	1.2	922	148.4
July 1, 2013	30	1,421	1,391	2.1	931	149.4

[1] The trial courts reporting is based on 51 individual biennial actuarial valuations as of July 1, 2013.

Note: The University of California provides OPEB benefits through its Retirement Health Plan to its eligible retirees and their families. As the University is the employer providing these benefits, the State will not be reporting these benefits in Note 25 or the Required Supplementary Information. Information regarding the University and references to its financial statements can be found in Note 1, Section A.3., Discretely Presented Component Units.

Infrastructure Assets Using the Modified Approach

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 34, the State uses the modified approach to report the cost of its infrastructure assets (state roadways and bridges). Under the modified approach, the State does not report depreciation expense for roads and bridges but capitalizes all costs that add to the capacity and efficiency of State-owned roads and bridges. All maintenance and preservation costs are expensed and not capitalized.

A. Infrastructure Asset Reporting Categories

The infrastructure assets reported in the State's financial statements for the fiscal year ending June 30, 2014, are in the following categories and amounts: state highway infrastructure (completed highway projects) totaling $65.2 billion, land purchased for highway projects totaling $13.5 billion, and infrastructure construction-in-progress (uncompleted highway projects) totaling $12.5 billion.

Donation and Relinquishment: Donation and relinquishment activity affects the inventory of statewide lane miles, land, and/or bridges as adjustments to the infrastructure assets and/or land balance in the State's financial statements. For the fiscal year ending June 30, 2014, donations are $74,290 of infrastructure land, and relinquishments are $61 million of state highway infrastructure (completed highway projects) and $13 million of infrastructure land.

B. Condition Baselines and Assessments

1. Bridges

The State uses the Bridge Health Index (BHI)—a numerical rating scale from 0 to 100 that uses element-level inspection data—to determine the aggregate condition of its bridges. The inspection data is based on the American Association of State Highway and Transportation Officials' "Guide to Commonly Recognized Structural Elements."

From a deterioration standpoint, the BHI represents the remaining asset value of the bridge. A new bridge that has 100% of its asset value has a BHI of 100. As a bridge deteriorates over time, it loses asset value, as represented by a decline in its BHI. When a deteriorated bridge is repaired, it will regain some (or all) of its asset value and its BHI will increase.

The following table shows the State's established condition baseline and actual BHI for fiscal years 2011-12 through 2013-14:

Fiscal Year Ended June 30	Established BHI Baseline [1]	Actual BHI
2012	80.0	94.5
2013	80.0	94.8
2014	80.0	95.6

[1] The actual statewide BHI should not be lower than the minimum BHI established by the State.

The following table provides details on the State's actual BHI as of June 30, 2014:

BHI Description	Bridge Count	Percent	Network BHI
Excellent	7,211	54.96 %	99.9
Good	4,635	35.33	96.9
Acceptable	680	5.18	86.3
Fair	132	1.01	74.2
Poor	102	0.78	62.8
Does not carry traffic	360	2.74	93.2
Total	**13,120**	**100.00 %**	

2. Roadways

The State conducts a periodic pavement condition survey, which evaluates ride quality and structural integrity and identifies the number of distressed lane miles. The State classifies its roadways' pavement condition by the following descriptions:

1. Excellent/good condition – minor or no potholes or cracks
2. Fair condition – moderate potholes or cracks
3. Poor condition – significant or extensive potholes or cracks

Statewide lane miles are considered "distressed lane miles" if they are in either fair or poor condition. The actual distressed lane miles are compared to the established condition baseline to ensure that the baseline is not exceeded.

The following table shows the State's established condition baseline and actual distressed lane miles from the last three completed pavement-condition surveys:

Condition Assessment Date [1]	Established Condition Baseline Distressed Lane Miles (maximum) [2]	Actual Distressed Lane Miles	Actual Distressed Lane Miles as Percent of Total Lane Miles
March 2008	18,000	12,998	26.3 %
December 2011 [3]	18,000	12,333	24.9
December 2013	18,000	7,820	15.7

[1] Condition assessment for the State's established condition baseline and actual distressed lane miles is being reported as of the *State of the Pavement* report publication date.
[2] The actual statewide distressed lane miles should not exceed the maximum distressed lane miles established by the State.
[3] The State's compliance with GASB 34, which requires a road condition assessment every three years, temporarily lapsed in March 2011.

The following table provides details on the State's actual distressed lane miles as of the last completed pavement-condition survey:

Pavement Condition	Lane Miles	Distressed Lane Miles
Excellent/Good	41,898	—
Fair	2,483	2,483
Poor	5,337	5,337
Total	**49,718**	**7,820**

C. Budgeted and Actual Preservation Costs

The estimated budgeted preservation costs represent the preservation projects approved by the California Transportation Commission and the State's scheduled preservation work for each fiscal year. The actual preservation costs represent the cumulative cost to date for the projects approved and work scheduled in each fiscal year.

The State's budgeted and actual preservation cost information for the most recent and four previous fiscal years is shown in the following table:

Fiscal Year Ended June 30	Estimated Budgeted Preservation Costs (in millions)	Actual Preservation Costs (in millions)
2010	$ 2,162	$ 698
2011	2,802	1,394
2012	2,722	1,806
2013	1,598	989
2014	2,069	612

Budgetary Comparison Schedule

General Fund and Major Special Revenue Funds

Year Ended June 30, 2014

(amounts in thousands)

	General				Federal				Transportation			
	Budgeted Amounts		Actual	Variance With	Budgeted Amounts		Actual	Variance With	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget
REVENUES												
Corporation tax	$ 7,971,000	$ 8,107,000	$ 8,724,718	$ 617,718	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Intergovernmental	—	—	—	—	60,477,098	60,477,098	60,477,098	—	—	—	—	—
Cigarette and tobacco taxes	89,000	86,000	86,378	378	—	—	—	—	—	—	—	—
Inheritance, estate, and gift taxes	—	—	—	—	—	—	—	—	—	—	—	—
Insurance gross premiums tax	2,143,000	2,287,000	2,362,738	75,738	—	—	—	—	—	—	—	—
Vehicle license fees	19,985	19,985	21,833	1,848	—	—	—	—	—	—	—	—
Motor vehicle fuel tax	—	—	—	—	—	—	—	—	6,026,194	6,014,023	6,065,747	51,724
Personal income tax	64,287,000	66,522,000	66,782,714	260,714	—	—	—	—	—	—	—	—
Retail sales and use taxes	22,920,000	22,759,000	22,250,163	(508,837)	—	—	—	—	—	—	—	—
Other major taxes and licenses	351,200	352,200	355,367	3,167	—	—	—	—	3,796,510	3,859,470	3,900,966	41,496
Other revenues	2,019,723	1,704,815	1,835,678	130,863	26	26	26	—	400,774	461,636	385,002	(76,634)
Total revenues	**99,800,908**	**101,838,000**	**102,419,589**	**581,589**	**60,477,124**	**60,477,124**	**60,477,124**	**—**	**10,223,478**	**10,335,129**	**10,351,715**	**16,586**
EXPENDITURES												
State and consumer services	14,081	13,593	11,483	2,110	5,411	5,411	5,411	—	115,770	115,770	102,987	12,783
Business and transportation	91,052	91,118	91,073	45	5,069,737	5,069,737	5,069,737	—	11,587,798	11,555,219	10,523,981	1,031,238
Resources	1,109,179	1,262,638	1,208,336	54,302	259,979	259,979	259,979	—	234,072	234,155	233,369	786
Health and human services	27,518,481	29,390,387	28,591,476	798,911	44,172,988	44,172,988	44,172,988	—	3,418	3,418	2,656	762
Correctional programs	8,610,145	9,348,790	9,184,218	164,572	88,228	88,228	88,228	—	—	—	—	—
Education	48,408,996	49,570,274	49,546,886	23,388	6,727,357	6,727,357	6,727,357	—	2,649	2,649	2,118	531
General government:												
Tax relief	421,734	425,256	421,734	3,522	—	—	—	—	—	—	—	—
Debt service	4,800,543	4,800,543	4,751,765	48,778	—	—	—	—	686	2,350	1,399	951
Other general government	4,327,934	4,478,542	4,201,023	277,519	962,624	962,624	962,624	—	665,866	666,600	658,196	8,404
Total expenditures	**95,302,145**	**99,381,141**	**98,007,994**	**1,373,147**	**57,286,324**	**57,286,324**	**57,286,324**	**—**	**12,610,259**	**12,580,161**	**11,524,706**	**1,055,455**
OTHER FINANCING SOURCES (USES)												
Transfers from other funds	—	—	1,154,221	—	—	—	8,461,005	—	—	—	18,492,786	—
Transfers to other funds	—	—	(1,338,685)	—	—	—	(11,636,639)	—	—	—	(21,415,565)	—
Other additions and deductions	—	—	(102,379)	—	—	—	(16,758)	—	—	—	(1,116,593)	—
Total other financing sources (uses)	**—**	**—**	**(286,843)**	**—**	**—**	**—**	**(3,192,392)**	**—**	**—**	**—**	**(4,039,372)**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	4,124,752	—	—	—	(1,592)	—	—	—	(5,212,363)	—
Fund balances – beginning	**—**	**—**	**4,285,137**	**—**	**—**	**—**	**10,769**	**—**	**—**	**—**	**22,442,954**	**—**
Fund balances – ending	**$ —**	**$ —**	**$ 8,409,889**	**$ —**	**$ —**	**$ —**	**$ 9,177**	**$ —**	**$ —**	**$ —**	**$ 17,230,591**	**$ —**

(continued)

Budgetary Comparison Schedule (continued)

General Fund and Major Special Revenue Funds

Year Ended June 30, 2014
(amounts in thousands)

	Environmental and Natural Resources			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Corporation tax	$ —	$ —	$ —	$ —
Intergovernmental	—	—	—	—
Cigarette and tobacco taxes	—	—	—	—
Inheritance, estate, and gift taxes	—	—	—	—
Insurance gross premiums tax	—	—	—	—
Vehicle license fees	—	—	—	—
Motor vehicle fuel tax	—	—	—	—
Personal income tax	—	—	—	—
Retail sales and use taxes	—	—	—	—
Other major taxes and licenses	153,108	153,108	153,108	—
Other revenues	3,464,344	3,464,344	3,464,344	—
Total revenues	**3,617,452**	**3,617,452**	**3,617,452**	**—**
EXPENDITURES				
State and consumer services	79,501	79,501	64,120	15,381
Business and transportation	8,928	8,928	8,928	—
Resources	4,784,304	4,523,630	4,047,506	476,124
Health and human services	218,588	170,386	106,722	63,664
Correctional programs	—	—	—	—
Education	16,140	16,140	14,089	2,051
General government:				
Tax relief	—	—	—	—
Debt service	—	—	—	—
Other general government	122,080	110,587	89,814	20,773
Total expenditures	**5,229,541**	**4,909,172**	**4,331,179**	**577,993**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	896,385	—
Transfers to other funds	—	—	(740,256)	—
Other additions and deductions	—	—	54,934	—
Total other financing sources (uses)	**—**	**—**	**211,063**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	(502,665)	—
Fund balances – beginning	**—**	**—**	**12,029,423** *	**—**
Fund balances – ending	**$ —**	**$ —**	**$ 11,526,758**	**$ —**

* Restated

(concluded)

Reconciliation of Budgetary Basis Fund Balances of the General Fund and the Major Special Revenue Funds to GAAP Basis Fund Balances

June 30, 2014
(amounts in thousands)

		Major Special Revenue Funds		
	General	Federal	Transportation	Environmental and Natural Resources
Budgetary fund balance reclassified into GAAP statement fund structure	**$ 8,409,889**	**$ 9,177**	**$ 17,230,591**	**$ 11,526,758**
Basis difference:				
Interfund receivables	49,234	—	3,354,281	829,227
Loans receivable	126,121	201,804	—	1,113,482
Interfund payables	(6,123,537)	—	(2,316)	(25,000)
Escheat property	(820,249)	—	—	—
Bonds authorized but unissued	—	—	(15,119,755)	(5,751,377)
Tax revenues	(717,500)	—	—	—
Fund classification changes	447,754	1,593	—	—
Other	4,363	—	2,529,013	12,808
Timing difference:				
Liabilities budgeted in subsequent years	(8,820,671)	(1,000)	(525,590)	(75,344)
GAAP fund balance (deficit) – ending	**$ (7,444,596)**	**$ 211,574**	**$ 7,466,224**	**$ 7,630,554**

Notes to the Required Supplementary Information

Budgetary Comparison Schedule

The State annually reports its financial condition based on a Generally Accepted Accounting Principles (GAAP) basis and on the State's budgetary provisions (budgetary basis). The Budgetary Comparison Schedule for the General Fund and Major Special Revenue Funds reports the original budget, the final budget, the actual expenditures, and the variance between the final budget and the actual expenditures, using the budgetary basis of accounting.

On the budgetary basis, individual appropriations are charged as expenditures when commitments for goods and services are incurred. However, for financial reporting purposes, the State reports expenditures based on the year in which goods and services are received. The Budgetary Comparison Schedule includes all of the current year expenditures for the General Fund and major special revenue funds as well as related appropriations that are typically legislatively authorized annually, continually, or by project. While the encumbrances relate to all programs' expenditures on a budgetary basis, adjustments for encumbrances are budgeted under other general government.

The Budgetary Comparison Schedule is not presented in this document at the legal level of budgetary control because such a presentation would be extremely lengthy and cumbersome. The State of California prepares a separate report, the Comprehensive Annual Financial Report Supplement, which includes statements that demonstrate compliance with the legal level of budgetary control in accordance with Government Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Section 2400.121. The supplement includes a comparison of the annual appropriated budget with expenditures at the legal level of control. A copy of the Comprehensive Annual Financial Report Supplement is available by emailing the State Controller's Office, Division of Accounting and Reporting at StateGovReports@sco.ca.gov.

Reconciliation of Budgetary With GAAP Basis

The reconciliation of budgetary basis fund balances of the General Fund and the major special revenue funds to GAAP basis fund balances is presented on the previous page and the reconciling items are explained in the following paragraphs.

The beginning fund balance for the General Fund on the budgetary basis is restated for prior year revenue adjustments and prior year expenditure adjustments. A prior year revenue adjustment occurs when the actual amount received in the current year differs from the amount of revenue accrued in the prior year. A prior year expenditure adjustment results when the actual amount paid in the current year differs from the prior year accrual for appropriations for which the ability to encumber funds has lapsed in previous periods. The beginning fund balance on a GAAP basis is not affected by these adjustments.

Basis Difference

Interfund Receivables and Loans Receivable: Loans made to other funds or to other governments are normally recorded as either expenditures or transfers on a budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The adjustments related to interfund receivables caused a $49 million increase to the fund balance in the General Fund, a $3.4 billion increase to the fund balance in the Transportation Fund, and a $829 million increase to the fund balance in Environmental and Natural Resources Fund. The adjustments related to loans receivable caused increases of $126 million in the General Fund, $202 million in the Federal Fund, and $1.1 billion in Environmental and Natural Resources Fund.

Interfund Payables: Loans received from other funds or from other governments are normally recorded as either revenues or transfers on a budgetary basis. However, in accordance with GAAP, these loans are recorded as liabilities. The adjustments related to interfund payables caused a $6.1 billion decrease to the budgetary fund balance in the General Fund, $2 million decrease to the Transportation Fund, and $25 million decrease to the Environmental and Natural Resources Fund.

Escheat Property: A liability for the estimated amount of escheat property expected to ultimately be reclaimed and paid is not reported on a budgetary basis. The liability is required to be reported on a GAAP basis. This adjustment caused a $820 million decrease to the General Fund balance.

Bonds Authorized but Unissued: In the year that general obligation bonds are authorized by the voters, the full amount authorized is recognized as revenue on a budgetary basis. In accordance with GAAP, only the amount of bonds issued each year is reported as an other financing source. The adjustments related to bonds authorized but unissued caused a $15.1 billion decrease to the fund balance in the Transportation Fund and a $5.8 billion decrease in the Environmental and Natural Resources Fund.

Tax Revenues: Estimated tax payments are accrued on a budgetary basis pursuant to Chapter 751, Statutes of 2008. However, in accordance with GAAP, tax payments are accrued based on the portion of estimated net final payments related to the fiscal year. This adjustment caused a fund balance decrease of $718 million in the General Fund.

Fund Classification Changes: The fund balance amounts for governmental funds have been reclassified in accordance with governmental accounting standards. These reclassifications caused fund balance increases of $448 million in the General Fund and $2 million in the Federal Fund. These increases represent the fund balances of funds that are not considered part of the General Fund or the Federal Fund, respectively, for any budgetary purpose or for the Budgetary/Legal Basis Annual Report.

Other: Certain other adjustments and reclassifications are necessary in order to present the financial statements in accordance with GAAP. The other adjustments caused a fund balance increases of $5 million in the General Fund, $2.5 billion in the Transportation Fund, and $13 million in the Environmental and Natural Resources Fund.

Timing Difference

Liabilities Budgeted in Subsequent Years: On a budgetary basis, the primary government does not accrue liabilities for which there is no existing appropriation or no currently available appropriation. The adjustments made to account for these liabilities in accordance with GAAP caused fund balance decreases of $8.8 billion in the General Fund, $1 million in the Federal Fund, $526 million in the Transportation Fund, and $75 million in the Environmental and Natural Resources Fund. The large decrease in the General Fund primarily consists of $3.9 billion for deferred apportionment payments to K-12 schools and community colleges, $2.8 billion for medical assistance, $989 million for June 2014 payroll that was deferred to July 2014, $555 million for pension contributions, $284 million for workers' compensation claims, and $191 million in tax overpayments.

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Combining Financial Statements and Schedules – Nonmajor and Other Funds

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Nonmajor Governmental Funds

Nonmajor governmental funds account for the State's activities that do not meet the criteria of a major governmental fund. Following are brief descriptions of nonmajor governmental funds.

Special revenue funds account for the proceeds of specific revenue sources, other than debt service or capital projects, that are restricted or committed to expenditures for specific purposes.

The **Business and Professions Regulatory and Licensing Fund** accounts for fees and other revenues charged for regulating and licensing specific industries, professions, and vocations.

The **Financing for Local Governments and the Public Fund** accounts for taxes, fees, bond proceeds, and other revenues that are used to finance the construction and maintenance of parks, jails, and other public and local government programs.

The **Cigarette and Tobacco Tax Fund** accounts for a surtax on cigarette and tobacco products that is used for various health programs.

The **Local Revenue and Public Safety Fund** accounts for vehicle license fees and a 1.5625% state sales tax that is dedicated to local governments for realigning costs from the State to local governments and a 0.5% state sales tax that is dedicated to local governments to fund public safety programs.

The **Health Care Related Programs Fund** accounts for fees, taxes, bond proceeds, transfers from the Federal Trust Fund and other state funds, and other revenues that are used for the Medi-Cal and Healthy Families programs, medical research, and other health and human services programs.

The **Trial Courts Fund** accounts for the various fees collected by the courts, maintenance-of-effort payments from the counties, transfers in from the General Fund, and trial court operating costs.

The **Golden State Tobacco Securitization Corporation Fund** is a blended component unit that accounts for the receipt of Tobacco Revenue Settlements pledged for the payment of debt service.

Other special revenue programs funds account for all other proceeds of revenue sources, other than debt service or capital projects, that are restricted or committed to expenditures for specific purposes.

Debt service funds account for and report financial resources that are restricted, committed, or assigned for the payment of principal and interest on general long-term obligations.

The **Economic Recovery Bond Sinking Fund** accounts for General Fund transfers, proceeds from the sale of surplus property, and the 0.25% sales and use tax revenue collected for the payment of principal, interest, and other related costs of the Economic Recovery Bonds.

(continued)

(continued)

The **Transportation Debt Service Fund** accounts for Transportation Fund transfers used for the payment of principal and interest related to various transportation-related general obligation bonds.

Capital projects funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The **Higher Education Construction Fund** accounts for bond proceeds used to construct state colleges and universities.

The **Hospital Construction Fund** accounts for bond proceeds that are used to construct hospitals.

The **Local Government Construction Fund** accounts for bond proceeds that are used to construct schools, libraries, and other major capital facilities for local governments.

Building authorities are blended component units that are created by joint-powers agreements between local governments and the State or other local governments for the purpose of financing the construction of state buildings. The funds account for bond proceeds used to finance and construct state buildings and parking facilities.

Other capital projects funds account for transactions related to resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

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Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2014
(amounts in thousands)

	Special Revenue						
	Business and Professions Regulatory and Licensing	Financing for Local Governments and the Public	Cigarette and Tobacco Tax	Local Revenue and Public Safety	Health Care Related Programs	Trial Courts	Golden State Tobacco Securitization Corporation	Other Special Revenue Programs	Total Nonmajor Special Revenue
ASSETS									
Cash and pooled investments	$ 1,169,322	$ 931,273	$ 430,051	$ 2,744,756	$ 832,942	$ 1,014,499	$ 154,127	$ 1,597,334	$ 8,874,304
Investments	—	—	—	—	—	134,745	499,478	—	634,223
Receivables (net)	77,423	18,927	317,327	68,301	2,274,615	298,007	202,884	141,660	3,399,144
Due from other funds	33,410	502,541	5,891	27,805	230,209	197	—	333,128	1,133,181
Due from other governments	14,372	307,299	—	—	1,767	26,989	—	57,401	407,828
Interfund receivables	266,142	215,178	—	—	12,000	440,000	—	399,400	1,332,720
Loans receivable	188,887	2,395,746	—	—	39,200	—	—	11,176	2,635,009
Other assets	428	—	—	—	—	30,053	—	—	30,481
Total assets	**$ 1,749,984**	**$ 4,370,964**	**$ 753,269**	**$ 2,840,862**	**$ 3,390,733**	**$ 1,944,490**	**$ 856,489**	**$ 2,540,099**	**$ 18,446,890**
LIABILITIES									
Accounts payable	$ 50,146	$ 132,707	$ 75,107	$ 6,670	$ 155,486	$ 242,811	$ 120	$ 246,094	$ 909,141
Due to other funds	34,584	305,991	13,597	30,330	2,336,562	1,116	—	37,354	2,759,534
Due to other governments	335	181,145	101,378	2,756,627	34,956	132,940	—	304,800	3,512,181
Interfund payables	2,405	—	—	—	—	—	—	6,179	8,584
Revenues received in advance	35,018	1,828	—	—	10,432	16,067	—	29,786	93,131
Deposits	370	—	—	—	—	373,441	—	18,353	392,164
Interest payable	—	—	—	—	—	—	—	—	—
General obligation bonds payable	—	—	—	—	—	—	—	—	—
Other liabilities	44,624	388	4	—	126	81,490	—	13,762	140,394
Total liabilities	**167,482**	**622,059**	**190,086**	**2,793,627**	**2,537,562**	**847,865**	**120**	**656,328**	**7,815,129**
DEFERRED INFLOWS OF RESOURCES	**—**	**—**	**260,517**	**—**	**—**	**—**	**—**	**5,273**	**265,790**
Total liabilities and deferred inflows of resources	**167,482**	**622,059**	**450,603**	**2,793,627**	**2,537,562**	**847,865**	**120**	**661,601**	**8,080,919**
FUND BALANCES									
Nonspendable	—	—	—	—	—	27,260	—	—	27,260
Restricted	856,450	3,445,078	302,666	8,549	764,618	942,398	856,369	1,632,349	8,808,477
Committed	726,052	310,685	—	38,686	88,553	108,110	—	247,772	1,519,858
Assigned	—	—	—	—	—	18,857	—	—	18,857
Unassigned	—	(6,858)	—	—	—	—	—	(1,623)	(8,481)
Total fund balances	**1,582,502**	**3,748,905**	**302,666**	**47,235**	**853,171**	**1,096,625**	**856,369**	**1,878,498**	**10,365,971**
Total liabilites, deferred inflows of resources, and fund balances	**$ 1,749,984**	**$ 4,370,964**	**$ 753,269**	**$ 2,840,862**	**$ 3,390,733**	**$ 1,944,490**	**$ 856,489**	**$ 2,540,099**	**$ 18,446,890**

(continued)

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2014
(amounts in thousands)

	Debt Service			Capital Projects						
	Economic Recovery Bond Sinking	Transportation Debt Service	Total Nonmajor Debt Service	Higher Education Construction	Hospital Construction	Local Government Construction	Building Authorities	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental
ASSETS										
Cash and pooled investments	$ 1,882,054	$ —	$ 1,882,054	$ 297,765	$ 47,699	$ 363,649	$ 43,779	$ 78,792	$ 831,684	$ 11,588,042
Investments	—	—	—	—	—	—	—	—	—	634,223
Receivables (net)	57,662	—	57,662	10	16	—	—	74	100	3,456,906
Due from other funds	39,694	—	39,694	129	30	229	20,836	12,096	33,320	1,206,195
Due from other governments	—	—	—	—	—	3,936	—	—	3,936	411,764
Interfund receivables	—	—	—	—	—	—	—	—	—	1,332,720
Loans receivable	—	—	—	—	—	—	—	—	—	2,635,009
Other assets	—	—	—	—	—	—	—	—	—	30,481
Total assets	**$ 1,979,410**	**$ —**	**$ 1,979,410**	**$ 297,904**	**$ 47,745**	**$ 367,814**	**$ 64,615**	**$ 90,962**	**$ 869,040**	**$ 21,295,340**
LIABILITIES										
Accounts payable	$ 298	$ —	$ 298	$ 2,072	$ 8,036	$ 7,495	$ —	$ 7,740	$ 25,343	$ 934,782
Due to other funds	—	—	—	620	—	2,724	—	2,941	6,285	2,765,819
Due to other governments	—	—	—	—	—	2,651	—	85	2,736	3,514,917
Interfund payables	—	—	—	—	—	—	—	—	—	8,584
Revenues received in advance	—	—	—	—	—	—	—	—	—	93,131
Deposits	—	—	—	—	—	—	—	—	—	392,164
Interest payable	111,155	—	111,155	—	—	—	2,514	—	2,514	113,669
General obligation bonds payable	1,164,630	—	1,164,630	—	—	—	—	—	—	1,164,630
Other liabilities	—	—	—	—	—	—	—	—	—	140,394
Total liabilities	**1,276,083**	**—**	**1,276,083**	**2,692**	**8,036**	**12,870**	**2,514**	**10,766**	**36,878**	**9,128,090**
DEFERRED INFLOWS OF RESOURCES	—	—	—	—	—	—	—	—	—	265,790
Total liabilities and deferred inflows of resources	**1,276,083**	**—**	**1,276,083**	**2,692**	**8,036**	**12,870**	**2,514**	**10,766**	**36,878**	**9,393,880**
FUND BALANCES										
Nonspendable	—	—	—	—	—	—	—	—	—	27,260
Restricted	703,327	—	703,327	295,212	39,709	354,944	62,101	73,784	825,750	10,337,554
Committed	—	—	—	—	—	—	—	6,412	6,412	1,526,270
Assigned	—	—	—	—	—	—	—	—	—	18,857
Unassigned	—	—	—	—	—	—	—	—	—	(8,481)
Total fund balances	**703,327**	**—**	**703,327**	**295,212**	**39,709**	**354,944**	**62,101**	**80,196**	**832,162**	**11,901,460**
Total liabilites, deferred inflows of resources, and fund balances	**$ 1,979,410**	**$ —**	**$ 1,979,410**	**$ 297,904**	**$ 47,745**	**$ 367,814**	**$ 64,615**	**$ 90,962**	**$ 869,040**	**$ 21,295,340**

(concluded)

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2014
(amounts in thousands)

	Special Revenue							
	Business and Professions Regulatory and Licensing	Financing for Local Governments and the Public	Cigarette and Tobacco Tax	Local Revenue and Public Safety	Health Care Related Programs	Trial Courts	Golden State Tobacco Securitization Corporation	Other Special Revenue Programs	Total Nonmajor Special Revenue
REVENUES									
Personal income taxes	$ —	$ 1,187,411	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,187,411
Sales and use taxes	—	—	—	11,977,469	—	—	—	—	11,977,469
Insurance taxes	—	—	—	—	986,717	—	—	—	986,717
Other taxes	95,996	604,240	734,870	—	—	—	—	296	1,435,402
Intergovernmental	—	687,168	—	—	139,479	809,027	—	—	1,635,674
Licenses and permits	363,006	18,803	—	2,135,720	3	—	—	10,757	2,528,289
Charges for services	38,704	2,856	490	—	75	56,050	—	160,146	258,321
Fees	925,070	554	24	—	3,764,500	629,299	—	986,712	6,306,159
Penalties	9,045	10,739	—	—	10,175	510,942	—	275,285	816,186
Investment and interest	32,404	2,654	968	506	3,391	2,921	811	6,054	49,709
Escheat	63	—	—	—	—	1,008	—	3	1,074
Other	12,694	20,293	208	—	318,153	142,960	355,107	319,604	1,169,019
Total revenues	**1,476,982**	**2,534,718**	**736,560**	**14,113,695**	**5,222,493**	**2,152,207**	**355,918**	**1,758,857**	**28,351,430**
EXPENDITURES									
Current:									
General government	554,513	551,123	17,352	4,012,410	350	2,971,498	—	1,034,702	9,141,948
Education	17,772	317	17,072	—	194,082	—	—	7,292	236,535
Health and human services	294,888	2,000,418	575,966	8,883,546	4,954,153	—	—	650,685	17,359,656
Resources	51,679	85,218	12,082	—	152	—	—	49,149	198,280
State and consumer services	428,173	—	—	—	—	195	—	10,009	438,377
Business and transportation	80,655	184,794	—	—	—	—	—	10,241	275,690
Correctional programs	—	101,043	—	1,217,699	—	—	—	30,104	1,348,846
Capital outlay	—	225	—	—	—	—	—	—	225
Debt service:									
Bond and commercial paper retirement	—	5,135	—	—	227,475	—	50,910	72,414	355,934
Interest and fiscal charges	—	63	—	—	264	—	325,884	22,309	348,520
Total expenditures	**1,427,680**	**2,928,336**	**622,472**	**14,113,655**	**5,376,476**	**2,971,693**	**376,794**	**1,886,905**	**29,704,011**
Excess (deficiency) of revenues over (under) expenditures	49,302	(393,618)	114,088	40	(153,983)	(819,486)	(20,876)	(128,048)	(1,352,581)
OTHER FINANCING SOURCES (USES)									
General obligation bonds and commercial paper issued	—	50,000	—	—	462,360	—	—	—	512,360
Refunding debt issued	—	4,660	—	—	—	—	—	—	4,660
Payment to refund long-term debt	—	—	—	—	—	—	—	—	—
Premium on bonds issued	—	534	—	—	465	—	—	—	999
Transfers in	19,532	585,946	—	558	178,807	863,654	—	19,347	1,667,844
Transfers out	(16,626)	(24,644)	(82,871)	—	(8,750)	(200,000)	—	(51,043)	(383,934)
Total other financing sources (uses)	**2,906**	**616,496**	**(82,871)**	**558**	**632,882**	**663,654**	**—**	**(31,696)**	**1,801,929**
Net change in fund balances	52,208	222,878	31,217	598	478,899	(155,832)	(20,876)	(159,744)	449,348
Fund balances – beginning	**1,530,294**	**3,526,027 ***	**271,449**	**46,637**	**374,272**	**1,252,457**	**877,245 ***	**2,038,242**	**9,916,623**
Fund balances – ending	**$ 1,582,502**	**$ 3,748,905**	**$ 302,666**	**$ 47,235**	**$ 853,171**	**$ 1,096,625**	**$ 856,369**	**$ 1,878,498**	**$ 10,365,971**

* Restated

(continued)

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)

Nonmajor Governmental Funds

Year Ended June 30, 2014
(amounts in thousands)

	Debt Service			Capital Projects						
	Economic Recovery Bond Sinking	Transportation Debt Service	Total Nonmajor Debt Service	Higher Education Construction	Hospital Construction	Local Government Construction	Building Authorities	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental
REVENUES										
Personal income taxes	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,187,411
Sales and use taxes	1,505,455	—	1,505,455	—	—	—	—	—	—	13,482,924
Insurance taxes	—	—	—	—	—	—	—	—	—	986,717
Other taxes	—	—	—	—	—	—	—	—	—	1,435,402
Intergovernmental	—	—	—	—	—	—	—	—	—	1,635,674
Licenses and permits	—	—	—	—	—	—	—	1,067	1,067	2,529,356
Charges for services	—	—	—	—	—	—	—	—	—	258,321
Fees	—	—	—	—	—	—	—	—	—	6,306,159
Penalties	—	—	—	—	—	—	—	—	—	816,186
Investment and interest	2,711	—	2,711	658	129	3,143	132	42	4,104	56,524
Escheat	—	—	—	—	—	—	—	—	—	1,074
Other	57,832	—	57,832	58	—	—	—	2,565	2,623	1,229,474
Total revenues	**1,565,998**	**—**	**1,565,998**	**716**	**129**	**3,143**	**132**	**3,674**	**7,794**	**29,925,222**
EXPENDITURES										
Current:										
General government	17,102	—	17,102	—	61,192	—	—	—	61,192	9,220,242
Education	—	—	—	—	—	692,298	—	—	692,298	928,833
Health and human services	—	—	—	—	—	—	—	—	—	17,359,656
Resources	—	—	—	—	—	—	—	36,630	36,630	234,910
State and consumer services	—	—	—	—	—	—	—	—	—	438,377
Business and transportation	—	—	—	—	—	—	—	—	—	275,690
Correctional programs	—	—	—	—	—	—	—	—	—	1,348,846
Capital outlay	—	—	—	150,306	397	14,429	—	4,296	169,428	169,653
Debt service:										
Bond and commercial paper retirement	1,314,630	321,038	1,635,668	137,305	15,140	1,748,085	39,895	7,605	1,948,030	3,939,632
Interest and fiscal charges	222,279	714,302	936,581	2,906	12	26,711	29,882	149	59,660	1,344,761
Total expenditures	**1,554,011**	**1,035,340**	**2,589,351**	**290,517**	**76,741**	**2,481,523**	**69,777**	**48,680**	**2,967,238**	**35,260,600**
Excess (deficiency) of revenues over (under) expenditures	11,987	(1,035,340)	(1,023,353)	(289,801)	(76,612)	(2,478,380)	(69,645)	(45,006)	(2,959,444)	(5,335,378)
OTHER FINANCING SOURCES (USES)										
General obligation bonds and commercial paper issued	—	—	—	215,585	52,245	905,910	—	2,275	1,176,015	1,688,375
Refunding debt issued	—	—	—	287,765	—	1,330,935	—	6,985	1,625,685	1,630,345
Payment to refund long-term debt	—	—	—	(173,373)	—	—	—	—	(173,373)	(173,373)
Premium on bonds issued	—	—	—	23,902	2,057	150,885	—	769	177,613	178,612
Transfers in	—	1,035,340	1,035,340	—	—	—	53,025	48,458	101,483	2,804,667
Transfers out	—	—	—	—	—	(16)	—	—	(16)	(383,950)
Total other financing sources (uses)	**—**	**1,035,340**	**1,035,340**	**353,879**	**54,302**	**2,387,714**	**53,025**	**58,487**	**2,907,407**	**5,744,676**
Net change in fund balances	11,987	—	11,987	64,078	(22,310)	(90,666)	(16,620)	13,481	(52,037)	409,298
Fund balances – beginning	**691,340** *	**—**	**691,340**	**231,134**	**62,019**	**445,610**	**78,721**	**66,715**	**884,199**	**11,492,162**
Fund balances – ending	**$ 703,327**	**$ —**	**$ 703,327**	**$ 295,212**	**$ 39,709**	**$ 354,944**	**$ 62,101**	**$ 80,196**	**$ 832,162**	**$ 11,901,460**

* Restated

(concluded)

Budgetary Comparison Schedule

Budgetary Basis

Nonmajor Governmental Funds*

Year Ended June 30, 2014
(amounts in thousands)

	Budget Amounts	Actual Amounts	Variance with Final Budget
REVENUES			
Cigarette and tobacco taxes	$ 481,377	$ 481,377	$ —
Vehicle license fees	1,611,149	1,611,149	—
Personal income tax	1,187,411	1,187,411	—
Retail sales and use taxes	13,637,924	13,637,924	—
Other major taxes and licenses	841,449	841,449	—
Other revenues	10,351,442	10,351,442	—
Total revenues	**28,110,752**	**28,110,752**	**—**
EXPENDITURES			
State and consumer services	481,590	445,721	35,869
Business and transportation	1,346,118	1,333,793	12,325
Resources	204,189	185,353	18,836
Health and human services	20,392,561	19,076,855	1,315,706
Correctional programs	133,217	132,752	465
Education	853,265	784,888	68,377
General government:			
Tax relief	582	582	—
Other general government	9,483,546	9,174,497	309,049
Total expenditures	**32,895,068**	**31,134,441**	**1,760,627**
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	—	24,566,450	—
Transfers to other funds	—	(22,052,439)	—
Other additions and deductions	—	844,642	—
Total other financing sources (uses)	**—**	**3,358,653**	**—**
Excess of revenues and other sources over expenditures and other uses	—	334,964	—
Fund balances – beginning	**—**	**11,654,326**	**—**
Fund balances – ending	**$ —**	**$ 11,989,290**	**$ —**

* On a budgetary basis, the State's funds are classified as either governmental cost funds or nongovernmental cost funds. The governmental cost funds include the General Fund, most of the funds that comprise the Transportation Fund and the Environmental and Natural Resources Fund, and many other funds that make up the nonmajor governmental funds reported in these financial statements. Governmental cost funds derive their revenue from taxes, licenses, and fees that support the general operations of the State. The appropriations of the budgetary basis governmental cost funds form the annual appropriated budget of the State. Nongovernmental cost funds consist of funds that derive their receipts from sources other than general and special taxes, licenses, fees, or state revenues and mainly represent the proprietary and fiduciary funds reported in these financial statements. Expenditures of these funds do not represent a cost of government and most of the nongovernmental cost funds are not included in the annual appropriated budget. Therefore, the expenditures of these funds are not included in this schedule. The Federal Fund is one nongovernmental cost fund that is included in the annual appropriated budget. The Budgetary Comparison Schedule for the General Fund, Federal Fund, Transportation Fund, and Environmental and Natural Resources Fund is included in the Required Supplementary Information section; the remaining governmental cost funds are reflected in this schedule. Additional information on the budgetary basis of accounting can be found in the Management's Discussion and Analysis, Note 2, Budgetary and Legal Compliance, notes to the Required Supplementary Information, and in the separately issued Comprehensive Annual Financial Report Supplement.

Internal Service Funds

Internal service funds account for state activities that provide goods and services to other state departments or agencies on a cost reimbursement basis. Following are brief descriptions of the internal service funds.

The **Public Buildings Construction Fund** accounts for rental charges from the lease of public assets and the related lease-purchase revenue bonds. This fund was reclassified from an enterprise fund to an internal service fund this fiscal year.

The **Architecture Revolving Fund** accounts for charges for the costs of architectural services, construction, and improvements.

The **Service Revolving Fund** accounts for charges for printing and procurement services rendered by the Department of General Services for state departments and other public entities.

The **Prison Industries Fund** accounts for charges for goods produced by inmates in state prisons that are sold to state departments and other governmental entities.

The **Financial Information Systems Fund** accounts for charges for the development and subsequent use of the State's new financial information system. This was previously reported in the Other Internal Service Programs column.

The **Technology Services Revolving Fund** accounts for charges for technology services performed for various state, federal, and local government entities by the California Technology Agency.

The **Water Resources Revolving Fund** accounts for charges for administrative services related to water delivery provided by the Department of Water Resources to federal, state, and local government agencies.

Other internal service program funds account for all other goods and services provided to other agencies, departments, or governments on a cost-reimbursement basis.

Combining Statement of Net Position

Internal Service Funds

June 30, 2014
(amounts in thousands)

	Public Buildings Construction	Architecture Revolving	Service Revolving	Prison Industries	Financial Information Systems	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
ASSETS									
Current assets:									
Cash and pooled investments	$ —	$ 274,968	$ 82,885	$ 168,509	$ 44,018	$ 47,973	$ 14,053	$ 362,669	$ 995,075
Restricted assets:									
Cash and pooled investments	3,339,603	—	—	—	—	—	—	—	3,339,603
Net investment in direct financing leases	406,075	—	—	—	—	—	—	—	406,075
Receivables (net)	—	26	8,674	1,831	8	86,199	12,929	267	109,934
Due from other funds	215,923	13,994	26,331	1,667	2,869	50,936	75,521	54,681	441,922
Due from other governments	—	—	19,878	307	—	797	—	60	21,042
Prepaid items	—	12,387	93,435	282	6,478	573	11,064	159	124,378
Inventories	—	—	8,011	37,805	—	29,901	983	—	76,700
Total current assets	3,961,601	301,375	239,214	210,401	53,373	216,379	114,550	417,836	5,514,729
Noncurrent assets:									
Restricted assets:									
Cash and pooled investments	402,394	—	—	—	—	—	—	—	402,394
Net investment in direct financing leases	6,576,903	—	—	—	—	—	—	—	6,576,903
Interfund receivables	—	—	—	—	—	—	—	15,774	15,774
Long-term prepaid charges	8,329	—	—	—	—	—	—	—	8,329
Capital assets:									
Land	—	—	—	—	—	—	—	2,312	2,312
Buildings and other depreciable property	—	409	134,941	157,940	1,872	324,516	30,264	10,545	660,487
Intangible assets – amortizable	—	—	9,252	3,672	11	50,282	—	—	63,217
Less: accumulated depreciation/amortization	—	(409)	(112,282)	(116,709)	(888)	(278,786)	(30,264)	(6,511)	(545,849)
Construction in progress	941,012	—	—	234	—	—	—	140	941,386
Intangible assets – non-amortizable	—	—	—	—	91,167	—	—	—	91,167
Total noncurrent assets	7,928,638	—	31,911	45,137	92,162	96,012	—	22,260	8,216,120
Total assets	**11,890,239**	**301,375**	**271,125**	**255,538**	**145,535**	**312,391**	**114,550**	**440,096**	**13,730,849**
DEFERRED OUTFLOWS OF RESOURCES	**118,169**	—	—	—	—	—	—	—	**118,169**
Total assets and deferred outflows of resources	**$ 12,008,408**	**$ 301,375**	**$ 271,125**	**$ 255,538**	**$ 145,535**	**$ 312,391**	**$ 114,550**	**$ 440,096**	**$ 13,849,018**

Combining Statement of Net Position

Internal Service Funds

June 30, 2014
(amounts in thousands)

	Public Buildings Construction	Architecture Revolving	Service Revolving	Prison Industries	Financial Information Systems	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
LIABILITIES									
Current liabilities:									
Accounts payable	$ 168,622	$ 18,259	$ 42,171	$ 8,193	$ 39,714	$ 118,341	$ 19,497	$ 88,400	$ 503,197
Due to other funds	10,534	429	56,710	7,399	4,426	—	—	21,139	100,637
Due to other governments	194	—	162	—	—	458	4	61	879
Revenues received in advance	5,787	285,376	22,918	895	—	—	46	—	315,022
Deposits	—	—	429	—	—	—	—	—	429
Contracts and notes payable	—	—	615	—	—	14,587	—	—	15,202
Interest payable	118,944	—	—	—	—	—	—	—	118,944
Current portion of long-term obligations	500,790	—	—	3,197	856	—	—	—	504,843
Other liabilities	93,239	1,615	4,854	2,031	—	—	486	3,337	105,562
Total current liabilities	898,110	305,679	127,859	21,715	44,996	133,386	20,033	112,937	1,664,715
Noncurrent liabilities:									
Interfund payables	—	—	3,826	—	37,650	1,750	95,208	172	138,606
Compensated absences payable	—	8,405	64,388	9,577	1,970	30,259	50,699	1,425	166,723
Workers' compensation benefits payable	—	1,007	20,763	14,485	—	6,782	—	—	43,037
Revenue bonds payable	10,822,897	—	—	—	—	—	—	—	10,822,897
Net other postemployment benefits obligation	—	12,944	226,449	46,808	—	72,051	—	86,060	444,312
Other noncurrent liabilities	—	—	—	—	—	21,329	—	—	21,329
Total noncurrent liabilities	10,822,897	22,356	315,426	70,870	39,620	132,171	145,907	87,657	11,636,904
Total liabilities	**11,721,007**	**328,035**	**443,285**	**92,585**	**84,616**	**265,557**	**165,940**	**200,594**	**13,301,619**
NET POSITION									
Net investment in capital assets	—	—	31,911	45,137	92,162	69,743	—	6,486	245,439
Restricted – expendable:									
Construction	282,605	—	—	—	—	—	—	—	282,605
Debt service	4,796	—	—	—	—	—	—	—	4,796
Total expendable	287,401	—	—	—	—	—	—	—	287,401
Unrestricted	—	(26,660)	(204,071)	117,816	(31,243)	(22,909)	(51,390)	233,016	14,559
Total net position (deficits)	**287,401**	**(26,660)**	**(172,160)**	**162,953**	**60,919**	**46,834**	**(51,390)**	**239,502**	547,399
Total liabilites and net position	**$ 12,008,408**	**$ 301,375**	**$ 271,125**	**$ 255,538**	**$ 145,535**	**$ 312,391**	**$ 114,550**	**$ 440,096**	**$ 13,849,018**

Combining Statement of Revenues, Expenses, and Changes in Fund Net Position

Internal Service Funds

Year Ended June 30, 2014

(amounts in thousands)

	Public Buildings Construction	Architecture Revolving	Service Revolving	Prison Industries	Financial Information Systems	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
OPERATING REVENUES									
Services and sales	$ —	$ 177,428	$ 770,972	$ 220,322	$ 84,663	$ 554,828	$ 395,536	$ 339,344	$ 2,543,093
Investment and interest	8,173	—	—	—	—	—	—	—	8,173
Rent	418,574	—	—	—	—	—	—	—	418,574
Other	5,143	—	—	—	—	—	—	—	5,143
Total operating revenues	**431,890**	**177,428**	**770,972**	**220,322**	**84,663**	**554,828**	**395,536**	**339,344**	**2,974,983**
OPERATING EXPENSES									
Personal services	—	28,832	245,860	62,867	396	163,715	382,909	29,327	913,906
Supplies	—	—	—	3,525	—	—	4,988	1,308	9,821
Services and charges	14,403	148,931	505,474	159,845	40,973	464,749	—	253,337	1,587,712
Depreciation	—	—	9,591	6,135	302	30,275	1,349	251	47,903
Interest expense	439,888	—	—	—	—	412	—	—	440,300
Amortization of long-term prepaid charges	1,496	—	—	—	—	—	—	—	1,496
Other	9,393	—	—	—	—	—	—	—	9,393
Total operating expenses	**465,180**	**177,763**	**760,925**	**232,372**	**41,671**	**659,151**	**389,246**	**284,223**	**3,010,531**
Operating income (loss)	(33,290)	(335)	10,047	(12,050)	42,992	(104,323)	6,290	55,121	(35,548)
NONOPERATING REVENUES (EXPENSES)									
Investment and interest income	—	—	—	168	—	112	—	295	575
Interest expense and fiscal charges	—	—	—	(3)	—	—	—	—	(3)
Loss on early extinguishment of debt	(54,537)	—	—	—	—	—	—	—	(54,537)
Other	—	—	—	(485)	—	(1,070)	—	—	(1,555)
Total nonoperating revenues (expenses)	**(54,537)**	**—**	**—**	**(320)**	**—**	**(958)**	**—**	**295**	**(55,520)**
Income (loss) before transfers	(87,827)	(335)	10,047	(12,370)	42,992	(105,281)	6,290	55,416	(91,068)
Transfers in	6,649	—	—	—	3,394	63,614	—	3,000	76,657
Transfers out	—	—	(38,676)	—	—	—	—	(71,194)	(109,870)
Change in net position	(81,178)	(335)	(28,629)	(12,370)	46,386	(41,667)	6,290	(12,778)	(124,281)
Total net position (deficit) – beginning	**368,579** *	**(26,325)**	**(143,531)**	**175,323**	**14,533** *	**88,501**	**(57,680)**	**252,280** [1]	**671,680**
Total net position (deficit) – ending	**$ 287,401**	**$ (26,660)**	**$ (172,160)**	**$ 162,953**	**$ 60,919**	**$ 46,834**	**$ (51,390)**	**$ 239,502**	**$ 547,399**

* Restated

[1] The Financial Information Systems Fund was included in the Other Internal Service Programs column in the prior fiscal year and the Office of Systems Integration Fund that was reported in its own colunm in the prior fiscal year is now included in the Other Internal Service Programs column.

Combining Statement of Cash Flows

Internal Service Funds

Year Ended June 30, 2014

(amounts in thousands)

	Public Buildings Construction	Architecture Revolving	Service Revolving	Prison Industries	Financial Information Systems	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	$ 764,575	$ 184,493	$ 782,741	$ 220,589	$ 86,769	$ 551,645	$ 397,849	$ 339,531	$ 3,328,192
Receipts from interfund services provided	—	10,342	—	6,407	16,145	2,834	90	95,995	131,813
Payments to suppliers	(879)	(148,737)	(498,158)	(154,781)	(28,808)	(404,713)	(3,135)	(324,301)	(1,563,512)
Payments to employees	—	(27,931)	(217,607)	(54,123)	—	(138,615)	(389,192)	(15,533)	(843,001)
Payments for interfund services used	—	—	(30,613)	(10,340)	—	(47,330)	—	(5,212)	(93,495)
Other receipts (payments)	(450,930)	11	(5,356)	(139)	—	9,216	(1,175)	(3,131)	(451,504)
Net cash provided by (used in) operating activities	**312,766**	**18,178**	**31,007**	**7,613**	**74,106**	**(26,963)**	**4,437**	**87,349**	**508,493**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Changes in interfund payables and loans payable	—	—	(556)	—	—	(112)	(7)	1,242	567
Interest paid on operating debt	—	—	—	(3)	—	(412)	—	—	(415)
Transfers in	6,649	—	—	—	3,394	63,614	—	3,000	76,657
Transfers out	—	—	(38,676)	—	—	—	—	(71,194)	(109,870)
Net cash provided by (used in) noncapital financing activities	**6,649**	**—**	**(39,232)**	**(3)**	**3,394**	**63,090**	**(7)**	**(66,952)**	**(33,061)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisition of capital assets	(1,217,406)	—	(21,159)	(9,220)	(41,058)	(48,273)	(1,348)	(29)	(1,338,493)
Proceeds from sale of capital assets	—	—	167	586	—	17,805	—	—	18,558
Proceeds from revenue bonds	2,323,173	—	—	—	—	—	—	—	2,323,173
Retirement of revenue bonds	(412,085)	—	—	—	—	—	—	—	(412,085)
Net cash used in capital and related financing activities	693,682	—	(20,992)	(8,634)	(41,058)	(30,468)	(1,348)	(29)	591,153
CASH FLOWS FROM INVESTING ACTIVITIES									
Earnings on investments	—	—	—	169	—	112	—	295	576
Net cash provided by (used in) investing activities	**—**	**—**	**—**	**169**	**—**	**112**	**—**	**295**	**576**
Net increase (decrease) in cash and pooled investments	1,013,097	18,178	(29,217)	(855)	36,442	5,771	3,082	20,663	1,067,161
Cash and pooled investments – beginning	**2,728,900**	**256,790**	**112,102**	**169,364**	**7,576**	**42,202**	**10,971**	**342,006**	**3,669,911**
Cash and pooled investments – ending	**$ 3,741,997**	**$ 274,968**	**$ 82,885**	**$ 168,509**	**$ 44,018**	**$ 47,973**	**$ 14,053**	**$ 362,669**	**$ 4,737,072**

(continued)

Combining Statement of Cash Flows (continued)

Internal Service Funds

Year Ended June 30, 2014

(amounts in thousands)

	Public Buildings Construction	Architecture Revolving	Service Revolving	Prison Industries	Financial Information Systems	Technology Services Revolving	Water Resources Revolving	Other Internal Service Programs	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES									
Operating income (loss)	$ (33,290)	$ (335)	$ 10,047	$ (12,050)	$ 42,992	$ (104,323)	$ 6,290	$ 55,121	$ (35,548)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:									
Interest expense on operating debt	—	—	—	—	—	412	—	—	412
Depreciation	—	—	9,591	6,135	302	30,275	1,349	251	47,903
Amortization of premiums and discounts	(44,113)	—	—	—	—	—	—	—	(44,113)
Amortization of long-term prepaid charges	18,058	—	—	—	—	—	—	—	18,058
Other	21,738	—	—	(13,140)	—	—	—	—	8,598
Change in assets, deferred outflows of resources, and liabilities, deferred inflows of resources:									
Receivables	—	54	10,644	(873)	—	(3,183)	2,348	187	9,177
Due from other funds	(43,651)	10,865	(2,195)	2,332	2,106	(222,565)	95	324,097	71,084
Due from other governments	—	—	(12,712)	(103)	18,390	(268)	—	5	5,312
Prepaid items	—	(1,979)	(9,801)	(101)	(4,128)	(94)	401	1,016	(14,686)
Inventories	8,094	—	1,061	3,004	—	3,931	214	—	16,304
Net investment in direct financing leases	389,895	—	—	—	—	—	—	—	389,895
Accounts payable	(312)	2,173	934	(2,994)	16,293	56,199	1,238	(70,736)	2,795
Due to other funds	557	(523)	(13,296)	17,250	(2,245)	178,069	(5)	(238,851)	(59,044)
Due to component units	(837)	—	—	—	—	(1,191)	—	(31)	(2,059)
Due to other governments	—	—	162	—	—	451	(28)	—	585
Deposits	—	—	(47)	—	—	—	—	—	(47)
Contracts and notes payable	—	—	593	—	—	3,894	—	—	4,487
Interest payable	(3,370)	—	—	—	—	—	—	—	(3,370)
Revenues received in advance	(3)	7,011	1,125	(1,090)	—	—	(35)	—	7,008
Other current liabilities	—	(42)	4,835	1,437	(691)	(4,277)	(1,147)	(1,421)	(1,306)
Benefits payables	—	1,792	37,507	—	—	22,967	—	2,705	64,971
Compensated absences payable	—	(838)	(7,441)	(695)	1,087	8,915	(6,283)	(338)	(5,593)
Other noncurrent liabilities	—	—	—	8,501	—	3,825	—	15,344	27,670
Total adjustments	346,056	18,513	20,960	19,663	31,114	77,360	(1,853)	32,228	544,041
Net cash provided by (used in) operating activities	**$ 312,766**	**$ 18,178**	**$ 31,007**	**$ 7,613**	**$ 74,106**	**$ (26,963)**	**$ 4,437**	**$ 87,349**	**$ 508,493**
									(concluded)
Noncash investing, capital, and financing activities									
Debt restructure and termination of direct financing leases	$ 114,285	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 114,285

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Nonmajor Enterprise Funds

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, in which the costs of providing goods or services to the general public on a continuing basis are intended to be financed or recovered primarily through user charges. Following are brief descriptions of nonmajor enterprise funds.

The **High Technology Education Fund** accounts for construction and renovation of public buildings for educational and research purposes related to specific fields of high technology. During the fiscal year, all outstanding revenue bonds were defeased and the related lease receivable was terminated. The fund's remaining assets were transferred to an escrow account with the State Treasurer and the fund was dissolved.

The **State Water Pollution Control Revolving Fund** accounts for loans to finance the construction of publicly owned water pollution control facilities.

The **Housing Loan Fund** accounts for financing and contracts for the sale of properties to eligible California veterans.

Other enterprise program funds account for all other goods or services provided to the general public on a continuing basis when all or most of the cost involved is to be financed by user charges, or when periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes.

Combining Statement of Net Position

Nonmajor Enterprise Funds

June 30, 2014
(amounts in thousands)

	High Technology Education	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
ASSETS					
Current assets:					
Cash and pooled investments	$ —	$ 309,447	$ 101,681	$ 252,288	$ 663,416
Restricted assets:					
Cash and pooled investments	—	25,975	—	—	25,975
Due from other governments	—	20,182	—	—	20,182
Receivables (net)	—	—	32,096	225	32,321
Due from other funds	—	382	63	227	672
Due from other governments	—	205,886	—	612	206,498
Prepaid items	—	—	—	27	27
Inventories	—	—	—	3,124	3,124
Total current assets	—	561,872	133,840	256,503	952,215
Noncurrent assets:					
Restricted assets:					
Loans receivable	—	305,278	—	—	305,278
Investments	—	—	25,202	—	25,202
Interfund receivables	—	4,000	—	1,600	5,600
Loans receivable	—	2,853,583	801,845	120,159	3,775,587
Capital assets:					
Land	—	—	443	829	1,272
Buildings and other depreciable property	—	—	16,260	1,878	18,138
Intangible assets – amortizable	—	—	—	1,500	1,500
Less: accumulated depreciation/amortization	—	—	(15,827)	(1,486)	(17,313)
Intangible assets – non-amortizable	—	—	—	222	222
Other noncurrent assets	—	—	5,586	—	5,586
Total noncurrent assets	—	3,162,861	833,509	124,702	4,121,072
Total assets	**$ —**	**$ 3,724,733**	**$ 967,349**	**$ 381,205**	**$ 5,073,287**

(continued)

Combining Statement of Net Position (continued)

Nonmajor Enterprise Funds

June 30, 2014
(amounts in thousands)

	High Technology Education	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
LIABILITIES					
Current liabilities:					
Accounts payable	$ —	$ —	$ —	$ 2,637	$ 2,637
Due to other funds	—	162	198	1,192	1,552
Due to other governments	—	—	—	7	7
Revenues received in advance	—	7	—	25	32
Interest payable	—	469	10,975	—	11,444
Current portion of long-term obligations	—	14,339	—	11,917	26,256
Other current liabilities	—	—	—	126	126
Total current liabilities	—	14,977	11,173	15,904	42,054
Noncurrent liabilities:					
Compensated absences payable	—	—	—	2,739	2,739
General obligation bonds payable	—	—	432,357	—	432,357
Revenue bonds payable	—	44,897	370,750	—	415,647
Net other postemployment benefits obligation	—	—	1,538	6,867	8,405
Other noncurrent liabilities	—	—	623	73,086	73,709
Total noncurrent liabilities	—	44,897	805,268	82,692	932,857
Total liabilities	**—**	**59,874**	**816,441**	**98,596**	**974,911**
NET POSITION					
Net investment in capital assets	—	—	876	2,948	3,824
Restricted – expendable:					
Debt service	—	25,975	—	—	25,975
Security for revenue bonds	—	325,460	—	—	325,460
Other purposes	—	—	150,032	204,383	354,415
Total expendable	—	351,435	150,032	204,383	705,850
Unrestricted	—	3,313,424	—	75,278	3,388,702
Total net position	**—**	**3,664,859**	**150,908**	**282,609**	**4,098,376**
Total liabilities and net position	**$ —**	**$ 3,724,733**	**$ 967,349**	**$ 381,205**	**$ 5,073,287**

(concluded)

Combining Statement of Revenues, Expenses, and Changes in Fund Net Position

Nonmajor Enterprise Funds

Year Ended June 30, 2014
(amounts in thousands)

	High Technology Education	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
OPERATING REVENUES					
Services and sales	$ —	$ 8,018	$ 1,220	$ 74,286	$ 83,524
Investment and interest	27	54,112	62,442	96	116,677
Rent	397	—	—	647	1,044
Other	—	—	1,585	2,222	3,807
Total operating revenues	**424**	**62,130**	**65,247**	**77,251**	**205,052**
OPERATING EXPENSES					
Personal services	—	816	8,431	5,714	14,961
Services and charges	—	2,969	10,453	73,581	87,003
Depreciation	—	—	115	346	461
Interest expense	847	—	37,639	—	38,486
Other	—	923	568	—	1,491
Total operating expenses	**847**	**4,708**	**57,206**	**79,641**	**142,402**
Operating income (loss)	(423)	57,422	8,041	(2,390)	62,650
NONOPERATING REVENUES (EXPENSES)					
Investment and interest income	—	855	—	420	1,275
Interest expense and fiscal charges	—	(355)	—	—	(355)
Loss on early extinguishment of debt	(26,913)	—	—	—	(26,913)
Other	—	(9)	—	—	(9)
Total nonoperating revenues (expenses)	**(26,913)**	**491**	**—**	**420**	**(26,002)**
Income (loss) before capital contributions and transfers	(27,336)	57,913	8,041	(1,970)	36,648
Capital contributions	—	80,903	—	—	80,903
Transfers out	(6,649)	—	—	(199)	(6,848)
Change in net position	(33,985)	138,816	8,041	(2,169)	110,703
Total net position – beginning	**33,985**	**3,526,043**	**142,867**	**284,778**	**3,987,673**
Total net position – ending	**$ —**	**$ 3,664,859**	**$ 150,908**	**$ 282,609**	**$ 4,098,376**

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended June 30, 2014

(amounts in thousands)

	High Technology Education	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers/employers	$ —	$ 51,417	$ 239,470	$ 76,648	$ 367,535
Receipts from interfund services provided	—	—	—	419	419
Payments to suppliers	—	(3,891)	(6,869)	(74,778)	(85,538)
Payments to employees	—	(816)	(8,431)	(4,286)	(13,533)
Payments for interfund services used	—	(60)	—	(890)	(950)
Other receipts (payments)	11,006	(169,328)	(112,274)	10,498	(260,098)
Net cash provided by (used in) operating activities	**11,006**	**(122,678)**	**111,896**	**7,611**	**7,835**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Retirement of general obligation bonds	—	—	(151,715)	—	(151,715)
Retirement of revenue bonds	(24,771)	(13,000)	(47,620)	—	(85,391)
Interest paid on operating debt	—	(2,080)	—	—	(2,080)
Transfers out	(6,649)	—	—	(199)	(6,848)
Net cash provided by (used in) noncapital financing activities	**(31,420)**	**(15,080)**	**(199,335)**	**(199)**	**(246,034)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	—	—	(128)	(302)	(430)
Grants received	—	82,351	—	—	82,351
Net cash provided by (used in) capital and related financing activities	**—**	**82,351**	**(128)**	**(302)**	**81,921**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	—	—	(2,500)	—	(2,500)
Earnings (loss) on investments	—	890	—	420	1,310
Net cash provided by (used in) investing activities	**—**	**890**	**(2,500)**	**420**	**(1,190)**
Net increase (decrease) in cash and pooled investments	(20,414)	(54,517)	(90,067)	7,530	(157,468)
Cash and pooled investments – beginning	**20,414**	**389,939**	**191,748**	**244,758**	**846,859**
Cash and pooled investments – ending	**$ —**	**$ 335,422**	**$ 101,681**	**$ 252,288**	**$ 689,391**

(continued)

Combining Statement of Cash Flows (continued)

Nonmajor Enterprise Funds

Year Ended June 30, 2014
(amounts in thousands)

	High Technology Education	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating income (loss)	$ (423)	$ 57,422	$ 8,041	$ (2,390)	$ 62,650
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	—	—	115	346	461
Provisions and allowances	—	—	(3,586)	—	(3,586)
Amortization of premiums and discounts	4	—	501	—	505
Amortization of long-term prepaid charges	948	—	—	—	948
Other	1,797	(10,846)	569	—	(8,480)
Change in assets, deferred outflows of resources, and liabilities, deferred inflows of resources:					
Receivables	298	—	1,856	54	2,208
Due from other funds	20	(3)	(14)	8	11
Due from other governments	—	715	64	671	1,450
Prepaid items	—	—	—	(26)	(26)
Inventories	—	—	—	(425)	(425)
Net investment in direct financing leases	8,468	—	—	—	8,468
Other current assets	—	—	98	—	98
Loans receivable	—	(169,911)	105,200	882	(63,829)
Accounts payable	—	—	—	(1,662)	(1,662)
Due to other funds	—	(58)	27	(935)	(966)
Due to other governments	—	—	—	4	4
Interest payable	(106)	—	—	—	(106)
Revenues received in advance	—	—	—	(11)	(11)
Other current liabilities	—	3	(1,199)	11,940	10,744
Benefits payables	—	—	(26)	106	80
Compensated absences payable	—	—	—	24	24
Other noncurrent liabilities	—	—	250	(975)	(725)
Total adjustments	11,429	(180,100)	103,855	10,001	(54,815)
Net cash provided by (used in) operating activities	**$ 11,006**	**$ (122,678)**	**$ 111,896**	**$ 7,611**	**$ 7,835**

(concluded)

Debt restructure and termination of direct financing leases	$ 22,006	$ —	$ —	$ —	$ 22,006

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Private Purpose Trust Funds

Private purpose trust funds account for all trust arrangements, other than those properly reported in pension and other employee benefit trust funds or investment trust funds, under which both principal and income benefit individuals, private organizations, or other governments. Following are brief descriptions of private purpose trust funds.

The **Scholarshare Program Trust Fund** accounts for money received from participants to fund their beneficiaries' higher-education expenses at certain postsecondary educational institutions.

The **Unclaimed Property Fund** accounts for unclaimed money and properties held in trust by the State.

Other private purpose trust funds account for other assets held in a trustee capacity when both principal and income benefit individuals, private organizations, or other governments.

Combining Statement of Fiduciary Net Position

Private Purpose Trust Funds

June 30, 2014
(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ASSETS				
Cash and pooled investments	$ 6	$ 32,457	$ 17,433	$ 49,896
Investments, at fair value:				
Equity securities	3,218,383	—	—	3,218,383
Debt securities	1,844,304	—	—	1,844,304
Real estate	188,273	—	—	188,273
Other	777,884	—	—	777,884
Total investments	6,028,844	—	—	6,028,844
Receivables (net)	8,482	17	—	8,499
Due from other funds	—	85,919	10	85,929
Other assets	—	172,661	—	172,661
Total assets	**6,037,332**	**291,054**	**17,443**	**6,345,829**
LIABILITIES				
Accounts payable	9,008	6,991	15,336	31,335
Deposits	—	172,661	—	172,661
Other liabilities	—	—	938	938
Total liabilities	**9,008**	**179,652**	**16,274**	**204,934**
NET POSITION				
Held in trust for benefits and other purposes	**$ 6,028,324**	**$ 111,402**	**$ 1,169**	**$ 6,140,895**

Combining Statement of Changes in Fiduciary Net Position

Private Purpose Trust Funds

Year Ended June 30, 2014
(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ADDITIONS				
Investment income:				
Net appreciation in fair value of investments	$ 512,830	$ —	$ —	$ 512,830
Interest, dividends, and other investment income	244,806	—	—	244,806
Less: investment expense	(4,023)	—	—	(4,023)
Net investment income	753,613	—	—	753,613
Receipts from depositors	2,753,223	290,820	15,712	3,059,755
Total additions	**3,506,836**	**290,820**	**15,712**	**3,813,368**
DEDUCTIONS				
Administrative expenses	—	—	3	3
Payments to and for depositors	2,534,290	277,365	15,471	2,827,126
Total deductions	**2,534,290**	**277,365**	**15,474**	**2,827,129**
Change in net position	972,546	13,455	238	986,239
Net position – beginning	**5,055,778**	**97,947**	**931**	**5,154,656**
Net position – ending	**$ 6,028,324**	**$ 111,402**	**$ 1,169**	**$ 6,140,895**

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Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

Pension and other employee benefit trust funds account for transactions, assets, liabilities, and net position available for pension and other employee benefits of the two public employees' retirement systems that are fiduciary component units and for other primary government employee benefit programs. Following are brief descriptions of pension and other employee benefit trust funds.

Defined Benefit Pension Plans are pension plans that are used to provide defined benefit pensions to employees after separation from service:

The **Public Employees' Retirement Fund** is administered by the California Public Employees' Retirement System (CalPERS) and accounts for the employee and employer contributions of the agent multiple-employer retirement plan that provides pension benefits to employees of the State of California, non-teaching school employees, and employees of California public agencies.

The **State Teachers' Retirement Fund** is administered by the California State Teachers' Retirement System (CalSTRS) and accounts for the employee, employer, and primary government contributions of the cost-sharing multiple-employer retirement plan that provides pension benefits to teachers and certain other employees of the California public school system.

The **Judges' Retirement Fund** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to judges of the California Supreme Court, courts of appeal, and superior courts who were appointed or elected prior to November 9, 1994.

The **Judges' Retirement Fund II** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to judges of the California Supreme Court, courts of appeal, and superior courts who were appointed or elected on or subsequent to November 9, 1994.

The **Legislators' Retirement Fund** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to members of the Legislature serving prior to November 7, 1990, constitutional officers, and legislative statutory officers who elect to participate in the plan.

(continued)

(continued)

The **Deferred Compensation Fund** accounts for monies withheld from the salaries of participants per Internal Revenue Code sections 401(k), 457, and 403(b). The monies are invested until the employee retires or resigns, at which time all money withdrawn, including investment income, is subject to income taxes.

Other pension and other employee benefit trust funds account for funds contributed to smaller retirement plans and programs that are not defined benefit pension plans: Annuitants' Health Care Coverage Fund, Teachers' Health Benefits Fund, State Peace Officers' and Firefighters' Defined Contribution Plan Fund, Supplemental Contributions Program Fund, Boxers' Pension Fund, and Flexelect Benefit Fund.

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Combining Statement of Fiduciary Net Position

Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

June 30, 2014
(amounts in thousands)

	Defined Benefit		Pension Plans				Other Pension and Other Employee Benefit Trust	
	Public Employees' Retirement	State Teachers' Retirement	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	Deferred Compensation		Total
ASSETS								
Cash and pooled investments	$ 2,149,212	$ 457,219	$ 3,933	$ 2,963	$ 1,233	$ 16,439	$ 56,934	$ 2,687,933
Investments, at fair value:								
Short-term	8,232,423	4,371,070	51,155	5	4	237,585	118,296	13,010,538
Equity securities	158,161,501	102,089,007	—	739,691	55,582	6,722,789	3,089,827	270,858,397
Debt securities	72,465,033	31,972,479	—	260,112	73,735	3,606,373	1,105,488	109,483,220
Real estate	29,580,354	23,673,246	—	—	—	—	—	53,253,600
Other	31,512,577	29,614,996	—	—	—	1,751,529	—	62,879,102
Securities lending collateral	17,249,281	22,303,191	—	78,033	8,581	—	60,551	39,699,637
Total investments	317,201,169	214,023,989	51,155	1,077,841	137,902	12,318,276	4,374,162	549,184,494
Receivables (net)	1,775,492	3,102,990	2,886	10,979	596	16,464	107,328	5,016,735
Due from other funds	500,614	66,894	13	4	—	10	17	567,552
Due from other governments	—	18,491	—	—	—	10	—	18,501
Loans receivable	—	21,620	—	—	—	385	—	22,005
Other assets	701,798	229,079	—	—	—	—	—	930,877
Total assets	**322,328,285**	**217,920,282**	**57,987**	**1,091,787**	**139,731**	**12,351,584**	**4,538,441**	**558,428,097**
LIABILITIES								
Accounts payable	16,203	2,944,928	—	147	—	1,883	3,141	2,966,302
Benefits payable	1,505,516	1,120,499	10	—	649	421	28,210	2,655,305
Securities lending obligations	17,089,383	22,311,298	—	77,478	8,520	—	60,120	39,546,799
Loans payable	—	944,269	—	—	—	—	—	944,269
Other liabilities	1,955,644	125,272	778	323	208	3,884	4,509	2,090,618
Total liabilities	**20,566,746**	**27,446,266**	**788**	**77,948**	**9,377**	**6,188**	**95,980**	**48,203,293**
NET POSITION								
Restricted for pension benefits, pool participants, and other employee benefits	**$ 301,761,539**	**$ 190,474,016**	**$ 57,199**	**$ 1,013,839**	**$ 130,354**	**$ 12,345,396**	**$ 4,442,461**	**$ 510,224,804**

Combining Statement of Changes in Fiduciary Net Position

Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

Year Ended June 30, 2014
(amounts in thousands)

	Defined Benefit		Pension Plans				Other Pension and Other Employee Benefit Trust	
	Public Employees' Retirement	State Teachers' Retirement	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	Deferred Compensation		Total
ADDITIONS								
Contributions:								
Employer	$ 8,777,602	$ 3,655,634	$ 191,148	$ 57,027	$ 565	$ 900	$ 1,714,491	$ 14,397,367
Plan member	3,775,038	2,263,613	4,724	20,413	113	863,633	31,457	6,958,991
Total contributions	12,552,640	5,919,247	195,872	77,440	678	864,533	1,745,948	21,356,358
Investment income:								
Net appreciation (depreciation) in fair value of investments	44,413,007	26,092,999	—	149,975	15,379	221,370	587,615	71,480,345
Interest, dividends, and other investment income	2,641,267	4,613,173	59	629	51	1,325,402	427	8,581,008
Less: investment expense	(1,463,801)	(304,269)	(5)	(436)	(58)	(802)	(1,761)	(1,771,132)
Net investment income	45,590,473	30,401,903	54	150,168	15,372	1,545,970	586,281	78,290,221
Other	7,571	2,055	2,529	—	—	12,482	7,815	32,452
Total additions	**58,150,684**	**36,323,205**	**198,455**	**227,608**	**16,050**	**2,422,985**	**2,340,044**	**99,679,031**
DEDUCTIONS								
Distributions to beneficiaries	17,760,584	11,927,565	193,925	8,865	7,482	22,531	1,085,134	31,006,086
Refunds of contributions	236,968	107,600	10	85	—	99,956	—	444,619
Administrative expense	381,497	162,933	1,141	785	362	12,948	5,546	565,212
Interest expense	—	—	—	—	—	—	—	—
Payments to and for depositors	—	—	—	—	—	580,203	38,598	618,801
Total deductions	**18,379,049**	**12,198,098**	**195,076**	**9,735**	**7,844**	**715,638**	**1,129,278**	**32,634,718**
Change in net position	39,771,635	24,125,107	3,379	217,873	8,206	1,707,347	1,210,766	67,044,313
Net position – beginning	**261,989,904**	**166,348,909**	**53,820** [1]	**795,966** [1]	**122,148** [1]	**10,638,049**	**3,231,695**	**443,180,491** [1]
Net position – ending	**$ 301,761,539**	**$ 190,474,016**	**$ 57,199**	**$ 1,013,839**	**$ 130,354**	**$ 12,345,396**	**$ 4,442,461**	**$ 510,224,804**

[1] Judges' Retirement, Judges' Retirement II, and Legislators' Retirement funds were included in the Other Pension and Other Employee Benefit Trust funds column in the prior year.

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Agency Funds

Agency funds account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the State, acting in the capacity of an agent, for distribution to other governmental units or other organizations. Following are brief descriptions of agency funds.

The **Receipting and Disbursing Fund** accounts for the collection and disbursement of revenues and receipts on behalf of local governments. This fund also accounts for receipts from many state funds, typically for the purpose of writing a single warrant when the warrant is funded by multiple funding sources.

The **Deposit Fund** accounts for various deposits, such as those from condemnation and litigation proceedings.

Other agency activity funds account for other assets held by the State, which acts as an agent for individuals, private organizations, and other governments.

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2014
(amounts in thousands)

	Receipting and Disbursing	Deposit	Other Agency Activities	Total
ASSETS				
Cash and pooled investments	$ 2,190,374	$ 1,467,960	$ 23,893	$ 3,682,227
Receivables (net)	2,019,572	108,472	1,518	2,129,562
Due from other funds	20,690,185	2,755	769	20,693,709
Due from other governments	7,652	10	—	7,662
Prepaid items	28,734	194	—	28,928
Loans receivable	—	—	7,257	7,257
Other assets	55	38	—	93
Total assets	**$ 24,936,572**	**$ 1,579,429**	**$ 33,437**	**$ 26,549,438**
LIABILITIES				
Accounts payable	$ 14,886,495	$ 52,793	$ 3,081	$ 14,942,369
Due to other governments	9,974,859	2,329	7,045	9,984,233
Tax overpayments	4,632	—	—	4,632
Revenues received in advance	21,053	1,072	—	22,125
Deposits	39,160	940,470	7,973	987,603
Other liabilities	10,373	582,765	15,338	608,476
Total liabilities	**$ 24,936,572**	**$ 1,579,429**	**$ 33,437**	**$ 26,549,438**

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Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

Year Ended June 30, 2014
(amounts in thousands)

Receipting and Disbursing Fund

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
ASSETS				
Cash and pooled investments	$ 2,369,714	$ 154,687,200	$ 154,866,540	$ 2,190,374
Receivables (net)	1,377,732	3,490,419	2,848,579	2,019,572
Due from other funds	18,212,542	22,905,077	20,427,434	20,690,185
Due from other governments	20,763	583	13,694	7,652
Prepaid items	11,867	28,734	11,867	28,734
Other assets	55	—	—	55
Total assets	**$ 21,992,673**	**$ 181,112,013**	**$ 178,168,114**	**$ 24,936,572**
LIABILITIES				
Accounts payable	$ 10,013,095	$ 45,988,721	$ 41,115,321	$ 14,886,495
Due to other governments	11,685,759	29,189,519	30,900,419	9,974,859
Tax overpayments	684	76,390	72,442	4,632
Benefits payable	220,767	—	220,767	—
Revenues received in advance	17,688	3,393	28	21,053
Deposits	40,547	—	1,387	39,160
Other liabilities	14,133	—	3,760	10,373
Total liabilities	**$ 21,992,673**	**$ 75,258,023**	**$ 72,314,124**	**$ 24,936,572**

Deposit Fund

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
ASSETS				
Cash and pooled investments	$ 1,569,454	$ 18,576,666	$ 18,678,160	$ 1,467,960
Receivables (net)	98,485	219,384	209,397	108,472
Due from other funds	57,832	318	55,395	2,755
Due from other governments	285	391	666	10
Prepaid items	166	28	—	194
Other assets	32	21	15	38
Total assets	**$ 1,726,254**	**$ 18,796,808**	**$ 18,943,633**	**$ 1,579,429**
LIABILITIES				
Accounts payable	$ 69,213	$ 568,579	$ 584,999	$ 52,793
Due to other governments	1,910	3,496	3,077	2,329
Revenues received in advance	813	14,211	13,952	1,072
Deposits	943,471	633,530	636,531	940,470
Other liabilities	710,847	17,977,336	18,105,418	582,765
Total liabilities	**$ 1,726,254**	**$ 19,197,152**	**$ 19,343,977**	**$ 1,579,429**

Other Agency Activity Funds

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
ASSETS				
Cash and pooled investments	$ 29,377	$ 2,578	$ 8,062	$ 23,893
Receivables (net)	1,514	4	—	1,518
Due from other funds	690	79	—	769
Loans receivable	7,153	104	—	7,257
Total assets	**$ 38,734**	**$ 2,765**	**$ 8,062**	**$ 33,437**
LIABILITIES				
Accounts payable	$ 2,619	$ 462	$ —	$ 3,081
Due to other governments	14,666	2	7,623	7,045
Deposits	5,500	2,473	—	7,973
Other liabilities	15,949	—	611	15,338
Total liabilities	**$ 38,734**	**$ 2,937**	**$ 8,234**	**$ 33,437**

Total Agency Funds

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
ASSETS				
Cash and pooled investments	$ 3,968,545	$ 173,266,444	$ 173,552,762	$ 3,682,227
Receivables (net)	1,477,731	3,709,807	3,057,976	2,129,562
Due from other funds	18,271,064	22,905,474	20,482,829	20,693,709
Due from other governments	21,048	974	14,360	7,662
Prepaid items	12,033	28,762	11,867	28,928
Loans receivable	7,153	104	—	7,257
Other assets	87	21	15	93
Total assets	**$ 23,757,661**	**$ 199,911,586**	**$ 197,119,809**	**$ 26,549,438**
LIABILITIES				
Accounts payable	$ 10,084,927	$ 46,557,762	$ 41,700,320	$ 14,942,369
Due to other governments	11,702,335	29,193,017	30,911,119	9,984,233
Tax overpayments	684	76,390	72,442	4,632
Benefits payable	220,767	—	220,767	—
Revenues received in advance	18,501	17,604	13,980	22,125
Deposits	989,518	636,003	637,918	987,603
Other liabilities	740,929	17,977,336	18,109,789	608,476
Total liabilities	**$ 23,757,661**	**$ 94,458,112**	**$ 91,666,335**	**$ 26,549,438**

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Nonmajor Component Units

Nonmajor component units are legally separate entities that are discretely presented in the State's financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The inclusion of component units in the State's financial statements reflects the State's financial accountability or relationships with these organizations such that exclusion would cause the State's financial statements to be misleading. Following are brief descriptions of the nonmajor consolidated component unit segments.

California State University Auxiliary organizations provide services primarily to university students through foundations, associated student organizations, student unions, food service entities, book stores, and similar organizations.

Financing authorities provide financing for transportation, business development and public improvements, and coastal and inland urban waterfront restoration projects. These agencies include: California Alternative Energy and Advanced Transportation Financing Authority, California Infrastructure and Economic Development Bank, and the California Urban Waterfront Area Restoration Financing Authority.

District agricultural associations were created to exhibit all of the industries, industrial enterprises, resources, and products of the State. The financial information presented is as of and for the year ended December 31, 2013.

Other component units provide legal education programs, financial assistance to businesses, and health benefits for state employees and annuitants. These entities include: University of California Hastings College of the Law; State Assistance Fund for Enterprise, Business and Industrial Development Corporation; and Public Employees' Contingency Reserve.

Combining Statement of Net Position

Nonmajor Component Units

June 30, 2014
(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
ASSETS					
Current assets:					
Cash and pooled investments	$ 32,309	$ 405,558	$ 81,769	$ 429,521	$ 949,157
Investments	—	399,561	4,839	—	404,400
Restricted assets:					
Cash and pooled investments	124,554	—	1,058	2,905	128,517
Investments	8,941	—	6,988	—	15,929
Receivables (net)	17,667	390,597	4,549	34,619	447,432
Due from primary government	—	—	—	1,212	1,212
Prepaid items	—	—	647	95	742
Other current assets	—	31,919	430	—	32,349
Total current assets	183,471	1,227,635	100,280	468,352	1,979,738
Noncurrent assets:					
Restricted assets:					
Cash and pooled investments	—	26,725	—	—	26,725
Investments	9,586	—	4,700	—	14,286
Investments	—	1,771,674	—	69,360	1,841,034
Receivables (net)	—	237,243	—	15,387	252,630
Loans receivable	278,257	—	—	7,197	285,454
Capital assets:					
Land	—	111,745	22,232	5,089	139,066
Collections – nondepreciable	—	8,401	—	—	8,401
Buildings and other depreciable property	1,700	1,159,412	694,056	139,959	1,995,127
Intangible assets – amortizable	841	10,686	—	1,051	12,578
Less: accumulated depreciation/amortization	(2,541)	(493,812)	(422,693)	(53,656)	(972,702)
Construction in progress	—	9,891	9,323	143	19,357
Intangible assets – non-amortizable	—	5,082	—	—	5,082
Other noncurrent assets	—	42,245	—	8,506	50,751
Total noncurrent assets	287,843	2,889,292	307,618	193,036	3,677,789
Total assets	**471,314**	**4,116,927**	**407,898**	**661,388**	**5,657,527**
DEFERRED OUTFLOWS OF RESOURCES	**865**	**5,204**	—	—	6,069
Total assets and deferred outflows of resources	**$ 472,179**	**$ 4,122,131**	**$ 407,898**	**$ 661,388**	**$ 5,663,596**

(continued)

Combining Statement of Net Position (continued)

Nonmajor Component Units

June 30, 2014
(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
LIABILITIES					
Current liabilities:					
Accounts payable	$ 29,196	$ 81,173	$ 6,705	$ 148,916	$ 265,990
Due to other governments	—	—	—	54,967	54,967
Revenues received in advance	—	62,110	2,994	1,135	66,239
Deposits	—	—	1,245	304	1,549
Contracts and notes payable	—	7,110	118	9,098	16,326
Interest payable	2,251	—	513	—	2,764
Current portion of long-term obligations	5,014	241,249	1,788	50,705	298,756
Other current liabilities	5,987	88,307	3,272	191,281	288,847
Total current liabilities	42,448	479,949	16,635	456,406	995,438
Noncurrent liabilities:					
Compensated absences payable	162	3,471	8,524	534	12,691
Workers' compensation benefits payable	—	—	283	—	283
Certificates of participation, commercial paper, and other borrowings	—	20,255	—	—	20,255
Capital lease obligations	—	360,020	6	—	360,026
Revenue bonds payable	141,508	47,717	26,226	21,752	237,203
Net other postemployment benefits obligation	1,300	96,293	6,293	13,763	117,649
Other noncurrent liabilities	665	491,609	15,370	8,306	515,950
Total noncurrent liabilities	143,635	1,019,365	56,702	44,355	1,264,057
Total liabilities	**186,083**	**1,499,314**	**73,337**	**500,761**	**2,259,495**
DEFERRED INFLOWS OF RESOURCES	**—**	**1,561**	**—**	**—**	1,561
Total liabilities and deferred inflows of resources	**186,083**	**1,500,875**	**73,337**	**500,761**	**2,261,056**
NET POSITION					
Net investment in capital assets	—	181,825	263,260	70,229	515,314
Restricted:					
Nonexpendable – endowments	—	924,853	—	21,044	945,897
Expendable:					
Endowments and gifts	—	—	—	9,378	9,378
Education	—	906,097	—	18,666	924,763
Statute	281,696	—	—	—	281,696
Other purposes	4,479	—	20,198	1,092	25,769
Total expendable	286,175	906,097	20,198	29,136	1,241,606
Unrestricted	(79)	608,481	51,103	40,218	699,723
Total net position	**286,096**	**2,621,256**	**334,561**	**160,627**	**3,402,540**
Total liabilities, deferred inflows of resources, and net position	**$ 472,179**	**$ 4,122,131**	**$ 407,898**	**$ 661,388**	**$ 5,663,596**

(concluded)

Combining Statement of Activities

Nonmajor Component Units

Year Ended June 30, 2014
(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
OPERATING EXPENSES					
Personal services	$ 2,208	$ 365,497	$ 98,073	$ 34,712	$ 500,490
Scholarships and fellowships	—	51,190	—	3,748	54,938
Supplies	—	—	—	10,726	10,726
Services and charges	131,666	997,601	107,518	35,532	1,272,317
Depreciation	229	48,386	22,878	3,043	74,536
Interest expense and fiscal charges	5,031	27,047	1,334	1,483	34,895
Other	31	66,957	2	2,487	69,477
Total operating expenses	**139,165**	**1,556,678**	**229,805**	**91,731**	**2,017,379**
PROGRAM REVENUES					
Charges for services	99,756	681,398	223,091	65,664	1,069,909
Operating grants and contributions	28,275	526,329	—	9,915	564,519
Capital grants and contributions	—	8,166	441	540	9,147
Total program revenues	**128,031**	**1,215,893**	**223,532**	**76,119**	**1,643,575**
Net revenues (expenses)	(11,134)	(340,785)	(6,273)	(15,612)	(373,804)
GENERAL REVENUES					
Investment and interest income	11,336	230,362	73	11,979	253,750
Other	683	415,751	8,313	9,115	433,862
Total general revenues	**12,019**	**646,113**	**8,386**	**21,094**	**687,612**
Change in net position	885	305,328	2,113	5,482	313,808
Net position – beginning	**285,211** *	**2,315,928** *	**332,448** *	**155,145**	3,088,732
Net position – ending	**$ 286,096**	**$ 2,621,256**	**$ 334,561**	**$ 160,627**	**$ 3,402,540**

* Restated

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Statistical Section

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Financial Trends

Financial trend schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time. This section includes the following financial trend schedules.

Schedule of Net Position by Component

Schedule of Changes in Net Position

Schedule of Fund Balances – Governmental Funds

Schedule of Changes in Fund Balances – Governmental Funds

Sources: The information in the following schedules is derived from the State's Comprehensive Annual Financial Reports.

Schedule of Net Position by Component

For the Past Ten Fiscal Years

(accrual basis of accounting, amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011 [2]	2012	2013	2014 [3]
Governmental activities										
Net investment in capital assets	$ 79,579,676	$ 83,489,137	$ 81,352,744	$ 84,255,048	$ 83,285,184	$ 84,085,632	$ 85,460,957	$ 80,768,527	$ 84,931,030	$ 94,001,659
Restricted – Expendable	7,631,057	8,431,279	10,543,602	10,148,648	8,391,814	14,987,867	27,865,821	24,871,510	24,315,913	24,950,740
Unrestricted [1]	(52,631,090)	(54,710,847)	(56,519,478)	(69,346,950)	(86,302,434)	(103,272,097)	(123,783,314)	(123,897,753)	(117,383,903)	(116,948,128)
Total governmental activities net position	**$ 34,579,643**	**$ 37,209,569**	**$ 35,376,868**	**$ 25,056,746**	**$ 5,374,564**	**$ (4,198,598)**	**$ (10,456,536)**	**$ (18,257,716)**	**$ (8,136,960)**	**$ 2,004,271**
Business-type activities										
Net investment in capital assets	$ 836,524	$ 818,405	$ 208,268	$ 49,510	$ (130,634)	$ 89,334	$ 1,382,957	$ 1,561,258	$ 1,718,648	$ 2,065,550
Restricted – Nonexpendable	—	—	—	—	—	—	21,812	21,584	20,627	16,219
Restricted – Expendable	7,235,373	8,722,865	8,574,932	6,853,621	3,855,051	3,404,682	3,615,945	4,571,036	5,151,915	4,897,314
Unrestricted	1,566,246	1,801,304	2,430,492	3,009,297	717,740	(4,250,609)	(4,214,494)	(3,346,849)	(2,824,738)	(1,661,692)
Total business-type activities net position	**$ 9,638,143**	**$ 11,342,574**	**$ 11,213,692**	**$ 9,912,428**	**$ 4,442,157**	**$ (756,593)**	**$ 806,220**	**$ 2,807,029**	**$ 4,066,452**	**$ 5,317,391**
Primary government										
Net investment in capital assets	$ 80,416,200	$ 84,307,542	$ 81,561,012	$ 84,304,558	$ 83,154,550	$ 84,174,966	$ 86,843,914	$ 82,329,785	$ 86,649,678	$ 96,067,209
Restricted – Nonexpendable	—	—	—	—	—	—	21,812	21,584	20,627	16,219
Restricted – Expendable	14,866,430	17,154,144	19,118,534	17,002,269	12,246,865	18,392,549	31,481,766	29,442,546	29,467,828	29,848,054
Unrestricted	(51,064,844)	(52,909,543)	(54,088,986)	(66,337,653)	(85,584,694)	(107,522,706)	(127,997,808)	(127,244,602)	(120,208,641)	(118,609,820)
Total primary government net position	**$ 44,217,786**	**$ 48,552,143**	**$ 46,590,560**	**$ 34,969,174**	**$ 9,816,721**	**$ (4,955,191)**	**$ (9,650,316)**	**$ (15,450,687)**	**$ (4,070,508)**	**$ 7,321,662**

[1] Governmental activities' unrestricted net position reflects a negative balance because of outstanding bonded debt issued to build capital assets for school districts and other local governmental entities.

[2] In fiscal year 2011, the net position of governmental activities and business-type activities changed primarily as a result of the reclassification of the $1.2 billion beginning net position of the California State University Fund from a governmental fund to an enterprise fund.

[3] In fiscal year 2014, the net position of governmental activities and business-type activities changed primarily as a result of the reclassification of the $380 million beginning net position of the Public Buildings Construction Fund from an enterprise fund to an internal service fund.

Schedule of Changes in Net Position

For the Past Ten Fiscal Years

(accrual basis of accounting, amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011 [4]	2012	2013	2014 [5]
Governmental activities										
Expenses										
General government [1]	$ 10,965,932	$ 10,379,122	$ 14,261,590	$ 13,187,080	$ 13,895,948	$ 12,454,969	$ 13,520,557	$ 14,411,737	$ 15,390,100	$ 14,292,179
Education	53,152,986	62,652,997	61,542,105	65,130,420	65,643,486	61,764,385	56,486,944	51,288,647	50,586,387	54,719,677
Health and human services	62,016,344	65,763,380	69,979,980	74,309,784	79,077,015	80,799,454	92,475,364	89,939,730	94,069,749	105,037,102
Resources	4,160,949	4,161,814	5,316,769	6,333,252	5,626,359	6,019,104	5,853,278	5,950,635	5,670,922	5,854,685
State and consumer services	1,038,327	595,602	1,214,740	1,129,063	1,518,402	979,962	1,405,019	1,241,269	1,475,486	589,715
Business and transportation	7,142,209	8,809,236	9,763,200	13,068,043	11,980,315	14,155,767	11,119,644	13,719,927	12,836,192	13,427,229
Correctional programs	6,611,219	7,299,124	8,945,325	10,504,182	10,835,203	10,310,229	10,295,564	10,343,574	10,081,736	11,234,705
Interest on long-term debt	2,408,246	2,893,537	2,596,316	4,184,631	3,801,283	4,146,259	4,377,064	4,365,181	4,349,632	4,699,265
Total expenses	**147,496,212**	**162,554,812**	**173,620,025**	**187,846,455**	**192,378,011**	**190,630,129**	**195,533,434**	**191,260,700**	**194,460,204**	**209,854,557**
Program revenues										
Charges for services:										
General government [1]	4,733,155	4,620,030	4,495,166	4,404,126	4,781,126	4,918,132	5,057,082	6,841,334	6,196,586	5,994,608
Education	2,936,693	3,360,919	2,689,906	3,343,205	3,483,072	4,231,692	110,423	81,212	64,480	67,165
Health and human services	3,280,970	4,554,673	4,751,011	5,191,548	4,256,069	3,769,794	8,471,261	4,940,650	8,761,781	7,961,897
Resources	1,934,532	2,198,886	2,110,593	2,648,952	2,578,738	2,597,712	2,797,264	2,866,232	3,269,315	3,403,524
State and consumer services	601,322	640,088	704,512	692,348	658,486	654,034	660,196	724,222	682,503	586,055
Business and transportation	2,541,072	3,776,098	4,040,268	3,987,958	4,210,461	5,420,261	4,010,433	4,342,668	4,082,616	4,247,258
Correctional programs	12,354	37,203	30,821	27,702	21,592	18,097	14,981	16,757	45,153	13,645
Operating grants/contributions	41,135,441	42,254,065	43,440,102	45,849,413	57,828,622	75,469,783	67,849,215	58,777,006	60,943,536	69,861,130
Capital grants/contributions	1,090,419	1,272,506	1,164,526	1,207,101	1,142,691	962,388	1,272,326	2,193,189	1,669,021	1,515,890
Total program revenues	**58,265,958**	**62,714,468**	**63,426,905**	**67,352,353**	**78,960,857**	**98,041,893**	**90,243,181**	**80,783,270**	**85,714,991**	**93,651,172**
Total governmental activities net program expenses	**(89,230,254)**	**(99,840,344)**	**(110,193,120)**	**(120,494,102)**	**(113,417,154)**	**(92,588,236)**	**(105,290,253)**	**(110,477,430)**	**(108,745,213)**	**(116,203,385)**
General revenues and other changes in net position										
General revenues:										
Personal income taxes	42,504,352	51,251,266	53,272,229	55,355,266	45,709,344	43,866,857	51,719,107	54,368,347	67,502,738	68,793,292
Sales and use taxes	32,488,563	34,162,177	35,427,013	34,856,824	31,244,979	33,784,106	33,521,221	31,216,438	33,839,065	36,477,724
Corporation taxes	11,174,937	10,735,792	11,211,267	11,207,468	10,741,140	9,472,611	9,384,416	8,629,935	7,289,910	9,102,128
Motor vehicle excise taxes [2]	—	—	—	—	—	—	—	5,263,435	5,219,605	5,777,167
Insurance taxes	2,231,060	2,212,916	2,165,567	2,190,870	2,063,555	2,235,251	2,311,880	2,408,473	2,295,579	3,359,043
Other taxes [2]	2,507,729	2,099,075	5,939,890	5,594,970	5,264,685	5,234,531	7,768,010	2,368,748	2,498,248	2,302,231
Investment and interest	289,363	504,655	730,066	639,059	175,584	114,933	62,946	72,237	57,285	80,969
Escheat	525,897	291,549	334,002	282,287	315,642	149,996	229,146	372,215	551,580	487,937
Transfers	27,727	23,259	29,855	54,994	21,015	(13,441,875)	(3,251,598)	(2,031,032)	(1,997,759)	(2,296,010)
Special item [3]	—	1,218,311	—	—	—	—	—	—	—	(54,537)
Total general revenues and other changes in net position	**91,749,628**	**102,499,000**	**109,109,889**	**110,181,738**	**95,535,944**	**81,416,410**	**101,745,128**	**102,668,796**	**117,256,251**	**124,029,944**
Total governmental activities change in net position	**$ 2,519,374**	**$ 2,658,656**	**$ (1,083,231)**	**$ (10,312,364)**	**$ (17,881,210)**	**$ (11,171,826)**	**$ (3,545,125)**	**$ (7,808,634)**	**$ 8,511,038**	**$ 7,826,559**

(continued)

[1] Tax relief program expenses and revenue reported separately prior to fiscal year 2009 are now included with general government.

[2] Motor vehicle excise taxes, reported separately in fiscal year 2012 due to material increases, were included with "Other taxes" in prior years.

[3] In fiscal year 2006, a related organization assumed debt on the State's behalf. In fiscal year 2014, a component unit assumed debt on behalf of the primary government.

[4] In fiscal year 2011, the California State University Fund was reclassified from a governmental fund to an enterprise fund.

[5] In fiscal year 2014, the Public Buildings Construction Fund was reclassified from an enterprise fund to an internal service fund.

Schedule of Changes in Net Position (continued)

For the Past Ten Fiscal Years

(accrual basis of accounting, amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Business-type activities										
Expenses										
Electric Power	$ 5,655,000	$ 5,342,000	$ 5,865,000	$ 5,362,000	$ 4,560,000	$ 3,908,000	$ 2,317,000	$ 915,000	$ 488,000	$ 835,000
Water Resources	731,393	949,691	951,590	1,009,214	914,837	1,069,662	1,115,793	1,047,574	1,127,195	983,048
Public Buildings Construction [5]	299,900	334,094	334,777	371,904	420,465	494,332	390,173	403,853	410,404	—
State Lottery	3,493,984	3,911,717	3,470,615	3,173,060	3,069,365	3,166,447	3,507,524	4,431,709	4,499,451	5,078,935
Unemployment Programs	8,939,654	8,584,521	9,136,218	10,622,582	19,609,068	29,614,598	25,619,138	21,111,658	17,599,219	13,673,403
California State University [4]	—	—	—	—	—	—	5,851,355	6,181,397	6,196,541	6,544,936
High Technology Education	33,690	30,871	22,704	16,916	15,590	15,025	9,590	7,778	6,568	847
Toll Facilities	20,861	18,265	—	—	—	—	—	—	—	—
State University Dormitory Building Maintenance and Equipment	449,080	491,914	844,798	699,018	486,349	856,106	—	—	—	—
State Water Pollution Control Revolving	14,638	20,427	12,702	13,056	12,261	16,893	10,953	8,780	3,698	5,072
Housing Loan	142,085	138,988	127,206	132,101	130,777	122,114	104,667	89,570	70,356	57,206
Other enterprise programs	86,612	113,976	141,859	122,921	147,441	130,329	118,006	78,601	58,578	79,641
Total expenses	**19,866,897**	**19,936,464**	**20,907,469**	**21,522,772**	**29,366,153**	**39,393,506**	**39,044,199**	**34,275,920**	**30,460,010**	**27,258,088**
Program revenues										
Charges for services:										
Electric Power	5,655,000	5,342,000	5,865,000	5,362,000	4,560,000	3,908,000	2,317,000	915,000	488,000	835,000
Water Resources	750,282	949,691	951,590	1,009,214	914,837	1,069,662	1,115,793	1,047,574	1,127,195	983,048
Public Buildings Construction [5]	315,718	384,442	396,895	384,816	366,151	430,069	456,467	428,260	616,041	—
State Lottery	3,512,126	3,740,041	3,461,699	3,242,828	3,051,320	3,145,259	3,484,689	4,484,291	4,445,921	5,077,976
Unemployment Programs	10,459,688	10,263,447	9,017,969	8,829,018	14,273,975	11,255,098	24,678,783	21,947,781	18,597,962	15,167,258
California State University [4]	—	—	—	—	—	—	2,505,545	2,915,123	2,891,432	3,014,030
High Technology Education	36,737	26,508	22,966	20,600	15,975	13,015	10,498	8,452	5,585	424
Toll Facilities	66	21	—	—	—	—	—	—	—	—
State University Dormitory Building Maintenance and Equipment	395,396	512,231	554,851	640,208	811,454	599,571	—	—	—	—
State Water Pollution Control Revolving	55,218	64,740	78,564	71,404	59,923	56,121	55,957	57,540	60,173	62,985
Housing Loan	121,063	127,733	130,293	130,139	109,636	85,321	89,224	84,830	66,050	65,247
Other enterprise programs	115,901	129,048	134,018	137,476	124,952	98,957	105,676	74,693	80,540	77,671
Operating grants/contributions	—	—	—	—	—	—	1,216,808	1,249,995	1,323,345	1,491,559
Capital grants/contributions	73,182	56,942	182,989	189,064	71,882	91,808	86,272	106,057	142,304	80,903
Total program revenues	**21,490,377**	**21,596,844**	**20,796,834**	**20,016,767**	**24,360,105**	**20,752,881**	**36,122,712**	**33,319,596**	**29,844,548**	**26,856,101**
Total business-type activities net program revenues (expenses)	**1,623,480**	**1,660,380**	**(110,635)**	**(1,506,005)**	**(5,006,048)**	**(18,640,625)**	**(2,921,487)**	**(956,324)**	**(615,462)**	**(401,987)**
Other changes in net position										
Transfers	(27,727)	(23,259)	(29,855)	(54,994)	(21,015)	13,441,875	3,251,598	2,031,032	1,997,759	2,296,010
Special item [3]	—	—	—	—	—	—	—	—	—	(26,913)
Total business-type activities change in net position	**1,595,753**	**1,637,121**	**(140,490)**	**(1,560,999)**	**(5,027,063)**	**(5,198,750)**	**330,111**	**1,074,708**	**1,382,297**	**1,867,110**
Total primary government change in net position	**$ 4,115,127**	**$ 4,295,777**	**$ (1,223,721)**	**$ (11,873,363)**	**$ (22,908,273)**	**$ (16,370,576)**	**$ (3,215,014)**	**$ (6,733,926)**	**$ 9,893,335**	**$ 9,693,669**

(concluded)

Schedule of Fund Balances – Governmental Funds

For the Past Ten Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011 [1]	2012	2013	2014
General Fund										
Reserved	$ 1,597,085	$ 1,999,953	$ 2,596,537	$ 2,113,149	$ 2,260,504	$ 1,320,782	$ —	$ —	$ —	$ —
Unreserved	(1,410,228)	672,862	(4,504,075)	(6,282,018)	(18,344,400)	(20,929,640)	—	—	—	—
Nonspendable	—	—	—	—	—	—	148,019	7,614	140,107	128,609
Restricted	—	—	—	—	—	—	156,496	80,849	178,643	394,246
Committed	—	—	—	—	—	—	29,850	19,600	22,879	125,120
Unassigned	—	—	—	—	—	—	(20,273,606)	(23,069,351)	(14,596,085)	(8,092,571)
Total General Fund	**$ 186,857**	**$ 2,672,815**	**$ (1,907,538)**	**$ (4,168,869)**	**$ (16,083,896)**	**$ (19,608,858)**	**$ (19,939,241)**	**$ (22,961,288)**	**$ (14,254,456)**	**$ (7,444,596)**
All other governmental funds										
Reserved	$ 14,924,365	$ 16,198,481	$ 21,955,300	$ 19,512,083	$ 27,465,566	$ 41,087,578	$ —	$ —	$ —	$ —
Unreserved, reported in:										
Special revenue funds	(329,018)	(806,558)	(914,843)	(1,817,290)	(3,539,254)	(8,554,611)	—	—	—	—
Capital projects funds	(403,106)	(882,550)	(1,128,608)	(837,349)	686,113	838,879	—	—	—	—
Nonspendable	—	—	—	—	—	—	39,448	—	15,022	27,260
Restricted	—	—	—	—	—	—	27,709,325	24,790,661	24,137,270	24,269,093
Committed	—	—	—	—	—	—	2,701,702	2,109,089	2,318,035	2,914,747
Assigned	—	—	—	—	—	—	268,888	3	209,171	18,857
Unassigned	—	—	—	—	—	—	(21,847)	(103,177)	(176,066)	(20,145)
Total all other governmental funds	**$ 14,192,241**	**$ 14,509,373**	**$ 19,911,849**	**$ 16,857,444**	**$ 24,612,425**	**$ 33,371,846**	**$ 30,697,516**	**$ 26,796,576**	**$ 26,503,432**	**$ 27,209,812**

Note: In fiscal year 2011, the State implemented GASB Statement No. 54, which significantly changed the fund balance classifications. Fiscal year 2011 and subsequent fund balance classifications are not comparable to prior years' classifications.

[1] In fiscal year 2011, the California State University Fund, which consisted of $1.2 billion beginning fund balance, was reclassified from a governmental fund to an enterprise fund.

Schedule of Changes in Fund Balances – Governmental Funds

For the Past Ten Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011 [4]	2012	2013	2014
Revenues										
Personal income taxes	$ 42,595,352	$ 50,798,418	$ 53,289,524	$ 55,197,062	$ 45,482,726	$ 43,884,798	$ 51,691,153	$ 54,442,733	$ 67,424,576	$ 68,771,667
Sales and use taxes	32,201,242	34,300,402	35,451,311	34,764,651	31,425,308	33,696,412	33,488,805	31,205,183	33,869,961	36,409,311
Corporation taxes	11,191,937	10,709,792	11,210,267	11,201,468	10,738,140	9,467,611	9,433,416	8,609,935	7,261,910	9,242,454
Motor vehicle excise taxes [1]	—	—	—	—	—	—	—	5,263,435	5,219,605	5,777,167
Insurance taxes	2,231,060	2,212,916	2,165,567	2,190,870	2,063,555	2,235,251	2,311,881	2,408,473	2,295,579	3,359,043
Other taxes [1]	2,482,335	2,367,670	5,800,027	5,675,894	5,245,416	5,235,801	7,829,662	2,306,717	2,425,184	2,297,025
Intergovernmental	42,933,381	45,466,185	46,442,519	48,969,006	61,053,091	79,183,291	69,160,916	62,235,671	64,418,808	73,000,600
Licenses and permits	4,954,025	5,125,223	5,266,142	5,326,854	5,805,369	6,900,747	6,767,437	6,600,001	6,659,078	6,957,117
Charges for services	949,147	1,002,410	911,387	1,025,569	986,773	974,181	1,008,647	728,980	741,201	769,302
Fees and penalties	5,388,332	6,008,306	6,093,948	6,800,633	6,204,288	7,291,894	10,262,387	8,315,452	10,673,104	9,757,476
Investment and interest	576,097	1,058,119	1,555,202	1,591,025	1,108,058	281,881	212,116	175,898	135,928	137,754
Escheat	525,897	291,549	334,002	282,287	315,642	149,996	229,146	372,215	551,580	488,945
Other	3,755,426	4,518,621	3,732,591	4,265,010	3,933,035	3,555,282	2,941,484	2,542,505	3,227,347	2,903,335
Total revenues	**149,784,231**	**163,859,611**	**172,252,487**	**177,290,329**	**174,361,401**	**192,857,145**	**195,337,050**	**185,207,198**	**204,903,861**	**219,871,196**
Expenditures										
General government [2]	10,647,740	9,394,308	14,062,920	12,745,860	13,075,901	12,036,503	12,997,651	13,484,305	15,748,069	14,778,214
Education	52,242,779	59,768,677	61,103,008	64,367,612	63,857,066	59,229,726	55,547,139	50,362,337	49,692,763	53,309,436
Health and human services	62,015,628	65,968,433	70,157,806	74,102,708	78,731,136	80,321,470	91,941,309	89,473,391	94,621,630	104,781,494
Resources	4,077,102	4,296,715	5,191,078	6,123,609	5,209,684	5,456,904	5,254,757	5,358,575	5,318,332	5,508,860
State and consumer services	973,466	1,111,128	1,214,752	1,239,397	1,266,068	1,088,494	1,183,536	1,219,499	1,259,392	621,037
Business and transportation	8,556,618	10,370,589	11,485,069	14,747,506	13,803,518	14,083,790	13,181,390	15,684,611	15,008,671	15,721,532
Correctional programs	6,658,614	7,552,790	9,030,299	9,972,507	9,883,593	9,553,992	9,253,791	9,805,846	9,681,086	10,395,234
Capital outlay	1,534,150	2,128,050	1,345,021	1,724,074	1,432,376	1,691,674	1,128,011	1,296,413	1,222,342	1,909,010
Debt service:										
Bond and commercial paper retirement	3,672,119	6,375,607	5,691,791	8,970,533	5,131,600	3,259,203	3,118,906	4,435,992	5,189,150	7,002,941
Interest and fiscal charges	2,243,764	3,135,763	2,881,849	3,394,433	3,584,358	4,022,922	4,355,110	4,453,643	4,363,260	4,321,040
Total expenditures	**152,621,980**	**170,102,060**	**182,163,593**	**197,388,239**	**195,975,300**	**190,744,678**	**197,961,600**	**195,574,612**	**202,104,695**	**218,348,798**
Excess (deficiency) of revenues over (under) expenditures	(2,837,749)	(6,242,449)	(9,911,106)	(20,097,910)	(21,613,899)	2,112,467	(2,624,550)	(10,367,414)	2,799,166	1,522,398
Other financing sources (uses)										
General obligation bonds and commercial paper issued	5,058,339	7,750,500	9,040,500	14,193,760	16,764,085	12,039,472	4,525,000	4,165,515	4,038,095	5,082,305
Revenue bonds issued	99,250	—	—	—	97,635	—	—	—	—	—
Refunding/remarketing debt issued	1,937,430	5,086,944	9,098,376	1,798,685	—	4,176,050	—	4,300,555	4,634,365	2,077,330
Payment to refund/remarket long-term debt	(1,937,430)	(4,561,944)	(7,840,621)	(1,844,006)	—	(4,221,604)	—	(4,508,834)	(3,174,613)	(328,024)
Premium on bonds issued [3]	—	—	—	295,439	126,107	267,980	32,607	667,931	964,211	505,026
Proceeds from loans	—	—	—	—	—	1,996,737	35,538	—	—	—
Capital leases [4]	414,738	748,037	178,936	268,686	364,813	811,816	204,631	528,804	710,440	1,486,204
Transfers in	4,580,201	5,137,895	9,311,462	11,414,132	6,776,476	6,548,447	8,705,229	5,523,644	2,957,762	4,041,250
Transfers out	(4,546,792)	(5,113,107)	(9,242,771)	(11,336,764)	(6,689,658)	(19,952,766)	(11,902,800)	(7,499,131)	(4,898,754)	(6,304,047)
Total other financing sources	**5,605,736**	**9,048,325**	**10,545,882**	**14,789,932**	**17,439,458**	**1,666,132**	**1,600,205**	**3,178,484**	**5,231,506**	**6,560,044**
Total change in fund balance	**$ 2,767,987**	**$ 2,805,876**	**$ 634,776**	**$ (5,307,978)**	**$ (4,174,441)**	**$ 3,778,599**	**$ (1,024,345)**	**$ (7,188,930)**	**$ 8,030,672**	**$ 8,082,442**
Debt service as a percentage of noncapital expenditures	3.9%	5.7%	4.7%	6.3%	4.5%	3.9%	3.8%	4.6%	4.8%	5.2%

[1] Motor vehicle excise taxes, reported separately in fiscal year 2012 due to material increases, were included with "Other taxes" in prior years.

[2] Tax relief program expenditures reported separately prior to fiscal year 2009 are now included with general government.

[3] Prior to fiscal year 2008, premiums on bonds issued were netted against debt service interest and fiscal charges.

[4] In fiscal year 2011, the California State University Fund was reclassified from a governmental fund to an enterprise fund.

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Revenue Capacity

Revenue capacity schedules contain information to help the reader assess the State's capacity to raise revenue and the sources of that revenue. This section includes the following revenue capacity schedules.

Schedule of Revenue Base

Schedule of Revenue Payers by Industry/Income Level

Schedule of Personal Income Tax Rates

Schedule of Revenue Base

For the Past Ten Calendar Years

(amounts in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Personal Income by Industry (all items restated as footnoted) [1]										
Farm earnings	$ 12,322,433	$ 12,293,563	$ 10,502,902	$ 12,863,060	$ 11,085,038	$ 12,113,947	$ 12,557,572	$ 15,887,490	$ 15,724,952	$ 17,155,685
Forestry, fishing, and other natural resources	5,294,017	5,297,340	6,066,166	6,233,699	6,187,051	6,127,860	6,688,211	6,900,901	7,730,465	8,180,241
Mining	3,043,981	3,424,432	4,165,677	4,176,102	6,137,953	4,001,858	5,050,332	6,134,672	6,767,992	6,892,409
Construction and utilities	78,401,346	83,625,469	88,987,518	84,582,353	76,445,719	63,216,733	58,750,008	60,811,474	66,192,913	71,798,914
Manufacturing	113,519,462	117,178,686	122,230,122	124,761,057	122,428,281	113,614,593	116,160,042	120,509,059	125,372,884	126,542,447
Wholesale trade	47,430,783	50,654,666	54,567,859	58,438,881	57,837,584	52,413,990	53,651,640	57,504,570	60,346,943	63,119,835
Retail trade	70,716,361	73,229,969	75,214,254	75,601,717	69,458,834	66,365,074	67,715,988	70,779,805	74,387,050	76,817,610
Transportation and warehousing	29,476,808	30,156,650	31,592,849	32,801,341	32,256,160	30,368,585	31,087,284	33,824,988	35,186,355	36,740,615
Information, finance, and insurance	118,186,279	123,795,537	128,340,864	131,366,347	126,010,535	121,932,283	125,369,696	129,712,308	142,161,282	154,146,768
Real estate	30,195,066	29,891,241	27,965,840	21,311,535	21,821,327	19,921,652	20,855,431	25,097,591	40,013,799	42,849,117
Services	345,247,755	361,118,487	389,562,325	409,727,938	429,018,004	412,103,397	423,008,875	450,544,104	483,052,428	501,619,418
Federal, civilian	19,817,459	20,752,518	20,978,437	21,578,358	22,347,584	23,426,267	25,978,417	26,293,383	26,450,620	26,072,762
Military	11,934,474	12,363,039	12,812,404	13,447,304	14,560,197	15,558,704	16,264,215	16,059,376	15,911,335	15,348,981
State and local government	149,072,533	155,244,124	164,416,341	176,638,739	185,038,204	184,143,378	185,261,156	189,532,850	188,383,565	191,327,085
Other [2]	287,156,727	316,966,493	361,905,283	390,760,904	415,597,502	411,786,355	430,154,572	476,042,917	517,511,186	518,002,299
Total personal income	**$ 1,321,815,484**	**$ 1,395,992,214**	**$ 1,499,308,841**	**$ 1,564,289,335**	**$ 1,596,229,973**	**$ 1,537,094,676**	**$ 1,578,553,439**	**$ 1,685,635,488**	**$ 1,805,193,769**	**$ 1,856,614,186**
Average effective rate [3]	4.5%	4.6%	5.1%	5.0%	5.7%	5.2%	4.7%	5.3%	5.0%	6.1%

(continued)

Source: Bureau of Economic Analysis, U.S. Department of Commerce

[1] 2004-2012 information updated.

[2] Other personal income includes dividends, interest, rental income, residence adjustment, government transfers for individuals, and deductions for social insurance.

[3] The total direct rate for personal income is not available. The average effective rate equals personal income tax revenue divided by adjusted gross income.

Schedule of Revenue Base (continued)

For the Past Ten Calendar Years

(amounts in thousands)

	2004	2005	2006	2007	2008	2009 [1]	2010	2011	2012	2013
Taxable Sales by Industry [1]										
Retail										
Apparel	$ 16,957,137	$ 18,712,125	$ 19,829,416	$ 20,855,890	$ 22,120,094					
General merchandise	53,939,532	56,787,153	59,264,894	59,897,350	56,425,472					
Specialty	48,961,996	52,376,758	54,695,680	34,122,471	27,380,740					
Food	19,825,771	21,128,469	21,864,179	22,461,059	21,504,308					
Restaurant and bars	43,275,038	46,412,847	49,229,418	51,658,575	52,051,404					
Household	16,405,347	17,388,704	17,383,449	16,720,852	17,199,187					
Building materials	34,154,543	36,152,218	36,163,326	32,656,324	26,647,007					
Automotive	103,528,856	112,167,922	115,154,535	117,864,918	106,555,420					
Other	13,124,468	14,681,929	15,481,675	30,787,663	27,434,795					
Business and personal service	22,306,787	23,090,910	23,650,322	23,355,672	22,045,958					
All other	127,597,308	138,005,393	146,935,543	150,669,375	152,289,155					
Total taxable sales	**$ 500,076,783**	**$ 536,904,428**	**$ 559,652,437**	**$ 561,050,149**	**$ 531,653,540**					
Direct sales tax rate [2]	5.25%	5.25%	5.25%	5.25%	5.25%					
Taxable Sales by Industry (Using NAICS Codes) [1]										
Retail and Food Services										
Motor vehicle and parts dealers						$ 44,488,198	$ 47,355,568	$ 53,303,501	$ 61,547,848	$ 67,986,436
Furniture and home furnishings stores						8,481,020	8,742,984	9,280,688	9,937,187	10,645,523
Electronics and appliance stores						13,384,338	13,749,019	14,297,402	14,744,723	14,765,485
Building materials, garden equipment and supplies						23,978,313	24,750,865	26,064,428	27,438,083	29,680,053
Food and beverage						22,546,285	22,787,407	23,606,132	24,511,714	25,289,203
Health and personal care stores						9,244,958	9,525,910	10,309,491	10,787,801	11,294,049
Gasoline stations						39,077,835	45,226,491	55,210,076	58,006,168	56,860,585
Clothing and clothing accessories stores						25,641,272	27,267,430	29,600,057	32,357,516	34,918,036
Sporting goods, hobby, book and music stores						10,294,172	10,365,480	10,602,711	10,751,814	11,113,831
General merchandise stores						44,921,639	46,323,804	48,219,018	49,996,451	51,431,094
Miscellaneous store retailers						16,385,169	16,569,690	17,187,402	17,880,765	18,382,224
Nonstore retailers						2,849,864	2,830,615	3,081,188	4,375,432	7,296,839
Food services and drinking places						49,921,543	51,282,453	54,755,944	59,037,320	62,776,360
All other outlets						145,278,339	150,570,269	165,050,017	177,014,427	184,399,899
Total taxable sales						**$ 456,492,945**	**$ 477,347,985**	**$ 520,568,055**	**$ 558,387,249**	**$ 586,839,617**
Direct sales tax rate [2]						6.25% [3]	6.25%	6.25%	6.25%	6.50% [4]

(concluded)

Source: California State Board of Equalization (BOE)

[1] Due to the BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 and forward is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008, so 2009 was the first year the BOE used the new format with NAICS codes.

[2] The direct sales tax rate used is the state tax rate that provides revenue to the State's General Fund and debt service fund. It does not include the 1% local tax rate that is allocated to cities and counties.

[3] Rate change was effective on April 1, 2009.

[4] Rate change was effective on January 1, 2013.

Schedule of Revenue Payers by Industry/Income Level

For Calendar Years 2004 and 2012

Personal Income Tax Filers and Liability by Income Level [1]

	2004			
	Number of Filers	Percent of Total	Tax Liability [2]	Percent of Total
Under $ 5,000	1,046,035	7.6 %	$ 6,556	0.0 %
5,000 to 9,999	1,127,452	8.2	8,732	0.0
10,000 to 14,999	1,182,376	8.5	23,624	0.1
15,000 to 19,999	1,155,257	8.4	56,241	0.2
20,000 to 24,999	1,000,292	7.2	117,178	0.3
25,000 to 29,999	946,276	6.8	194,776	0.5
30,000 to 39,999	1,478,641	10.7	571,029	1.6
40,000 to 49,999	1,192,237	8.6	861,190	2.4
50,000 to 99,999	2,960,452	21.4	5,502,410	15.2
$ 100,000 and over	1,743,792	12.6	28,751,605	79.7
Total	**13,832,810**	**100.0 %**	**$ 36,093,341**	**100.0 %**

	2012			
	Number of Filers	Percent of Total	Tax Liability [2]	Percent of Total
Under $ 5,000	1,099,380	7.2 %	$ 17,845	0.0 %
5,000 to 9,999	1,168,312	7.7	10,997	0.0
10,000 to 14,999	1,258,123	8.3	15,843	0.0
15,000 to 19,999	1,211,517	8.0	37,876	0.1
20,000 to 24,999	1,073,926	7.1	77,303	0.1
25,000 to 29,999	947,288	6.2	134,924	0.2
30,000 to 39,999	1,529,957	10.1	440,170	0.7
40,000 to 49,999	1,143,878	7.5	636,952	1.1
50,000 to 99,999	3,188,832	21.0	5,488,062	9.2
$ 100,000 and over	2,578,523	16.9	53,055,134	88.6
Total	**15,199,736**	**100.0 %**	**$ 59,915,106**	**100.0 %**

Source: California Franchise Tax Board

[1] For California resident tax returns. Calendar year 2012 is the most recent year for which data are available.
[2] Amounts are in thousands.

For Calendar Years 2004 and 2013

Sales Tax Permits and Tax Liability by Industry

	2004 (Using Business Codes) [1]			
	Number of Permits [2]	Percent of Total	Tax Liability [3]	Percent of Total
Retail:				
Apparel	39,018	3.7 %	$ 890,250	3.4 %
General merchandise	15,543	1.5	2,831,825	10.8
Specialty	205,644	19.6	2,570,505	9.8
Food	24,885	2.4	1,040,853	4.0
Restaurant and bars	83,761	8.0	2,271,939	8.7
Household	32,371	3.1	861,281	3.3
Building materials	10,766	1.1	1,793,114	6.8
Automotive	35,828	3.4	5,435,265	20.7
Other	22,441	2.1	689,035	2.6
Business and personal service	103,873	9.9	1,171,106	4.4
All other	474,283	45.2	6,698,859	25.5
Total	**1,048,413**	**100.0 %**	**$ 26,254,032**	**100.0 %**

	2013 (Using NAICS Codes) [1]			
	Number of Permits [2]	Percent of Total	Tax Liability [3]	Percent of Total
Retail and Food Services:				
Motor vehicle and parts dealers	32,324	3.3 %	$ 4,419,118	11.6 %
Furniture and home furnishings stores	17,102	1.7	691,959	1.8
Electronics and appliance stores	21,062	2.1	959,757	2.5
Building materials, garden equipment & supplies	16,323	1.7	1,929,203	5.1
Food and beverage	31,132	3.3	1,643,798	4.3
Health and personal care stores	22,589	2.3	734,113	1.9
Gasoline stations	9,798	1.1	3,695,938	9.7
Clothing and clothing accessories stores	62,164	6.3	2,269,672	6.0
Sporting goods, hobby, book & music stores	26,732	2.7	722,399	1.9
General merchandise stores	15,031	1.5	3,343,023	8.8
Miscellaneous store retailers	112,346	11.4	1,194,845	3.1
Nonstore retailers	202,082	20.6	474,295	1.2
Food services and drinking places	96,594	9.8	4,080,463	10.7
All other outlets	316,477	32.2	11,985,993	31.4
Total	**981,756**	**100.0 %**	**$ 38,144,576**	**100.0 %**

Source: California State Board of Equalization (BOE)

[1] Due to the BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 and forward is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008, so 2009 was the first year the BOE used the new format with NAICS codes.
[2] As of July 1.
[3] Calculated by multiplying the taxable sales by industry shown on pages 234 and 235 by the direct sales tax rate. Amounts are in thousands.

Schedule of Personal Income Tax Rates

For Calendar Years 2004-2013

Married Filing Jointly and Surviving Spouse

Tax Rate [2]	2004 Income Level	2005 [1] Income Level	2006 Income Level	2007 Income Level	2008 Income Level	2009 Income Level	2010 Income Level	2011 Income Level	2012 Income Level	2013 Income Level
1.0	Up to $12,294	Up to $12,638	Up to $13,244	Up to $13,654	Up to $14,336	Up to $14,120	Up to $14,248	Up to $14,632	Up to $14,910	Up to $15,164
2.0	12,294 – 29,142	12,638 – 29,958	13,244 – 31,963	13,654 – 32,370	14,336 – 33,988	14,120 – 33,478	14,248 – 33,780	14,632 – 34,692	14,910 – 35,352	15,164 – 35,952
4.0	29,142 – 45,994	29,958 – 47,282	31,963 – 49,552	32,370 – 51,088	33,988 – 53,642	33,478 – 52,838	33,780 – 53,314	34,692 – 54,754	35,352 – 55,794	35,952 – 56,742
6.0	45,994 – 63,850	47,282 – 65,638	49,552 – 68,788	51,088 – 70,920	53,642 – 74,466	52,838 – 73,350	53,314 – 74,010	54,754 – 76,008	55,794 – 77,452	56,742 – 78,768
8.0	63,850 – 80,692	65,638 – 82,952	68,788 – 86,934	70,920 – 89,628	74,466 – 94,110	73,350 – 92,698	74,010 – 93,532	76,008 – 96,058	77,452 – 97,884	78,768 – 99,548
9.3	$80,692 and over	82,952 – 999,999	86,934 – 999,999	89,628 – 999,999	94,110 – 999,999	92,698 – 999,999	93,532 – 999,999	96,058 – 999,999	97,884 – 500,000	99,548 – 508,500
10.3	—	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	500,000 – 600,000	508,500 – 610,200
11.3	—	—	—	—	—	—	—	—	600,000 – 999,999	610,200 – 999,999
12.3	—	—	—	—	—	—	—	—	$1 million and over	1,000,000 – 1,017,000
13.3	—	—	—	—	—	—	—	—	—	$1,017,000 and over

Single and Married Filing Separately

Tax Rate [2]	2004 Income Level	2005 [1] Income Level	2006 Income Level	2007 Income Level	2008 Income Level	2009 Income Level	2010 Income Level	2011 Income Level	2012 Income Level	2013 Income Level
1.0	Up to $6,147	Up to $6,319	Up to $6,622	Up to $6,827	Up to $7,168	Up to $7,060	Up to $7,124	Up to $7,316	Up to $7,455	Up to $7,582
2.0	6,147 – 14,571	6,319 – 14,979	6,622 – 15,698	6,827 – 16,185	7,168 – 16,994	7,060 – 16,739	7,124 – 16,890	7,316 – 17,346	7,455 – 17,676	7,582 – 17,976
4.0	14,571 – 22,997	14,979 – 23,641	15,698 – 24,776	16,185 – 25,544	16,994 – 26,821	16,739 – 26,419	16,890 – 26,657	17,346 – 27,377	17,676 – 27,897	17,976 – 28,371
6.0	22,997 – 31,925	23,641 – 32,819	24,776 – 34,394	25,544 – 35,460	26,821 – 37,233	26,419 – 36,675	26,657 – 37,005	27,377 – 38,004	27,897 – 38,726	28,371 – 39,384
8.0	31,925 – 40,346	32,819 – 41,476	34,394 – 43,467	35,460 – 44,814	37,233 – 47,055	36,675 – 46,349	37,005 – 46,766	38,004 – 48,029	38,726 – 48,942	39,384 – 49,774
9.3	$40,346 and over	41,476 – 999,999	43,467 – 999,999	44,814 – 999,999	47,055 – 999,999	46,349 – 999,999	46,766 – 999,999	48,029 – 999,999	48,942 – 250,000	49,774 – 254,250
10.3	—	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	250,000 – 300,000	254,250 – 305,100
11.3	—	—	—	—	—	—	—	—	300,000 – 500,000	305,100 – 508,500
12.3	—	—	—	—	—	—	—	—	$500,000 and over	508,500 – 999,999
13.3	—	—	—	—	—	—	—	—	—	$1 million and over

Head of Household

Tax Rate [2]	2004 Income Level	2005 [1] Income Level	2006 Income Level	2007 Income Level	2008 Income Level	2009 Income Level	2010 Income Level	2011 Income Level	2012 Income Level	2013 Income Level
1.0	Up to $12,300	Up to $12,644	Up to $13,251	Up to $13,662	Up to $14,345	Up to $14,130	Up to $14,257	Up to $14,642	Up to $14,920	Up to $15,174
2.0	12,300 – 29,143	12,644 – 29,959	13,251 – 31,397	13,662 – 32,370	14,345 – 33,989	14,130 – 33,479	14,257 – 33,780	14,642 – 34,692	14,920 – 35,351	15,174 – 35,952
4.0	29,143 – 37,567	29,959 – 38,619	31,397 – 40,473	32,370 – 41,728	33,989 – 43,814	33,479 – 43,157	33,780 – 43,545	34,692 – 44,721	35,351 – 45,571	35,952 – 46,346
6.0	37,567 – 46,494	38,619 – 47,796	40,473 – 50,090	41,728 – 51,643	43,814 – 54,225	43,157 – 53,412	43,545 – 53,893	44,721 – 55,348	45,571 – 56,400	46,346 – 57,359
8.0	46,494 – 54,918	47,796 – 56,456	50,090 – 59,166	51,643 – 61,000	54,225 – 64,050	53,412 – 63,089	53,893 – 63,657	55,348 – 65,376	56,400 – 66,618	57,359 – 67,751
9.3	$54,918 and over	56,456 – 999,999	59,166 – 999,999	61,000 – 999,999	64,050 – 999,999	63,089 – 999,999	63,657 – 999,999	65,376 – 999,999	66,618 – 340,000	67,751 – 345,780
10.3	—	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	$1 million and over	340,00 – 408,000	345,780 – 414,936
11.3	—	—	—	—	—	—	—	—	408,000 – 680,000	414,936 – 691,560
12.3	—	—	—	—	—	—	—	—	$680,000 and over	691,560 – 999,999
13.3	—	—	—	—	—	—	—	—	—	$1 million and over

Source: California Franchise Tax Board (FTB)

[1] Beginning in 2005, there is an additional tax of 1% on taxable income over $1 million for the expansion of mental health services.

[2] FTB tax brackets are indexed to the California Consumer Price Index and are adjusted accordingly on a yearly basis.

Average Effective Rate

(amounts in thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Personal income tax revenue [1]	$ 37,722,839	$ 42,595,352	$ 50,798,418	$ 53,289,524	$ 55,197,062	$ 45,482,726	$ 43,884,798	$ 51,691,153	$ 54,442,733	$ 66,220,132
Adjusted gross income [2]	$ 841,229,496	$ 932,142,017	$ 990,695,484	$ 1,059,967,500	$ 972,420,100	$ 881,160,200	$ 939,888,500	$ 980,167,100	$ 1,087,823,400	$ 1,091,080,300
Average effective rate [3]	4.5%	4.6%	5.1%	5.0%	5.7%	5.2%	4.7%	5.3%	5.0%	6.1%

[1] Personal income tax revenue is reported on a fiscal year basis.

[2] Source: California Franchise Tax Board. Fiscal year 2013 information reflects returns processed as of December 2014.

[3] The average effective rate equals personal income tax revenue divided by adjusted gross income.

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Debt Capacity

Debt capacity schedules contain information to help the reader understand the State's outstanding debt, the capacity to repay that debt, and the ability to issue additional debt in the future. This section includes the following debt capacity schedules.

Schedule of Ratios of Outstanding Debt by Type

Schedule of Ratios of General Bonded Debt Outstanding

Schedule of General Obligation Bonds Outstanding

Schedule of Pledged Revenue Coverage

Sources: Unless otherwise noted, the information in the following schedules is derived from the State's Comprehensive Annual Financial Reports.

Schedule of Ratios of Outstanding Debt by Type

For the Past Ten Fiscal Years

(amounts in thousands, except per capita)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental activities										
General obligation bonds [1]	$ 45,541,417	$ 47,003,817	$ 50,269,442	$ 56,424,532	$ 68,653,507	$ 77,745,789	$ 79,469,085	$ 81,060,111	$ 82,346,211	$ 83,276,347
Revenue bonds [2]	8,068,980	7,300,638	8,009,784	7,811,832	7,767,855	7,611,939	7,511,092	7,421,198	7,735,053	18,917,443
Certificates of participation and commercial paper	752,013	923,890	1,358,051	1,736,089	1,407,908	1,342,119	1,335,340	46,098	538,593	598,094
Capital lease obligations [3]	3,918,560	4,466,828	4,346,179	4,376,410	4,456,039	4,967,290	4,882,233	5,176,341	5,319,487	260,088
Total governmental activities	**58,280,970**	**59,695,173**	**63,983,456**	**70,348,863**	**82,285,309**	**91,667,137**	**93,197,750**	**93,703,748**	**95,939,344**	**103,051,972**
Business-type activities										
General obligation bonds [1]	2,090,105	1,963,305	1,954,220	1,907,243	1,702,377	1,477,663	1,218,639	1,118,634	887,053	674,192
Revenue bonds [2]	22,943,536	22,812,509	22,934,094	23,003,097	23,053,114	24,538,094	23,290,315	24,790,918	25,558,129	12,989,916
Certificates of participation and commercial paper	51,093	231,121	179,782	67,204	51,307	64,518	139,974	67,325	77,560	204,647
Capital lease obligations	—	—	—	—	—	—	791,489	817,687	909,871	1,250,274
Total business-type activities	**25,084,734**	**25,006,935**	**25,068,096**	**24,977,544**	**24,806,798**	**26,080,275**	**25,440,417**	**26,794,564**	**27,432,613**	**15,119,029**
Total primary government	**$ 83,365,704**	**$ 84,702,108**	**$ 89,051,552**	**$ 95,326,407**	**$ 107,092,107**	**$ 117,747,412**	**$ 118,638,167**	**$ 120,498,312**	**$ 123,371,957**	**$ 118,171,001**
Debt as a percentage of personal income [4]	6.4%	6.1%	6.0%	6.1%	6.7%	7.8%	7.6%	7.3%	7.0%	6.4%
Amount of debt per capita [5]	$ 2,332	$ 2,354	$ 2,457	$ 2,608	$ 2,906	$ 3,176	$ 3,180	$ 3,207	$ 3,258	$ 3,096

Note: Details regarding the State's outstanding debt can be found in Notes 10 through 16 of the financial statements.

[1] Prior to fiscal year 2008, net unamortized bond premiums and refunding gains/losses were not included. Beginning in fiscal year 2013, refunding gains/losses are no longer included in bonds payable, but are shown as deferred inflows and deferred outflows of resources.

[2] Prior to fiscal year 2014, the Public Buildings Construction Fund was included in business-type activities.

[3] Prior to fiscal year 2014, governmental activities reported a capital lease obligtion to the Public Buildings Construction Fund. In fiscal year 2014, the fund was reclassified from an enterprise fund to an internal service fund and the governmental activities' obligation and the fund's net investment in direct financing leases were netted against each other within governmental activities.

[4] Ratio calculated using personal income data shown on pages 252 and 253 for the prior calendar year.

[5] Amount calculated using population data shown on pages 252 and 253 for the prior calendar year.

Schedule of Ratios of General Bonded Debt Outstanding

For the Past Ten Fiscal Years

(amounts in thousands, except per capita)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net general bonded debt										
General obligation bonds [1]	$ 36,735,442	$ 39,034,092	$ 43,234,702	$ 47,828,805	$ 61,724,439	$ 71,284,447	$ 73,516,674	$ 75,791,795	$ 78,001,049	$ 79,368,794
Economic Recovery bonds	10,896,080	9,933,030	8,988,960	10,502,970	8,631,445	7,939,005	7,171,050	6,386,950	5,232,215	4,581,745
Less: restricted debt service fund	—	212,883	792,841	552,326	894	113,172	143,777	330,297	278,425	318,171
Net Economic Recovery bonds	**10,896,080**	**9,720,147**	**8,196,119**	**9,950,644**	**8,630,551**	**7,825,833**	**7,027,273**	**6,056,653**	**4,953,790**	**4,263,574**
Net general bonded debt	**$ 47,631,522**	**$ 48,754,239**	**$ 51,430,821**	**$ 57,779,449**	**$ 70,354,990**	**$ 79,110,280**	**$ 80,543,947**	**$ 81,848,448**	**$ 82,954,839**	**$ 83,632,368**
Net general bonded debt as a percentage of personal income [2]	3.6%	3.5%	3.4%	3.7%	4.4%	5.2%	5.1%	5.0%	4.7%	4.5%
Amount of net general bonded debt per capita [3]	$ 1,332	$ 1,355	$ 1,419	$ 1,581	$ 1,909	$ 2,134	$ 2,159	$ 2,179	$ 2,190	$ 2,191

Note: Details regarding the State's general bonded debt outstanding can be found in Note 15 of the financial statements.

[1] Prior to fiscal year 2008, net unamortized bond premiums and refunding gains/losses were not included. Beginning in fiscal year 2013, refunding gains/losses are no longer included in bonds payable, but are shown as deferred inflows and deferred outflows of resources.

[2] Ratio calculated using personal income data shown on pages 252 and 253 for the prior calendar year.

[3] Amount calculated using population data shown on pages 252 and 253 for the prior calendar year.

Schedule of General Obligation Bonds Outstanding

June 30, 2014
(amounts in thousands)

Governmental activity	
California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection	$ 2,181,915
California Library Construction and Renovation	292,045
California Park and Recreational Facilities	13,525
California Parklands	2,960
California Safe Drinking Water	59,340
California Stem Cell Research and Cures	1,453,770
California Wildlife, Coastal, and Park Land Conservation	124,555
Children's Hospital	1,201,280
Class Size Reduction Public Education Facilities	6,003,820
Clean Air and Transportation Improvement	838,975
Clean Water	11,255
Clean Water and Water Conservation	4,820
Clean Water and Water Reclamation	21,970
Community Parklands	3,135
County Correctional Facility Capital Expenditure	17,535
County Correctional Facility Capital Expenditure and Youth Facility	79,935
Disaster Preparedness and Flood Prevention	2,231,645
Earthquake Safety and Public Building Rehabilitation	87,190
Economic Recovery	4,581,745
Fish and Wildlife Habitat Enhancement	5,395
Higher Education Facilities	424,595
Highway Safety, Traffic Reduction, Air Quality, and Port Security	13,248,140
Housing Emergency Shelter	2,518,785
Housing and Homeless	1,755
Kindergarten-University Public Education Facilities	31,350,575
Lake Tahoe Acquisitions	300
New Prison Construction	42,890
Passenger Rail and Clean Air	58,800
Public Education Facilities	1,504,030
Safe, Clean, Reliable Water Supply	578,960
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection	1,444,740
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection	2,394,965
Safe Neighborhood Parks	1,551,415
Safe, Reliable High-Speed Passenger Train	623,705
School Building and Earthquake	15,970
School Facilities	1,195,840
Seismic Retrofit	1,217,410
State, Urban, and Coastal Park	4,305
Veterans' Homes	35,205
Voting Modernization	36,305
Water Conservation	24,245
Water Conservation and Water Quality	34,940
Water Security, Clean Drinking Water, Coastal and Beach Protection	2,771,185
Total governmental activity	**80,295,870**
Business-type activity	
California Water Resources Development	241,835
Veterans Farm and Home Building	433,645
Total business-type activity	**675,480**
Total outstanding general obligation bonds	**80,971,350**
Unamortized bond premium	2,979,189
Total general obligation bonds payable	**$ 83,950,539**

Source: California State Treasurer's Office

Schedule of Pledged Revenue Coverage

For the Past Ten Fiscal Years
(amounts in thousands)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
Housing Loans	2005	$ 121,063	$ 27,687	$ 93,376	$ 90,970	$ 34,813	$ 125,783	0.74
	2006	127,733	25,654	102,079	25,715	34,949	60,664	1.68
	2007	130,128	19,062	111,066	292,461	33,959	326,420	0.34
	2008	130,139	21,263	108,876	56,225	33,333	89,558	1.22
	2009	109,636	21,838	87,798	22,205	33,699	55,904	1.57
	2010	85,321	16,404	68,917	111,085	34,874	145,959	0.47
	2011	89,224	15,802	73,422	130,770	32,619	163,389	0.45
	2012	84,830	20,322	64,508	88,105	24,914	113,019	0.57
	2013	66,050	18,369	47,681	51,554	16,271	67,825	0.70
	2014	65,247	19,452	45,795	47,620	14,926	62,546	0.73
Water Resources	2005	$ 750,282	$ 501,225	$ 249,057	$ 56,645	$ 54,246	$ 110,891	2.25
	2006	949,691	721,541	228,150	55,461	49,785	105,246	2.17
	2007	951,590	694,060	257,530	70,860	123,376	194,236	1.33
	2008	989,275	773,362	215,913	100,945	114,213	215,158	1.00
	2009	914,837	694,598	220,239	80,347	130,219	210,566	1.04
	2010	1,042,843	837,459	205,384	97,360	124,296	221,656	0.93
	2011	1,096,196	880,540	215,656	108,870	117,668	226,538	0.95
	2012	1,045,812	852,404	193,408	116,150	121,804	237,954	0.81
	2013	1,127,195	822,637	304,558	124,155	145,660	269,815	1.13
	2014	973,508	798,653	174,855	114,775	107,727	222,502	0.78
Water Pollution Control	2005	$ 55,218	$ 4,082	$ 51,136	$ 21,425	$ 10,424	$ 31,849	1.61
	2006	64,740	10,615	54,125	22,185	9,812	31,997	1.69
	2007	78,564	3,387	75,177	22,850	9,178	32,028	2.35
	2008	71,404	4,521	66,883	23,585	8,422	32,007	2.09
	2009	59,923	4,416	55,507	22,930	7,747	30,677	1.80
	2010	53,365	9,880	43,485	23,655	6,928	30,583	1.42
	2011	49,585	4,876	44,709	24,390	5,996	30,386	1.47
	2012	50,183	2,849	47,334	24,285	4,984	29,269	1.62
	2013	51,642	1,055	50,587	45,755	533	46,288	1.09
	2014	54,968	1,739	53,229	13,000	355	13,355	3.99

(continued)

Source: California State Controllers's Office

[1] Total gross revenue includes non-operating interest revenue. Building authorities' revenue includes operating transfers in. The nature of the revenue pledged for each type of debt is as follows: investment and interest earnings for Housing Loans bonds and Water Pollution Control bonds; charges for services and sales for Water Resources bonds; power sales revenue for Electric Power bonds; rental revenue for Public Buildings Contruction bonds, High Technology Education bonds, CSU Channel Island Financing Authority bonds, and building authorities bonds; residence fees for California State University bonds; tobacco settlements and investment earnings for the Golden State Tobacco Securitization Corporation bonds; and federal transportation funds for Grant Anticipation Revenue Vehicles.

[2] Total operating expenses are exclusive of depreciation, interest expense, and amortization (recovery) of long-term prepaid charges. Prior to fiscal year 2012, bond issuance costs were amortized over the term of the bond. Beginning fiscal year 2012, bond issuance costs are operating expenses in the fiscal year incurred.

[3] Debt service requirements include principal and interest of revenue bonds.

[4] All revenue bonds have been redeemed.

[5] In fiscal year 2011, the California State University Fund was reclassified from a governmental fund to an enterprise fund.

[6] Federal transportation funds are the only source of state revenue to pay these bonds, and the state obligation to pay debt service on these bonds is limited to and dependent on receipt of the federal funds.

Schedule of Pledged Revenue Coverage (continued)

For the Past Ten Fiscal Years

(amounts in thousands)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
Electric Power	2005	$ 5,655,000	$ 4,714,000	$ 941,000	$ 388,000	$ 480,000	$ 868,000	1.08
	2006	5,342,000	4,370,000	972,000	436,000	466,000	902,000	1.08
	2007	5,865,000	4,843,000	1,022,000	447,000	448,000	895,000	1.14
	2008	5,362,000	4,323,000	1,039,000	470,000	447,000	917,000	1.13
	2009	4,560,000	3,604,000	956,000	493,000	399,000	892,000	1.07
	2010	3,908,000	3,007,000	901,000	518,000	373,000	891,000	1.01
	2011	2,317,000	1,427,000	890,000	460,000	344,000	804,000	1.11
	2012	915,000	29,000	886,000	556,000	354,000	910,000	0.97
	2013	488,000	(408,000)	896,000	574,000	341,000	915,000	0.98
	2014	835,000	(46,000)	881,000	611,000	312,000	923,000	0.95
Public Buildings Construction	2005	$ 315,718	$ 13,837	$ 301,881	$ 290,210	$ 279,474	$ 569,684	0.53
	2006	384,442	9,832	374,610	332,345	318,098	650,443	0.58
	2007	396,895	3,699	393,196	365,953	324,246	690,199	0.57
	2008	384,816	33,566	351,250	342,582	331,355	673,937	0.52
	2009	366,151	78,489	287,662	360,559	335,248	695,807	0.41
	2010	430,069	120,565	309,504	377,998	367,055	745,053	0.42
	2011	423,775	507	423,268	394,490	383,185	777,675	0.54
	2012	426,960	13,211	413,749	405,585	384,400	789,985	0.52
	2013	616,041	13,479	602,562	554,985	395,073	950,058	0.63
	2014	431,890	14,403	417,487	412,085	439,888	851,973	0.49
High Technology Education [4]	2005	$ 36,737	$ 3,107	$ 33,630	$ 37,060	$ 30,387	$ 67,447	0.50
	2006	26,508	2,489	24,019	36,910	19,422	56,332	0.43
	2007	22,966	1,514	21,452	25,624	21,062	46,686	0.46
	2008	20,600	3,511	17,089	22,265	13,344	35,609	0.48
	2009	15,975	3,837	12,138	36,730	11,704	48,434	0.25
	2010	13,015	5,009	8,006	19,665	9,977	29,642	0.27
	2011	10,498	681	9,817	19,995	8,878	28,873	0.34
	2012	8,452	—	8,452	21,105	7,754	28,859	0.29
	2013	5,585	—	5,585	22,275	6,568	28,843	0.19
	2014	424	—	424	24,771	847	25,618	0.02
California State University [5]	2005	$ 395,396	$ 302,275	$ 93,121	$ 90,025	$ 52,696	$ 142,721	0.65
	2006	512,231	303,261	208,970	109,354	91,876	201,230	1.04
	2007	554,851	689,223	(134,372)	99,598	31,149	130,747	(1.03)
	2008	640,209	511,895	128,314	105,229	115,928	221,157	0.58
	2009	811,454	261,628	549,826	43,572	129,238	172,810	3.18
	2010	599,572	577,765	21,807	47,815	151,988	199,803	0.11
	2011	3,722,414	5,455,059	(1,732,645)	56,344	172,231	228,575	(7.58)
	2012	4,165,118	5,770,880	(1,605,762)	138,535	174,914	313,449	(5.12)
	2013	4,215,258	5,754,800	(1,539,542)	99,340	181,969	281,309	(5.47)
	2014	4,505,589	6,376,502	(1,870,913)	89,453	173,424	262,877	(7.11)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
CSU Channel Island Financing Authority [4]	2005	$ 8,149	$ 10	$ 8,139	$ —	$ 5,541	$ 5,541	1.47
	2006	8,377	11	8,366	—	6,123	6,123	1.37
	2007	7,397	8	7,389	—	6,951	6,951	1.06
	2008	245	13	232	—	556	556	0.42
Building Authorities	2005	$ 86,624	$ —	$ 86,624	$ 42,296	$ 38,994	$ 81,290	1.07
	2006	94,985	—	94,985	43,862	81,253	125,115	0.76
	2007	81,342	68	81,274	45,437	29,228	74,665	1.09
	2008	79,077	68	79,009	47,475	27,260	74,735	1.06
	2009	78,733	68	78,665	48,594	25,028	73,622	1.07
	2010	76,535	—	76,535	50,948	34,058	85,006	0.90
	2011	63,168	—	63,168	51,957	20,071	72,028	0.88
	2012	57,386	—	57,386	36,473	22,889	59,362	0.97
	2013	53,441	—	53,441	38,400	18,390	56,790	0.94
	2014	53,157	—	53,157	39,895	29,882	69,777	0.76
Golden State Tobacco Securitization Corporation	2005	$ 427,159	$ 305	$ 426,854	$ 55,500	$ 330,652	$ 386,152	1.11
	2006	396,987	—	396,987	61,320	307,824	369,144	1.08
	2007	413,246	—	413,246	133,555	276,965	410,520	1.01
	2008	445,097	—	445,097	129,120	326,631	455,751	0.98
	2009	493,448	—	493,448	116,960	320,679	437,639	1.12
	2010	393,487	—	393,487	138,260	316,038	454,298	0.87
	2011	361,974	—	361,974	60,230	315,268	375,498	0.96
	2012	368,853	—	368,853	65,765	312,815	378,580	0.97
	2013	555,392	—	555,392	623,510	308,056	931,566	0.60
	2014	355,918	—	355,918	50,910	325,884	376,794	0.94
Toll Bridge Seismic Retrofit [4]	2005	$ 131,791	$ 97,386	$ 34,405	$ —	$ 28,615	$ 28,615	1.20
Grant Anticipation Revenue Vehicles [6]	2005	$ 65,134	$ —	$ 65,134	$ 41,545	$ 23,589	$ 65,134	1.00
	2006	72,338	—	72,338	47,845	24,493	72,338	1.00
	2007	72,149	—	72,149	49,190	22,959	72,149	1.00
	2008	71,945	—	71,945	50,985	20,960	71,945	1.00
	2009	77,193	—	77,193	55,275	21,918	77,193	1.00
	2010	83,272	—	83,272	62,335	20,937	83,272	1.00
	2011	84,294	—	84,294	64,785	19,509	84,294	1.00
	2012	84,290	—	84,290	67,730	16,560	84,290	1.00
	2013	84,296	—	84,296	70,990	13,306	84,296	1.00
	2014	84,289	—	84,289	74,400	9,889	84,289	1.00

(concluded)

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Demographic and Economic Information

The ***demographic and economic*** schedules contain trend information to help the reader understand the environment in which the State's financial activities occur. This section includes the following demographic and economic schedules.

Schedule of Demographic and Economic Indicators

Schedule of Employment by Industry

Schedule of Demographic and Economic Indicators

For the Past Ten Calendar Years

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Population (in thousands)										
California [1]	35,753	35,986	36,247	36,553	36,856	37,077	37,309	37,570	37,867	38,164
% Change	1.0%	0.7%	0.7%	0.8%	0.8%	0.6%	0.6%	0.7%	0.8%	0.8%
United States [1]	293,046	295,753	298,593	301,580	304,375	307,007	309,326	311,583	313,874	316,129
% Change	0.9%	0.9%	1.0%	1.0%	0.9%	0.9%	0.8%	0.7%	0.7%	0.7%
Total personal income (in millions)										
California	$ 1,312,227	$ 1,387,661	$ 1,495,533	$ 1,566,400	$ 1,610,698	$ 1,516,677	$ 1,564,209	$ 1,645,138	$ 1,768,039	$ 1,856,614
% Change	6.4%	5.7%	7.8%	4.7%	2.8%	(5.8%)	3.1%	5.2%	7.5%	5.0%
United States	$ 9,928,790	$ 10,476,669	$ 11,256,516	$ 11,900,562	$ 12,451,660	$ 11,852,715	$ 12,308,496	$ 12,949,905	$ 13,729,063	$ 14,151,427
% Change	6.0%	5.5%	7.4%	5.7%	4.6%	(4.8%)	3.8%	5.2%	6.0%	3.1%
Per capita personal income										
California [2]	$ 36,703	$ 38,561	$ 41,259	$ 42,853	$ 43,702	$ 40,906	$ 41,926	$ 43,789	$ 46,477	$ 48,434
% Change	5.3%	5.1%	7.0%	3.9%	2.0%	(6.4%)	2.5%	4.4%	6.1%	4.2%
United States [2]	$ 33,881	$ 35,424	$ 37,699	$ 39,461	$ 40,909	$ 38,607	$ 39,791	$ 41,560	$ 43,735	$ 44,765
% Change	5.0%	4.6%	6.4%	4.7%	3.7%	(5.6%)	3.1%	4.4%	5.2%	2.4%
Labor force and employment (in thousands)										
California										
Civilian labor force	17,444	17,545	17,687	17,921	18,203	18,208	18,316	18,385	18,511	18,573
Employed	16,355	16,592	16,821	16,961	16,890	16,145	16,052	16,227	16,740	17,044
Unemployed	1,090	953	865	960	1,313	2,064	2,265	2,158	1,771	1,530
Unemployment rate	6.2%	5.4%	4.9%	5.4%	7.2%	11.3%	12.4%	11.7%	9.6%	8.2%
United States employment rate	5.5%	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%	8.9%	8.1%	7.4%

Source: Economic Research Unit, California Department of Finance; Bureau of Economic Analysis, United States Department of Commerce; Labor Market Information Division, California Employment Development Department; Bureau of Labor Statistics, United States Department of Labor.

[1] Some prior years were updated based on more current information.

[2] Calculated by dividing total personal income by population.

Schedule of Employment by Industry

For Calendar Years 2004 and 2013

	2004		2013	
Industry	**Employees**	**Percent of Total State Employment**	**Employees**	**Percent of Total State Employment**
Services	5,798,400	38.3 %	6,824,500	43.7 %
Government				
Federal	195,400	1.3	185,400	1.2
Military	55,600	0.4	60,100	0.4
State and Local	2,146,700	14.2	2,124,600	13.7
Retail trade	1,617,800	10.7	1,601,400	10.3
Manufacturing	1,523,400	10.1	1,250,900	8.0
Information, finance, and insurance	1,101,200	7.3	974,300	6.3
Construction and utilities	906,500	6.0	695,200	4.5
Wholesale trade	653,000	4.3	697,400	4.5
Transportation and warehousing	426,700	2.8	444,700	2.9
Farming	386,400	2.6	411,400	2.6
Real estate	276,400	1.8	258,400	1.7
Natural resources and mining	22,800	0.2	30,600	0.2
Total	**15,110,300**	**100.0 %**	**15,558,900**	**100.0 %**

Source: Labor Market Information Division, California Employment Development Department

Operating Information

The ***operating information*** schedules assist the reader in evaluating the size, efficiency, and effectiveness of the State's government. This section includes the following operating information schedules.

Schedule of Full-time Equivalent State Employees by Function

Schedule of Operating Indicators by Function

Schedule of Capital Asset Statistics by Function

Schedule of Full-Time Equivalent State Employees by Function

For the Past Ten Fiscal Years

Fiscal Year	General Government	Education	Health and Human Services	Resources	State and Consumer Services	Business, Transportation, and Housing	Correctional Programs	Total
2005	19,884	119,162	50,490	18,935	15,023	41,450	48,740	313,684
2006	20,336	121,973	49,569	19,076	15,126	41,342	50,171	317,593
2007	21,035	134,974	49,533	19,677	15,530	41,314	53,321	335,384
2008	21,825	134,832	49,330	20,868	15,840	42,139	58,284	343,118
2009	22,347	135,720	50,996	21,985	16,350	42,254	60,957	350,609
2010	30,390	133,642	43,663	22,223	15,868	40,590	59,401	345,777
2011	32,535	138,017	48,638	23,611	17,043	44,844	67,272	371,960

Fiscal Year	General [1] Government	Education	Health and Human Services	Resources	Business, [1] Consumer Services, and Housing	Transportation [1]	Correctional Programs	Total
2012	44,673	131,039	46,431	24,199	6,236	41,758	62,472	356,808
2013 [2]	43,241	132,492	43,431	23,796	5,395	39,222	58,742	346,319
2014	43,858	136,244	44,343	24,156	5,409	39,015	60,871	353,896

Source: Annual Governor's Budget Summary, California Department of Finance

Note: The number of full-time equivalent employees is calculated by counting each person who works full time as one full-time equivalent and those who work part time as fractional equivalents based on time worked.

[1] Effective July 1, 2013, under the Governor's 2012 Reorganization Plan No. 2, a significant reorganization took place that impacted previously reported functions. The Government Operations Agency, including but not limited to Franchise Tax Board, Department of General Services, and the Public Employees' Retirement System, was created and added to the General Government function. Also, the business and housing components under the previously reported Business, Transportation, and Housing function merged with the State and Consumer Services function and the remaining transportation components now comprise the Transportation Agency. Information reported under the new functions are not comparable to that of prior years.

[2] Some amounts were updated based on more current information.

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Schedule of Operating Indicators by Function

For the Past Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government										
State Lottery										
Total revenue [1]	$ 3,334	$ 3,585	$ 3,318	$ 3,050	$ 2,955	$ 3,041	$ 3,439	$ 4,371	$ 4,446	$ 5,035
Allocation to Education Fund [1]	$ 1,149	$ 1,259	$ 1,177	$ 1,069	$ 1,028	$ 1,072	$ 1,103	$ 1,300	$ 1,262	$ 1,328
Judicial Council of California										
Supreme Court [2, 10]										
Cases filed	8,990	9,261	8,988	10,521	9,274	9,562	10,145	9,237	7,813	N/A
Cases disposed	8,535	9,878	9,247	10,440	9,513	9,439	10,063	9,739	8,269	N/A
Courts of Appeal										
Notices of appeal filed [3, 10]										
Civil	6,142	6,018	6,116	5,913	5,958	6,122	6,258	6,505	6,052	N/A
Criminal	6,312	6,516	6,508	6,681	6,819	6,857	6,877	6,387	6,004	N/A
Juvenile	2,626	2,715	2,880	2,900	2,858	2,759	2,106	2,830	2,713	N/A
Trial Courts										
Total civil cases [4, 10]										
Filings	1,426,822	1,418,722	1,462,820	1,582,092	1,729,648	1,647,817	1,574,569	1,454,810	1,352,964	N/A
Dispositions	1,304,924	1,267,534	1,286,736	1,280,184	1,537,243	1,530,502	1,599,388	1,432,231	1,322,639	N/A
Department of Food and Agriculture										
Milk production (million lbs.) [5, 10]	37,564	38,830	40,683	41,203	39,512	40,385	41,462	41,801	41,256	N/A
Farm land (thousand acres) [5, 10]	25,900	25,700	25,400	25,400	25,400	25,400	25,400	25,600	25,500	N/A
Education										
Public Colleges and Universities										
Fall enrollment [10]										
Community Colleges [10]	1,607,458	1,644,104	1,723,782	1,823,736	1,822,839	1,747,236	1,655,077	1,582,308	1,582,443	N/A
California State University	405,282	417,156	433,017	437,008	433,054	412,372	426,534	436,560	446,530	N/A
University of California [10]	209,080	214,298	220,034	226,040	231,853	234,464	236,691	238,686	244,126	N/A
K-12 Schools										
Fall enrollment										
Public	6,322,217	6,312,103	6,286,943	6,275,469	6,252,011	6,190,425	6,217,002	6,220,993	6,226,989	6,236,672
Private	591,056	594,597	583,794	564,734	536,393	531,111	515,143	497,019	516,119	511,286

(continued)

Source: California State Lottery; Judicial Council of California; U.S. Department of Agriculture, National Agricultural Statistics Service; California Departments of the California Highway Patrol, Finance, Fish and Wildlife, Education, Public Health, Motor Vehicles, Transportation, and Corrections and Rehabilitation; Employment Development Department; California Energy Commission; and Franchise Tax Board.

[1] Dollars in millions.
[2] Includes death penalty cases, habeas related to automatic appeals, petitions for review, original proceedings, and State Bar matters.
[3] Includes only one notice of appeal per case.
[4] Includes personal injury, property damage, wrongful death, small claims, family law, probate, and other cases.
[5] Data based on calendar year.
[6] Total nonfarm and farm.
[7] Items reported by license year as of December 2014.
[8] Data compiled from a 10% sample of California licensed drivers.
[9] A center-line mile is measured by the yellow dividing strip that runs down the middle of the road, regardless of the number of lanes on each side.
[10] Some prior years were updated based on more current information.
[11] Projected

N/A=Not available

Schedule of Operating Indicators by Function (continued)

For the Past Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Health and Human Services										
Department of Public Health										
Vital statistics										
Live births [5,10]	548,700	562,157	566,137	551,567	526,774	509,979	502,023	503,788	494,390	500,748 [11]
Department of Social Services										
Total Food Stamp households (avg. per month)	792,617	809,782	823,335	892,992	1,067,358	1,340,857	1,576,042	1,757,387	1,898,283	2,004,016
Employment Development Department										
Number of employed [5, 6, 10]	15,440,600	15,613,300	15,691,100	15,142,000	14,326,300	14,476,400	14,614,600	15,240,400	16,109,200	N/A
Resources										
Department of Fish and Wildlife										
Sport fishing licenses sold [7, 10]	2,870,727	2,924,325	3,003,783	2,857,236	2,838,776	2,410,008	2,483,680	2,580,762	2,539,244	2,485,293
Hunting licenses sold [7, 10]	1,625,078	1,655,760	1,718,657	1,670,190	1,679,864	1,677,864	1,863,200	1,988,753	2,032,792	1,912,151
California Energy Commission										
Electrical energy generation										
plus net imports (gigawatt hours) [10]	289,177	298,454	304,823	307,448	299,101	291,310	293,875	302,113	296,569	N/A
State and Consumer Services										
Franchise Tax Board										
Personal Income Tax [5, 10]										
Number of tax returns filed	14,087,896	14,382,677	15,016,273	14,806,335	14,638,204	14,814,427	15,042,359	15,152,800	15,487,100	N/A
Taxable income [1]	$ 767,877	$ 812,008	$ 872,869	$ 799,490	$ 729,658	$ 794,758	$ 838,347	$ 948,523	$ 949,655	N/A
Total tax liability [1]	$ 43,131	$ 45,716	$ 49,693	$ 41,676	$ 38,870	$ 44,472	$ 43,921	$ 58,652	$ 55,679	N/A
Corporation Tax [5]										
Number of tax returns filed	651,060	684,363	709,937	722,358	727,675	738,224	754,315	784,086	N/A	N/A
Income reported for taxation [1]	$ 115,474	$ 140,325	$ 121,843	$ 67,921	$ 55,367	$ 96,965	$ 93,456	$ 96,772	N/A	N/A
Total tax liability [1]	$ 8,680	$ 9,992	$ 9,414	$ 9,106	$ 7,858	$ 8,604	$ 7,808	$ 6,921	N/A	N/A
Business and Transportation										
Department of Motor Vehicles										
Motor vehicle registration	33,363,963	33,882,029	32,047,124	31,920,649	31,799,398	31,987,821	31,802,483	31,946,422	32,903,847	N/A
License issued by age [5, 8]										
Under age 18	277,168	268,199	262,415	244,481	229,545	218,997	227,069	224,809	221,385	N/A
Between 18-80	22,155,604	22,450,786	22,804,927	22,922,361	22,910,011	23,001,119	23,150,222	23,462,971	23,824,697	N/A
Over age 80	494,577	518,102	562,518	552,150	560,491	579,397	579,207	602,508	597,350	N/A
California Highway Patrol										
Total number of DUI arrests [5, 10]	89,946	94,251	92,270	97,019	95,135	89,814	86,901	79,993	76,860	N/A
Department of Transportation										
Highway center-line miles – rural [5, 9]	11,090	10,821	10,830	10,811	10,808	10,785	10,780	10,784	10,315	N/A
Highway center-line miles – urban [5, 9]	4,123	4,422	4,439	4,393	4,384	4,375	4,353	4,363	4,789	N/A
Correctional Programs										
Department of Corrections and Rehabilitation										
Division of Adult Institutions										
Institution population at December 31 each year	166,723	171,310	170,452	170,283	167,922	162,200	147,181	132,768	134,333	134,431
Division of Juvenile Justice										
Institution population at June 30 each year	3,348	2,962	2,531	1,877	1,589	1,474	1,263	922	712	675

(concluded)

Schedule of Capital Asset Statistics by Function

For the Past Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government										
Department of Food and Agriculture										
Vehicles and mobile equipment [1]	903	907	915	818	803	746	809	804	792	747
Square footage of structures (in thousands)	467	453	453	453	466	466	466	466	455	455
Department of Justice										
Vehicles and mobile equipment	969	968	966	826	870	816	677	531	527	520
Department of Military										
Vehicles and mobile equipment	152	210	182	206	182	208	249	233	211	211
Square footage of structures (in thousands)	3,348	3,388	3,388	3,387	3,383	3,154	3,530	3,511	3,623	4,019
Department of Veterans Affairs										
Veterans homes	3	3	3	3	5	6	6	6	8	8
Vehicles and mobile equipment	139	111	248	251	120	113	132	143	267	285
Square footage of structures (in thousands)	1,598	1,598	1,598	1,598	1,683	1,600	2,086	2,086	2,488	2,543
Education										
California State University										
Vehicles and mobile equipment [1, 2]	N/A	601	3,343	3,994	4,015	4,338	4,415	4,415	4,466	4,619
Campuses	23	23	23	23	23	23	23	23	23	23
Square footage of structures (in thousands)	59,588	59,921	62,198	63,971	66,686	69,049	71,287	73,785	73,866	73,316
Health and Human Services										
Department of Developmental Services										
Vehicles and mobile equipment	836	655	829	839	701	569	818	789	632	424
Developmental centers	7	7	7	7	7	5	5	5	4	4
Square footage of structures (in thousands)	5,185	5,181	5,181	5,186	5,187	5,185	5,294	5,294	5,279	5,308
Department of State Hospitals [3]										
Vehicles and mobile equipment	439	655	629	638	658	665	709	718	699	886
State hospitals	4	5	5	5	5	5	5	5	7	7
Square footage of structures (in thousands)	4,626	4,673	6,359	6,364	6,348	6,331	6,331	6,336	6,457	6,460

(continued)

Sources: California Department of General Services (DGS)

[1] For fiscal year 2008, DGS was not able to obtain complete data from the agency.
[2] Prior to fiscal year 2006, DGS did not require California State University to report its vehicles.
[3] In fiscal year 2012, portions of the Department of Mental Health became the Department of State Hospitals.
[4] In fiscal year 2008, California Highway Patrol purchased numerous vehicles, and in their physical count also included motorcycles, which had not been reported for previous years.
[5] In fiscal year 2006, Department of Corrections and Rehabilitation merged with Department of Youth Authority.

N/A = not available

Schedule of Capital Asset Statistics by Function (continued)

For the Past Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Resources										
Department of Fish and Wildlife										
Vehicles and mobile equipment	3,157	3,182	3,311	2,868	3,640	2,630	3,180	3,012	2,896	2,954
Square footage of structures (in thousands)	1,108	1,112	1,120	1,192	1,269	1,301	1,313	1,317	1,317	1,311
Department of Forestry and Fire										
Vehicles and mobile equipment	3,016	2,572	2,945	3,043	3,067	2,598	2,804	2,810	2,845	2,748
Square footage of structures (in thousands)	3,892	3,885	3,883	3,869	3,851	3,947	3,943	3,935	3,641	3,632
Department of Parks and Recreation										
Vehicles and mobile equipment	3,044	2,742	2,988	3,023	3,220	3,102	3,715	4,200	3,311	3,489
State Parks	278	278	276	279	278	278	279	280	280	279
Acres of state park land (in thousands)	1,506	1,552	1,235	1,248	1,331	1,365	1,334	1,333	1,590	1,590
Square footage of structures (in thousands)	6,348	6,350	6,350	6,350	6,350	6,350	6,433	6,623	6,598	6,751
State Lands Commission										
Vehicles and mobile equipment	56	49	51	49	57	47	50	42	42	41
Acres of land (in thousands)	4,498	4,496	4,492	4,491	4,491	4,491	4,491	4,491	4,489	4,489
State and Consumer Services										
Department of Consumer Affairs										
Vehicles and mobile equipment	628	1,050	640	726	718	574	578	574	518	554
Department of General Services										
Vehicles and mobile equipment	6,883	6,894	7,330	7,558	6,736	5,761	5,670	4,991	5,226	5,053
Square footage of structures (in thousands)	15,995	17,350	18,084	18,084	18,084	18,394	18,602	19,180	19,098	19,367
Business and Transportation										
California Highway Patrol										
Vehicles and mobile equipment [4]	3,930	4,105	4,655	5,228	5,914	5,422	5,337	5,013	5,341	5,170
Square footage of structures (in thousands)	1,147	1,087	1,110	1,118	1,118	1,135	1,135	1,149	1,149	1,166
Department of Motor Vehicles										
Vehicles and mobile equipment	395	373	458	434	417	366	366	366	294	295
Square footage of structures (in thousands)	1,853	1,827	1,866	1,848	1,855	1,855	1,842	1,842	1,842	1,845
Department of Transportation										
Vehicles and mobile equipment	10,856	11,048	11,130	11,098	13,346	11,302	12,759	12,690	11,767	11,596
Square footage of structures (in thousands)	6,284	6,632	6,618	6,229	6,434	6,444	6,519	8,131	8,170	7,960
Correctional Programs										
Department of Corrections and Rehabilitation										
Vehicles and mobile equipment [1]	7,006	6,451	6,657	7,908	7,778	5,787	5,985	5,952	5,156	5,137
Prisons and juvenile facilities [5]	32	32	41	41	39	39	39	39	37	37
Square footage of structures (in thousands)	40,472	40,622	40,777	40,831	40,852	41,228	41,399	41,399	40,606	40,726

(concluded)

STATE OF CALIFORNIA

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