NEW ISSUE - 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, 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") and 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. 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."

$99,740,000
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CN (Non-AMT)

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

This offering consists of the State of California Veterans General Obligation Bonds, Series CN (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 next page.

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 the 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 the 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."

Interest is payable on June 1 and December 1 of each year, commencing December 1, 2016. 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."

This cover page contains certain information for general 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.

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES AND CUSIPS
(See next page)

The Offered Veterans G.O. Bonds are offered when, as and if issued and received by the Initial Purchasers (as defined in this Official Statement), subject to certain conditions, including the approval of validity by the Honorable Kamala D. Harris, Attorney General of the State of California, and by 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. Montague DeRose and Associates, LLC is serving as the Municipal Advisor to the State with respect to the Offered Veterans G.O. Bonds. The Offered Veterans G.O. Bonds are expected to be available for delivery through the facilities of The Depository Trust Company on or about April 28, 2016.

Honorable John Chiang

Treasurer of the State of California

The Offered Veterans G.O. Bonds were sold by competitive bid on April 12, 2016.

The price for the Offered Veterans G.O. Bonds in Bid Group A (as defined herein) has been set by the Bid Group A Initial Purchaser (as defined herein).

Interest rates for the Offered Veterans G.O. Bonds in Bid Group B (as defined herein) have been set by the Bid Group B Initial Purchaser (as defined herein).

Official Statement Dated: April 12, 2016.

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES AND CUSIPS†

$99,740,000
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CN (Non-AMT)

Maturity Date (December 1)	Principal Amount	Interest Rate	Price	CUSIP† (13063C)	Maturity Date (December 1)	Principal Amount	Interest Rate	Price	CUSIP† (13063C)
2017	$ 2,520,000	0.700%	100%	L81	2029	$ 1,890,000	2.400%	100%	N22
2018	1,920,000	0.800	100	L99	2030	1,955,000	2.600	100	N30
2019	1,995,000	0.900	100	M23	2031	2,030,000	2.700	100	N48
2020	2,070,000	1.000	100	M31	2032	2,150,000	2.800	100	N55
2021	2,155,000	1.150	100	M49	2033	2,230,000	2.900	100	N63
2022	2,320,000	1.300	100	M56	2034	2,315,000	3.000	100	N71
2024	2,410,000	1.650	100	M64	2035	2,410,000	3.050	100	N89
2026	2,605,000	1.850	100	M72	2036	2,500,000	3.100	100	N97
2027	7,440,000	2.000	100	M80	2037	2,615,000	3.125	100	P20
2028	1,810,000	2.200	100	M98					

$5,525,000 Series CN Term Bonds Due December 1, 2039, at 3.150%, Price 100%, CUSIP† 13063CP38

$5,970,000 Series CN Term Bonds Due December 1, 2041, at 3.200%, Price 100%, CUSIP† 13063CP46

$25,450,000 Series CN (PAC)* Term Bonds Due December 1, 2045, at 3.500%, Price 108.371%, CUSIP† 13063CL73

$15,455,000 Series CN Term Bonds Due December 1, 2046, at 3.250%, Price 100%, CUSIP† 13063CP53

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* PAC Bonds or Offered Veterans G.O. Term Bonds 2045, as defined herein. See "THE OFFERED VETERANS G.O. BONDS – Redemption – Special Mandatory Redemption of PAC Bonds."

No dealer, broker, salesperson or other person has been authorized by the State or the Department 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 of this Official Statement, 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 in this Official Statement.

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

IN CONNECTION WITH THIS OFFERING, AN INITIAL PURCHASER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE OFFERED VETERANS G.O. BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. AN INITIAL PURCHASER MAY OFFER AND SELL THE OFFERED VETERANS G.O. BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE PAGE IMMEDIATELY FOLLOWING THE COVER PAGE OF THIS OFFICIAL STATEMENT, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY AN INITIAL PURCHASER.

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

$99,740,000
STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CN (Non-AMT)

INTRODUCTION

This Introduction contains only a brief summary of the terms of the State of California Veterans General Obligation Bonds, Series CN (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 under the Veterans' Bond Act of 2008 and by a resolution adopted by the Veterans' Finance Committee under such Bond Act (the "Resolution" and, together with resolutions of the Veterans' Finance Committee authorizing other Veterans G.O. Bonds, the "Resolutions") to, among other things, authorize the issuance of obligations 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 page immediately following the cover page of this Official Statement. Interest on the Offered Veterans G.O. Bonds will accrue from the Dated Date at the respective rates shown on the page immediately following the 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, 2016, 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 for 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 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 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 the 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). The 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 Veterans G.O. Bonds (including the 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 of 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 continues to improve since the end of the severe recession in 2009 (the "Great Recession"), which caused large budget deficits. The General Fund budget has achieved structural balance for the last five fiscal years. Based on the proposals in the 2016-17 Governor's Budget, by the end of fiscal year 2016-17, the Budget Stabilization Account ("BSA"), the State's rainy day fund, is projected to have a balance of $8.0 billion. See APPENDIX A—"THE STATE OF CALIFORNIA – STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves—Budget Stabilization Account."

In addition, in recent years, the State has paid off billions of dollars of budgetary borrowings, debts and deferrals which were accumulated to balance budgets during the Great Recession and years prior. Under the Proposition 2 requirements, the 2016-17 Governor's Budget proposes to pay down an additional $1.6 billion in various debts and liabilities in fiscal year 2016-17. See APPENDIX A—"THE STATE OF CALIFORNIA – DEBTS AND LIABILITIES UNDER PROPOSITION 2."

Despite the recent significant budgetary improvements, there remain a number of budget risks that threaten the financial condition of the General Fund, including the threat of recession and the significant unfunded liabilities of the two main retirement systems managed by state entities, the California Public Employees' Retirement System and the California State Teachers' Retirement System. 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 APPENDIX A—"THE STATE OF CALIFORNIA – CURRENT STATE BUDGET—Budget Risks" and "– STATE FINANCES—OTHER ELEMENTS—Pension Systems" and "—Retiree Health Care Costs."

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

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 in this Official Statement 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 of this 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.

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 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 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, and (iii) paying certain costs of issuance of the Offered Veterans G.O. Bonds. The Contracts of Purchase financed (or for which the Department is to be reimbursed) with proceeds of the Offered Veterans G.O. Bonds (including any original issue premium) 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.

Plan of Sale

The Offered Veterans G.O. Bonds were sold by competitive bid on April 12, 2016. See "PURCHASE AND REOFFERING."

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, 2017, containing 2015-2016 Fiscal Year financial information, and to provide notice of the occurrence of certain enumerated events.

The Secretary of Veterans Affairs of the Department 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, 2017, containing the 2015-2016 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 (the "MSRB") or on such other website as may be designated by the 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 in this Official Statement.

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

Authorization

The issuance of Veterans G.O. Bonds is authorized by the 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 Veterans' Bond Act of 2008 and by the Resolution.

As of the date of this Official Statement, $300,000,000 of Veterans G.O. Bonds are authorized but not issued, there are outstanding approximately $559,955,000 aggregate principal amount of Veterans G.O. Bonds and there are 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 for 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, including Veterans G.O. Bonds (as described above), are payable from the moneys in the General Fund, 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. 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 provide that the State will collect annually in the same manner and at the same time as it collects other State revenue, 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 contains a continuing appropriation from the General Fund of the sum annually necessary to pay the principal of and 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.

The Bond Acts each provide that the Veterans G.O. Bonds issued thereunder constitute valid and binding 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 as they become due and payable, 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" and "CASH MANAGEMENT."

The 1943 Fund

The Department's primary 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 the date of this Official Statement, there are approximately $314,290,000 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 the Resolution it is an event of default if the State shall fail to pay or cause to be paid, when due, principal or purchase price of or interest or premium on any Offered Veterans G.O. Bond or shall have declared a moratorium on such payment, or repudiated any Offered Veterans G.O. Bond.

The Resolution does not contain any provision providing for the acceleration of the Offered Veterans G.O. Bonds. The Resolution states with regard to the Offered Veterans G.O. Bonds that in the case that one or more events of default occurs, then, and in every such case, the registered Bondholder of the affected Offered Veterans G.O. Bonds 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 the Resolution, or in aid of the exercise of any power granted in the Resolution, or to enforce any other legal or equitable right vested in the registered Bondholders by the Resolution or by law, as more specifically set forth in the Resolution. 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 registered Bondholders and Beneficial Owners, have never been tested. There are no cross-default provisions among general obligation bonds of the State, including Veterans G.O. Bonds. Therefore, 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."

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 page immediately following the cover page of this Official Statement. Interest on the Offered Veterans G.O. Bonds will accrue from the Dated Date at the respective rates shown on the page immediately following the cover page of this Official Statement. Interest on the Offered Veterans G.O. Bonds is payable on each

Interest Payment Date commencing December 1, 2016 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. If any payment on the Offered Veterans G.O. Bonds is due on a day other than a business day, such payment shall be made on the next succeeding business day, and no interest will accrue as a result. "Business day" means any day other than a Saturday, a Sunday, a State holiday or any other date specifically designated not to be a business day pursuant to the Resolution. Certain State holidays may fall on days that are not banking holidays, and can vary from year to year.

Principal and interest (including the redemption price, if any) are payable directly to DTC by the State Treasurer. Upon receipt of payments of principal and interest, DTC is to in turn remit such principal and interest to the Direct Participants in DTC for disbursement by the Participants to the Beneficial Owners of the Offered Veterans G.O. Bonds. Neither the State Treasurer nor the Department 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. Neither the State Treasurer nor the Department is responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or to 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 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.

Redemption

Optional Redemption

The Offered Veterans G.O. Bonds maturing prior to December 1, 2025 are not subject to optional redemption prior to their respective stated maturity dates. The Offered Veterans G.O. 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, 2025 from any moneys made available for such purpose, at a redemption price equal to 100% of the principal amount of the Offered Veterans G.O. Bonds to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption.

Sinking Fund Redemption

The Offered Veterans G.O. Bonds maturing on December 1, 2039 (the "Offered Veterans G.O. Term Bonds 2039"), 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 to be redeemed, 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
2038	$ 2,710,000
2039†	2,815,000

† Stated Maturity

The Offered Veterans G.O. Bonds maturing on December 1, 2041 (the "Offered Veterans G.O. Term Bonds 2041"), 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 to be redeemed, 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
2040	$ 2,930,000
2041†	3,040,000

† Stated Maturity

The Offered Veterans G.O. Bonds maturing on December 1, 2045 (the "Offered Veterans G.O. Term Bonds 2045" 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 to be redeemed, 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
2041	$ 4,740,000
2042	4,920,000
2043	5,080,000
2044	5,265,000
2045†	5,445,000

† Stated Maturity

The Offered Veterans G.O. Bonds maturing on December 1, 2046 (the "Offered Veterans G.O. Term Bonds 2046" and together with the Offered Veterans G.O. Term Bonds 2039, the Offered Veterans G.O. Term Bonds 2041, and the Offered Veterans G.O. Term Bonds 2045, 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 to be redeemed, 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
2042	$ 3,165,000
2043	3,295,000
2044	3,415,000
2045	3,550,000
2046†	2,030,000

† 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 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 the moneys deposited in the GO Bond Series Proceeds Subaccount with respect to the Offered Veterans G.O. Bonds that have not been applied to finance Contracts of Purchase (a "Special Redemption from Unexpended Proceeds"). Any such Special Redemption from Unexpended Proceeds will be pro rata among outstanding maturities and by lot within such maturity, at the principal amount thereof to be redeemed plus accrued interest to the date fixed for redemption, without premium (except that the PAC Bonds will be redeemed at the principal amount thereof to be redeemed plus accrued interest to the date fixed for redemption, plus a premium that maintains a yield of 1.730%* to the unexpended proceeds redemption date). See – "Special Mandatory Redemption of PAC Bonds."

Factors which may affect the demand for Contracts of Purchase and consequently the Department's ability to use all of the proceeds of the Offered Veterans G.O. 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 Offered Veterans G.O. Bonds and could necessitate the exercise by the Department of its right to apply the unexpended proceeds to redeem the Offered Veterans G.O.

* Calculated based on the assumption that the PAC Bonds are redeemed in each semiannual period such that the amount outstanding following each such redemption equals the related PAC Bonds Outstanding Amounts as set forth in the PAC Bonds Outstanding Amounts Table in "– Special Mandatory Redemption of PAC Bonds" below.

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 Offered Veterans G.O. 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 – Certain Statutory Requirements" 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," Directed Prepayments (as defined below) must be applied to redeem the PAC Bonds, and the principal amount of the PAC Bonds redeemed from Directed Prepayments and other Excess Revenues is limited. 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 to be redeemed plus accrued interest to the date fixed for redemption, without premium.

"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.

"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 established 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 established 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 December 31, 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 (which include Revenue Bonds, but exclude Veterans G.O. 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 at a redemption price of 100% of the principal amount thereof to be redeemed, 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 December 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 immediately following this paragraph (the "PAC Bonds Outstanding Amounts Table"). The PAC Bonds Outstanding Amounts set forth in the PAC Bonds Outstanding Amounts Table may be recalculated as described below due to a redemption of Offered Veterans G.O. Bonds from

unexpended proceeds as described under "—Special Redemption from Unexpended Proceeds" above (as so recalculated, the "Applicable Outstanding Amount").

PAC BONDS OUTSTANDING AMOUNTS

Semiannual Period Ending	PAC Bonds Outstanding Amounts
December 1, 2016	$ 25,340,000
June 1, 2017	24,825,000
December 1, 2017	23,875,000
June 1, 2018	22,505,000
December 1, 2018	20,745,000
June 1, 2019	18,720,000
December 1, 2019	16,730,000
June 1, 2020	14,805,000
December 1, 2020	12,945,000
June 1, 2021	11,150,000
December 1, 2021	9,415,000
June 1, 2022	7,740,000
December 1, 2022	6,125,000
June 1, 2023	4,565,000
December 1, 2023	3,065,000
June 1, 2024	1,615,000
December 1, 2024 and each June 1 and December 1 thereafter	0

If the Offered Veterans G.O. 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 Offered Veterans G.O. Bonds from unexpended proceeds, the resulting weighted average life structure of the PAC Bonds may differ from the original weighted average life structure of the PAC Bonds, which is based on the factors and assumptions described under "— Weighted Average Lives of PAC Bonds" below. Neither the State nor the Department 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; PSA Model

The PAC Bonds Outstanding Amounts set forth in the PAC Bonds Outstanding Amounts Table (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

Offered Veterans G.O. 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 and the Department 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.

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.

100% PSA assumes prepayment rates of 0.2% 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% per year in each month thereafter (for example, 0.4% 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% PSA assumes a constant prepayment rate of the mortgage loans in such pool of 6% per year. Multiples will be calculated from this prepayment rate sequence; e.g., 200% PSA assumes prepayment rates will be 0.4% per year in month one, 0.8% per year in month two, reaching 12% per year in the 30th month and remaining constant at 12% 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 (the "PAC Bonds Projected Weighted Average Life 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 PAC Bonds Projected Weighted Average Life Table assumes for each rate of receipt of Directed Prepayments that, among other things:

(i) approximately $100,600,000 of Offered Veterans G.O. Bonds Contracts of Purchase will be acquired before September 1, 2016,

(ii) all Offered Veterans G.O. Bonds Contracts of Purchase will be prepaid at the percentage of PSA indicated in the PAC Bonds Projected Weighted Average Life Table,

(iii) 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,

(iv) 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 "—Special Mandatory Redemption of PAC Bonds," and

(v) there will be no special redemption of the Offered Veterans G.O. 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 "—Special Mandatory Redemption of PAC Bonds" from sources other than Directed Prepayments. Some or all of the assumptions used in preparing the PAC Bonds Projected Weighted Average Life Table are unlikely to reflect actual experience.

PAC Bonds Projected Weighted Average Life

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%	27.3	9.6
25	13.9	8.0
50	6.9	6.4
75	5.0	5.0
100	5.0	5.0
200	5.0	5.0
300	5.0	5.0
400	5.0	5.0
500	5.0	5.0

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 and the Department make no representation as to the percentage of the principal balance of the Offered Veterans G.O. Bonds Contracts of Purchase

[1] See "—Redemption – Optional Redemption." The first eligible optional redemption date is December 1, 2025.

that will be paid or prepaid 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 Offered Veterans G.O. Bonds will be used to finance new and existing Contracts of Purchase. 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, 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 and 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.

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.

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, budgets proposed by the Obama Administration from time to time have recommended a 28% limitation on certain itemized deductions and 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").

The Attorney General, Bond Counsel to the State, Disclosure Counsel and Appendix A Co-Disclosure 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 ability of the State to pay the 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.

PURCHASE AND REOFFERING

Pursuant to the Notice of Sale dated April 4, 2016, as modified (the "Notice of Sale"), the Offered Veterans G.O. Bonds were sold by competitive bid on April 12, 2016.

The Offered Veterans G.O. Bonds in Bid Group A (comprised of the PAC Bonds) ("Bid Group A") in the aggregate principal amount of $25,450,000.00 were sold at a competitive sale on April 12, 2016, and awarded to Wells Fargo Bank, N.A., Municipal Products Group (the "Bid Group A Initial Purchaser"). The Bid Group A Initial Purchaser has agreed to purchase the PAC Bonds at a purchase price of $27,548,607.00, representing the aggregate principal amount of the PAC Bonds, plus an original issue premium of $2,130,419.50, less a Bid Group A Initial Purchaser's underwriting discount of $31,812.50.

The Offered Veterans G.O. Bonds in Bid Group B (comprised of the Offered Veterans G.O. Bonds that are not the PAC Bonds) ("Bid Group B") in the aggregate principal amount of $74,290,000.00 were sold at a competitive sale on April 12, 2016, and awarded to Robert W. Baird & Co. Incorporated (the "Bid Group B Initial Purchaser," and together with the Bid Group A Initial Purchaser, the "Initial Purchasers"). The Bid Group B Initial Purchaser has agreed to purchase the Offered Veterans G.O. Bonds in Bid Group B at a purchase price of $73,015,329.80, representing the aggregate principal amount of the Offered Veterans G.O. Bonds in Bid Group B, less a Bid Group B Initial Purchaser's underwriting discount of $1,274,670.20.

The Notice of Sale provides that (i) each Initial Purchaser will purchase the respective Offered Veterans G.O. Bonds separately, each on an all-or-none basis, (ii) the sale and delivery of Bid Group A is dependent upon the sale and delivery of Bid Group B, (iii) the sale and delivery of Bid Group B is not dependent upon the sale and delivery of Bid Group A, and (iv) if the Offered Veterans G.O. Bonds in Bid Group B are not delivered on the closing date, the award of the Offered Veterans G.O. Bonds in Bid Group A will be rescinded and the State will have no obligation to deliver the Offered Veterans G.O. Bonds in Bid Group A. The obligations of the Initial Purchasers to purchase the Offered Veterans G.O. Bonds are subject to certain terms and conditions set forth in the Notice of Sale, the approval of certain legal matters by counsel and certain other conditions.

Prior to the delivery of the Offered Veterans G.O. Bonds in a Bid Group, each Initial Purchaser will execute and deliver to the State Treasurer a certificate to the effect that such Initial Purchaser of the applicable Offered Veterans G.O. Bonds in the applicable Bid Group has provided to the State Treasurer the initial reoffering prices on such Offered Veterans G.O. Bonds in the applicable Bid Group as set forth on the page immediately following the cover page of this Official Statement or purchased for its own account and not with a view to distribution or resale and not in the capacity of a bond house, broker or other intermediary. Each Initial Purchaser may offer and sell such Offered Veterans G.O. Bonds to certain dealers and others at prices lower than the offering prices stated on the page immediately following the cover page of this Official

Statement. The public offering prices stated may be changed from time to time by the applicable Initial Purchaser.

FINANCIAL STATEMENTS OF THE STATE

The State of California Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015 (the "Financial Statements") is included as APPENDIX H to this Official Statement. These Financial Statements have been examined by the State Auditor to the extent indicated in her report.

Certain unaudited financial information for the period July 1, 2015 through March 31, 2016 is included as Exhibit 2 to Appendix A to this Official Statement. 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 to this Official Statement. Those financial statements 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.

MUNICIPAL ADVISOR

Montague DeRose and Associates, LLC is serving as the municipal advisor (the "Municipal Advisor") to the State in connection with the issuance of the Offered Veterans G.O. Bonds. The Municipal 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

April 12, 2016

NOTE: Since the date of the Preliminary Official Statement, certain information in Appendix A has been updated, shown in *italics* on pages A-5 through A-8, A-25, A-26 through A-28, A-30 and A-90.

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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 following section of APPENDIX A titled "OVERVIEW" is intended to give readers a very brief overview of some 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 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, and the 2016-17 Governor's Budget. As the state (including certain of its agencies) issues bonds from time to time before the end of fiscal year 2015-16, PART I of APPENDIX A (including EXHIBIT 2) will be updated as needed to provide the most current, material 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 proposed 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 materially 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, is generally not included in APPENDIX A or, if included, is not described in detail (e.g., information related to the California Air Resources Board's cap and trade program).

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 estimate of California's population as of July 2015 was 39.1 million residents, which was 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 APPENDIX A under "PROPOSED FISCAL YEAR 2016-17 BUDGET—Economic Assumptions Underlying the 2016-17 Governor's Budget" and "ECONOMY AND POPULATION."

Financial Condition of the State General Fund

The state's fiscal health continues to improve since the end of the severe recession in 2009 (the "Great Recession"), which caused large budget deficits. The state's General Fund budget has achieved structural balance for the last five fiscal years. Based on the proposals in the 2016-17 Governor's Budget, by the end of fiscal year 2016-17, the Budget Stabilization Account ("BSA"), the state's rainy day fund, is projected to have a balance of $8.0 billion. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves—*Budget Stabilization Account*."

In addition, in recent years, the state has paid off billions of dollars of budgetary borrowings, debts and deferrals which were accumulated to balance budgets during the Great Recession and years prior. Under the Proposition 2 requirements, the 2016-17 Governor's Budget proposes to pay down an additional $1.6 billion in various debts and liabilities in fiscal year 2016-17. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2."

Despite the recent significant budgetary improvements, there remain a number of budget risks that threaten the financial condition of the state's General Fund, including the threat of recession and 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."

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 APPENDIX A as EXHIBIT 2 and the state's audited basic financial statements in APPENDIX H 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 fiscal years 2015-16 and 2016-17, the 2016-17 Governor's Budget projects $121.2 billion and $125.8 billion in resources for the General Fund, respectively, and $116.1 billion and $122.6 billion in expenditures from the General Fund, respectively. The fiscal year 2015-16 resources are comprised of $117.5 billion of revenues and transfers, and a $3.7 billion fund balance carried over from fiscal year 2014-15. The fiscal year 2016-17 resources are comprised of $120.6 billion of revenues and transfers, and a $5.2 billion fund balance carried over from fiscal year 2015-16. The 2016-17 Governor's Budget proposes $2.2 billion in the Special Fund for Economic Uncertainties ("SFEU") and $8.0 billion in the BSA at the end of fiscal year 2016-17. See "PROPOSED FISCAL YEAR 2016-17 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, if required, and internal borrowing by the General Fund from over 700 special funds. From fiscal years 2007-08 through 2012-13, the General Fund ended each fiscal year with a net borrowing from special funds, but for fiscal years 2013-14 and

2014-15, the state ended each fiscal year with a positive General Fund balance and no outstanding internal loans from special funds. The General Fund balance was $2.5 billion at June 30, 2015. The 2016-17 Governor's Budget projects the state will not have any need to use external cash flow borrowing in fiscal years 2015-16 and 2016-17. 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 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 January 1, 2016, the state had approximately $86.0 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 January 1, 2016, there were approximately $29.3 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 $3.6 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. These revenue obligations are either payable from state revenue-producing enterprises and projects, and not payable from the General Fund, or are conduit obligations payable only from revenues paid by local governments or private users of facilities financed by the revenue obligations.

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 $3.2 billion and $2.5 billion, respectively, for fiscal year 2016-17. The combined contributions, which include contributions for California State University ("CSU"), represent about 4.6 percent of all General Fund expenditures in fiscal year 2016-17. See "PROPOSED FISCAL YEAR 2016-17 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 from the General Fund. 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 $74.2 billion as of June 30, 2015 (virtually all unfunded) as compared to an AAL of $71.8 billion estimated as of June 30, 2014.

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 H to this Official Statement, which is incorporated into APPENDIX A, contains the Audited Basic Financial Statements of the state for the year ended June 30, 2015, 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, 2015.

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, 2015 through *March 31, 2016*. Information which may appear in 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 generally because of timing differences. Agency cash represents cash received by agencies. The Controller's report represents cash received by agencies as reported to and recorded by the Controller, which may be a day or so later than when cash is received by agencies.

Certain Defined Terms

The following terms and abbreviations are used in 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."

"EXHIBIT 2" means the State Controller's Unaudited Statement of General Fund Cash Receipts and Disbursements for the period from July 1, 2015 through *March 31, 2016* as attached to 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 amended 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.

"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 proposed 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.

"2016-17 Governor's Budget" means the proposed Governor's Budget for fiscal year 2016-17 released on January 7, 2016.

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 2016-17 Governor's Budget

On January 7, 2016, the Governor released his proposed budget for fiscal year 2016-17. The proposal continues to pay down debts and liabilities and builds a healthier reserve fund as it implements the second year of Proposition 2. In addition, the proposal continues to invest in education and health care, strengthens the state's infrastructure, and creates a sustainable path for state worker retiree health benefits. See "PROPOSED FISCAL YEAR 2016-17 BUDGET."

Recent Cash Receipts

In March, the Department of Finance reported that, based on agency cash receipts, tax receipts for February are $636 million above the 2016-17 Governor's Budget forecast of $5.001 billion. Fiscal year-to-date cash receipts, which include revisions to prior months, are $442 million above the 2016-17 Governor's Budget forecast of $70.481 billion through February.

In April, the Department of Finance reported that, based on agency cash receipts, tax receipts for March are $170 million below the 2016-17 Governor's Budget forecast of $7.666 billion. Fiscal year-to-date cash receipts, which include revisions to prior months, are $287 million above the 2016-17 Governor's Budget forecast of $78.147 billion through March.

Modified Managed Care Organization Tax

On March 1, 2016, the Governor signed a package of bills to modify and continue the tax on managed care organizations for 3 years, which is expected to provide at least $1.3 billion annually for Medi-Cal. The tax will be implemented beginning fiscal year 2016-17, subject to federal approval. See "STATE FINANCES—STATE REVENUES, EXPENDITURES AND RESERVES—Health and Human Services."

Audited Financial Statements

On March 18, 2016, the State Controller released the Audited Basic Financial Statements of the state for the year Ended June 30, 2015, which are included as APPENDIX H to this Official Statement. As required by GASB 67 and 68, the state's balance sheet now shows for the first time the "net pension liability" attributable to the state government. See EXHIBIT 1 – "PENSION SYSTEMS – General."

Minimum Wage Increase

On April 4, 2016, the Governor signed SB 3, which gradually increases the minimum wage in California (currently $10 per hour) to $15 per hour by 2023 (at the earliest) for all businesses in the state. The Department of Finance estimates that increased General Fund costs will be $20 million in fiscal year 2016-17, and up to $3.6 billion per fiscal year upon full implementation, due primarily to increased wages paid to In-Home Supportive Services and developmental disability services providers. SB 3 includes provisions that allow the state to pause a scheduled increase in the minimum wage if certain economic and/or budget conditions are met. With respect to the budget condition, the Governor has the ability to pause a scheduled

increase if the state is projected to have a negative operating reserve in the General Fund (i.e., SFEU) of more than 1% of annual General Fund revenues (currently $1.2 billion) in the then-current fiscal year or any of the next two fiscal years. The timing of full implementation will depend on any such pauses.

CalPERS 2016-17 Contribution Rates

On April 19, 2016, CalPERS' Finance and Administration Committee adopted fiscal year 2016-17 contribution rates for the state CalPERS plans. The contribution rates will increase from fiscal year 2015-16 rates, but are lower than previously estimated by CalPERS (and lower than the rates assumed in the 2016-17 Governor's Budget, which are set forth in EXHIBIT 1 – "PENSION SYSTEMS – CalPERS - Member and State Contributions"). The unfunded liability allocable to state employees (excluding judges and elected officials) increased to $49.6 billion as of June 30, 2015 (compared to approximately $43.3 billion as of June 30, 2014). The funding status as of June 30, 2015 (based on the market value of assets) decreased to 69.4% (compared to 72.1% as of June 30, 2014). The report of the CalPERS' Finance and Administration Committee is available on the CalPERS website at https://www.calpers.ca.gov/page/about/board/board-meetings/financeadmin-201604.

Revisions to Part II of Appendix A

The following information has been updated since March 8, 2016 (with new language shown in *italics*):

(i) STATE FINANCES—STATE REVENUES, EXPENDITURES AND RESERVES—Health and Human Services—Replacement of the Managed Care Organization Tax.

(ii) STATE FINANCES—STATE REVENUES, EXPENDITURES AND RESERVES—Five-Year Expenditure Summary.

(iii) STATE FINANCES – OTHER ELEMENTS – Retiree Health Care Costs.

(iv) OVERVIEW OF STATE GOVERNMENT – Employee Relations.

(v) STATE DEBT TABLES.

PROPOSED FISCAL YEAR 2016-17 BUDGET

The 2016-17 Governor's Budget, released on January 7, 2016, proposes a multi-year plan that is balanced through fiscal year 2018-19, builds up the BSA or rainy day fund (including a $2 billion deposit in addition to what is required by the state constitution), uses additional funds for one-time purposes, and continues to pay down budgetary debt from past years.

General Fund revenues and transfers for fiscal year 2016-17 are projected at $120.6 billion; an increase of $3.1 billion, or 2.6 percent, compared with a revised estimate of $117.5 billion in General Fund revenues and transfers for fiscal year 2015-16. These estimates include transfers to the BSA of $3.6 billion for fiscal year 2016-17 ($2 billion more than would be required by law) and $2.8 billion for fiscal year 2015-16 (an increase of $1.0 billion above

initial estimate). The transfers have the effect of lowering the total reported levels of General Fund revenues and transfers for the fiscal years by the amounts of the transfers. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue."

General Fund expenditures for fiscal year 2016-17 are projected at $122.6 billion, an increase of $6.5 billion, or 5.6 percent, compared with a revised estimate of $116.1 billion in General Fund expenditures for fiscal year 2015-16. The main components of the increase in expenditures are: $2.1 billion in Health and Human Services costs, $1.5 billion for state office infrastructure needs, $0.5 billion for deferred maintenance and $1.4 billion in K-12 education costs. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures."

The 2016-17 Governor's Budget assumes the continued expansion of the economy, pushing revenues higher than previous projections. However, since economic expansions do not last forever, the state must plan for future recessions. Accordingly, the 2016-17 Governor's Budget proposes to spend most of the increase in estimated revenues on one-time purposes rather than to expand ongoing programs. In connection with preparing the 2016-17 Governor's Budget, the Department of Finance modeled a recession of average magnitude to occur in fiscal year 2017-18. In that scenario, the state would be left with a $29 billion General Fund deficit by the end of fiscal year 2019-20, using the revenue and expenditure assumptions in the 2016-17 Governor's Budget, including the proposals for one-time use of new revenues, even without accounting for higher safety net program spending that would be caused by a recession.

The 2016-17 Governor's Budget has the following major expenditure components:

- Proposition 98 – proposes $71.6 billion total funding for fiscal year 2016-17, of which $51.0 billion is General Fund, and the balance is primarily from local property taxes. Of the $51.0 billion from the General Fund, $45.5 billion is proposed for K-12 education and $5.4 billion is proposed for community colleges. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—*K-12 Education under Proposition 98*."

- Higher Education – proposes total state funding of $14.9 billion for all major segments of higher education, including $14.6 billion from the General Fund (both Non-Proposition 98 and Proposition 98). The remaining funds include special and bond funds. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—Higher Education."

- Health and Human Services – proposes $52.5 billion, including $33.7 billion General Fund and $18.8 billion from special funds, for these programs. Implementation of federal health care reform has provided coverage to millions of Californians, beginning in January 2014. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—Health and Human Services."

- Public Safety – proposes total state funding of $13.3 billion, including $10.6 billion General Fund and $2.7 billion from special funds, for Corrections and Rehabilitation. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State Expenditures—Public Safety."

In preparing the 2016-17 Governor's Budget, the Administration is aware of certain risks that could impact the results projected for fiscal year 2016-17, which are set forth below under "CURRENT STATE BUDGET – Budget Risks." If any of these risks becomes more apparent, or new risks arise, the Administration will address them in the May Revision of the 2016-17 Governor's Budget.

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The following table summarizes the General Fund budget in the 2016-17 Governor's Budget and compares it to the General Fund budget for the current fiscal year as of the previous budget act:

TABLE 1
General Fund Budget Summary

(Dollars in Millions)

	As of 2015 Budget Act	As of 2016-17 Governor's Budget	
	Fiscal Year 2015-16	Fiscal Year 2015-16	Fiscal Year 2016-17
Prior Year Balance	$ 2,423	$ 3,699	$ 5,172
Revenues and Transfers	115,033	117,537	120,633
Total Resources Available	117,456	121,236	125,805
Non-Proposition 98 Expenditures	65,953	66,072	71,637
Proposition 98 Expenditures	49,416	49,992	50,972
Total Expenditures	115,369	116,064	122,609
Fund Balance	2,087	5,172	3,196
Budget Reserves:			
Reserve for Liquidation of Encumbrances	971	966	966
Special Fund for Economic Uncertainties	1,116	4,206	2,230
Budget Stabilization Account/ Rainy Day Fund	$ 3,460	$ 4,455	$ 8,011

Source: State of California, Department of Finance.

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 proposed Governor's Budget by January 10 and the May Revision by May 14. The economic forecast for the 2016-17 Governor's Budget projects steady 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. The U.S. unemployment rate reached 5.0 percent in October 2015, a level last seen in April 2008. 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. California has added jobs at a faster rate than the nation since 2012. The California economy is expected to continue making solid progress. Most individual sectors of the state economy have experienced solid growth, with the exception of the agricultural sector, which had modest growth. Agricultural production totaled $54 billion out of $2.3 trillion in 2014 California GDP. At 2.3 percent of the total economy, declines in the agricultural sector due to drought are expected to be offset by growth in other sectors.

California 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. The Administration has taken actions to address drought conditions, including mandating statewide water conservation, facilitating water management where possible, and providing funding for critical water infrastructure projects. The El Niño storms that have drenched California since December 2015 are providing some relief. A full recovery from drought is expected to be slow and will require much more rain and snowfall. The forecast assumes modest improvement in the agriculture sector beginning in 2016. The 2016-17 Governor's Budget includes a total of $719 million new General Fund resources for fiscal years 2015-16 and 2016-17 to pay for costs related to the drought, including $507 million for emergency response activities associated with wildfires.

Economic Assumptions Underlying the 2016-17 Governor's Budget

The revenue and expenditure assumptions utilized in connection with the 2016-17 Governor's Budget (covering the balance of the 2015-16 fiscal year and fiscal year 2016-17) were based upon certain assumptions concerning the performance of the California, national, and global economies in calendar years 2016 and 2017. These economic assumptions are set forth below. Additional information on the state's economy is set out in the section "ECONOMY AND POPULATION."

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TABLE 2
Selected National and California Economic Data

	2015	2016 (Projected)	2017 (Projected)
United States			
Real gross domestic product (percent change)	2.4	2.9	2.8
Personal income (percent change)	4.2	4.5	5.3
Nonfarm wage and salary employment (millions)	141.9	144.1	146.1
(percent change)	2.1	1.6	1.4
Housing starts (thousands)	1,114	1,277	1,437
(percent change)	11.4	14.6	12.5
California			
Personal income ($ billions)	2,043.0	2,155.3	2,267.9
(percent change)	5.3	5.5	5.2
Nonfarm wage and salary employment (thousands)	16,131.5	16,488.1	16,730.3
(percent change)	3.1	2.2	1.5
Unemployment rate (percent)	6.2	5.7	5.6
Housing units authorized (thousands)	100.6	111.4	128.6
(percent change)	16.6	10.7	15.5
Total taxable sales ($ billions)	646.2	673.6	711.8
(percent change)	5.6	4.2	5.7

Note: Percentage changes calculated from unrounded data.

Source: State of California, Department of Finance, 2016-17 Governor's Budget forecast.

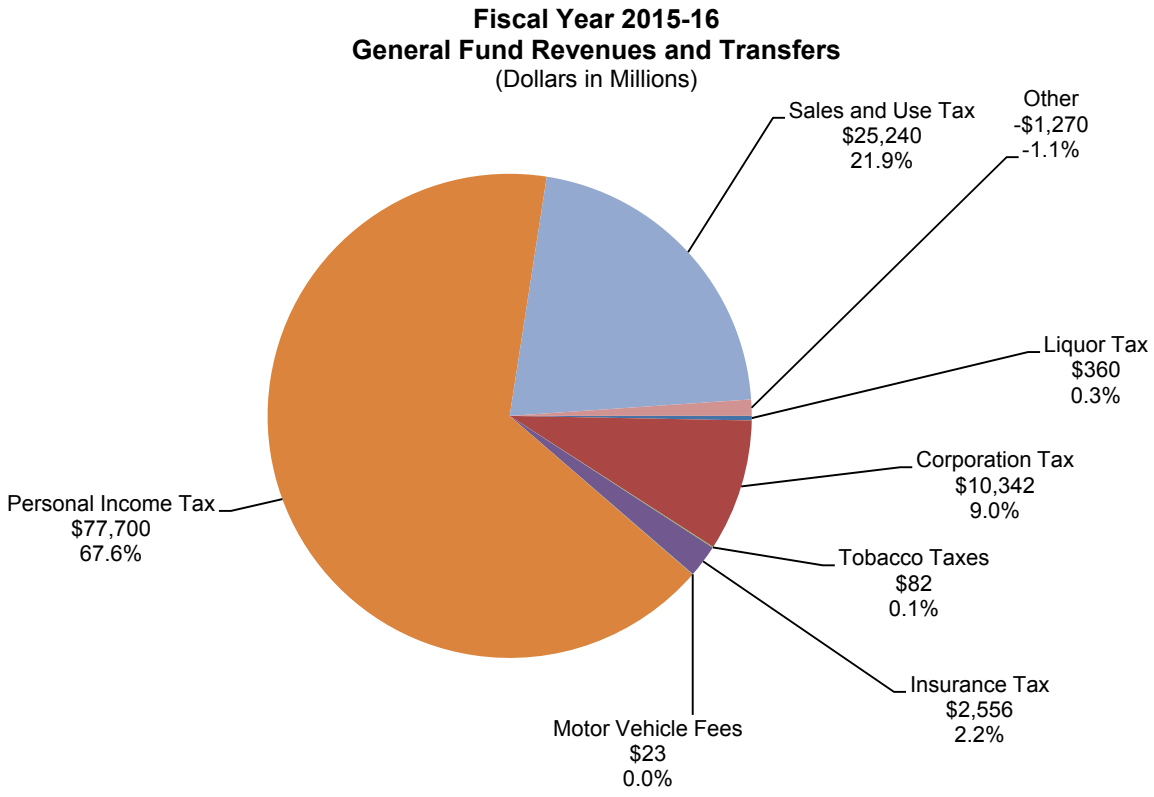
CURRENT STATE BUDGET

General

When the 2015-16 Budget was enacted in June 2015, General Fund revenues and transfers for fiscal year 2015-16 were projected at $115.0 billion. As of the 2016-17 Governor's Budget, they are projected to increase to $117.5 billion (net of a $2.8 billion transfer to the BSA that was originally estimated to be $1.9 billion), a net increase of $2.5 billion or 2.2 percent. General Fund expenditures for fiscal year 2015-16 were projected at $115.4 billion when the current fiscal year budget was enacted. As of the 2016-17 Governor's Budget, they are projected to be $116.1 billion, an increase of $0.7 billion or 0.6 percent. This includes a $0.6 billion increase in expenditures for Proposition 98 purposes.

For more information on revised fiscal year 2015-16 estimates, see "Fiscal Year 2015-16 Revised General Fund Estimates in the 2016-17 Governor's Budget" and "PROPOSED FISCAL YEAR 2016-17 BUDGET—Development of Revenue Estimates" and "—Economic Assumptions Underlying the 2016-17 Governor's Budget."

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



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

The 2015-16 Budget included the following major General Fund expenditure components at the time of enactment:

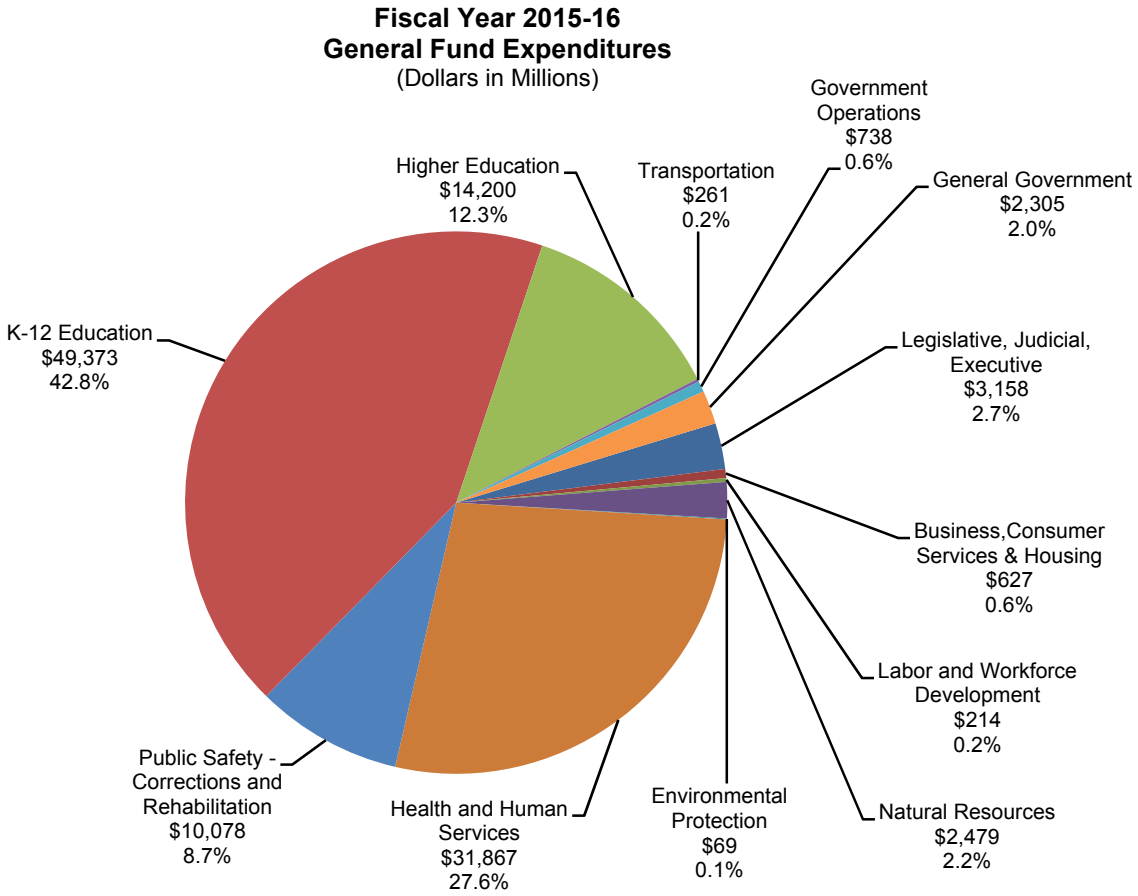
- K-12 Education – funding of $50.5 billion for fiscal year 2015-16, of which $49.4 billion is from the General Fund (both Non-Proposition 98 and Proposition 98), $0.103 billion is from special funds and $1.063 billion is from bond funds. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—State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

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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.

While the state is in a better financial position than in recent years, budget risks still exist. Risks with potentially significant General Fund impact include, but may not be limited to, the following:

- Threat of Recession — The economic forecast used in connection with the 2015 Budget Act assumed continued steady growth of the economy. While there are few signs of an immediate contraction, the Administration understands that another recession is inevitable. See "PROPOSED FISCAL YEAR 2016-17 BUDGET."

- 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 Tax Revenue—*Personal Income Tax*" and "—Budget Reserves."

- 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 several 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

As required by Proposition 2, in connection with the preparation of the 2016-17 Governor's Budget, 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, adjusted for proposals for changes included in the 2016-17 Governor's Budget. They reflect a variety of assumptions, including assumptions concerning state revenues and expenditures and future economic conditions (but not assuming another recession in the near term).

The projections do not include additional policy changes or proposals to address the budget deficit projected in fiscal year 2019-20. 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 since the end of the Great Recession, capital gains are expected to be above normal levels for 2016 and 2017. (Normal level is considered to be 4.5 percent of personal income in the state.) Tax revenue is expected to grow by 3.3 percent from fiscal year 2015-16 to fiscal year 2016-17 and 3.1 percent from fiscal year 2016-17 to fiscal year 2017-18, decline by 0.1 percent from fiscal year 2017-18 to fiscal year 2018-19, and grow by 3.0 percent from fiscal year 2018-19 to fiscal year 2019-20.

These changes in growth rates from fiscal year 2015-16 to fiscal year 2019-20 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				
	2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Prior Year Balance	$ 3,699	$ 5,172	$ 3,196	$ 3,805	$ 1,914
Revenues and Transfers[a]	120,386	124,189	128,125	128,304	132,129
Transfer to BSA/Rainy Day Fund[b]	-2,849	-3,556	-1,284	-999	-991
Total Resources Available	**$121,236**	**$125,805**	**$130,037**	**$131,110**	**$133,052**
Proposition 98 Expenditures	49,992	50,972	52,336	51,454	52,535
Non-Proposition 98 Expenditures	66,072	71,637	73,896	77,742	81,327
Unallocated Prop 2 Debt Payments					123
Total Expenditures	**$116,064**	**$122,609**	**$126,232**	**$129,196**	**$133,985**
Fund Balance	**$5,172**	**$3,196**	**$3,805**	**$1,914**	**-$933**
Reserve for Encumbrances	966	966	966	966	966
Special Fund for Economic Uncertainties	**$4,206**	**$2,230**	**$2,839**	**$948**	**-$1,899**
Budget Stabilization Account/ Rainy Day Fund	$4,455	$8,011	$9,295	$10,294	$11,285
Operating Surplus/-Deficit with BSA/Rainy Day Fund Transfer	**$1,473**	**-$1,976**	**$609**	**-$1,891**	**-$2,847**

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 2016-17 Governor's Budget are shown below (in millions):

	2015-16	2016-17	2017-18	2018-19
Prop 30 – Income Tax	$7,576	$7,663	$7,736	$3,103
Prop 30 – Sales Tax	1,542	829	0	0

(b) Transfers to the BSA are pursuant to Proposition 2. See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves."

Fiscal Year 2015-16 Revised General Fund Estimates in the 2016-17 Governor's Budget

The 2016-17 Governor's Budget makes various revisions to General Fund estimates for fiscal year 2015-16 involving the beginning fund balance, revenues, expenditures, and ending General Fund reserve balance. The revised revenue and expenditure estimates are set forth in Table 4 below. In addition to the information shown in Table 4, the 2016-17 Governor's Budget estimates that the beginning fund balance for the General Fund at July 1, 2015 was $1.3 billion higher than had been assumed when the 2015 Budget Act was adopted, primarily due to lower than projected spending for Non-Proposition 98 expenditures in fiscal year 2014-15. These figures are preliminary estimates subject to further adjustment after receipt of additional information concerning final revenues and expenditures for fiscal year 2015-16.

Besides the gain in the beginning fund balance as described above, the most significant change to the estimated results for fiscal year 2015-16 as shown in Table 5 is an increase of $2.5 billion of revenues and transfers, primarily due to higher than projected tax revenues. This

increase was offset by a much smaller increase of only $0.7 billion in total expenditures ($0.6 billion of that is for Proposition 98 spending due to the increased revenues described above). The 2015 Budget Act projected an ending balance in the SFEU of $1.1 billion for fiscal year 2015-16; the revised estimate is $4.2 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 2012-13 through 2014-15, and the estimated and projected results for fiscal years 2015-16 through 2016-17, respectively, based on the 2016-17 Governor's Budget. In addition to the SFEU, which is part of the fund balance of the General Fund, the 2016-17 Governor's Budget projects a cumulative balance of $8.0 billion in the BSA or rainy day fund, at June 30, 2017.

Consistent with historical practice, the projected beginning 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.

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TABLE 4
Statement of Estimated Revenues, Expenditures and Changes in Fund Balance – General Fund (Budgetary Basis)[a]

(Dollars in Millions)*

	Fiscal Year				
	2012-13	**2013-14**	**2014-15**	**Estimated 2015-16**	**Projected 2016-17**
Fund Balance–Beginning of Period	$(1,609)	$4,285	$8,410	$6,460	$5,172
Restatements					
Prior Year Adjustment	1,288	(316)	164	(2,761)	–
Fund Balance–Beginning of Period, as Restated	**$(320)**	**$ 3,969**	**$8,574**	**$3,699**	**$5,172**
Revenues	$98,418	$102,420	$114,985	$121,466	$125,078
Other Financing Sources					
Transfers from Other Funds	2,047	1,154	421	(3,929)[b]	(4,445)[b]
Other Additions	393	213	277	–	–
Total Revenues and Other Sources	**$100,858**	**$103,787**	**$115,683**	**$117,537**	**$120,633**
Expenditures					
State Operations[c]	$25,960	$25,811	$29,863	$30,035	$31,493
Local Assistance	69,828	72,040	85,109	85,769	89,468
Capital Outlay	120	158	168	176	1,648
Unclassified	–	–	–	84	–
Other Uses	–	–	–	–	–
Transfer to Other Funds	345	1,339	2,657	–[d]	–[d]
Total Expenditures and Other Uses	**$96,253**	**$99,347**	**$117,797**	**$116,064**	**$122,609**
Revenues and Other Sources Over or (Under)					
Expenditures and Other Uses	$4,605	4,441	$(2,114)	$1,473	$(1,976)
Fund Balance					
Deferred Payroll[e]	732	949	1,026	–	–
Reserved for Encumbrances	732	840	967	966	966
Reserved for Unencumbered Balances of Continuing Appropriations[f]	1,058	1,192	1,145	–	–
Unreserved–Undesignated [g]	1,763	5,429	3,322	4,206	2,230
Fund Balance–End of Period	**$4,285**	**$8,410**	**$6,460**	**$5,172**	**$3,196**

* 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, 2015, attached as APPENDIX H 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, 2015 fund balance between the two methods. See "FINANCIAL STATEMENTS."

(b) Includes transfers to the BSA of $1.6 billion in fiscal-year 2014-15, $2.8 billion in fiscal year 2015-16, and $3.6 billion in fiscal year 2016-17.

(Footnotes Continued on Following Page)

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(c) Includes debt service on general obligation bonds. The estimated amount of debt service is $4.8 billion and $4.8 billion for fiscal years 2015-16 and 2016-17, 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 $1.9 billion and $2.0 billion in fiscal years 2015-16 and 2016-17, 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 2010-11 through 2014-15" under "STATE DEBT TABLES."

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

(e) 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 fiscal years 2014-15, 2015-16, and 2016-17 the General Fund Deferred Payroll amounts are estimated at $1.0 billion, $1.1 billion, and $1.1 billion 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.

(f) 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.

(g) 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 2012-13 to 2014-15: State of California, Office of the State Controller. Estimated amounts for fiscal year 2015-16 and projected amounts for fiscal year 2016-17: State of California, Department of Finance as of the 2016-17 Governor's Budget.

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 through 2016-17, as set forth in the 2016-17 Governor's Budget.

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TABLE 5
General Fund Revenue by Sources and Expenditures

(Dollars in Millions)

Revenues Source	Fiscal Year 2015-16 Enacted (as of June 2015)	2015-16 Revised (as of January 2016)	2016-17 Proposed (as of January 2016)
Personal Income Tax	$ 77,700	$ 81,354	$ 83,841
Sales and Use Tax	25,240	25,246	25,942
Corporation Tax	10,342	10,304	10,956
Insurance Tax	2,556	2,493	2,549
Alcoholic Beverage Taxes and Fees	360	366	373
Cigarette Tax	82	84	81
Motor Vehicle Fees	23	22	22
Other[a]	584	517	425
Subtotal	$ 116,887	$ 120,386	$ 124,189
Transfer to the Budget Stabilization Account/Rainy Day Fund	-1,854	-2,849	-3,556
Total	$ 115,033	$ 117,537	$ 120,633

Expenditures Function	2015-16 Enacted	2015-16 Revised (as of January 2016)	2016-17 Proposed (as of January 2016)
Legislative, Judicial and Executive	$ 3,158	$ 3,227	$ 3,330
Business, Consumer Services & Housing	627	636	434
Transportation	261	267	222
Natural Resources	2,479	2,730	2,909
Environmental Protection	69	325	-31
Health and Human Services	31,867	31,666	33,742[b]
Public Safety (including Corrections and Rehabilitation)	10,078	10,276	10,620
K-12 Education	49,373	49,859	51,230
Higher Education	14,200	14,312	14,567
Labor and Workforce Development	214	212	166
Government Operations	738	761	2,245[c]
General Government			
Non-Agency Departments	684	711	729
Tax Relief/Local Government	469	445	483
Statewide Expenditures	1,152	637	1,963[d]
Supplemental Payment to the Economic Recovery Bonds	-	-	-
Total Expenditures	$ 115,369	$ 116,064	$ 122,609

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

[b] Includes approximately $1 billion increase due to the expiration of the Managed Care Organization tax.

[c] Includes $1.5 billion for state office infrastructure.

[d] Includes $500 million for deferred maintenance, $300 million set-aside for potential employee compensation increases, subject to good faith bargaining, and $300 million in unallocated retirement contribution.

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 2016-17 Governor's Budget proposes to repay loans from special funds ($955 million), repay prior years of Proposition 98 underfunding (referred to as "settle up," $257 million), repay pre-Proposition 42 (2002) transportation loans ($173 million), and help pay down the unfunded liability associated with the University of California's retirement system ($171 million). The primary strategy within the multi-year forecast period is to continue to pay down budgetary borrowing and use increased revenues for one-time expenditures. The Administration projects that all loans from special funds, underfunding of Proposition 98 (settle up payments), and borrowing from pre-Proposition 42 transportation funds will be entirely repaid by the end of fiscal year 2019-20.

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TABLE 6
Debts and Liabilities Under Proposition 2
2016-17 Governor's Budget

(Dollars in Millions)

	Fiscal Year					
	Outstanding Amount at Start of 2016-17	**Proposed Use of 2016-17 Pay Down**	**Proposed Use of 2017-18 Pay Down**	**Proposed Use of 2018-19 Pay Down**	**Proposed Use of 2019-20 Pay Down**	**Remaining Amount Not Currently Scheduled[(b)]**
Budgetary Borrowing						
Loans from special funds	$1,806	$955	$559	$292	$0	$0
Underfunding of Proposition 98—Settle-Up	1,232	257	286	337	352	0
Repayment of pre-Proposition 42 Transportation Loans	879	173	220	220	266	0
State Retirement Liabilities (Unfunded Actuarial Estimate)						
State Retiree Health	71,773	0	50	150	250	N/A
State Employee Pensions	43,291	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	570	0	0	0	0	N/A
University of California Retirement Liabilities (Unfunded Actuarial Estimate)						
University of California Employee Pensions	10,786	171	169	0	0	N/A
University of California Retiree Health	17,270	0	0	0	0	N/A
Unallocated Debt Payments					123	
Total	**$223,683**	**$1,556**	**$1,284**	**$999**	**$991**	**N/A**

(a) The state portion of the unfunded liability for teacher pensions is $14.9 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 revenues or expenditures of the state's General Fund or the amount of state funds available to be borrowed by the General Fund.

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. 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). *The appellate court affirmed the trial court's ruling in these matters.* 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. The trial court subsequently dismissed the remaining claims. If the court had declared that the state had failed to properly pay for mandated educational programs, the state would be limited in the manner in which it funded education going forward.

3. *Actions Challenging Statutes That Reformed California Redevelopment Law*

There are over 100 pending actions that challenge the statutory process for winding down the affairs of the redevelopment agencies ("RDAs"), asserting a variety of claims, including constitutional claims. Some of the pending cases contend that various obligations incurred by the RDAs are entitled to payment from certain property tax revenues. 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 were 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, was invalid and/or unconstitutional. These matters are consolidated in one matter, collectively referred to as *Gillette Company v. Franchise Tax Board*. Plaintiffs contended that the single-weighted sales factor specified in Section 25128 prior to amendment was contained within the Multistate Tax Compact ("Compact") and therefore could not 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, but, on appeal, the trial court judgment was reversed (Court of Appeal, First Appellate District, Case No. A130803). On December 31, 2015, the California Supreme Court reversed the Court of Appeal's decision, holding that the Compact did not bar the Legislature from unilaterally amending the corporate tax apportionment formula specified in Section 25128. A petition to the United States Supreme Court for review is possible; *the deadline for filing such petition is May 29, 2016.* See "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Sources of Tax Revenue—*Corporation Tax*."

A pending case challenges the fee imposed by former Revenue and Taxation Code Section 17942 upon the plaintiff and a purported class of similarly situated limited liability companies ("LLCs") registered in California, alleging that the fee violates the federal and 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). The purported class action is on behalf of all LLCs operating both in and out of California during the years at issue. A second virtually identical lawsuit also seeks to proceed as a class action. *CA-Centerside II, LLC v. Franchise Tax Board* (Fresno County Superior Court, Case No. 10 CECG00434). In each case, the individual plaintiff seeks a refund of $56,000 for itself and alleges a purported class of over 50,000 members. 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 the trial court order is reversed and plaintiffs prevail on the merits on behalf of themselves and the purported classes, the potential refunds could total $1.2 billion.

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). The *Harley-Davidson* matter is currently set for trial in *December* 2016, and the *Abercrombie* matter is set for trial in September 2016. 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 multistate businesses; resolution of this issue in *Harley Davidson* is deferred pending resolution of the issue in *Gillette* (discussed above).

A pending case challenges the validity of a Board of Equalization regulation (Cal. Code Regs., tit. 18, § 1585) that requires the sales tax on mobile telephones to be based on the full "unbundled" price of the telephone rather than any discounted price that is contingent on a service plan commitment. In *Bekkerman et al. v. Board of Equalization* (Sacramento County Superior Court, Case No. 34-2015-80002242), petitioners seek to invalidate the regulation insofar as it relates to sales in carrier-operated stores. Petitioners have filed a second action, a class action lawsuit seeking refunds of any excess sales tax paid, should the court in the first action rule that the regulation is invalid. The second action, *Bekkerman et al. v. Board of Equalization, et al.* (Sacramento County Superior Court, Case No. 34-2016-80002287) could result in an order requiring sales tax refunds, potentially exceeding $1 billion. *The second action has been removed to federal court (United States District Court, Eastern District of California, Case No. 2:16-cv-00709-MCE-EFB).*

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. Following a hearing on certain of plaintiffs' claims, the trial court stayed the matters pending a California Supreme Court ruling in a separate pending matter.

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. The judgment was affirmed on appeal (Court of Appeal, Third Appellate District, Case No. C070361), *and plaintiffs filed a petition by the California Supreme Court (California Supreme Court, Case No. S233293).*

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 and requested mediation. At this time it is unknown what fiscal impact this case would have on the state's General Fund.

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 KLN 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 Plata 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 three-judge panel's order requires ongoing oversight until the state demonstrates compliance with the population benchmark is durable. 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 denied petitions for review. On March 22, 2016, the trial court entered judgment denying petitioners' remaining claims.

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 to include the California high-speed rail project as a greenhouse gas reduction measure in the state's AB 32 Scoping Plan Update. 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 the Board, 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* that prevents use of bond proceeds and a final decision in *Transportation Solutions* that prevents the use of 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. As of January 2016, the amount of unmatched federal spending on the project that the state may have to reimburse is between $500 and $600 million.

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 state 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, 2015 (the "Financial Statements") are included as APPENDIX H to this Official Statement and incorporated into 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, 2015 ("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, 2015 through *March 31, 201*6 is included as EXHIBIT 2 to 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 APPENDIX A. Investors are cautioned that interim financial information is not necessarily indicative of results for a fiscal year. Information which may appear in 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 generally because of timing differences. Agency cash represents cash received by agencies. The Controller's report represents cash received by agencies as reported to and recorded by the Controller, which may be a day or so later than when cash is received by agencies.

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 proposed 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, 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 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 that are 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 APPENDIX A as EXHIBIT 2 and the state's audited basic financial statements in APPENDIX H 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 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 under 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."

Proposition 2 directs the transfer of specified amounts of General Fund revenues to the BSA and to pay down specified debts and liabilities. See "DEBTS AND LIABILITIES UNDER PROPOSITION 2" and "STATE FINANCES—REVENUES, EXPENDITURES AND RESERVES—Budget Reserves—*Budget Stabilization Account*."

Sources of Tax Revenue

The following is a summary of the state's major tax revenues and tax laws. In fiscal year 2016-17, as in most years, the vast majority of the state's General Fund revenues and transfers are projected to be derived from three sources: 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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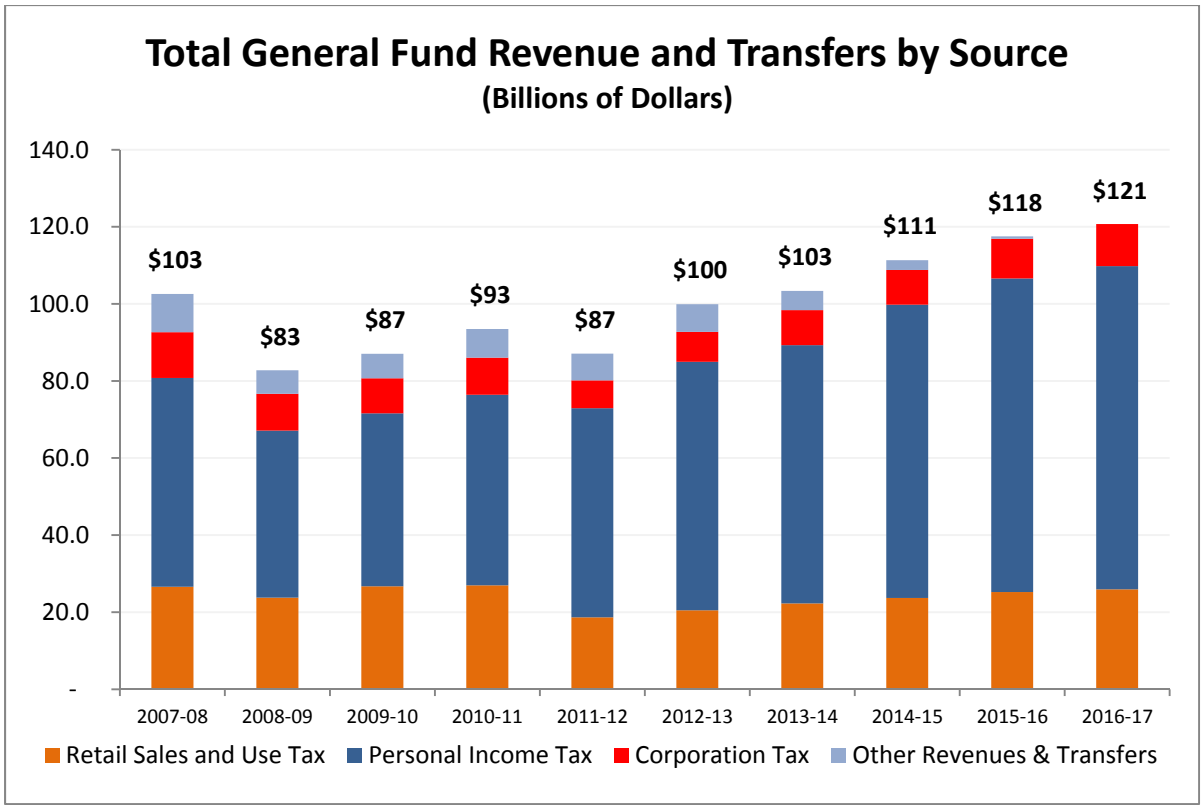

(a) Estimated.

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The following table contains General Fund revenues and transfers for ten fiscal years.

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
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]	76,079[c]	68	23,709[c]	21	9,007[e]	8	2,523[g]	2	111,318
2015-16[a]	81,354[c]	69	25,246[c]	21	10,304[e]	9	633[g]	1	117,537
2016-17[a]	83,841[c]	70	25,942[c]	22	10,956[e]	9	-106[g]	0	120,633

[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 through December 31, 2018, and temporarily increases the sales and use tax rate by 0.25 percent through December 31, 2016. 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 and use tax rate from 6 percent to 5 percent (the 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 and use tax rate to the Local Revenue Fund 2011. These two changes decrease General Fund revenues by over $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 (the 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 $1.33 billion in fiscal year 2011-12.

[g] Reflects transfer of $1.6 billion in fiscal year 2014-15, $2.8 billion in fiscal year 2015-16, and a proposed $3.6 billion in fiscal year 2016-17 from the General Fund to the BSA for rainy day purposes.

Note: Percentages may not add to 100 percent because of rounding.

Source: State of California, Department of Finance.

1. Personal Income Tax

California's personal income tax is modeled after the federal income tax. 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 the proceeds from this surcharge 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 similar to the federal AMT. California's personal income tax structure is highly progressive. For example, the state's Franchise Tax Board indicates that the top 1 percent of California state income taxpayers paid 45.5 percent of the state's total personal income tax in tax year 2013.

The 2016-17 Governor's Budget revenue projections include the revenue expected from Proposition 30. This measure provides for a 1 percent increase in the personal income tax rate for joint filing taxpayers with income above $500,000 and equal to or below $600,000; a 2 percent increase for incomes above $600,000 and equal to or below $1,000,000; and a 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. The brackets for these higher rates are indexed for inflation each year. These additional rates are in effect for calendar years 2012 through 2018. The Administration estimates the additional revenue from the higher income tax was $5.5 billion in fiscal year 2012-13, $5.8 billion in fiscal year 2013-14, $7.3 billion in fiscal year 2014-15 and $7.6 billion in fiscal year 2015-16, and is projected to be $7.7 billion in fiscal year 2016-17.

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The next table shows actual and projected personal income tax revenues for ten fiscal years, including a breakout of capital gains income tax revenue:

TABLE 8
Personal Income Tax General Fund Revenues (PIT)
(Includes Percentage of Total General Fund Revenues and Transfers)

(Dollars in Millions)

Fiscal Year	Capital Gains Tax		All Other PIT		Total PIT	
2007-08	$ 8,980	8.8%	$45,202	44.1%	$54,182	52.8%
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	48.0	49,445	52.9
2011-12[b]	6,020	6.9	48,241	55.4	54,261	62.3
2012-13[b]	9,552	9.6	54,932	55.0	64,484	64.5
2013-14[b]	9,260	9.0	57,765	55.9	67,025	64.8
2014-15[b][c]	13,280	11.9	62,799	56.4	76,079	68.3
2015-16[b][c][d]	13,377	11.4	67,977	57.8	81,354	69.2
2016-17[b][c][d]	12,402	10.3	71,439	59.2	83,841	69.5

[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 under Proposition 98*."

[c] Estimated.

[d] Revenue for fiscal years 2015-16 and 2016-17 reflects a reduction of $380 million due to the state Earned Income Tax Credit.

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. These changes 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.

Income 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 almost 9 percent of General Fund revenues and transfers in fiscal year 2007-08, but dropped below 5 percent in fiscal year 2008-09, and below 4 percent in fiscal year 2009-10. However, the 2016-17 Governor's Budget projects that capital gains are estimated to be over 11 percent of General Fund revenues and transfers in fiscal year 2015-16, and projected to be over 10 percent in fiscal year 2016-17. The volatility in these percentages is primarily due to an underlying volatility in the level of capital gains tax revenues, rather than to volatility in other General Fund revenues and transfers. 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, 2016, 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 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);
- 1.25 percent local tax imposed under the Uniform Local Sales and Use Tax Law, with 0.25 percent dedicated to county transportation purposes and 1.0 percent for city and county general-purpose use; and

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 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 is expected to generate $6.6 billion in fiscal year 2015-16 and $6.9 billion in fiscal year 2016-17.

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 2016. See "CURRENT STATE BUDGET—Summary of State Revenues and Expenditures" for a projection of the fiscal years 2015-16 and 2016-17 General Fund reserve.

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 and Sub-Chapter S corporations. Limited partnerships are also subject to the $800 minimum franchise 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 and taxes paid by limited liability companies ("LLCs"), which accounted for 9.6 percent of corporation tax revenue in 2013-14, are considered "corporation taxes."

Six actions were 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").* On December 31, 2015, the California Supreme Court, in a 7-0 opinion, upheld the state's use of the double-weighted sales factor. The taxpayer can, within 90 days of the ruling, petition the U.S. Supreme Court to hear the case. An eventual 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 will increase by $782 million in fiscal year 2015-16 and by $838 million in fiscal year 2016-17, and will further increase to over $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 revenue to funding of projects that create energy efficiency and clean energy jobs in California.

The legislative changes, offset by Proposition 39, are expected to generate a net revenue loss of $423 million in fiscal year 2015-16 and $321 million in fiscal year 2016-17.

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 2016-17. Principal sources of this income are motor vehicle fuel taxes, registration and weight fees and vehicle license fees. In fiscal year 2016-17, $12.6 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 Government 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
(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]
2011-12	$17,962,461	$1,188,026	$800,677	$251,073	$5,544,530	$5,817,168
2012-13	19,161,183	1,684,000	778,703	21,379	5,492,850	5,838,702
2013-14	20,167,835	1,281,000	746,748	--	6,063,356	6,204,720
2014-15	21,038,347	1,851,000	746,062	--	5,711,160	6,489,447
2015-16[f]	22,061,926	2,028,000	729,393	--	4,955,999	6,619,915
2016-17[f]	23,073,133	2,051,000	708,969	--	4,729,677	7,843,410

(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. The 0.25 percent State Fiscal Recovery Fund rate was in operation from July 1, 2004 to December 31, 2015, and the Bradley-Burns tax rate was temporarily reduced by 0.25 percentage point during the same time period.
(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 in fiscal years 2011-12 and 2012-13.
(e) Registration and weight fees, motor vehicle license fees and other fees. Includes $1.1 billion in fiscal year 2016-17 from the proposed $65 per vehicle road improvement charge included in the 2016-17 Governor's Budget. See "STATE FINANCES—OTHER ELEMENTS—Local Government Impacts on State Finances."
(f) Estimated for fiscal years 2015-16 and 2016-17.

Note: This table includes only Non-General Fund revenue accruing to special funds. Some revenue sources are dedicated to local governments.
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 General Fund budget each year—are K-12 Education, Higher Education, Health and Human Services and Public Safety, including CDCR. Other expenditure categories are shown in Table 17 below.

1. K-12 Education under Proposition 98

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. The 2016-17 Governor's Budget proposes funding of $51.2 billion from the General Fund for fiscal year 2016-17, including both Proposition 98 and Non-Proposition 98 funding.

State funding for K-12 schools and community colleges ("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 comprised of three tests and related funding formulas that guarantee schools and community colleges a minimum level of funding (the "minimum guarantee") from a combination of the state's General Fund and local property taxes. Which test applies in a particular year is determined by multiple factors including the level of funding in fiscal year 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 state 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 the 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 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. Under a suspension, the maintenance obligation created is the difference between the funded level and the operative minimum guarantee. 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 created an additional temporary source of funds for K-14 education, see "STATE FINANCES—REVENUES, EXPENDITURES, AND RESERVES—Sources of Tax Revenue." Proposition 30 created the Education Protection Account ("EPA"), which 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.

Proposition 2 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 2015-16 or fiscal year 2016-17. Therefore, no deposit into the PSSSA is currently anticipated.

As shown in Table 10, the Proposition 98 minimum guarantee for K-14 education is estimated to grow moderately over the 2015 Budget Act estimates primarily due to increases in local property tax and General Fund revenues. The 2016-17 Governor's Budget estimates the Proposition 98 minimum guarantee to be $69.2 billion in fiscal year 2015-16 and $71.6 billion in fiscal year 2016-17, increases of $766 million and $3.2 billion, respectively, over the levels assumed for fiscal year 2015-16 in the 2015 Budget Act. The General Fund share is $50.0 billion in fiscal year 2015-16 and $51.0 billion in fiscal year 2016-17, which includes over $9 billion each year in EPA General Fund revenues. Property taxes are estimated to increase significantly over the two-year period mostly due to increases in base property tax revenues, as well as other shifts of local property tax revenues back to schools and community colleges.

The 2016-17 Governor's Budget reflects Proposition 98 General Fund expenditures in fiscal years 2014-15 through 2016-17, as outlined in the table below.

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TABLE 10
Proposition 98 Funding
(Dollars in Millions)

	2014-15		Fiscal Year 2015-16		2016-17	Change From Revised 2015-16 to Proposed 2016-17	
	Enacted[a]	**Revised[c]**	**Enacted[b]**	**Revised[c]**	**Proposed[c]**	**Amount**	**Percent**
K-12 Proposition 98							
State General Fund	$ 33,534	$ 36,821	$ 36,884	$ 36,533	$ 37,402	$ 869	2.4%
Education Protection Account	6,635	7,754	7,231	8,086	8,123	37	0.5%
Local property tax revenue[d]	14,089	14,834	16,380	16,559	17,801	1,242	7.5%
Subtotals [e]	$ 54,258	$ 59,409	$ 60,495	$ 61,178	$ 63,326	$ 2,148	3.5%
CCC Proposition 98							
State General Fund	$ 3,473	$ 4,021	$ 4,407[e]	$ 4,374	$ 4,443[e]	$ 69	1.6%
Education Protection Account	820	958	894	999	1,004	5	0.5%
Local property tax revenue[d]	2,308	2,302	2,613	2,624	2,812	188	7.2%
Subtotals [e]	$ 6,601	$ 7,281	$ 7,914	$ 7,997	$ 8,259	$ 262	3.3%
Total Proposition 98							
State General Fund	$ 37,007	$ 40,842	$ 41,291	$ 40,907	$ 41,845	$ 938	2.3%
Education Protection Account	7,455	8,712	8,125	9,085	9,127	42	0.5%
Local property tax revenue[d]	16,397	17,136	18,993	19,183	20,613	1,430	7.5%
Totals[f]	$ 60,859	$ 66,690	$ 68,409	$ 69,175	$ 71,585	$ 2,410	3.5%

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

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

[c] As of the 2016-17 Governor's Budget, January 7, 2016.

[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 2014-15, 2015-16, and 2016-17 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, there are two forms of future obligations for the state General Fund which are created under Proposition 98: the maintenance factor and settle-up obligation. The following table shows the estimated Proposition 98 future obligations as of the 2016-17 Governor's Budget.

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TABLE 11
Estimated Balances of Proposition 98 Future Obligations
(Dollars in Millions)

	Fiscal Year Ending June 30				
	2013	**2014**	**2015**	**2016**	**2017**
Maintenance Factor[a]	$5,867	$6,199	$781	$0	$548
QEIA Settle-up[b]	410	410	0	0	0
Other Settle-Up	1,474	1,488	1,488[c]	1,232[c]	975

[a] Proposition 98 factors and appropriations have been fully certified only 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: Please note that 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 payment of the remaining deferral balance of $992 million 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 2016-17 Governor's Budget. The maintenance factor balance is adjusted by average daily attendance and per capita personal income growth each year. Payments of $5.4 billion and $810 million, respectively, as required by constitutional formula, are built into fiscal years 2014-15 and 2015-16. No maintenance factor payment (as distinct from balances shown in Table 11) is required in fiscal year 2016-17 and none is projected in fiscal years 2017-18 or 2018-19.

2. Higher Education

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

As discussed above, the state funds its community colleges under Proposition 98, and the 2016-17 Budget provides an estimated $8.3 billion Proposition 98 funds for community colleges (consisting of $5.4 billion from the General Fund and $2.8 billion from local property taxes). There are 113 community college campuses operated by 72 community college districts. These colleges provide associate degrees and certificates to students. Additionally, students may attend CCCs to meet basic skills or complete general education requirements prior to transferring to a four-year undergraduate institution. The CCCs awarded 200,795 associate degrees, certificates, and other awards in the 2014-15 school year. For the 2014-15 school year, approximately 1.1 million full-time equivalent students were enrolled at CCCs.

The California State University provides undergraduate and graduate programs, awarding 105,693 degrees in the 2014-15 school year. The California State University enrolled 382,230 full-time students at 23 campuses in the 2014-15 school year.

The UC provides a range of undergraduate, graduate and professional programs, awarding 66,102 degrees in the 2014-15 school year. The ten University of California campuses and the Hastings College of Law enrolled 250,774 full time students in the 2014-15 school year.

The following table summarizes the direct General Fund support for the three segments of state public higher education:

TABLE 12
Higher Education
General Fund Expenditures

(Dollars in Billions)

Fiscal Year	CSU[(a)(b)]	UC[(c)]	CCC
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	3.3	5.4
2016-17	3.4	3.4	5.4

(a) Includes costs of health benefits for CSU retirees.
(b) Includes general obligation bond debt service costs beginning in fiscal year 2014-15.
(c) Includes general obligation bond 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 34 percent of all Californians.

Average monthly caseload in Medi-Cal is estimated to be 13.3 million in fiscal year 2015-16. Caseload is expected to increase in fiscal year 2016-17 by approximately 202,100, or 1.5 percent, to 13.5 million people. The increase in caseload and expenditures in recent years is largely due to the implementation of federal health care reform.

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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]
2012-13	$15.0	$6.4	$28.5	$49.9
2013-14	16.6	5.7	34.1	56.4
2014-15	17.1	8.3	54.1	79.5
2015-16[a] [b]	15.3	13.7	61.0	92.4
2016-17[b]	16.5	11.9	54.0	85.0

[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 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 and stay on Medi-Cal.

The optional expansion of Medi-Cal extended eligibility to adults without children, and parent and caretaker relatives with incomes up to 138 percent of the federal poverty level. The 2016-17 Governor's Budget includes costs of $13.7 billion ($551.5 million General Fund) in fiscal year 2016-17 for the optional expansion. The federal government has committed to pay nearly 100 percent of the costs of this expansion for the first three years. Beginning January 1, 2017, California will begin to assume 5 percent of these costs 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 $2.1 billion. The 2016-17 Governor's Budget projects the optional expansion caseload to be 3.4 million in fiscal year 2016-17.

Medi-Cal 1115 Waiver Renewal. California negotiated with the federal government to renew the Medi-Cal Section 1115 "Bridge to Reform" waiver, which was critical to the successful implementation of the ACA. The state received approval for the waiver renewal, called Medi-Cal 2020, effective January 1, 2016 through December 21, 2020. The total initial federal funding in the renewal is approximately $6.2 billion over five years.

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
2012-13	443,264	$1.7
2013-14	425,526	1.9
2014-15	443,734	2.2
2015-16[(a)(b)]	463,537	2.9
2016-17[(a)(c)]	489,775	3.0

(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 effective February 2016; (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.

(c) The increase in estimated fiscal year 2016-17 General Fund expenditures is primarily due to (1) assumed full year impact of federal Department of Labor overtime regulations for IHSS and (2) 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 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 annually to 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 2013, 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, 2012, and 2013 penalties, estimated to total approximately $1.3 billion. 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 for FFYs 2008 through 2010. Preliminary data indicates the state exceeded the 50 percent threshold required for corrective compliance in FFY 2015. If compliance is confirmed by the federal government, penalties levied from FFYs 2008 through 2010, totaling approximately $341 million, will be eliminated. A similar corrective compliance plan was submitted to the federal government in October 2015 to address the FFY 2011 and 2012 penalties, which requires the state to continue meeting or exceeding federal work participation rate requirements in FFY 2016.

The following table shows CalWORKs caseload and General Fund expenditures.

TABLE 15
CalWORKs Expenditures

(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2012-13	559,920	$1.5
2013-14[a]	550,928	1.2
2014-15[a]	535,532	0.6
2015-16[b] [c]	507,615	0.8
2016-17[b] [c]	496,558	0.8

[a] Reflects General Fund savings of approximately $300 million in fiscal year 2013-14 and $742 million in fiscal year 2014-15 from redirecting a portion of fiscal year 1991-92 realignment revenues from indigent health to CalWORKs, pursuant to Chapter 24, Statutes of 2013.

[b] Reflects anticipated General Fund savings of $742 million in fiscal year 2015-16 and $413 million in fiscal year 2016-17 from redirecting a portion of fiscal year 1991-92 realignment revenue from indigent health to CalWORKs.

[c] 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 2016-17 Governor's Budget includes approximately $2.9 billion for the SSI/SSP program from the General Fund for fiscal year 2016-17, 2.7 percent more than the revised fiscal year 2015-16 funding level. The average monthly caseload in this program is estimated to be 1.3 million recipients in fiscal year 2016-17, a 0.8 percent increase over the revised fiscal year 2015-16 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 300,000 individuals in the community and approximately 1,000 individuals in three state-operated developmental centers.

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
2012-13	257,557	$2.7
2013-14	275,337	2.8
2014-15	280,570	3.1
2015-16[(a)]	291,507	3.5
2016-17[(a)]	303,266	3.8

[(a)] Estimated.

Replacement of the Managed Care Organization Tax. 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 guidance that such a tax be broad-based and not limited narrowly to Medi-Cal plans. In the special session, the Legislature *considered* a package of bills to modify and continue the MCO tax for 3 years to provide at least $1.3 billion annually for Medi-Cal. The bills also fund targeted provider payment increases for developmental disability services, debt reduction, and other purposes. *The bills were enacted on March 1, 2016, and subject to federal approval, the modified MCO tax will be implemented beginning fiscal year 2016-17.*

4. Public Safety

The 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 2016-17 Governor's Budget assumes an average daily adult inmate population of 128,834 in fiscal year 2016-17 and an average daily adult parole population of 42,571 in fiscal year 2016-17.

The 2016-17 Governor's Budget includes total expenditures (excluding capital outlay) of $10.5 billion ($10.3 billion from the General Fund) for CDCR, including salaries and benefits of approximately $7.5 billion. The 2016-17 Governor's Budget 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.

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).

Prison Medical Care. 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. See "LITIGATION—Prison Healthcare Reform and Reduction of Prison Population." All of these projects will be constructed at existing state correctional institutions.

The 2016-17 Governor's Budget includes $1.9 billion from the General Fund for the Receiver's Medical Services and Pharmacy Programs, compared to the 2015 Budget Act, which totaled $1.8 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 *2010-11* through *2014-15*.

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TABLE 17
Governmental Cost Funds (Budgetary Basis)
Schedule of Expenditures by Function and Character

(Dollars in Thousands)

Function	Fiscal Year 2010-11[e][f][g]	2011-12[e]	2012-13[e]	2013-14[e]	*2014-15[e][h]*
Legislative, Judicial, and Executive					
Legislative	$ 325,244	$ 331,052	$ 329,903	$ 345,319	*$ 347,844*
Judicial	3,742,539	3,360,882	2,961,759	3,257,190	*3,540,001*
Executive	1,810,506	1,543,381	1,548,666	1,879,794	*1,843,252*
State and Consumer Services [a]	1,173,185	1,249,034	1,275,754	622,493	*668,873*
Business, Transportation and Housing					
Business and Housing [a]	227,899	239,838	211,466	90,082	*215,135*
Transportation[b]	7,109,753	5,452,535	5,950,645	7,389,121	*7,390,367*
Natural Resources	3,414,859	3,358,016	3,505,612	3,431,142	*4,350,235*
Environmental Protection	962,109	1,027,911	907,427	1,000,477	*1,159,685*
Health and Human Services	41,642,841	41,359,564	44,613,839	46,257,581	*49,929,687*
Public Safety Programs	9,514,121	7,892,864	8,530,717	9,111,239	*9,841,406*
Education					
Education – K through 12	33,193,396	32,755,642	39,789,023	38,742,395	*48,853,440*
Higher Education	10,623,763	9,256,322	9,055,279	10,659,644	*12,658,443*
Labor and Workforce Development	370,993	700,449	710,343	726,075	*773,047*
Government Operations [a]	--	--	--	888,422	*946,248*
General Government					
General Administration	1,757,991	1,712,184	1,948,034	1,851,530	*2,880,301*
Debt Service	6,222,307	6,561,871	5,721,714	6,305,806	*6,439,994*
Tax Relief	438,082	434,385	427,285	421,734	*416,755*
Shared Revenues	2,231,710	1,997,607	3,660,110	2,082,676	*1,879,362*
Other Statewide Expenditures	1,330,757	1,453,787	1,365,657	1,109,007	*2,891,100*
Expenditure Adjustment for Encumbrances [c]	18,316	2,195,656	(136,097)	30,739	*(633,345)*
Credits for Overhead Services by General Fund	(417,786)	(485,301)	(592,314)	(642,848)	*(602,749)*
Statewide Indirect Cost Recoveries	(100,543)	(109,807)	(132,847)	(133,400)	*(147,349)*
Total	$ 125,592,042	$ 122,287,872	$ 131,651,975	$ 135,426,218	*$ 155,641,732*
Character					
State Operations	$ 40,451,395	$ 39,579,635	$ 39,122,859	$ 39,266,400	*$ 43,274,995*
Local Assistance [d]	84,254,039	81,820,212	91,890,033	95,620,340	*111,421,332*
Capital Outlay	886,608	888,025	639,083	539,478	*945,405*
Total	$ 125,592,042	$ 122,287,872	$ 131,651,975	$ 135,426,218	*$ 155,641,732*

[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 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.

In fiscal year 2014-15, the increase in Local Assistance expenditures in funds that had no prior year reversal of encumbered expenditures, such as the Greenhouse Gas Reduction Fund (Fund 3228), accounts primarily for the much greater encumbrance adjustment amount than in fiscal year 2013-14.

(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 11/12-A, 12/13-A, 13/14-A, 14/15-A *and 15/16-A* were issued by the Department of Finance, as authorized under Control Section 12.45 of the Budget Acts of 2010, 2011, 2012, 2013 and *2014* respectively, and pursuant to Government Code Sections 12472.5 and 13302, to defer the June 2011, June 2012, June 2013, June 2014 *and June 2015* payroll expenditures for various governmental and nongovernmental cost funds to July 2011, July 2012, July 2013, July 2014 and *July 2015*. 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 year 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, 2011 cash balances plus accruals derived from actual activity reported through December 5, 2011.

(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 the ARB.

(h) Six Fi$Cal Wave 1 departments did not submit their required year-end statements to the State Controller's Office for fiscal year 2014-15 in time to be included in the BLBAR. These departments' amounts reported in the BLBAR include the June 30, 2015 cash balances plus accruals derived from actual activities reported through October 28, 2015.

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 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. 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 were superseded by Proposition 2.

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 does not change the Proposition 98 minimum guarantee calculation, and transfers to the PSSSA will not occur until various operational and economic conditions are met.

- Sets the maximum size to be reserved in the BSA at 10 percent of General Fund tax 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 $11.3 billion in the BSA in fiscal year 2019-20 (including a proposed $2 billion deposit to the BSA in fiscal year 2016-17 above the amount required by law) and $6.7 billion in additional reductions of debts and liabilities in its first five years of operation. See Table 6.

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. 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. 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; and $3.2 billion and $2.5 billion, respectively, for fiscal year 2016-17.

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, 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, *2015*, approximately *177,870* retirees were enrolled to receive health benefits and *144,660* 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 state's audited basic financial statements for the fiscal year ended June 30, *2015* included as APPENDIX H 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 January 26, 2016, the State Controller's Office released the state's latest OPEB actuarial valuation report by the private actuarial firm, Gabriel, Roeder, Smith & Company ("GRS"), 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, 2015, the pay-as-you go funding policy results in an AAL of $74.19 billion as of June 30, 2015, of which $74.10 billion is unfunded. Additionally, the pay-as-you go funding policy results in an annual OPEB cost of $5.69 billion, estimated employer contributions of $1.97 billion and an expected net OPEB obligation of $26.20 billion for fiscal year 2015-16. The annual required contribution for fiscal year 2016-17 is estimated at $5.77 billion.

The actuarial liability increased from $71.81 billion as of June 30, 2014, to $74.19 billion as of June 30, 2015. If the previous assumptions had been realized, the actuarial liability would have increased to $75.69 billion as of June 30, 2015. The key factors contributing to the unexpected decrease in actuarial liabilities of $1.50 billion include:

- During the year, favorable healthcare claims experience and plan design changes, including the new Medicare Advantage program effective January 1, 2016, decreased the actuarial liability by $1.71 billion. This change in accrued liability is mainly driven by the relationship between the assumed trend rate for claims

cost in 2015 used in last year's valuation and the trend rate for 2015 based on actual experience.

- Demographic experience did not change the actuarial liabilities significantly. There were most likely offsetting gains and losses that led to this minimal change.

- Subsequent to the June 30, 2015, GASB No. 45 actuarial valuation, GRS performed an experience review for the period July 1, 2007 to June 30, 2014, where all healthcare related assumptions were reviewed. Many of these assumptions were updated to reflect actual experience over the seven-year period. These changes have been adopted by the SCO for this valuation. The assumption changes decreased liabilities by approximately $1.83 billion.

- Trend rates for the June 30, 2015, valuation were reviewed and updated since the last valuation. The trend rates are assumed to be 8.00 percent beginning in 2017 graded down to an ultimate rate of 4.50 percent beginning in 2022. This assumption change increased the liabilities by approximately $1.78 billion.

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

(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)]
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	5.13	*2.01*	*39*	22.48	74.10	367
2015-16[(a)]	5.69	1.97	35	26.20	N/A	N/A

[(a)] Net employer contribution and Net OPEB Obligation estimated for fiscal year ending June 30, 2016.

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

Source: State of California OPEB Valuation as of June 30, 2015.

The following table illustrates the state's budget for post-employment benefits from fiscal years 2011-12 to 2016-17 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. Bargaining Unit 9 *and 10* employees hired after January 1, 2016 also will be subject to a longer vesting schedule and an 80/80 percent contribution formula. *The Administration and Bargaining Unit 6 have reached a tentative agreement on a new contract that would require a longer vesting schedule and 80/80 percent contribution formula for employees hired on or after January 1, 2017.*

TABLE 19
Actual Costs/Budget for Other Post-employment Benefits

(Dollars in Thousands)

Fiscal Year	State Employees All Funds[a]	State Employees General Fund	CSU Employees All General Fund	Total Contributions All Funds	Total General Fund Contributions
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	1,461,931	1,455,931	255,638	1,717,569	1,711,569
2015-16[c]	1,584,930	1,580,330	264,084	1,849,014	1,844,414
2016-17[c]	1,743,956	1,739,356	291,096	2,035,052	2,030,452

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

(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) Estimated Contributions.

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.

1. 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 five bargaining units with contracts expiring in 2015. *Agreements have been reached with* Bargaining Units 9 *and 10*, which represent state engineers *and scientists, respectively, that require* matching contributions to an OPEB trust fund to set aside 100 percent of the actuarially determined "normal costs." The funding schedule for both agreements will be phased in over three years beginning July 1, 2017. Additionally, these two unions and the state agreed that new employees hired 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. *Recently, the Administration and Bargaining Unit 6 reached a tentative agreement which also requires matching contributions to an OPEB trust fund to set aside 100 percent of the actuarially determined normal costs. Employees in Bargaining Unit 6, representing the California Correctional Peace Officers, hired on or after January 1, 2017 are also subject to a lower employer subsidy for retiree health care and a longer vesting period to qualify for retiree health benefits.* These initial agreements represent the template for contract renewals with the three outstanding bargaining units as well as for those expiring in the future.

The Administration continues to actively bargain with the remaining bargaining units whose memorandum of understanding expired in July 2015. Additionally, in fiscal year 2015-16, the Administration will begin collective bargaining negotiations with 15 of the state's 21 bargaining units, whose contracts with the state will expire in early July 2016. 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 Great 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 reached $10.2 billion at the end of calendar year 2012, but has decreased to $6.7 billion at the end of calendar year 2015. The UI Fund deficit is projected to be $4.5 billion at the end of calendar year 2016.

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 2018. Commencing in fiscal year 2011-12, the state has been required to pay interest on these loans. Fiscal year 2015-16 and projected fiscal year 2016-17 amounts from the General Fund to make these interest payments are less than $200 million annually.

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 2012-13 through 2016-17.

TABLE 20
State Appropriations Limit
(Dollars in Millions)

	Fiscal Year				
	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**
State Appropriations Limit	$84,221	$89,716	$89,902	$94,042	$98,837[(a)]
Appropriations Subject to Limit	-71,702	-71,352	-80,551[(a)]	-87,409[(a)]	-91,078[(a)]
Amount (Over)/Under Limit	$12,519	$18,364	$9,351[(a)]	$6,633[(a)]	$7,759[(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.

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 2016-17 Governor's Budget.

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. Property Tax Revenues

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 5.58 percent in fiscal year 2015-16 and 5.59 percent in fiscal year 2016-17. 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, dissolved redevelopment agency funds, and the shift of property taxes from local governments to K-14 schools (Educational Revenue Augmentation Fund).

3. Dissolved Redevelopment Agency Funds

Redevelopment agencies ("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 revenue that would have gone to RDAs is now redirected to other local taxing entities, including cities, counties, school and community college districts, and special districts, after payments are made for (1) pre-existing "pass through" payments to local agencies, (2) the former RDAs' debts (also known as enforceable obligations), and (3) limited administrative costs.

Revenues distributed to school and community college districts result in corresponding savings for the state's General Fund. For the 2016-17 Governor's Budget, Proposition 98 General Fund savings are anticipated to be $1.1 billion in each of fiscal years 2015-16, 2016-17, and 2017-18. Proposition 98 General Fund savings are anticipated to be at least $1 billion in each fiscal year after fiscal year 2017-18 , 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. 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 $6.9 billion in fiscal year 2016-17) and (2) $589.2 million in vehicle license fees (for fiscal year 2016-17). As a result of realignment, General Fund savings have been over $2.0 billion annually from the realigned programs beginning in fiscal year 2011-12. The state estimates savings of $2.6 billion in fiscal year 2015-16.

CASH MANAGEMENT

Traditional Cash Management Tools

1. 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 when necessary (see "—External Borrowing").

2. 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.

3. 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 years 2015-16 or 2016-17. 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 state 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)

	2013	2014	2015	2016[a]	2017[a]
Available Internal Borrowable Resources	$21,215.3	$23,761.5	$28,291.3	$32,290.0	$40,814.6
Outstanding Loans					
From Special Fund for Economic Uncertainties	948.2	0	0	957.3	2,230.0
Budget Stabilization Account	0	0	0	0	4,651.1
From Special Funds and Accounts	1,486.7	0	0	0	0
Total Outstanding Internal Loans	(2,434.9)	0	0	(957.3)	(6,881.1)
Unused Internal Borrowable Resources	$18,780.4	$23,761.5	$28,291.3	$31,332.7	$33,933.5

[a] Estimated.
Source: Years ended June 30, 2013 through June 30, 2015: State of California, Office of the State Controller.
Years ending June 30, 2016 and June 30, 2017: 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 "Traditional Case Management Tools—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.

TABLE 22
State of California Revenue Anticipation Notes Issued

(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 through 2016-17

The state entered the 2014-15 fiscal year in the strongest cash position since the start of the Great 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 continued 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. The 2016-17 Governor's Budget assumes a continuation of a strong cash position throughout the year, with no plans for external cash flow borrowing.

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 a 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 general obligation bond program for the state is the veterans general obligation bonds, which are supported by mortgage repayments from housing loans made to military veterans of the state.

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.

A summary of the general obligation bonds outstanding as well as authorized by the voters but unissued, as of January 1, 2016, 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 available on the website of the State Treasurer.

General Obligation Bonds
(as of January 1, 2016)

Authorized and Outstanding		Authorized but Unissued*	
Primarily Payable from General Fund	Self-Liquidating	Primarily Payable from General Fund	Self-Liquidating
$75.3 billion	$728.7 million	$29.3 billion	$467.6 million

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

An initiative measure to authorize $9 billion of general obligation bonds for K-12 school construction has received sufficient signatures to be placed on the November 2016 ballot. Under state law, proponents of this measure may remove it from the ballot up to the end of June 2016.

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 4.77 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 January 1, 2016	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." As of February 15, 2016, a total of $2.225 billion in principal amount of commercial paper notes is 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" 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 reimbursement of 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 CSU 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 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 January 1, 2016, is set forth in the following table.

Lease-Revenue Obligations
(as of January 1, 2016)

Outstanding General Fund Supported Issues	Authorized but Unissued
$10.8 billion	$3.6 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.

The CSU proposes to restructure substantially all of the approximately $987.5 million of existing CSU lease revenue bonds which financed the CSU facilities by issuing its general revenue bonds to defease the SPWB Bonds.

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 (e.g., among other revenue sources, taxes, fees and/or tolls) 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 CSU and UC 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 January 1, 2016.

An initiative Constitutional amendment related to the issuance and sale of state revenue bonds has received sufficient signatures to be placed on the November 2016 ballot. Under state law, proponents of the measure may remove it from the ballot up to the end of June 2016. If approved by a majority of voters in November 2016, this measure would require statewide voter approval before any revenue bonds could be issued or sold by the state, a state agency or a joint agency created by or including the state for any "single project" having a cost of $2 billion or more. As many of the specific aspects of this initiative measure are not yet clear, including, for instance, what constitutes a "single project," what exactly constitutes a revenue bond, and how the $2 billion threshold is calculated, it is impossible to predict what impact this measure, if approved, would have on the state's ability to use revenue bonds to finance large infrastructure or other projects.

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 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 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 bonds and the SPWB issued $551 million of BAB lease-revenue bonds (of which $150 million have 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 $7.45 billion for the general obligation BABs and $191.8 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 were 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 2025, 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 general obligation 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, and sales completed in the first half of fiscal year 2015-16, approximately $2.2 billion of new money general obligation bonds (some of which may initially be in the form of commercial paper notes) and approximately $224 million of lease-revenue bonds are expected to be issued in fiscal year 2015-16. Based on estimates from the 2016-17 Governor's Budget, approximately $4 billion of new money general obligation bonds and approximately $358 million of lease-revenue bonds are expected to be issued in fiscal year 2016-17. 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 2016-17 Governor's Budget and bond issuance estimates referred to in the preceding paragraph, the General Fund Debt Ratio is estimated to equal approximately 6.56 percent in fiscal year 2015-16 and 6.54 percent in fiscal year 2016-17.

The General Fund Debt Ratio is calculated based on the amount of debt service expected to be paid, 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 for general obligation and lease-revenue bond debt service is estimated to equal approximately $1.4 billion for fiscal year 2015-16 and $1.4 billion for fiscal year 2016-17. Including the estimated offsets reduces the General Fund Debt Ratio to 5.37 percent in fiscal year 2015-16 and 5.37 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.

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 only 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 December 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 ("OSHPD") insures loans and bonds that finance and refinance construction and renovation projects for nonprofit and publicly-owned healthcare facilities. This program ("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 October 31, 2015, OSHPD insured 103 loans to nonprofit or publicly owned health facilities throughout California with a current outstanding aggregate par amount of approximately $1.8 billion. The cash balance of the Fund was approximately $164.3 million as of October 31, 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 spring 2016. 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 December 31, 2015, the PMIA held approximately $45.3 billion of state moneys, and $20.3 billion invested for about 2,479 local governmental entities through the Local Agency Investment Fund ("LAIF"). The assets of the PMIA as of December 31, 2015 are shown in the following chart.

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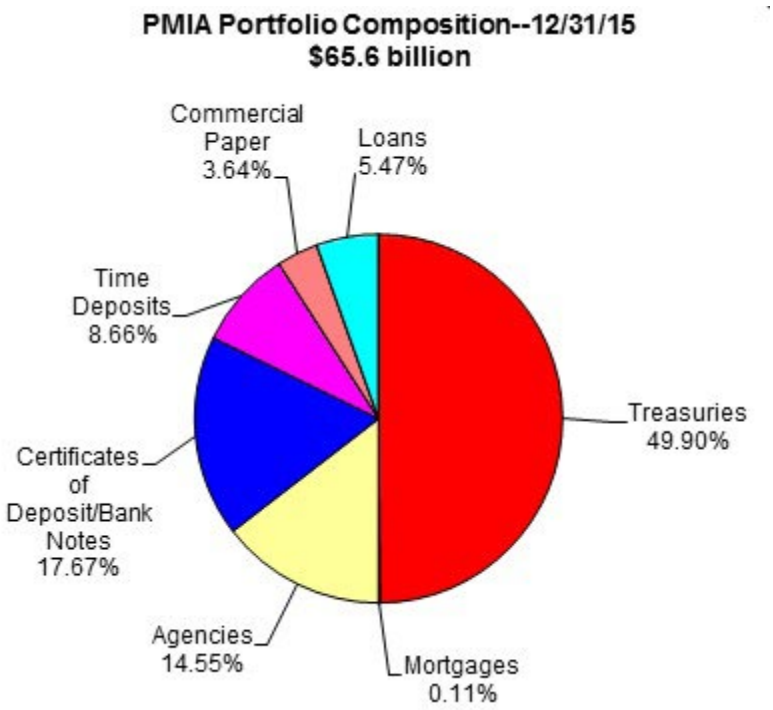

Source: State of California, Office of the State Treasurer.

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 December 31, 2015 was 179 days. Over the prior 12 months, the average life has ranged from 179 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 T. 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.

The executive branch is principally organized through eleven agency areas.

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 2016-17 Governor's Budget estimates the state work force for fiscal year 2016-17 at approximately 353,000 positions. Approximately 144,000 of those positions represent state employees of the legislative and judicial branches of government and institutions of higher education. Of the remaining 209,000 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 21 BUs, or approximately 50 percent of those represented employees subject to collective bargaining. Currently, the Administration is in collective bargaining negotiations with *five* of the state's BUs that represent *attorneys and administrative law judges*, firefighters, craft and maintenance workers, *stationary engineers, and psychiatric technicians*. The Administration *has* reached *agreements* for new MOUs with the professional engineers' *and professional scientists'* union leadership. Additionally, *the Administration recently reached a tentative agreement with BU 6, correctional peace officers, and the contract is in the process of legislative and membership ratification.* With the exception of firefighters, each of these units' MOUs with the state *either* expired in early July 2015 *or will expire in early July 2016.* 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 $74 billion unfunded retiree health care obligation 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 "PROPOSED FISCAL YEAR 2016-17 BUDGET—Development of Revenue Estimates."

In July 2015, California's total population reached 39.1 million residents, an increase of 0.89 percent since July 2014. This marks continuation of the relatively high annual growth rate of California's population that has occurred during this decade. Since the national census on April 1, 2010, the state has grown by 1.8 million persons. California's population growth rate is expected to decrease to 0.88 percent annually for the next two years, resulting in a population of 39.4 million in July 2016 and 39.8 million in July 2017.

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 grow to 40.1 million people by July 2018.

Currently, over 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 overall projected total five-year growth rate of 4.4 percent (from 2015-2020) is higher than the anticipated 2.8 percent growth in the preschool-age group (0-4 years old). The school-age group (5-17 years old) is expected to grow by 0.8 percent and the college-age group (18-24 years old) to decrease by 5 percent. The working-age population (25-64 years old) is expected to grow by 3.5 percent. The population of the retirement-age group (age 65 and older), is expected to expand rapidly (20.6 percent).

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The following table shows population totals for California and the United States.

TABLE 23
Population

Year	California Population[a]	Annual Percent Change	United States Population[a]	Annual Percent Change	California as % of United States
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	37,339,485	0.7	309,346,863	0.8	12.1
2011	37,676,006	0.9	311,718,857	0.8	12.1
2012	38,037,860	1.0	314,102,623	0.8	12.1
2013	38,366,541	0.9	316,427,395	0.7	12.1
2014	38,725,091	0.9	318,907,401	0.8	12.1
2015	39,071,323	0.9	321,418,820	0.8	12.2

[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	17,525	16,586	5.4%	5.1%
2006	17,649	16,784	4.9	4.6
2007	17,899	16,931	5.4	4.6
2008	18,203	16,845	7.5	5.8
2009	18,221	16,172	11.3	9.3
2010	18,305	16,083	12.1	9.6
2011	18,361	16,236	11.6	8.9
2012	18,484	16,592	10.2	8.1
2013	18,638	17,001	8.8	7.4
2014	18,800	17,383	7.5	6.2
2015	18,981	17,806	6.2	5.3

Note: 2015 information is preliminary as of January 31, 2016.

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 2005 and 2015.

TABLE 25
Nonfarm Payroll Employment by Major Sector
2005 and 2015

(Thousands)

Industry Sector	Employment 2005	Employment 2015	Distribution of Employment 2005	Distribution of Employment 2015
Mining and Logging	23.6	29.4	0.2%	0.2%
Construction	905.3	722.1	6.0	4.5
Manufacturing				
Nondurable Goods	545.7	469.7	3.6	2.9
Durable Goods	959.4	801.3	6.4	5.0
High Technology	384.2	334.7	2.6	2.1
Other durable Goods	575.2	466.6	3.8	2.9
Trade, Transportation & Utilities	2,820.0	2,950.1	18.8	18.3
Information	473.6	472.9	3.2	2.9
Financial Activities	920.3	795.2	6.1	4.9
Professional & Business Services	2,162.0	2,561.7	14.4	15.9
Educational & Health Services	1,802.3	2,488.2	12.0	15.4
Leisure & Hospitality	1,475.2	1,827.8	9.8	11.3
Other Services	505.5	549.8	3.4	3.4
Government				
Federal Government	250.4	242.9	1.7	1.5
State & Local Government	2,169.8	2,203.1	14.5	13.7
TOTAL	**15,012.9**	**16,114.0**	**100.0%**	**100.0%**

Note: 2015 information is preliminary as of January 31, 2016.

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

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	$1,398,953	5.6%	13.2%
2006	1,501,831	7.4	13.2
2007	1,565,343	4.2	13.0
2008	1,602,749	2.4	12.8
2009	1,537,136	-4.1	12.7
2010	1,583,447	3.0	12.7
2011	1,691,003	6.8	12.8
2012	1,812,315	7.2	13.0
2013	1,849,505	2.1	13.1
2014	1,939,528	4.9	13.2

Note: 2015 information was not available as of January 31, 2016.

Note: omits income for government employees overseas.

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

TABLE 27
Personal Income Per Capita

(Dollars in Millions)

Year	California	Annual % Change	United States	Annual % Change	California % of U.S.
2005	$39,046	4.8%	$35,904	4.6%	108.8%
2006	41,693	6.8	38,144	6.2	109.3
2007	43,182	3.6	39,821	4.4	108.4
2008	43,786	1.4	41,082	3.2	106.6
2009	41,588	-5.0	39,376	-4.2	105.6
2010	42,411	2.0	40,277	2.3	105.3
2011	44,852	5.8	42,453	5.4	105.7
2012	47,614	6.2	44,266	4.3	107.6
2013	48,125	1.1	44,438	0.4	108.3
2014	49,985	3.9	46,049	3.6	108.5

Note: 2015 information was not available as of January 31, 2016.

Note: omits income for government employees overseas.

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

The following tables show certain information with respect to residential and non-residential construction in California.

TABLE 28
Residential Construction Permits Authorized

	Units			
Year	**Total**	**Single**	**Multiple**	**Valuation[a] (Dollars in Millions)**
2006	164,187	107,658	56,529	$38,182
2007	112,574	68,039	44,535	28,560
2008	65,265	32,562	32,703	17,960
2009	36,425	25,265	11,161	12,009
2010	44,365	25,311	19,054	13,704
2011	46,758	21,640	25,118	14,435
2012	58,898	27,599	31,298	17,697
2013	85,954	37,173	48,781	23,158
2014	85,348	36,787	48,561	24,178
2015	95,522	42,659	52,863	28,292

[a] Valuation includes additions and alterations.

Note: 2015 information is preliminary as of January 31, 2016.

Source: Construction Industry Research Board; California Homebuilding Foundation.

TABLE 29
Non-residential Construction
(Dollars in Thousands)

Year	Commercial	Industrial	Other	Additions and Alterations	Total
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	4,231,883	10,855,176	23,302,343
2015	7,696,677	1,122,589	4,470,893	11,518,226	24,808,385

Note: 2015 information is preliminary as of January 31, 2016.

Source: Construction Industry Research Board; California Homebuilding Foundation.

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

Note: 2015 information was not available as of January 31, 2016.

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 February 15, 2016

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.	11/2/2018	LOC	Weekly
	2003C 3-4	$100,000,000	US Bank National Association	11/16/2018	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	8/11/2020	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	8/11/2020	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	11/4/2019	LOC	Weekly
GO VRDOs	2005A-1-2	$85,750,000	Royal Bank of Canada	11/4/2019	LOC	Weekly
GO VRDOs	2005A-2-1	$143,200,000	Sumitomo Mitsui Banking Corporation	11/16/2018	LOC	Weekly
GO VRDOs	2005A-2-2	$28,400,000	Royal Bank of Canada	11/4/2019	LOC	Weekly
GO VRDOs	2005A-3	$49,100,000	Mizuho Bank, Ltd.	11/15/2019	LOC	Weekly
GO VRDOs	2005B-1	$147,100,000	Mizuho Bank, Ltd.	11/15/2019	LOC	Weekly
GO VRDOs	2005B-2	$98,100,000	Bank of Tokyo-Mitsubishi UFJ, Ltd.	11/4/2019	LOC	Weekly
GO VRDOs	2005B-3	$49,100,000	Sumitomo Mitsui Banking Corporation	11/16/2018	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.	11/2/2018	LOC	Up to 90 days
	A2/B2	$500,000,000	Royal Bank of Canada	11/04/2019	LOC	Up to 90 days
	A3/B3	$150,000,000 $50,000,000	JP Morgan Chase (75%) CA Public Employees' Retirement System (25%)	12/16/2016	LOC	Up to 90 days
	A5/B5	$225,000,000	US Bank National Association	8/9/2019	LOC	Up to 90 days
	A6/B6	$50,000,000	Bank of America, N.A.	11/2/2018	LOC	Up to 90 days
	A7/B7	$125,000,000	Mizuho Bank, Ltd.	11/4/2019	LOC	Up to 90 days
	A8/B8	$125,000,000	Bank of the West	2/11/2020	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 GO commercial paper (CP), the total outstanding par represents the maximum principal amount of CP that can be outstanding at any one time under the related bank agreement. There is no Series A4/B4 CP outstanding and the issuance of Series A4/B4 CP is not currently authorized.

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 "Bank Arrangements Table" contains certain information relating to letters of credit, liquidity facilities and other bank arrangements entered into 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.

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 sales since January 1, 2016:

(1) $2,951,120,000 of State of California Various Purpose General Obligation Bonds sold on March 8, 2016 and were issued on March 17, 2016. This sale included $1,817,865,000 of refunding bonds which will (together with premium paid by the purchasers of the bonds) prepay $1,963,930,000 of currently outstanding General Obligation Bonds.

(2) $53,945,000 of State Public Works Board of the State of California Lease Revenue Refunding Bonds (Department of General Services), 2016 Series B (San Diego Office Building Complex) were sold on March 22, 2016 and issued on March 29, 2016.

(3) $99,740,000 of State of California Veterans General Obligation Bonds sold on April 12, 2016 and are expected to be issued on April 28, 2016.

(4) $1,467,705,000 of State of California Various Purpose General Obligation Bonds sold on April 19, 2016 and are expected to be issued on April 28, 2016. This sale included $998,460,000 of refunding bonds which will (together with premium paid by the purchasers of the bonds) prepay $1,137,055,000 of currently outstanding General Obligation Bonds.

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 01/01/2016
(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	39,555	0	0
+ 1990 School Facilities Bond Act	123	06/05/90	797,875	82,785	0	0
+ 1992 School Facilities Bond Act	155	11/03/92	898,211	230,620	0	0
California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	40	03/05/02	2,600,000	2,078,520	22,170	227,005
+ California Library Construction and Renovation Bond Act of 1988	85	11/08/88	72,405	11,945	0	0
*+ California Park and Recreational Facilities Act of 1984	18	06/05/84	368,900	11,525	0	0
* California Parklands Act of 1980	1	11/04/80	285,000	2,340	0	0
California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000	50	03/07/00	350,000	247,915	0	5,040
*+ California Safe Drinking Water Bond Law of 1976	3	06/08/76	172,500	2,825	0	0
* California Safe Drinking Water Bond Law of 1984	28	11/06/84	75,000	1,730	0	0
* California Safe Drinking Water Bond Law of 1986	55	11/04/86	100,000	21,275	0	0
California Safe Drinking Water Bond Law of 1988	81	11/08/88	75,000	26,525	0	0
*+ California Wildlife, Coastal, and Park Land Conservation Act	70	06/07/88	768,670	109,180	0	0
Children's Hospital Bond Act of 2004	61	11/02/04	750,000	644,585	180	47,145
Children's Hospital Bond Act of 2008	3	11/04/08	980,000	658,765	450	304,455
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (Hi-Ed)	1A	11/03/98	2,500,000	1,673,220	0	0
Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (K-12)	1A	11/03/98	6,700,000	3,876,785	0	11,400
* Clean Air and Transportation Improvement Bond Act of 1990	116	06/05/90	1,990,000	736,075	0	4,985
* Clean Water Bond Law of 1984	25	11/06/84	325,000	9,870	0	0
* Clean Water and Water Conservation Bond Law of 1978	2	06/06/78	375,000	4,155	0	0
Clean Water and Water Reclamation Bond Law of 1988	83	11/08/88	65,000	18,860	0	0
* Community Parklands Act of 1986	43	06/03/86	100,000	2,455	0	0
* County Correctional Facility Capital Expenditure Bond Act of 1986	52	06/03/86	495,000	13,595	0	0
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	86	11/08/88	500,000	65,555	0	0
++++ Disaster Preparedness and Flood Prevention Bond Act of 2006	1E	11/07/06	3,990,000	2,228,850	0	1,718,652

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 01/01/2016
(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	66,930	970	7,490
* Fish and Wildlife Habitat Enhancement Act of 1984	19	06/05/84	85,000	4,830	0	0
Higher Education Facilities Bond Act of 1988	78	11/08/88	600,000	22,580	0	0
Higher Education Facilities Bond Act of June 1990	121	06/05/90	450,000	44,985	0	540
Higher Education Facilities Bond Act of June 1992	153	06/02/92	900,000	285,945	0	0
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	1B	11/07/06	19,925,000	15,520,930	606,140	2,889,005
Housing and Emergency Shelter Trust Fund Act of 2002	46	11/05/02	2,100,000	805,895	8,050	79,495
Housing and Emergency Shelter Trust Fund Act of 2006	1C	11/07/06	2,850,000	1,245,450	155,000	939,135
Housing and Homeless Bond Act of 1990	107	06/05/90	150,000	1,330	0	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (Hi-Ed)	47	11/05/02	1,650,000	1,352,940	0	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (K-12)	47	11/05/02	11,400,000	9,071,580	0	57,810
Kindergarten-University Public Education Facilities Bond Act of 2004 (Hi-Ed)	55	03/02/04	2,300,000	1,997,695	3,585	58,019
Kindergarten-University Public Education Facilities Bond Act of 2004 (K-12)	55	03/02/04	10,000,000	8,553,185	8,830	96,190
Kindergarten-University Public Education Facilities Bond Act of 2006 (Hi-Ed)	1D	11/07/06	3,087,000	2,986,265	3,545	38,775
Kindergarten-University Public Education Facilities Bond Act of 2006 (K-12)	1D	11/07/06	7,329,000	6,625,355	34,255	421,105
* Lake Tahoe Acquisitions Bond Act	4	08/02/82	85,000	100	0	0
* New Prison Construction Bond Act of 1986	54	11/04/86	500,000	1,665	0	0
New Prison Construction Bond Act of 1988	80	11/08/88	817,000	11,090	0	2,165
New Prison Construction Bond Act of 1990	120	06/05/90	450,000	14,435	0	605
Passenger Rail and Clean Air Bond Act of 1990	108	06/05/90	1,000,000	34,360	0	0
Public Education Facilities Bond Act of 1996 (Higher Education)	203	03/26/96	975,000	470,145	2,355	4,650
++ Public Education Facilities Bond Act of 1996 (K-12)	203	03/26/96	2,012,035	863,135	0	0
++++ Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	13	03/07/00	1,884,000	1,354,195	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	2,493,490	240,270	2,449,715
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000	12	03/07/00	2,100,000	1,429,985	0	73,820
++++ Safe, Clean, Reliable Water Supply Act	204	11/05/96	969,500	517,430	0	62,915
Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century	1A	11/04/08	9,950,000	706,140	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 01/01/2016
(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	129,110	0	0
School Facilities Bond Act of 1992	152	06/02/92	1,900,000	482,775	0	10,280
Seismic Retrofit Bond Act of 1996	192	03/26/96	2,000,000	1,126,875	0	0
* State, Urban, and Coastal Park Bond Act of 1976	2	11/02/76	280,000	3,680	0	0
Stem Cell Research and Cures Bond Act of 2004	71	11/02/04	3,000,000	1,433,820	108,560	1,123,650
Veterans Homes Bond Act of 2000	16	03/07/00	50,000	34,495	0	975
Veterans Housing and Homeless Prevention Bond Act of 2014	41	06/03/14	600,000	830	775	598,250
Voting Modernization Bond Act of 2002	41	03/05/02	200,000	28,765	0	64,495
Water Conservation Bond Law of 1988	82	11/08/88	60,000	21,515	0	5,235
*++++ Water Conservation and Water Quality Bond Law of 1986	44	06/03/86	136,500	25,720	0	230
Water Quality, Supply, and Infrastructure Improvement Act of 2014	1	11/04/14	7,545,000	325	24,710	7,519,910
++++ Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	50	11/05/02	3,345,000	2,669,095	1,810	309,574
Total General Fund Bonds			**135,239,341**	**75,253,215**	**1,221,655**	**28,099,286**

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of 01/01/2016
(Thousands)

	Proposition Number	Voter Authorization Date	Authorization Amount $	Long Term Bonds Outstanding $	Commercial Paper Outstanding (a) $	Unissued $
ENTERPRISE FUND BONDS (Self Liquidating)						
* California Water Resources Development Bond Act	1	11/08/60	1,750,000	154,775	0	167,600
Veterans Bond Act of 1986	42	06/03/86	850,000	8,160	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	369,960	0	0
+++ Veterans Bond Act of 2008	12	11/04/08	300,000	0	0	300,000
Total Enterprise Fund Bonds			**4,710,000**	**728,675**	**0**	**467,600**
TOTAL GENERAL OBLIGATION BONDS			**139,949,341**	**75,981,890**	**1,221,655**	**28,566,886**

(a) A total of not more than $2.075 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.

+ 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 January 1, 2016

	Total Debt		
	Interest	**Principal**	**Total (a)**
GENERAL OBLIGATION BONDS			
GENERAL FUND NON-SELF LIQUIDATING (b)			
Fixed Rate	$ 57,719,807,248.50	$ 71,631,425,000.00	$ 129,351,232,248.50
Variable Rate (c)	345,690,165.88	3,621,790,000.00	3,967,480,165.88
ENTERPRISE FUND SELF LIQUIDATING			
Fixed Rate	298,067,847.50	728,675,000.00	1,026,742,847.50
REVENUE BONDS			
GENERAL FUND LEASE-REVENUE			
Lease-Revenue	6,043,990,857.47	10,764,485,000.00	16,808,475,857.47
General Fund and Lease-Revenue Total (d)	**$ 64,407,556,119.35**	**$ 86,746,375,000.00**	**$ 151,153,931,119.35**

(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 January 1, 2016. The interest rates for the daily, weekly and monthly rate bonds range from 0.01 - 1.16%.
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) 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 January 1, 2016

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2016	$ 1,922,517,933.97	$ 1,608,300,000.00	$ 3,530,817,933.97
2017	3,780,138,093.12	2,670,300,000.00	6,450,438,093.12
2018	3,670,397,887.45	2,545,715,000.00	6,216,112,887.45
2019	3,552,055,970.62	2,684,855,000.00	6,236,910,970.62
2020	3,403,579,892.64	2,837,895,000.00	6,241,474,892.64
2021	3,274,959,512.73	2,438,095,000.00	5,713,054,512.73
2022	3,146,575,802.81	2,666,985,000.00	5,813,560,802.81
2023	3,018,084,758.03	2,287,735,000.00	5,305,819,758.03
2024	2,909,160,112.93	2,056,880,000.00	4,966,040,112.93
2025	2,802,605,413.15	2,312,780,000.00	5,115,385,413.15
2026	2,685,363,889.10	2,447,515,000.00	5,132,878,889.10
2027	2,559,681,072.06	2,341,365,000.00	4,901,046,072.06
2028	2,444,769,334.61	2,332,695,000.00	4,777,464,334.61
2029	2,330,854,946.35	2,484,545,000.00	4,815,399,946.35
2030	2,208,150,180.10	2,661,150,000.00	4,869,300,180.10
2031	2,062,862,334.05	2,745,370,000.00	4,808,232,334.05
2032	1,932,528,634.40	2,565,645,000.00	4,498,173,634.40
2033	1,794,578,195.01	2,563,870,000.00	4,358,448,195.01
2034	1,666,645,335.26	3,387,565,000.00	5,054,210,335.26
2035	1,434,492,644.09	3,143,005,000.00	4,577,497,644.09
2036	1,248,149,300.76	2,764,395,000.00	4,012,544,300.76
2037	1,076,269,524.37	3,122,660,000.00	4,198,929,524.37
2038	887,842,559.44	3,268,625,000.00	4,156,467,559.44
2039	735,493,428.95	3,415,270,000.00	4,150,763,428.95
2040	454,769,662.50	1,767,885,000.00	2,222,654,662.50
2041	292,957,793.75	2,190,000,000.00	2,482,957,793.75
2042	190,677,793.75	1,319,000,000.00	1,509,677,793.75
2043	135,220,418.75	1,326,325,000.00	1,461,545,418.75
2044	61,651,398.75	875,000,000.00	936,651,398.75
2045	30,773,425.00	550,000,000.00	580,773,425.00
2046	6,000,000.00	250,000,000.00	256,000,000.00
Total	**$ 57,719,807,248.50**	**$ 71,631,425,000.00**	**$ 129,351,232,248.50**

(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 February 1, 2016 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 January 1, 2016

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2016	$ 13,644,183.28	$ 21,000,000.00	$ 34,644,183.28
2017	28,010,892.11	184,675,000.00	212,685,892.11
2018	27,772,910.09	243,305,000.00	271,077,910.09
2019	27,430,294.06	113,420,000.00	140,850,294.06
2020	27,226,885.17	105,500,000.00	132,726,885.17
2021	27,036,123.63	154,400,000.00	181,436,123.63
2022	26,614,816.07	39,200,000.00	65,814,816.07
2023	26,610,710.07	61,100,000.00	87,710,710.07
2024	26,621,962.56	173,600,000.00	200,221,962.56
2025	26,575,542.12	116,400,000.00	142,975,542.12
2026	26,567,334.48	203,300,000.00	229,867,334.48
2027	22,054,382.53	390,600,000.00	412,654,382.53
2028	13,041,822.86	399,000,000.00	412,041,822.86
2029	7,803,266.11	407,700,000.00	415,503,266.11
2030	6,571,271.41	254,390,000.00	260,961,271.41
2031	6,053,833.86	163,600,000.00	169,653,833.86
2032	4,537,180.97	316,600,000.00	321,137,180.97
2033	1,515,916.40	271,400,000.00	272,915,916.40
2034	246.41	1,600,000.00	1,600,246.41
2035	100.00	-	100.00
2036	100.43	-	100.43
2037	99.57	-	99.57
2038	100.00	-	100.00
2039	100.00	-	100.00
2040	91.69	1,000,000.00	1,000,091.69
Total	**$ 345,690,165.88**	**$ 3,621,790,000.00**	**$ 3,967,480,165.88**

(a) The estimate of future interest payments is based on rates in effect as of January 1, 2016. The interest rates for the daily, weekly and monthly rate bonds range from 0.01 - 1.16%.
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 February 1, 2016 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 January 1, 2016

Fiscal Year Ending June 30	Current Debt		
	Interest	Principal	Total (a)
2016	$ 12,389,489.37	$ 19,730,000.00	$ 32,119,489.37
2017	23,216,470.00	71,955,000.00	95,171,470.00
2018	20,970,523.40	59,805,000.00	80,775,523.40
2019	19,344,057.50	47,080,000.00	66,424,057.50
2020	18,063,530.10	39,370,000.00	57,433,530.10
2021	16,878,363.75	29,375,000.00	46,253,363.75
2022	16,148,072.50	13,630,000.00	29,778,072.50
2023	15,797,493.75	9,695,000.00	25,492,493.75
2024	15,614,108.75	4,365,000.00	19,979,108.75
2025	15,485,198.75	4,660,000.00	20,145,198.75
2026	15,417,343.75	-	15,417,343.75
2027	15,154,622.50	16,695,000.00	31,849,622.50
2028	14,724,887.26	8,835,000.00	23,559,887.26
2029	14,100,143.15	31,905,000.00	46,005,143.15
2030	12,803,803.89	50,980,000.00	63,783,803.89
2031	11,146,092.76	50,700,000.00	61,846,092.76
2032	9,433,487.10	49,630,000.00	59,063,487.10
2033	7,730,942.50	42,535,000.00	50,265,942.50
2034	6,206,086.43	37,520,000.00	43,726,086.43
2035	4,952,656.25	28,670,000.00	33,622,656.25
2036	3,987,406.25	22,810,000.00	26,797,406.25
2037	3,093,967.79	23,025,000.00	26,118,967.79
2038	2,322,200.00	15,300,000.00	17,622,200.00
2039	1,695,700.00	16,025,000.00	17,720,700.00
2040	1,039,400.00	16,790,000.00	17,829,400.00
2041	351,800.00	17,590,000.00	17,941,800.00
Total	**$ 298,067,847.50**	**$ 728,675,000.00**	**$ 1,026,742,847.50**

(a) Includes scheduled mandatory sinking fund payments.
Total represents the remaining debt service requirements from February 1, 2016 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 January 1, 2016

Name of Issue		Outstanding
GENERAL FUND SUPPORTED ISSUES:		
State Public Works Board		
California Community Colleges	$	242,950,000
California Department of Corrections and Rehabilitation		4,260,785,000
Trustees of the California State University		987,525,000
Various State Facilities (a)		4,990,395,000
Total State Public Works Board Issues	**$**	**10,481,655,000**
Total Other State Facilities Lease-Revenue Issues (b)	$	282,830,000
Total General Fund Supported Issues	**$**	**10,764,485,000**
SPECIAL FUND SUPPORTED ISSUES:		
East Bay State Building Authority	$	11,915,000
San Bernardino Joint Powers Financing Authority		20,985,000
Total Special Fund Supported Issues	**$**	**32,900,000**
TOTAL	**$**	**10,797,385,000**

(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 January 1, 2016

Fiscal Year Ending June 30	Current Debt		
	Interest (a)	Principal	Total (b)
2016	$ 274,503,795.18	$ 176,930,000.00	$ 451,433,795.18
2017	537,344,601.59	547,540,000.00	1,084,884,601.59
2018	510,926,901.84	606,485,000.00	1,117,411,901.84
2019	481,843,595.09	584,800,000.00	1,066,643,595.09
2020	453,018,575.10	569,440,000.00	1,022,458,575.10
2021	425,880,028.81	532,425,000.00	958,305,028.81
2022	399,393,277.09	520,010,000.00	919,403,277.09
2023	374,917,170.96	478,260,000.00	853,177,170.96
2024	351,344,553.00	465,105,000.00	816,449,553.00
2025	327,584,305.92	484,380,000.00	811,964,305.92
2026	302,431,275.90	499,385,000.00	801,816,275.90
2027	276,134,348.70	525,645,000.00	801,779,348.70
2028	248,840,729.38	539,685,000.00	788,525,729.38
2029	220,642,329.72	507,470,000.00	728,112,329.72
2030	193,683,481.62	501,305,000.00	694,988,481.62
2031	166,783,116.54	496,895,000.00	663,678,116.54
2032	138,841,975.33	504,510,000.00	643,351,975.33
2033	112,219,837.42	428,980,000.00	541,199,837.42
2034	87,248,274.41	441,165,000.00	528,413,274.41
2035	61,802,508.87	408,600,000.00	470,402,508.87
2036	42,538,962.50	264,370,000.00	306,908,962.50
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	**$ 6,043,990,857.47**	**$ 10,764,485,000.00**	**$ 16,808,475,857.47**

(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 February 1, 2016 through June 30, 2016.

SOURCE: State of California, Office of the Treasurer.

STATE AGENCY REVENUE BONDS
AND CONDUIT FINANCING
As of December 31, 2015

Issuing Agency	Outstanding[(a)(b)(c)]
State Revenue Bond Financing Programs:	
California Alternative Energy and Advanced Transportation Financing Authority.....	3,409,067
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.....	2,613,143,175
California Infrastructure and Economic Development Bank.....	538,890,000
California State University.....	4,250,198,000
Department of Water Resources - Central Valley Project.....	2,418,700,000
Department of Water Resources - Power Supply Program.....	5,278,455,000
The Regents of the University of California.....	15,988,850,000
Veterans Revenue Debenture.....	314,290,000
TOTAL.....	**31,867,460,242**
Conduit Financing:	
California Alternative Energy and Advanced Transportation Financing Authority.....	55,307,533
California Educational Facilities Authority.....	4,557,242,770
California Health Facilities Financing Authority.....	13,299,354,659
California Housing Finance Agency.....	465,038,142
California Infrastructure and Economic Development Bank	4,098,546,833
California Pollution Control Financing Authority.....	3,721,488,421
California School Financing Authority.....	496,946,433
TOTAL.....	**26,693,924,791**

(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

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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, 2015. See "FINANCIAL STATEMENTS."

The University of California ("UC") maintains a separate retirement system. The 2016-17 Governor's Budget does not allocate any of UC's appropriation specifically to fund its employer retirement costs, but directs $171 million in one-time Proposition 2 funds to help pay down the unfunded liability of the 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, including a requirement that "net pension liability" be included on state and local government balance sheets, 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, 2015.

Pension Reform

1. 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.

2. 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

CalPERS administers 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 include 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, 2014 and June 30, 2015.

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

Category	2014	2015
Retirees	180,666	186,144
Survivors and Beneficiaries	30,575	32,692
Active Members	246,834	250,959
Inactive Members	94,813	86,845
Total	552,888	556,640

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2014 and June 30, 2015.

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.

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

Note: 2015 information was not available as of January 31. 2016.

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 2016-17 Governor's Budget includes the following employer contribution rates:

	Contribution Rates
State Miscellaneous Tier 1	27.382%
California State University, Miscellaneous Tier 1	27.382
State Miscellaneous Tier 2	27.689
State Industrial	19.881
State Safety	19.982
State Peace Officers & Firefighters	42.047
California State University, Peace Officers and Firefighters	42.047
California Highway Patrol	50.919

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

TABLE 33
State Contributions to PERF, including CSU
(Dollars in Millions)

Fiscal Year	State Employees All Funds	State Employees General Fund	CSU Employees All Funds	CSU General Fund	Total Contributions	Total General Fund
2012-13	$2,948	$1,506	$449	$449	$3,397	$1,955
2013-14	3,219	1,645	474	474	3,693	2,118
2014-15	4,042	2,120	543	543	4,584	2,662
2015-16[(a)]	4,338	2,281	585	584	4,922	2,866
2016-17[(a)]	4,829	2,534	636	636	5,465	3,171

[(a)] Estimated contributions.

Note: Totals may not add due to rounding effects.

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 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: Fiscal Year 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: Fiscal Year 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: Fiscal Year 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, 2005 through June 30, 2015, as well as time-weighted average returns.

TABLE 34
CalPERS Investment Results Based On Market Value

Fiscal Year	Annualized Rate of Return
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
2014-15	2.4

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2005 through June 30, 2015.

TABLE 35
PERF Time-Weighted Average Returns as of June 30, 2015

Period	Time Weighted Average Rate of Return
3 years	10.9%
5 years	10.7
10 years	6.2

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2015.

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 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.

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TABLE 36
Actuarial Assumptions—PERF

	Fiscal Year			
Assumption	**2010-11**	**2011-12**	**2012-13**	**2013-14**
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 is being phased in over three years, with a 20-year amortization, beginning in fiscal year 2014-15.

On November 18, 2015 the CalPERS Board adopted a Funding Risk Mitigation Policy that seeks to reduce funding risk over time. It establishes a mechanism whereby CalPERS investment performance that significantly outperforms the discount rate triggers adjustments to the discount rate, expected investment return, and strategic asset allocation targets. Reducing the volatility of investment returns is expected to increase the long-term sustainability of CalPERS pension benefits for members. However, CalPERS has signaled it would not incorporate a new risk management approach into state contribution rates until fiscal year 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 then current 15-year asset-smoothing policy with a 5-year direct-rate smoothing process and replace the then 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

(Dollars in Millions)

	Fiscal Year				
	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 2016-17 retirement contributions from the General Fund are estimated to be $201.8 million for JRF and $68.2 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, 2015 attached as APPENDIX H 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 2015 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 1,690 employers. The following table reflects the total number of members in the DB Program as of June 30, 2014 and 2015.

TABLE 38
DB Program Membership

Membership	June 30, 2015	June 30, 2014	Percent Change
Active Members	429,460	420,887	2.0%
Inactive Members	184,396	182,815	0.8
Retirees and Beneficiaries	282,100	275,627	2.3
Total Membership	895,956	879,329	1.9

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2015.

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:

TABLE 39
DB Program
Schedule of Benefits Paid and Administrative Expenses

(Dollars in Millions)

Fiscal Year	Amount of Benefits Paid	Administrative Expenses
2010-11	$10,092	$110
2011-12	10,677	138
2012-13	11,355	137
2013-14[1]	11,616	146
2014-15[1]	12,165	137

[1] Pursuant to GASB 67, the CalSTRS Comprehensive Annual Financial Report no longer displays the DB Program independent of the STRP beginning in fiscal year 2014. The DB Program amounts were provided by CalSTRS.
Source: CalSTRS Comprehensive Annual Financial Reports for Fiscal Years ended June 30, 2011 through 2013. CalSTRS for Fiscal Years ended June 30, 2014 and 2015.

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 increased 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 2015 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 2015 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 2015 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 2015 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 "Schedule A" of the Independent Auditor's Report and Other Pension Information of the STRP for the fiscal year ended June 30, 2015 (which is available on the CalSTRS website at www.calstrs.ca.gov), 34.59 percent 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 34.59 percent contained in the 2015 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.

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 General Fund Contributions from the State
(Dollars in Millions)

Fiscal Year	DB PROGRAM	SBMA	Pre-1990 DB	Total
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
2016-17	580	647	1,241	2,468

[(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, 2015.

TABLE 41
Actuarial Methods and Assumptions - DB Program

	Fiscal Year			
Methods	**2011-12**	**2012-13**	**2013-14**	**2014-15**
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, 2012, 2013, 2014, and 2015.

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 five 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.

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TABLE 42
DB Program Schedule of Funding Progress

(Dollars in Millions)

	Fiscal Year				
	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 STRP assets and does not provide a separate accounting of only the DB Program assets. The market value of the DB Program 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 $184.4 billion as of June 30, 2015, an increase from $178.3 billion (or 3.4 percent) on June 30, 2014.

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, 2005 through June 30, 2015, as well as time-weighted average returns.

TABLE 43
CalSTRS Investment Results Based On Market Value

Fiscal Year	Annualized Rate of Gross Return
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
2015-16	4.77

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2015.

TABLE 44
CalSTRS Time-Weighted Gross Returns as of June 30, 2015

Period	Time-Weighted Rate of Return
3 years	12.26%
5 years	12.14
10 years	7.02

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2015.

March 2016

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

BETTY T. YEE
California State Controller

BETTY T. YEE
California State Controller

April 11, 2016

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2015, through March 31, 2016. 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 published in the 2016-17 Governor's Budget. These cash flow estimates are predicated on projections and assumptions made by DOF in preparation of the 2016-17 Governor's Budget.

Attachment B 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 also are 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,
Originally signed by:

BETTY T. YEE

300 Capitol Mall, Suite 1850, Sacramento, CA 95814 P.O. Box 942850, Sacramento, CA 94250 Fax: (916) 322-4404
www.sco.ca.gov

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2016-17 Governor's Budget Estimates
(Amounts in thousands)

	July 1 through March 31				
	2016				2015
	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	78,366,587	77,854,145	512,442	0.7	73,163,899
Nonrevenues	1,351,069	1,190,108	160,961	13.5	1,802,179
Total Receipts	79,717,656	79,044,253	673,403	0.9	74,966,078
Less Disbursements:					
State Operations	23,175,236	23,063,975	111,261	0.5	23,003,539
Local Assistance	70,857,210	70,479,630	377,580	0.5	66,624,085
Capital Outlay	140,665	199,893	(59,228)	(29.6)	153,125
Nongovernmental	2,415,076	2,370,957	44,119	1.9	2,174,258
Total Disbursements	96,588,187	96,114,455	473,732	0.5	91,955,007
Receipts Over / (Under) Disbursements	(16,870,531)	(17,070,202)	199,671	(1.2)	(16,988,929)
Net Increase / (Decrease) in Temporary Loans	14,341,119	14,540,790	(199,671)	(1.4)	15,067,300
GENERAL FUND ENDING CASH BALANCE	-	-	-		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	**$ -**	**$ -**	**$ -**		$ -
BORROWABLE RESOURCES					
Available Borrowable Resources	$ 33,972,126	$ 31,572,182	$ 2,399,944	7.6	$ 31,072,979
Outstanding Loans (b)	14,341,119	14,540,790	(199,671)	(1.4)	15,067,300
Unused Borrowable Resources	$ 19,631,007	$ 17,031,392	$ 2,599,615	15.3	$ 16,005,679

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 2016-17 Governor's Budget. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $14.3 billion is comprised of $14.3 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 $14.3 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.
(e) The 2016-17 Governor's Budget reclassified California State University Retiree Health Benefits expenses as a General Government disbursement to better align retiree health and dental care spending. Prior month reported actuals and Budget Act estimates reflect these state operation expenses as a State Universities and Colleges expense. Year-to-date actuals for this expense total $155.7 million.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of March		July 1 through March 31				
			2016				2015
	2016	2015	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	Actual Over or (Under) Estimate %	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 33,012	$ 7,045	$ 279,253	$ 269,700	$ 9,553	3.5	$ 272,906
Corporation Tax	1,712,691	1,556,850	5,532,625	5,151,674	380,951	7.4	5,562,901
Cigarette Tax	9,653	1,736	63,959	58,322	5,637	9.7	65,728
Estate, Inheritance, and Gift Tax	19	183	1,515	809	706	87.3	2,325
Insurance Companies Tax	262,375	192,851	1,517,622	1,402,808	114,814	8.2	1,414,191
Personal Income Tax	3,490,409	3,326,264	51,826,468	51,767,381	59,087	0.1	48,062,203
Retail Sales and Use Taxes	1,794,490	1,654,566	18,147,579	18,311,244	(163,665)	(0.9)	16,999,835
Vehicle License Fees	2	11	20	13	7	53.8	132
Pooled Money Investment Interest	5,501	2,401	22,545	17,150	5,395	31.5	12,207
Not Otherwise Classified	101,274	74,465	975,001	875,044	99,957	11.4	771,471
Total Revenues	**7,409,426**	**6,816,372**	**78,366,587**	**77,854,145**	**512,442**	**0.7**	**73,163,899**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	138,000	138,000	-	-	621,400
Transfers from Other Funds	15,488	14,601	405,566	351,936	53,630	15.2	336,439
Miscellaneous	72,978	77,514	807,503	700,172	107,331	15.3	844,340
Total Nonrevenues	**88,466**	**92,115**	**1,351,069**	**1,190,108**	**160,961**	**13.5**	**1,802,179**
Total Receipts	**$ 7,497,892**	**$ 6,908,487**	**$ 79,717,656**	**$ 79,044,253**	**$ 673,403**	**0.9**	**$ 74,966,078**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of March		July 1 through March 31				
			2016				2015
	2016	2015	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 96,441	$ 97,523	$ 1,167,110	$ 1,164,736	$ 2,374	0.2	$ 1,169,835
Business, Consumer Services and Housing	2,016	2,234	20,072	16,886	3,186	18.9	17,713
Transportation	-	4	6	3	3	100.0	39
Resources	85,248	99,250	1,467,168	1,290,333	176,835	13.7	1,074,732
Environmental Protection Agency	6,020	6,692	33,373	190,597	(157,224)	(82.5)	33,548
Health and Human Services:							
Health Care Services and Public Health	15,604	5,483	237,014	231,917	5,097	2.2	221,778
Department of State Hospitals	137,297	118,579	1,191,950	1,164,365	27,585	2.4	1,147,094
Other Health and Human Services	48,140	12,998	483,069	512,547	(29,478)	(5.8)	382,140
Education:							
University of California	237,548	228,496	2,422,878	2,423,186	(308)	(0.0)	2,305,701
State Universities and Colleges	250,455	209,016	2,510,004 (e)	2,543,343	(33,339)	(1.3)	2,257,639
Other Education	15,808	18,009	161,099	169,257	(8,158)	(4.8)	152,467
Dept. of Corrections and Rehabilitation	870,201	834,847	7,445,012	7,547,951	(102,939)	(1.4)	7,299,870
Governmental Operations	88,365	50,710	579,253	574,499	4,754	0.8	566,450
General Government	189,192	179,799	2,053,548 (e)	2,028,758	24,790	1.2	3,465,268
Public Employees Retirement System	(204,947)	(193,011)	(22,748)	(33,885)	11,137	(32.9)	(90,777)
Debt Service (d)	774,759	546,638	3,399,061	3,209,282	189,779	5.9	3,010,810
Interest on Loans	167	3,852	27,367	30,200	(2,833)	(9.4)	(10,768)
Total State Operations	**2,612,314**	**2,221,119**	**23,175,236**	**23,063,975**	**111,261**	**0.5**	**23,003,539**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	5,450,037	4,517,136	36,300,063	36,501,933	(201,870)	(0.6)	34,862,067
Community Colleges	554,244	506,218	4,545,973	4,521,324	24,649	0.5	3,880,727
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	1,299,725	1,299,725	-	-	968,957
Other Education	294,512	265,828	2,386,454	2,344,193	42,261	1.8	2,136,858
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	1,017	1,521	195,435	193,558	1,877	1.0	205,582
Dept. of Alcohol and Drug Program	-	-	-	-	-	-	210
Health Care Services and Public Health:							
Medical Assistance Program	1,793,699	1,701,632	15,018,875	14,378,971	639,904	4.5	15,097,394
Other Health Care Services/Public Health	30,504	10,905	156,141	181,009	(24,868)	(13.7)	134,438
Developmental Services - Regional Centers	173,747	222,255	2,812,747	2,818,353	(5,606)	(0.2)	2,642,003
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	291,125	434,775	4,530,319	4,936,700	(406,381)	(8.2)	3,922,063
CalWORKs	74,419	1,520	811,726	764,749	46,977	6.1	317,834
Other Social Services	69,145	42,590	576,837	598,500	(21,663)	(3.6)	530,166
Tax Relief	-	-	206,976	215,828	(8,852)	(4.1)	207,878
Other Local Assistance	74,501	84,627	2,015,939	1,724,787	291,152	16.9	1,717,908
Total Local Assistance	**8,806,950**	**7,789,007**	**70,857,210**	**70,479,630**	**377,580**	**0.5**	**66,624,085**

See notes on page A1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of March		July 1 through March 31				
			2016				2015
	2016	2015	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**1,572**	**3,280**	**140,665**	**199,893**	**(59,228)**	**(29.6)**	**153,125**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	804,000	804,000	-	-	-
Transfer to Budget Stabilization Account	-	-	1,854,000	1,854,000	-	-	1,606,422
Transfer to Other Funds	750	35,000	32,256	16,034	16,222	101.2	837,687
Transfer to Revolving Fund	-	1	7,456	9,312	(1,856)	(19.9)	7,474
Advance:							
MediCal Provider Interim Payment	-	-	-	-	-	-	-
State-County Property Tax Administration Program	(27,965)	40,476	21,190	31,184	(9,994)	(32.0)	79,269
Social Welfare Federal Fund	32,900	29,000	2,178	(37,569)	39,747	(105.8)	(72,821)
Local Governmental Entities	-	-	(1,188)	(1,188)	-	-	(1,161)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	-	-	(304,816)	(304,816)	-	-	(282,612)
Total Nongovernmental	**5,685**	**104,477**	**2,415,076**	**2,370,957**	**44,119**	1.9	**2,174,258**
Total Disbursements	**$ 11,426,521**	**$ 10,117,883**	**$ 96,588,187**	**$ 96,114,455**	**$ 473,732**	**0.5**	**$ 91,955,007**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ -	$ -	$ 1,115,700	$ 1,115,700	$ -	-	$ 449,700
Budget Stabilization Account	-	-	3,460,422	3,460,422	-	-	1,606,422
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	3,928,629	3,209,396	9,764,997	9,964,668	(199,671)	(2.0)	10,211,178
Revenue Anticipation Notes	-	-	-	-	-	-	2,800,000
Net Increase / (Decrease) Loans	**3,928,629**	**$ 3,209,396**	**$ 14,341,119**	**$ 14,540,790**	**$ (199,671)**	**(1.4)**	**$ 15,067,300**

See notes on page A1.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through March 31			
	General Fund		Special Funds	
	2016	2015	2016	2015
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 279,253	$ 272,906	$ 2	$ -
Corporation Tax	5,532,625	5,562,901	-	-
Cigarette Tax	63,959	65,728	558,383	572,155
Estate, Inheritance, and Gift Tax	1,515	2,325	-	-
Insurance Companies Tax	1,517,622	1,414,191	1,132,378	1,023,148
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	3,500,810	4,050,432
Diesel & Liquid Petroleum Gas	-	-	316,296	243,295
Jet Fuel Tax	-	-	2,193	2,038
Vehicle License Fees	20	132	1,863,354	1,715,721
Motor Vehicle Registration and Other Fees	-	-	3,319,549	3,213,286
Personal Income Tax	51,826,468	48,062,203	926,436	862,184
Retail Sales and Use Taxes	18,147,579	16,999,835	10,653,545	10,766,739
Pooled Money Investment Interest	22,545	12,207	138	131
Total Major Taxes, Licenses, and Investment Income	**77,391,586**	**72,392,428**	**22,273,084**	**22,449,129**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	1,861	2,212	42,179	40,747
Electrical Energy Tax	-	-	473,160	398,476
Private Rail Car Tax	9,868	8,922	-	-
Penalties on Traffic Violations	-	-	39,149	44,238
Health Care Receipts	9,069	6,962	-	-
Revenues from State Lands	68,843	256,822	-	-
Abandoned Property	(119,780)	(121,928)	-	-
Trial Court Revenues	30,489	34,292	1,037,776	1,082,482
Horse Racing Fees	845	936	9,505	9,162
Cap and Trade	-	-	1,819,098	864,241
Miscellaneous	973,806	583,253	9,350,482	7,749,931
Not Otherwise Classified	**975,001**	**771,471**	**12,771,349**	**10,189,277**
Total Revenues, All Governmental Cost Funds	**$ 78,366,587**	**$ 73,163,899**	**$ 35,044,433**	**$ 32,638,406**

See notes on page A1.

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2015-16 Budget Act
(Amounts in thousands)

	July 1 through March 31				
	2016				2015
	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	78,366,587	76,102,845	2,263,742	3.0	73,163,899
Nonrevenues	1,351,069	1,050,796	300,273	28.6	1,802,179
Total Receipts	79,717,656	77,153,641	2,564,015	3.3	74,966,078
Less Disbursements:					
State Operations	23,175,236	22,538,952	636,284	2.8	23,003,539
Local Assistance	70,857,210	71,100,865	(243,655)	(0.3)	66,624,085
Capital Outlay	140,665	237,577	(96,912)	(40.8)	153,125
Nongovernmental	2,415,076	2,325,105	89,971	3.9	2,174,258
Total Disbursements	96,588,187	96,202,499	385,688	0.4	91,955,007
Receipts Over / (Under) Disbursements	(16,870,531)	(19,048,858)	2,178,327	(11.4)	(16,988,929)
Net Increase / (Decrease) in Temporary Loans	14,341,119	16,519,446	(2,178,327)	(13.2)	15,067,300
GENERAL FUND ENDING CASH BALANCE	-	-	-		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	**$ -**	**$ -**	**$ -**		$ -
BORROWABLE RESOURCES					
Available Borrowable Resources	$ 33,972,126	$ 30,825,233	$ 3,146,893	10.2	$ 31,072,979
Outstanding Loans (b)	14,341,119	16,519,446	(2,178,327)	(13.2)	15,067,300
Unused Borrowable Resources	$ 19,631,007	$ 14,305,787	$ 5,325,220	37.2	$ 16,005,679

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 $14.3 billion is comprised of $14.3 billion of internal borrowing. Current balance is comprised of $14.3 billion carried forward from June 30, 2015, plus current year Net Increase/(Decrease) in Temporary Loans of $14.3 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.
(e) The 2016-17 Governor's Budget reclassified California State University Retiree Health Benefits expenses as a General Government disbursement to better align retiree health and dental care spending. Prior month reported actuals and Budget Act estimates reflect these state operation expenses as a State Universities and Colleges expense. Year-to-date actuals for this expense total $155.7 million.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of March		July 1 through March 31				
			2016				2015
	2016	2015	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 33,012	$ 7,045	$ 279,253	$ 270,055	$ 9,198	3.4	$ 272,906
Corporation Tax	1,712,691	1,556,850	5,532,625	5,228,918	303,707	5.8	5,562,901
Cigarette Tax	9,653	1,736	63,959	61,688	2,271	3.7	65,728
Estate, Inheritance, and Gift Tax	19	183	1,515	-	1,515	-	2,325
Insurance Companies Tax	262,375	192,851	1,517,622	1,404,746	112,876	8.0	1,414,191
Personal Income Tax	3,490,409	3,326,264	51,826,468	49,712,239	2,114,229	4.3	48,062,203
Retail Sales and Use Taxes	1,794,490	1,654,566	18,147,579	18,497,394	(349,815)	(1.9)	16,999,835
Vehicle License Fees	2	11	20	-	20	-	132
Pooled Money Investment Interest	5,501	2,401	22,545	22,795	(250)	(1.1)	12,207
Not Otherwise Classified	101,274	74,465	975,001	905,010	69,991	7.7	771,471
Total Revenues	**7,409,426**	**6,816,372**	**78,366,587**	**76,102,845**	**2,263,742**	**3.0**	**73,163,899**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	138,000	-	138,000	-	621,400
Transfers from Other Funds	15,488	14,601	405,566	359,093	46,473	12.9	336,439
Miscellaneous	72,978	77,514	807,503	691,703	115,800	16.7	844,340
Total Nonrevenues	**88,466**	**92,115**	**1,351,069**	**1,050,796**	**300,273**	**28.6**	**1,802,179**
Total Receipts	**$ 7,497,892**	**$ 6,908,487**	**$ 79,717,656**	**$ 77,153,641**	**$ 2,564,015**	**3.3**	**$ 74,966,078**

See notes on page B1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of March		July 1 through March 31				
			2016				2015
	2016	2015	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 96,441	$ 97,523	$ 1,167,110	$ 1,191,055	$ (23,945)	(2.0)	$ 1,169,835
Business, Consumer Services and Housing	2,016	2,234	20,072	18,238	1,834	10.1	17,713
Transportation	-	4	6	-	6	-	39
Resources	85,248	99,250	1,467,168	1,249,398	217,770	17.4	1,074,732
Environmental Protection Agency	6,020	6,692	33,373	46,001	(12,628)	(27.5)	33,548
Health and Human Services:							
Health Care Services and Public Health	15,604	5,483	237,014	245,015	(8,001)	(3.3)	221,778
Department of State Hospitals	137,297	118,579	1,191,950	1,193,225	(1,275)	(0.1)	1,147,094
Other Health and Human Services	48,140	12,998	483,069	448,070	34,999	7.8	382,140
Education:							
University of California	237,548	228,496	2,422,878	2,398,500	24,378	1.0	2,305,701
State Universities and Colleges	250,455	209,016	2,510,004	2,448,206	61,798 (e)	2.5	2,257,639
Other Education	15,808	18,009	161,099	172,205	(11,106)	(6.4)	152,467
Dept. of Corrections and Rehabilitation	870,201	834,847	7,445,012	7,417,196	27,816	0.4	7,299,870
Governmental Operations	88,365	50,710	579,253	591,312	(12,059)	(2.0)	566,450
General Government	189,192	179,799	2,053,548	2,244,096	(190,548) (e)	(8.5)	3,465,268
Public Employees Retirement System	(204,947)	(193,011)	(22,748)	(186,509)	163,761	(87.8)	(90,777)
Debt Service (d)	774,759	546,638	3,399,061	3,048,968	350,093	11.5	3,010,810
Interest on Loans	167	3,852	27,367	13,976	13,391	95.8	(10,768)
Total State Operations	**2,612,314**	**2,221,119**	**23,175,236**	**22,538,952**	**636,284**	**2.8**	**23,003,539**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	5,450,037	4,517,136	36,300,063	36,838,277	(538,214)	(1.5)	34,862,067
Community Colleges	554,244	506,218	4,545,973	4,645,310	(99,337)	(2.1)	3,880,727
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	1,299,725	1,299,725	-	-	968,957
Other Education	294,512	265,828	2,386,454	2,293,557	92,897	4.1	2,136,858
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	1,017	1,521	195,435	194,781	654	0.3	205,582
Dept. of Alcohol and Drug Program	-	-	-	-	-	-	210
Health Care Services and Public Health:							
Medical Assistance Program	1,793,699	1,701,632	15,018,875	14,400,674	618,201	4.3	15,097,394
Other Health Care Services/Public Health	30,504	10,905	156,141	250,636	(94,495)	(37.7)	134,438
Developmental Services - Regional Centers	173,747	222,255	2,812,747	3,273,598	(460,851)	(14.1)	2,642,003
Department of State Hospitals	-	-	-	-	-	-	-
Dept. of Social Services:							
SSI/SSP/IHSS	291,125	434,775	4,530,319	4,835,059	(304,740)	(6.3)	3,922,063
CalWORKs	74,419	1,520	811,726	685,461	126,265	18.4	317,834
Other Social Services	69,145	42,590	576,837	543,734	33,103	6.1	530,166
Tax Relief	-	-	206,976	215,829	(8,853)	(4.1)	207,878
Other Local Assistance	74,501	84,627	2,015,939	1,624,224	391,715	24.1	1,717,908
Total Local Assistance	**8,806,950**	**7,789,007**	**70,857,210**	**71,100,865**	**(243,655)**	**(0.3)**	**66,624,085**

See notes on page B1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of March		July 1 through March 31				
			2016				2015
	2016	2015	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**1,572**	**3,280**	**140,665**	**237,577**	**(96,912)**	**(40.8)**	**153,125**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	804,000	666,000	138,000	20.7	-
Transfer to Budget Stabilization Account	-	-	1,854,000	1,854,000	-	-	1,606,422
Transfer to Other Funds	750	35,000	32,256	115,571	(83,315)	(72.1)	837,687
Transfer to Revolving Fund	-	1	7,456	-	7,456	-	7,474
Advance:							
MediCal Provider Interim Payment	-	-	-	-	-	-	-
State-County Property Tax Administration Program	(27,965)	40,476	21,190	-	21,190	-	79,269
Social Welfare Federal Fund	32,900	29,000	2,178	-	2,178	-	(72,821)
Local Governmental Entities	-	-	(1,188)	-	(1,188)	-	(1,161)
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	-	-	(304,816)	(310,466)	5,650	(1.8)	(282,612)
Total Nongovernmental	**5,685**	**104,477**	**2,415,076**	**2,325,105**	**89,971**	3.9	**2,174,258**
Total Disbursements	**$ 11,426,521**	**$ 10,117,883**	**$ 96,588,187**	**$ 96,202,499**	**$ 385,688**	**0.4**	**$ 91,955,007**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ -	$ -	$ 1,115,700	$ 1,115,700	$ -	-	$ 449,700
Budget Stabilization Account	-	-	3,460,422	3,460,422	-	-	1,606,422
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	3,928,629	3,209,396	9,764,997	11,943,324	(2,178,327)	(18.2)	10,211,178
Revenue Anticipation Notes	-	-	-	-	-	-	2,800,000
Net Increase / (Decrease) Loans	**3,928,629**	**$ 3,209,396**	**$ 14,341,119**	**$ 16,519,446**	**$ (2,178,327)**	**(13.2)**	**$ 15,067,300**

See notes on page B1.

(Concluded)

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 (as defined below) 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

[†] Source: Department of Veterans Affairs.

substantial 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 Secretary of Veterans Affairs of the Department (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, 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, who is the head of the Department, 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 December 31, 2015, the Department employed approximately 107 people in support of the Program.

Vito Imbasciani, M.D.
Secretary since September 2015

Vito Imbasciani, M.D., was appointed Department Secretary by Governor Brown in September 2015. 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.

Russell Atterberry
Undersecretary since December 2015

Mr. Atterberry was appointed Department Undersecretary by Governor Brown in December 2015. Mr. Atterberry joined the Department after retiring from a 21 year career with the U.S. Navy where he served, among other positions, as an engineer on the USS La Jolla, in the quality assurance and maintenance division at the Nuclear Power Training Unit in Charleston, South Carolina, as air defense commander for Operations Enduring Freedom, Iraqi Freedom, and Sea Dragon, as the Command Control Center Officer and Assistant Operations Officer on the USS New Orleans and in other positions including Operations and Training Officer at Cruiser Class Squadron in San Diego. His final active duty assignment was as the Executive Officer at Navy Operational Support Center, Sacramento. Mr. Atterberry received his commission from the University of Washington's Naval Reserve Officer Training Corps with an undergraduate degree in Economics. He attended the Navy Postgraduate School in Monterey for a program in National Security Affairs, and he served at the Surface Warfare Officer School in Newport, Rhode Island.

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.

Sherri Gastinell
Deputy Secretary, Administrative Services, since January 2016

Ms. Gastinell was appointed by Governor Brown as Deputy Secretary of Administrative Services at the Department in January 2016. Ms. Gastinell oversees many services at the Department, including Information Technology, Human Resources, Fiscal Services, Budgets, Facilities and Business Services, and Strategic Planning functions. Ms. Gastinell has served the State for more than 25 years. In 2015, Ms. Gastinell served as the Assistant Personnel Officer at the Department of Consumer Affairs ("DCA"). Before DCA, Ms. Gastinell served from 2008 – 2015 at the California Department of Transportation ("Caltrans") as an Office Chief within the Office of Business and Economic Opportunity, with a focus on Administrative Services, Budgets, Contract Evaluation, Contractor Compliance, Title VI, and the Federal Highway Administration External Equal Opportunity program. Prior to Caltrans, Ms. Gastinell was DCA's Office Chief for the Office of Professional Examination Services, oversaw Labor Relations and personnel matters at the Bureau of Automotive Repair, and served in DCA's Office of Administrative Services in various capacities. Ms. Gastinell's State service also includes working at the Department of General Services, the Office of the Secretary of State, and the California Department of Business Oversight.

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 17 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).

Gary Bonin
Loan Production Operations Manager since September 2009

Mr. Bonin is the Loan Production Operations Manager for the Department, responsible for the management and oversight of the Department's loan sales, origination, processing, underwriting and closing. Mr. Bonin has over 28 years of experience in real estate and the home

loan industry. Prior to joining the Department, Mr. Bonin held numerous management and senior management positions with both regional mortgage banks and large nationwide banking institutions, including First Union National Bank and IndyMac Bank. Prior to mortgage banking, Gary was a licensed real estate broker who marketed and sold homes in Southern California and also underwrote home loans. Mr. Bonin earned a Bachelor of Science degree in Business Administration from California State University, Long Beach.

Linda Rose Gullion
Default Servicing Operations Manager since October 2012

Ms. Gullion is the Default Servicing Operations Manager for the Department, responsible for oversight of the Department's statewide collection, cancellation, and REO activities. She has over 30 years of residential real estate lending experience which includes 15 years with the Department. From 2007 to 2011, Ms. Gullion served as the Department's Loan Closing Unit Manager, managing the loan closings. From 2011 to 2012, Ms. Gullion served as the Department's Collection, Cancellation and REO Unit Manager. Prior to joining the Department, Ms. Gullion held various positions in private industry working with mortgage bankers and mortgage brokers directing loan processing and underwriting operations, assuring loan quality and mitigating risk.

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 423,000 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 of Veterans G.O. Bonds and Revenue Bonds and operating costs of the Program. As of December 31, 2015, there were approximately 5,677 Contracts of Purchase outstanding with a remaining principal balance of approximately $840 million[†]. As of December 31, 2015, the Department had approximately 80 pending applications for Contracts of Purchase in the total principal amount of approximately $21 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");

[†] 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.

(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) 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 for the purchase of farms and homes under the Program 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"). As of January 1, 2016, 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 December 31, 2015 the average outstanding principal balance of the Contracts of Purchase financed through the Program was approximately $148,232. As of December 31, 2015 the average outstanding principal balance of the Contracts of Purchase originated in the last five calendar years was approximately $251,601.

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 because such proceeds from prior bond issues have been fully expended. The Offered Veterans G.O. Bonds are expected to provide approximately $100,600,000 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 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 April 1, 2016, 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 term)	QMB Proceeds
3.25% (20 year term)	QVMB Proceeds
3.75% (30 year term)	QVMB Proceeds
5.50% (30 year term)	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 December 31, 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 for additional information regarding cancellations and delinquencies as of December 31, 2015, see 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 of the veteran. 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). As of December 31, 2015 the Department had Repayment Agreements in place for approximately 0.44% of the total then outstanding number of Contracts of Purchase (or approximately 0.51% 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. As of December 31, 2015, 162 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. As of December 31, 2015, approximately 0.02% 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. These programs are available to lenders throughout the state of California. 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. As of January 1, 2016, CalHFA Mortgage Assistance Corporation has allocated approximately $764 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 as a one-time payment to cover principal, interest, property taxes and insurance and may include escrowed homeowners' association dues or assessments. As of January 1, 2016, CalHFA Mortgage Assistance Corporation has allocated approximately $196 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. As of January 1, 2016, CalHFA Mortgage Assistance Corporation has allocated approximately $805 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. As of January 1, 2016, CalHFA Mortgage Assistance Corporation has allocated $3.75 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. As of June 30, 2015, the Department 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 $45,000 from the Transition Assistance Program benefiting approximately 9 Contracts of Purchase. As of December 31, 2015, the Department has received approximately $13.9 million benefiting approximately 458 Contracts of Purchase as follows: (i) approximately $1.9 million from the Unemployment Mortgage Assistance Program benefiting approximately 151 Contracts of Purchase, (ii) approximately $1.4 million from the Mortgage Reinstatement Assistance Program benefiting approximately 113 Contracts of Purchase, (iii) approximately $10.5 million from the Principal Reduction Program benefiting approximately 185 Contracts of Purchase; and (iv) approximately $45,000 from the Transition Assistance Program benefiting approximately 9 Contracts 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). As of December 31, 2015, approximately 8.14% of the then outstanding total number of the Department's Contracts of Purchase financed mobile homes in a mobile home park (or approximately 2.88% 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 December 31, 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 $21,000. As of December 31, 2015, the average principal balance of the Department's home improvement Contracts of Purchase then outstanding was approximately $20,000.

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 December 31, 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). As of December 31, 2015, approximately 6.46% 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 7.24% 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 December 31, 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 December 31, 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, 2016, 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, 2016 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, 2016, 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 December 31, 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 October 7, 2015, 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 January 28, 2016, Moody's upgraded the insurance financial strength rating of Radian from "Ba1" to "Baa3" with a stable outlook. On December 11, 2015, S&P raised its 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

[†] Ratings as shown on the web site of the respective rating agency as of April 12, 2016. Ratings reflect each respective rating agency's current assessment of the creditworthiness of the United States of America and Radian, as applicable. 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.

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 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). As of December 31, 2015, there was approximately $2.6 million in the Primary Mortgage Insurance Account. As of December 31, 2015, the balance of Contracts of Purchase to which the Primary Mortgage Insurance Account applies was approximately $71.0 million (or approximately 8.45% 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 December 31, 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. The amount in the Fire and Hazard Insurance Account as of December 31, 2015 was approximately $6.0 million. According to the Department's adjusting company, Carl Warren & Company, the Department has, prior to December 31, 2015, received claims in excess of $2.1 million due to two large wildfires. 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. The amount in the Disaster Indemnity Account as of December 31, 2015 was approximately $17.8 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 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 at least A- with a financial size category of at least X ($500-750 million) by A.M. 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, 2017 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 December 31, 2015, the aggregate principal balance of the Contracts of Purchase applicable to the Legacy Plan Beneficiaries was approximately $246 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. As of December 31, 2015, the Department held approximately $2.1 million in a 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 the 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. At December 31, 2015, the claims fluctuation reserve account held approximately $16.7 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 the 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, 2018. See "Additional Investments (as of December 31, 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 in the opinion of a court 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 1% 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, 20 Contracts of Purchase were subject to California Relief Act deferrals and there has been no material impact on the 1943 Fund. As of December 31, 2015, 21 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 for 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 the date of this Official Statement, (a) there are outstanding approximately $559,955,000 aggregate principal amount of Veterans G.O. Bonds and there are no outstanding commercial paper notes (b) $300,000,000 of Veterans G.O. Bonds are authorized but not issued and (c) there are approximately $314,290,000 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 Program and separately, the 1943 Fund 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. As discussed in this Official Statement, the Veterans Debenture Revenue Fund is not a source of payment of Veterans G.O. Bonds. Also see "THE PROGRAM – Pooled Self-Insurance Fund" for a discussion of the uses of monies in such fund.

Non-GAAP Financial Measurements

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 measurements, 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 measurements 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 for 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)[4]
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.

[4] In connection with the establishment of the Pooled Self-Insurance Fund, the then-existing Disaster Indemnity Fund was terminated and its net assets of approximately $13.4 million were transferred to the 1943 Fund.

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 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 losses of the Farm and Home Program 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.

Farm and Home Program Administration

For the Fiscal Year ended June 30, 2015, total Farm and Home 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 Farm and Home 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 for financial statement presentation purposes 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 for financial statement presentation purposes 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 for financial statement presentation purposes 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 for financial statement presentation purposes increased by approximately $11.7 million from zero at June 30, 2011. This increase was due to the recognition for financial statement presentation purposes 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 for financial statement presentation purposes 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 for financial statement presentation purposes 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 Farm and Home 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.

Farm and Home Program Administration

For the Fiscal Year ended June 30, 2015, total Farm and Home 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, Farm and Home 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 Farm and Home 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, Farm and Home 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 3.25%. See "—Contracts of Purchase-Post-December 2010 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 December 31, 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
Certified Public Accountants | Business Consultants

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 December 31, 2015 using proceeds of Veterans G.O. Bonds, 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 December 31, 2015 [2]

	Uninsured	Original Radian Insured[3]	Additional Radian Insured[3]	USDVA Guaranteed	Total
Single Family Homes					
Less than 30% LTV	$ 18,416	$ 2,164	$ 405	$ 684	$ 21,669
30-49% LTV	54,423	12,346	3,192	3,459	73,420
50-59% LTV	50,362	8,339	5,422	5,964	70,087
60-69% LTV	40,728	8,182	40,210	13,832	102,952
70-79% LTV	17,450	868	78,829	34,022	131,169
Sub-total	$ 181,379	$ 31,899	$ 128,058	$ 57,961	$ 399,297
80-84% LTV	$ 14,785	$ -	$ 18,337	$ 31,495	$ 64,617
85-89% LTV	16,313	-	3,248	45,736	65,297
90-94% LTV	19,757	-	-	41,499	61,256
95-97% LTV	2,508	-	-	50,453	52,961
Sub-total	$ 53,363	$ -	$ 21,585	$ 169,183	$ 244,131
Greater than 97% LTV	$ 2,599	$ -	$ -	$ 146,040	$ 148,639
Other Property Types					
Farms	$ 1,432	$ 115	$ 424	$ -	$ 1,971
Mobile Homes in Parks	12,433	145	11,060	-	23,638
Home Improvement Loans	10,592	-	-	-	10,592
Homes under Construction	5,823	-	-	-	5,823
Sub-total	$ 30,280	$ 260	$ 11,484	$ -	$ 42,024
Special Status Contracts of Purchase					
Real Estate Owned[4]	$ 603	$ 49	$ 2,260	$ 214	$ 3,126
Cancelled	1,072	130	377	649	2,228
Disability Program[5]	423	357	103	-	883
Sub-total	$ 2,098	$ 536	$ 2,740	$ 863	$ 6,237
Total Portfolio	$ 269,719	$ 32,695	$ 163,867	$ 374,047	$ 840,328

Source: Department of Veterans Affairs.

(1) For many properties financed with Contracts of Purchase, the appraised value as of December 31, 2015, is lower than the original appraised value.

(2) Amounts in thousands. LTV based on Contracts of Purchase balance as of December 31, 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 December 31, 2015[1]

County	
Riverside	$ 89,096
San Diego	76,710
Los Angeles	73,225
Sacramento	71,690
San Bernardino	58,492
Fresno	41,425
Kern	37,517
Solano	29,039
Shasta	26,018
Contra Costa	23,404
Placer	20,544
San Joaquin	19,912
Butte	17,801
Kings	13,953
Stanislaus	13,449
Other Northern California Counties	134,506
Other Central California Counties	62,787
Other Southern California Counties	30,760
Statewide—California	$ 840,328

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 December 31, 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	1,087	19.15%	$ 56	6.73%
2000	265	4.67	23	2.69
2001	94	1.66	8	0.93
2002	191	3.37	21	2.47
2003	503	8.86	72	8.60
2004	565	9.95	87	10.36
2005	359	6.32	52	6.16
2006	377	6.64	61	7.29
2007	403	7.10	68	8.10
2008	361	6.36	64	7.59
2009	142	2.50	14	1.70
2010	107	1.88	8	1.01
2011	57	1.00	4	0.51
2012	52	0.92	5	0.58
2013	110	1.94	22	2.59
2014	356	6.27	90	10.73
2015	648	11.41	185	21.96
Total	5,677	100.00%	$ 840	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 December 31, 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	64	0	64	$ 21,028
Sacramento	56	0	56	16,694
Los Angeles	44	1	45	16,170
San Bernardino	42	1	43	13,365
Kern	28	2	30	6,627
All Other Counties[4]	298	2	300	98,666
Total	532	6	538	$ 172,550

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 December 31, 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 December 31, 2015."

(2) LTV based on Contracts of Purchase balance as of December 31, 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 December 31, 2015 is lower than the original appraised value.

(3) Amounts in thousands.

(4) All counties not listed individually had less than 30 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 December 31, 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	399	10.68%	2.46%	41.28%	$ 14,024,312	$ 12,636,931
2	2/3/1998 – 11/30/1998	46	1.32%	0.30%	46.19%	2,101,257	2,027,113
3	12/1/1998 – 6/30/2000	7	0.36%	0.08%	59.50%	568,391	568,391
Additional Radian Policy							
4	7/1/2000 – 3/31/2008	1,136	87.65%	20.22%	69.22%	24,252,550	0[4]
	Total	1,588	100.00%	23.07%	64.13%		

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 December 31, 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
2016[2]	218	77,332,441	72	13,348,172	45	10,138,454	335	100,819,067

Source: Department of Veterans Affairs.

(1) Number of Contracts of Purchase originated does not include home improvement loans or construction loans not fully funded.

(2) As of December 31, 2015.

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
2016[2]	97,441	62,567	15,395	840,328	5.0	3.9	15.1	23.5
	$ 5,373,816	$ 5,658,061	$ 2,016,321					

Source: Department of Veterans Affairs.

(1) Number of Contracts of Purchase Funded includes disbursements for home improvement loans and constructions loans.

(2) As of December 31, 2015.

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 December 31, 2015	3.50[2]/3.90	5.50	4.25
January 1, 2016 to January 24, 2016	3.25[2]/3.99	5.50	4.25
January 25, 2016 to February 7, 2016	3.25[2]/3.90	5.50	4.25
February 8, 2016 to April 1, 2016	3.25[2]/3.75	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 Internal Revenue Code of 1986, as amended (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 December 31, 2015, the Department had 80 pending applications for Contracts of Purchase in the aggregate amount of approximately $21,039,764.

Amounts Expected to be Available to Fund Contracts of Purchase[1]

	Pre-Ullman Moneys				QVMB Proceeds				QMB Proceeds					
	Amount On Deposit on Dec. 31, 2015	Amounts Expected to be Deposited through May 1, 2016	Amounts Expected to be Applied to Contracts of Purchase through May 1, 2016	Amount Expected to be Available on May 1, 2016	Amount On Deposit on Dec. 31, 2015	Amounts Expected to be Deposited through May 1, 2016	Amounts Expected to be Applied to Contracts of Purchase through May 1, 2016	Amount Expected to be Available on May 1, 2016	Amount On Deposit on Dec. 31, 2015	Amounts Expected to be Deposited through May 1, 2016	Amounts Expected to be Applied to Contracts of Purchase through May 1, 2016	Amount Expected to be Available on May 1, 2016	Current or Expected Investment	Contracted Investment Rate (%)
Veterans G.O. Bond Proceeds and Recycling Subaccounts														
Pre-Ullman Moneys	$ 3,289	$ 0	$ (1,500)	$ 1,789	$ 0	$ 0	$ 0	$ 0					SMIF[2]	Variable
QVMB Reimbursement ...	789	0	(600)	189	0	0	0	0					SMIF[2]	Variable
Series CN.....	0	0	0	0	0	100,600	(23,000)	77,600					SMIF[2]	Variable
Other G.O. Bond Series ...	0	0	0	0	11,357	0	(11,000)	357					SMIF[2]	Variable
Total.....	**$ 4,078**	**$ 0**	**$ (2,100)**	**$ 1,978**	**$ 11,357**	**$ 100,600**	**$ (34,000)**	**$ 77,957**						
Revenue Bond Proceeds and Recycling Subaccounts														
QMB Reimbursement	$ 1,198	$ 0	$ (1,000)	$ 198					$ 0	$ 0	$ 0	$ 0	SMIF[2]	Variable
Other Revenue Bond Series	0	0	0	0					0	0	0	0	N.A.	N.A.
Total.....	**$ 1,198**	**$ 0**	**$ (1,000)**	**$ 198**					**$ 0**	**$ 0**	**$ 0**	**$ 0**		
Grand Total	**$ 5,276**	**$ 0**	**$ (3,100)**	**$ 2,176**	**$ 11,357**	**$ 100,600**	**$ (34,000)**	**$ 77,957**	**$ 0**	**$ 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.

	For the Fiscal Year Ending June 30														
Percentage of Number of Contracts of Purchase in the Department's Portfolio which are Delinquent	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016[4]**
30-60 days[1]	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%	2.80%
60+ days[1]	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	2.10
Foreclosures in inventory (Cancelled Contracts)[1][2]	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	0.25
Real Estate in inventory[2]	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	0.33
Percentage of Number of USDVA Guaranteed Loans in the U.S. which are Delinquent[3]															
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	2.20
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	2.21
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	1.34
Percentage of Number of USDVA Guaranteed Loans in California which are Delinquent[3]															
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	1.53
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	1.38
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	0.49
Percentage of Number of Prime Loans in the U.S. which are Delinquent[3]															
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	1.53
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	1.41
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	1.01
Percentage of Number of Prime Loans in California which are Delinquent[3]															
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	1.18
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	0.99
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	0.42
Percentage of Number of Contracts of Purchase in the Department's Portfolio which are Delinquent, Subject to Repayment/Forbearance Agreements or Cancelled Contracts	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016[4]**
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%	2.59%
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	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	2.80
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	1.87
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	0.23
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	2.10
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	0.25
"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	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	0.25

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. 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.

(2) 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.

(3) 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.

(4) As of December 31, 2015.

Distribution of Contracts of Purchase Delinquencies by County as of December 31, 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]
Fresno	13	10	8	31	$ 4,707
Riverside	14	8	9	31	5,820
San Bernardino	13	7	6	26	3,497
San Diego	15	3	7	25	3,915
Los Angeles	13	3	4	20	4,153
Sacramento	11	6	2	19	3,342
Kern	11	3	4	18	2,714
All Other[4]	70	27	44	141	23,262
Total	160	67	84	311	$ 51,410

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 18 delinquent Contracts of Purchase outstanding.

Contracts of Purchase Delinquencies by Origination Date as of December 31, 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	99	$ 12,938	34	$ 4,313	38	$ 4,224	171	$ 21,475
2006	14	2,953	12	2,517	8	1,428	34	6,898
2007	15	3,086	8	2,376	12	1,962	35	7,424
2008	10	2,847	4	800	9	1,851	23	5,498
2009	3	183	1	384	6	573	10	1,140
2010	2	674	0	0	3	488	5	1,162
2011	2	444	2	255	0	0	4	699
2012	0	0	2	275	0	0	2	275
2013	1	26	1	326	4	1,340	6	1,692
2014	6	1,712	1	112	3	642	10	2,466
2015	8	2,214	2	282	1	185	11	2,681
Total	160	$ 27,077	67	$ 11,640	84	$ 12,693	311	$ 51,410

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

Series	Bonds Outstanding[1] as of December 31, 2015	Expected Bonds Outstanding[1] as of May 1, 2016	Final Maturity Date of Series as of May 1, 2016	Next Optional Call as of May 1, 2016	Call Price on Such Date	Maximum Coupon subject to Optional Call	Bonds Subject to Special Redemption[2]
Veterans G.O. Bonds							
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
CF	15,340,000	3,400,000	December 1, 2017	N.A.	N.A.	N.A.	Excess Revenues
CG	2,660,000	655,000	December 1, 2017	N.A.	N.A.	N.A.	Excess Revenues
CJ	110,000,000	110,000,000	December 1, 2035	June 1, 2024	100	3.750	Excess Revenues
CK	152,295,000	152,295,000	December 1, 2040	December 1, 2024	100	5.000	Excess Revenues[3]
CL	128,610,000	128,610,000	December 1, 2034	December 1, 2024	100	5.000	Excess Revenues[3]
CM	164,795,000	164,795,000	December 1, 2036	December 1, 2024	100	4.125	Excess Revenues/PAC[4]
CN	0	99,740,000	December 1, 2046	December 1, 2025	100	3.500	Excess Revenues/Unexpended proceeds/PAC[5]
		$ 659,695,000					
Sub-total	$ 573,900,000						
Commercial Paper Notes	$ 0	$ 0	N.A.	N.A.	N.A.	N.A.	N.A.
Total Veterans G.O. Bonds	$ 573,900,000	$ 659,695,000					
Home Purchase 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
Sub-total	$ 50,425,000	$ 50,425,000					
Home Purchase Revenue Bonds Issued to Refund Bonds Issued Prior to Mortgage Subsidy Bond Tax Act of 1980							
2011 A	$ 43,430,000	$ 43,430,000	December 1, 2022	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	$ 263,865,000	$ 263,865,000					
Total Revenue Bonds	$ 314,290,000	$ 314,290,000					

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) 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 such Veterans G.O. Bonds.

(4) The Series CM Bonds maturing on December 1, 2031 are PAC bonds.

(5) The Offered Veterans G.O. Bonds maturing on December 1, 2045 are PAC bonds.

Additional Investments (as of December 31, 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 December 31, 2015, that account held approximately $16,672,647, 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	Initial Investment Date	Investment Maturity Date	Interest Rate (%)
BQ/BR	Revenue	Variable[2]	Portigon AG[3]	4/28/99	6/30/16[4]	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) Portigon AG was formerly known as Westdeutsche Landesbank Girozentrale until July 2012. As of April 12, 2016, Portigon AG is not rated by S&P, Moody's or Fitch.

(4) 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 Resolution. 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 Resolution. 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
Series CN (Non-AMT)

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered as of April 28, 2016, 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 (the "Bonds") as authorized by the general obligation bond act described in Exhibit B (as amended, the "Bond Act"). The Bonds are being issued pursuant to that certain resolution adopted by the Veterans' Finance Committee of 1943 as described in Exhibit B (the "Resolution"), designated under the Bond Act. Pursuant to the Resolution, 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 Resolution, 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 April 12, 2016.

"Participating Underwriter" shall mean any of the original purchasers 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 2015-16 fiscal year (which is due not later than April 1, 2017), 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 information of the type appearing in the following tables contained 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 (Budgetary Basis)

- General Fund Revenue by 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 information of the type appearing in the following tables contained 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 Resolution.

SECTION 6. Termination of Reporting Obligation. The State's obligations under Sections 3, 4 and 5 of this Disclosure Certificate shall terminate with respect to any Bonds 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 CN (Non-AMT)

Date of Issuance: April 28, 2016

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
CN	Veterans' Bond Act of 2008	IV	March 16, 2016

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) Veterans General Obligation Bonds, Series CN (Non-AMT) (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 Resolution (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, 2016 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 April 12, 2016.

(k) "**Program**" means the Veterans' Farm and Home Purchase Program of the Department.

(l) "**Resolution**" means that certain resolution 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 purchaser 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. **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 3.2. **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 3.3. **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 28th day of April, 2016.

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
CN	Veterans' Bond Act of 2008	IV	March 16, 2016

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 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 (which do not include 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 qualified mortgage 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

STATE OF CALIFORNIA
VETERANS GENERAL OBLIGATION BONDS
Series CN (Non-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 $99,740,000 aggregate principal amount of State of California Veterans General Obligation Bonds, Series CN, all dated April 28, 2016 (the "Bonds"), and issued as one series under the Veterans' Bond Act of 2008 (the "Bond Act"). The Bonds are authorized pursuant to the Bond Act and are issued pursuant to Chapter 4 of Part 3 of Division 4 of Title 2 of the California Government Code and to a resolution adopted by the Veterans' Finance Committee of 1943 (the "Resolution"), as identified in Schedule A 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 Resolution, 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 Resolution.

We call attention to the fact that the rights and obligations under the Bonds and the Resolution 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 April 12, 2016, 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 Act.

Sincerely,

Deputy Attorney General

For KAMALA D. HARRIS
Attorney General

SCHEDULE A

Bond Series	Bond Act	Resolution Number	Date of Adoption of Veterans' Finance Committee Resolution
CN	Veterans' Bond Act of 2008	IV	March 16, 2016

APPENDIX G

PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL TO THE STATE

[Closing Date]

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 $99,740,000 aggregate principal amount of Veterans General Obligation Bonds, Series CN (the "Bonds") and the sale of the Bonds to the initial purchasers thereof. The Bonds are issued pursuant to (i) the Veterans' Bond Act of 2008 (as amended, the "Law"), which was approved by the electors of the State, (ii) Chapter 4 of Part 3 of Division 4 of Title 2 of the California Government Code, and (iii) a resolution (the "Resolution") adopted by the Veterans' Finance Committee of 1943 and identified in Schedule A 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 Resolution. The Bonds are subject to redemption prior to maturity in whole or in part as provided in the Resolution.

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 Resolution 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 Resolution, 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, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Federal Tax Code and 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.

(3) 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

Bond Series	Bond Act	Resolution Number	Date of Adoption of Veterans' Finance Committee Resolution
CN	Veterans' Bond Act of 2008	IV	March 16, 2016

APPENDIX H

STATE OF CALIFORNIA COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2015

State of California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2015

BETTY T. YEE

California State Controller's Office

STATE OF CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2015

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 18, 2016

To the Citizens, Governor, and Members of the Legislature of the State of California:

I am pleased to submit the State of California's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. 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.

California ended the fiscal year with total General Fund revenues of $116.8 billion, a $12.6 billion increase compared to the prior year. Leading the surge, personal income tax accounted for $9.3 billion, or 74%, of that increase. For the fiscal year ended June 30, 2015, the cash balance of $5.8 billion in the General Fund represents approximately 20 days of General Fund operating expenditures for the State compared to 16 days in the prior year.

During fiscal year 2015, the State implemented the pension-related Governmental Accounting Standard Board (GASB) Statements, which significantly revised accounting and reporting for pension costs and liabilities. GASB statements are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When evaluating the net pension liability, please keep in mind that the State's pension obligation has existed since 1931. Pension obligations are part of the employment exchange between the State and its employees. In other words, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. Furthermore, due to provisions in the Education Code, the State also contributes a significant amount to teachers' pensions, which adds to these obligations. The unfunded portion of these pension promises are a present-day obligation of the government, part of a bargained for benefit to the employee, and must be reported by the State as a liability since it received the benefit of the employee's service. As a result of implementing these standards, the primary government is reporting a net pension liability of $63.7 billion at June 30, 2015. Similar standards will be implemented in 2017-18 for other postemployment benefits, primarily retiree health care.

I would like to thank all government agencies for their support and cooperation in submitting the required information for the CAFR. Credit is also due the California State Auditor and her audit staff for their continued support and for maintaining the highest standards of professionalism in the management of the State's finances. And finally, I wish to thank my entire staff for their skill, effort, and dedication in completing this financial report.

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, 2015, 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 ended June 30, 2015, and its economic performance as of December 31, 2015, for the 2015-16 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, as of 2015, is estimated to be more than 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. 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, reports on the State's financial position, 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 grade (K-12) and higher education; and business and transportation, consumer services, general government, and correctional programs. The State also is

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. 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 the primary government and for expenditures of each appropriation contained in the budget. The State's annual budget is submitted by the Governor 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

California's economy is the eighth-largest in the world, with a 2014 Gross Domestic Product of $2.3 trillion. Within the US, California is ranked third among the 50 states in the 2014 State New Economy Index, an index that evaluates a state's economy based on factors related to innovation and knowledge-based industries. In 2014, California exported $174.1 billion in products. The top five exports were computers and electronic products; transportation equipment; machinery, except electrical; miscellaneous manufactured commodities; and chemicals. California also has one of the finest and most diverse collections of natural, cultural, and recreational resources in the nation, attracting visitors who spent more than $1.7 billion in 2014. California's economy continues to grow and is expected to experience continued improvement over the next few years.

Budget Outlook

2015-16 Fiscal Year

The 2015 Budget Act pays down debt and builds reserves in the rainy day Budget Stabilization Account (BSA) as it implements the first year of Proposition 2. In addition, the Budget Act increases spending on education, health care, in home supportive services, workforce development, drought assistance, and the judiciary. Total General Fund revenues and transfers are estimated to be $115.0 billion, with estimated expenditures of $115.4 billion. The General Fund is also projected to end the 2015-16 fiscal year with $4.6 billion in total reserves—$3.5 billion in the BSA and $1.1 billion reserved for economic uncertainties.

2016-17 Fiscal Year

The Governor released his proposed 2016-17 Budget on January 7, 2016; in it, he restores some previous budget cuts and expands services, but continues to place strong emphasis on building reserves, paying down debt, and restoring and upgrading the State's infrastructure. The Governor's Budget proposes total reserves of $10.2 billion by the end of the 2016-17 fiscal year—$8.0 billion in the BSA, required under Proposition 2, and $2.2 billion in the General Fund's reserve for economic uncertainties.

In addition to building reserves, the Governor's proposed Budget commits spending on the State's infrastructure. It would provide $1.5 billion to replace and renovate state office buildings, and $807 million for statewide deferred-maintenance projects.

Other significant proposals from the Governor's Budget are related to education, with funding of $30.0 billion for higher education. The Budget proposes additional General Fund monies of $125 million for the University of California and $148 million for California State University. Also, consistent with the 2015 funding agreement between the Governor and the University of California, the Budget proposes a one-time expenditure of $171 million from Proposition 2 funds to help pay down the unfunded liability of the University's pension plan.

The Governor's Budget proposal also includes $136.0 billion to fund health and human services programs, including nearly $102.0 billion for Medi-Cal, in-home supportive services, and developmental services, and approximately $34.0 billion for other services and programs.

Long-term Financial Planning

Long-term financial planning initiatives that will impact the State's long-term financial goals include:

- The Governor's 2016 infrastructure plan proposes $36.0 billion over the next ten years to address the most urgent state and local transportation needs, focusing on "fix-it-first" investments to repair and improve neighborhood roads and state highways and bridges. Specifically, the plan proposes $16.2 billion for highway repairs and maintenance; $2.3 billion for trade corridors; $13.5 billion for local roads; and $4.0 billion for transit and intercity rail. Furthermore, the plan proposes $25.2 billion from federal, Cap and Trade, and Proposition 1A bond funds and other sources to meet the High Speed Rail Authority's goals.

- In addressing climate change, the California Global Warming Solutions Act of 2006 (AB 32) set greenhouse gas emission reduction goals for 2020. The Governor's Budget supports these efforts with a $3.1 billion Cap and Trade expenditure plan that will reduce greenhouse gas emissions through programs that support clean transportation, reduce certain climate pollutants, protect natural ecosystems, and benefit disadvantaged communities. In addition, California has experienced four consecutive years of below-average precipitation and unprecedented 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 except the agricultural sector. The Governor has taken actions to address drought conditions, such as mandating statewide water conservation, facilitating water management where possible, and providing funding for critical water infrastructure projects. The Budget includes a total of $719 million in new General Fund resources to pay for the costs of wildfires and for other effects of the drought.

- The Governor's Budget includes $5.5 billion—$3.2 billion from the General Fund for the State's contributions to the California Public Employees' Retirement System (CalPERS) for state

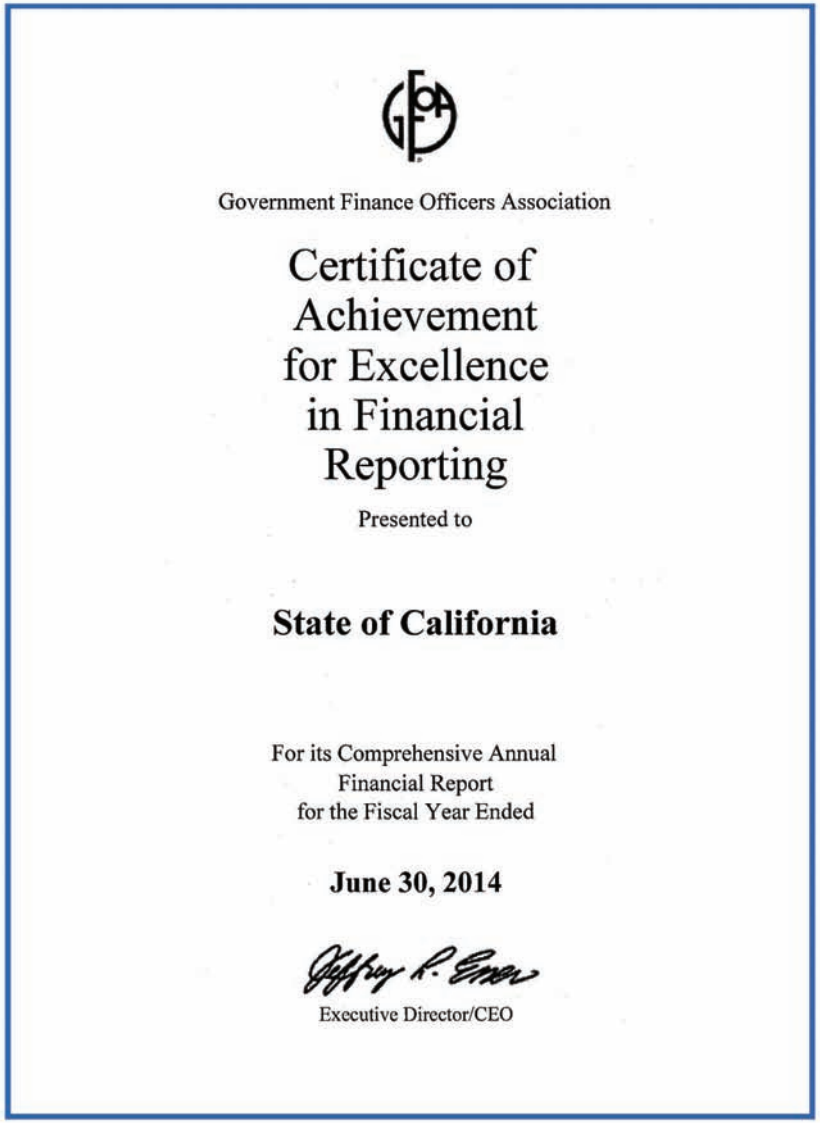
pension costs. These costs include the third and final phase-in of retirement rates to address the impact of demographic assumptions adopted by the CalPERS Board. The Budget also addresses the unfunded liability at the California State Teachers' Retirement System (CalSTRS), which is currently estimated to be $72.7 billion. The Budget includes $2.5 billion from the General Fund in 2016-17 for CalSTRS. This funding strategy positions CalSTRS on a sustainable path forward, eliminating the unfunded liability in approximately 30 years.

- The State provides health care and dental benefits to retired state employees and their spouses and dependents (when applicable) and almost exclusively uses a "pay-as-you-go" funding policy. These benefits are referred to as "Other Post-Employment Benefits" (OPEB). As reported in the state's OPEB Actuarial Valuation Report, the state has an actuarial accrued liability (AAL) relating to OPEB estimated at $74.2 billion as of June 30, 2015, as compared to an AAL of $71.8 billion estimated as of June 30, 2014. The Governor 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 Governor 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.

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, 2014. 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, 2014

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

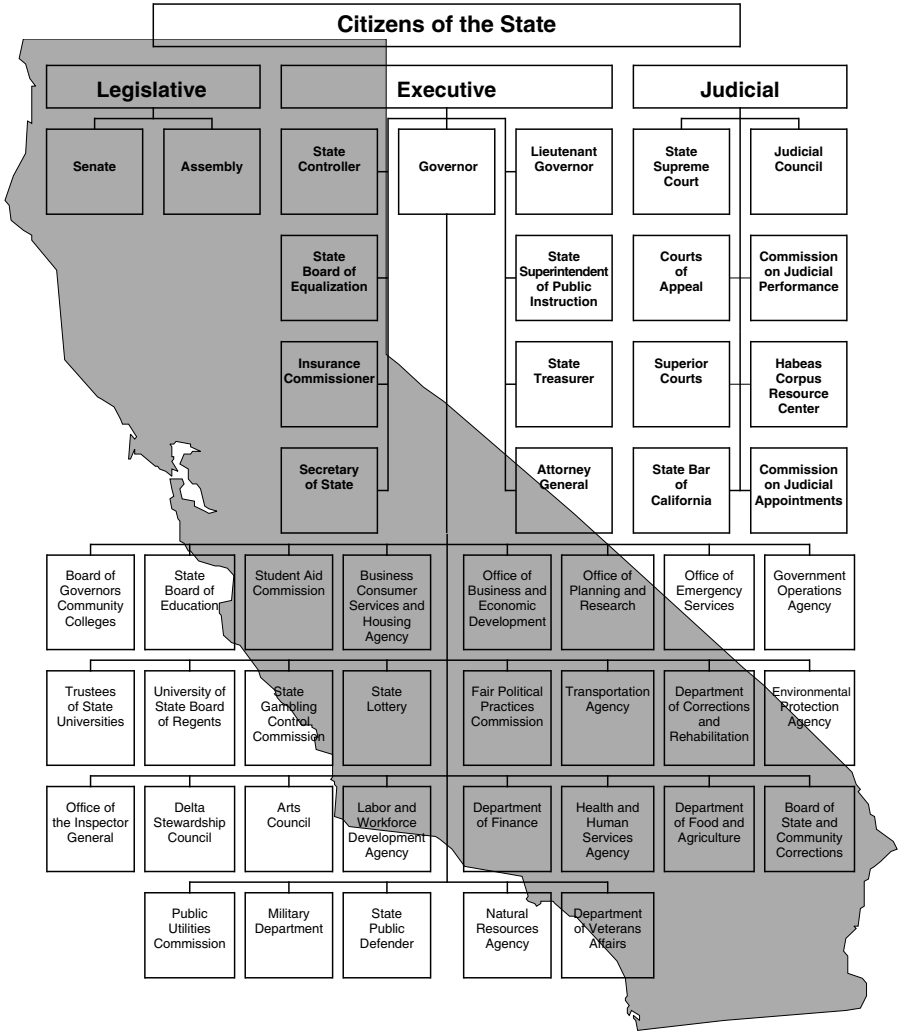
Kevin de León
President pro Tempore, Senate

Anthony Rendon
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

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, 2015, 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 78 percent of the assets and deferred outflows, and 36 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 94 percent of the revenues of the discretely presented component units.

Fund Financial Statements

- The Safe Drinking Water State Revolving fund, that represents 16 percent of the assets and deferred outflows, and 5 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 86 percent of the assets and deferred outflows, and 33 percent of the additions, revenues and other financing sources of the aggregate remaining fund information.
- The discretely presented component units noted above.

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, 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, 2015, 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.

Emphasis of a Matter

As described in Note 1, the State decreased the beginning net position of the primary government by a net total of $67 billion to reflect the impact of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.*

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 changes in net pension liability, schedule of state pension contributions, 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.

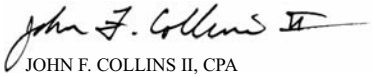
The combining financial statements are the responsibility of management and were derived from, and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 11, 2016 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 11, 2016

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, 2015. We encourage readers to consider the information we present here in conjunction with the information presented in the Controller's transmittal letter 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's economic expansion during the 2014-15 fiscal year out-paced that of many other states, and its general revenues surpassed all budget projections, resulting in a healthy financial condition for the year ended June 30, 2015. The State's general revenues increased by $12.7 billion (10.0%) over the prior year. Expenses and transfers for the State's governmental activities also increased but were less than revenues received, resulting in a $13.1 billion increase in the governmental activities' net position, as restated. Total revenues and transfers for the State's business-type activities also surpassed expenses by $2.7 billion in fiscal year 2014-15.

Net Position – Although current year activity reflects a combined $15.8 billion increase in the primary government's net position, net position at the beginning of the year was restated as a result of the recognition of net pension liabilities associated with the implementation of GASB Statements No. 68 and No. 71, *Accounting and Financial Reporting for Pensions* (see Note 1 for further detail). The impact on the primary government's beginning net position as a result of this implementation was a decrease of $67.6 billion—$61.1 billion for governmental activities and $6.5 billion for business-type activities.

The primary government ended the 2014-15 fiscal year with a net deficit position of $41.0 billion. The total net deficit position is reduced by $103.0 billion for net investment in capital assets and by $31.1 billion for restricted net position, yielding a negative unrestricted net position of $175.1 billion. Restricted net position is dedicated for specified uses and is not available to fund current activities.

More than 51% ($89.9 billion) of the negative $175.1 billion consists of unfunded, employee-related, long-term liabilities that are recognized as soon as an obligation has been incurred, even though payment will occur over many future periods (net pension liability, net other postemployment benefit obligations, and compensated absences). Another 38.3% ($67.1 billion) consists of 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, 2015, the primary government's governmental funds reported a combined ending fund balance of $26.1 billion, an increase of $6.3 billion over the prior fiscal year, as restated. The unrestricted fund balance, comprised of committed, assigned, and unassigned balances, was negative $448 million. The nonspendable and restricted fund balances were $59 million and $26.5 billion, respectively.

Proprietary Funds – As of June 30, 2015, the primary government's proprietary funds reported a combined ending net position of $1.2 billion, an increase of $2.8 billion over the prior fiscal year, as restated. The total net position is reduced by $2.5 billion for net investment in capital assets, expendable restrictions of $4.7 billion, and nonexpendable restrictions of $13 million, yielding a negative unrestricted net position of $6.0 billion.

Noncurrent Assets and Liabilities

As of June 30, 2015, the primary government's noncurrent assets totaled $152.5 billion, of which $132.4 billion is related to capital assets. State highway infrastructure assets of $70.7 billion represent the largest portion of the State's capital assets.

The primary government's noncurrent liabilities totaled $214.4 billion, which consists of $78.1 billion in general obligation bonds, $29.4 billion in revenue bonds, $89.9 billion in unfunded employee-related future obligations, and $17.0 billion in other noncurrent liabilities. During the 2014-15 fiscal year, the primary government's noncurrent liabilities increased by $53.4 billion (33.2%) over the previously reported noncurrent liabilities. This net increase includes an increase of $60.5 billion for the difference between the recognition of previously unreported net pension liability and the elimination of previously reported net pension obligation, a decrease of $5.3 billion in mandated cost claims payable, an increase of $3.1 billion in net other postemployment benefits obligation, a decrease of $2.0 billion in loans payable, a decrease of $1.8 billion in general obligation bonds payable, and a decrease of $932 million in revenue bonds 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 intended to furnish additional detail to support the basic financial statements.

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.

The statements provide both short-term and long-term information about the State's financial position to help readers assess the State's economic condition at the end of the fiscal year. 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. Various types of component units are presented; all are legally separate. However, blended component units function as part of the State's operations. Fiduciary component units are primarily the resources and operations of the California Public Employees' Retirement System and the California State Teachers' Retirement System. Discretely presented component units contain some form of accountability either from or to the State.

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

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. 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. All of the funds of the State can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 the information presented for governmental funds with similar information presented for governmental activities 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate comparison between governmental funds and governmental activities. Primary differences between the government-wide and fund-based statements relate to noncurrent assets, such as land and buildings, and noncurrent liabilities, such as bonded debt and amounts owed for net pension liability, compensated absences, and capital lease obligations. These amounts 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's various functions. For example, internal service funds provide public buildings 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 programs. The accounting used for fiduciary funds and similar component units is similar to that used for trusts.

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 as supplementary information. The basic financial statements present only summary information for these activities.

Government-wide Financial Analysis

Net Position

The primary government's combined net deficit position (governmental and business-type activities) as originally reported at June 30, 2014, decreased by $48.3 billion (or more than 659%) to a negative $41.0 billion a year later, but increased by $15.8 billion (27.8%) when adjusted for restatements. As mentioned previously, the net position at the beginning of the 2014-15 fiscal year was restated as a result of the recognition of the previously unreported net pension liability.

The primary government's $103.0 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 $31.1 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, 2015, the primary government's combined unrestricted net deficit position was $175.1 billion—$169.7 billion for governmental activities and $5.4 billion for business-type activities.

A significant factor contributing to the unrestricted net deficit is that governments recognize a liability on the government-wide Statement of Net Position as soon as an obligation has been incurred, while financing and budgeting functions focus on when a liability will be paid. As of June 30, 2015, the primary government recognized $89.9 billion (51.3% of the $175.1 billion unrestricted net deficit) in unfunded employee-related obligations—net pension liability, net other postemployment benefits obligation, and compensated absences. In addition, the primary government recognized $67.1 billion (38.3% of the $175.1 billion unrestricted net deficit) in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities, a common state practice nationwide. As 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 deficit position. The State can expect continued deficits in the unrestricted net position

of governmental activities as long as it has significant unfunded employee-related obligations and 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 – Two-year Comparison
June 30, 2015 and 2014
(amounts in millions)

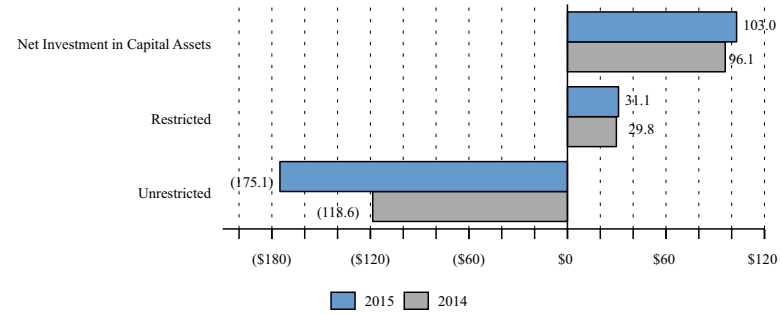
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
ASSETS						
Current and other assets	$ 74,530	$ 70,798	$ 24,539	$ 24,345	$ 99,069	$ 95,143
Capital assets	123,201	116,369	9,220	8,735	132,421	125,104
Total assets	**197,731**	**187,167**	**33,759**	**33,080**	**231,490**	**220,247**
DEFERRED OUTFLOWS OF RESOURCES	**6,128**	**986**	**1,050**	**242**	**7,178**	**1,228**
Total assets and deferred outflows of resources	**$ 203,859**	**$ 188,153**	**34,809**	**$ 33,322**	**$ 238,668**	**$ 221,475**
LIABILITIES						
Noncurrent liabilities	$ 186,897	$ 137,522	$ 27,511	$ 23,506	$ 214,408	$ 161,028
Other liabilities	47,391	48,456	3,841	3,676	51,232	52,132
Total liabilities	**234,288**	**185,978**	**31,352**	**27,182**	**265,640**	**213,160**
DEFERRED INFLOWS OF RESOURCES	**11,989**	**171**	**2,003**	**823**	**13,992**	**994**
Total liabilities and deferred inflows of resources	**246,277**	**186,149**	**33,355**	**28,005**	**279,632**	**214,154**
NET POSITION						
Net investment in capital assets	100,695	94,001	2,278	2,066	102,973	96,067
Restricted	26,632	24,951	4,537	4,913	31,169	29,864
Unrestricted	(169,745)	(116,948)	(5,361)	(1,662)	(175,106)	(118,610)
Total net position (deficit)	**(42,418)**	**2,004**	**1,454**	**5,317**	**(40,964)**	**7,321**
Total liabilities, deferred inflows of resources, and net position	**$ 203,859**	**$ 188,153**	**$ 34,809**	**$ 33,322**	**$ 238,668**	**$ 221,475**

Note: Prior-year adjustments recorded in the current year have not been reflected in the prior-year column.

Chart 1 presents a two-year comparison of the State's net position.

Chart 1

Net Position – Primary Government – Two-year Comparison
June 30, 2015 and 2014
(amounts in billions)



Note: Prior-year adjustments recorded in the current year have not been reflected in the 2014 amounts.

Changes in Net Position

The expenses of the primary government totaled $259.7 billion for the year ended June 30, 2015. Of this amount, $136.5 billion (52.5%) was funded with program revenues (charges for services or program-specific grants and contributions), leaving $123.2 billion to be funded with general revenues (mainly taxes). The primary government's general revenues of $139.0 billion exceeded net unfunded expenses by $15.8 billion, resulting in a 27.8% increase in net position, as restated.

Table 2 presents condensed financial information derived from the Statement of Activities for the primary government.

Table 2

Changes in Net Position – Primary Government – Two-year Comparison
Years ended June 30, 2015 and 2014
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
REVENUES						
Program Revenues:						
Charges for services	$ 24,390	$ 22,274	$ 24,091	$ 25,284	$ 48,481	$ 47,558
Operating grants and contributions	84,896	69,861	1,666	1,491	86,562	71,352
Capital grants and contributions	1,320	1,516	108	81	1,428	1,597
General Revenues:						
Taxes	138,600	125,812	—	—	138,600	125,812
Investment and interest	58	81	—	—	58	81
Miscellaneous	401	488	—	—	401	488
Total revenues	**249,665**	**220,032**	**25,865**	**26,856**	**275,530**	**246,888**
EXPENSES						
Program Expenses:						
General government	15,804	14,292	—	—	15,804	14,292
Education	59,521	54,720	—	—	59,521	54,720
Health and human services	122,064	105,037	—	—	122,064	105,037
Resources	6,420	5,855	—	—	6,420	5,855
State and consumer services	904	590	—	—	904	590
Business and transportation	12,898	13,427	—	—	12,898	13,427
Correctional programs	11,483	11,235	—	—	11,483	11,235
Interest on long-term debt	4,881	4,699	—	—	4,881	4,699
Electric Power	—	—	799	835	799	835
Water Resources	—	—	1,020	983	1,020	983
State Lottery	—	—	5,560	5,079	5,560	5,079
Unemployment Programs	—	—	11,390	13,673	11,390	13,673
California State University	—	—	6,848	6,545	6,848	6,545
Other enterprise programs	—	—	145	143	145	143
Total expenses	**233,975**	**209,855**	**25,762**	**27,258**	**259,737**	**237,113**
Excess (deficiency) before transfers	**15,690**	**10,177**	**103**	**(402)**	**15,793**	**9,775**
Transfers	(2,555)	(2,296)	2,555	2,296	—	—
Special item	—	(55)	—	(27)	—	(82)
Change in net position	13,135	7,826	2,658	1,867	15,793	9,693
Net position, beginning (restated)	**(55,553)**	**(5,822)**	**(1,204)**	**3,450**	**(56,757)**	**(2,372)**
Net position (deficits), ending	**$ (42,418)**	**$ 2,004**	**$ 1,454**	**$ 5,317**	**$ (40,964)**	**$ 7,321**

Note: Prior-year adjustments recorded in the current year have not been reflected in the prior-year column.

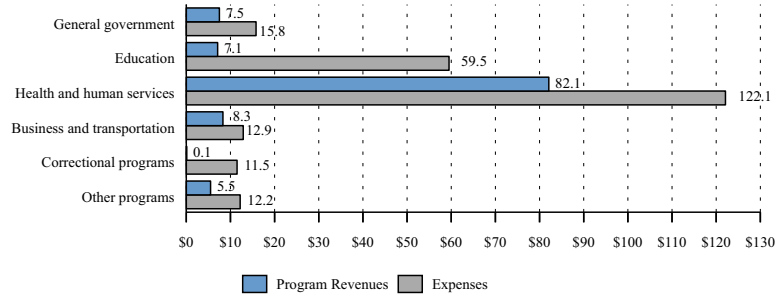
Governmental Activities

During the current fiscal year, the net deficit position for governmental activities improved $13.1 billion over the prior fiscal year's restated amount, for an ending deficit position of $42.4 billion. Governmental activities' expenses and transfers totaled $236.5 billion. Program revenues totaling $110.6 billion, including $86.2 billion received in federal grants, funded 46.7% of expenses and transfers, leaving $125.9 billion to be funded with general revenues (mainly taxes). General revenues for governmental activities totaled $139.0 billion, and the governmental activities' restated beginning net deficit position of $55.5 billion improved to a net deficit position of $42.4 billion for the year ended June 30, 2015, an improvement of $13.1 billion (23.6%).

Chart 2 presents a comparison of governmental activities' expenses to related revenue by program.

Chart 2

Program Revenues and Expenses – Governmental Activities
Year ended June 30, 2015
(amounts in billions)



For the year ended June 30, 2015, total state tax revenues collected for governmental activities increased by $12.8 billion (10.2%) over the prior year. Personal income taxes increased by $9.3 billion (13.5%) as a result of increases in both California's personal income and capital gains realization from favorable stock market and real estate performance. Sales and use tax revenue increased by $1.7 billion (4.8%) due to increases in the State's population and per capita consumption of taxable goods. Corporate taxes increased by $1.6 billion, reflecting an increase in corporate profits and the impact of Proposition 39, which changed the way multistate businesses calculate their California income tax liability.

Overall expenses for governmental activities increased by $24.1 billion (11.5%) over the prior year. The largest increase in expenditures, $17.0 billion (16.2%), occurred in health and human services programs; the majority of the increase is attributable to the Department of Health Care Services, which administers the State's Medi-Cal program. This growth in spending is largely related to continuing increases in Medi-Cal caseload and utilization of services in the second year of the Patient Protection and Affordable Care Act (federal health care reform). The other significant increase, $4.8 billion (8.8%), was in education spending through the Proposition 98 minimum funding guarantee; the increased spending was triggered by higher General Fund revenue.

Charts 3 and 4 present the percentage of total expenses for each governmental activities program and the percentage of total revenues by source.

Chart 3

Expenses by Program
Year ended June 30, 2015
(as a percent)

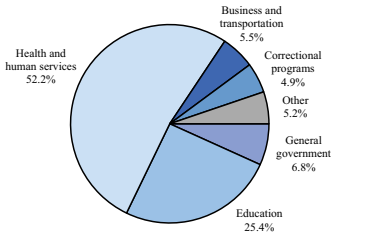
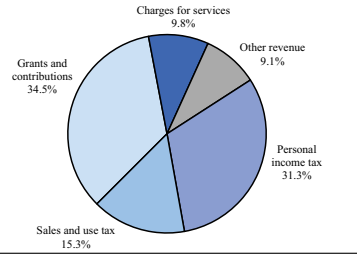


Chart 4

Revenues by Source
Year ended June 30, 2015
(as a percent)



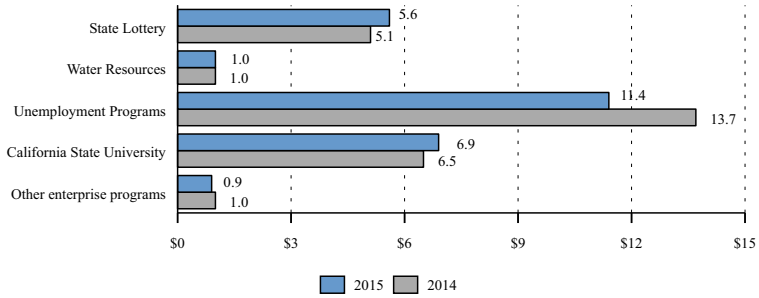
Business-type Activities

Business-type activities' expenses totaled $25.8 billion. Program revenues of $25.9 billion, primarily generated from charges for services, and $2.6 billion in transfers were sufficient to cover these expenses. Consequently, the business-type activities' total net position of $1.5 billion increased by $2.7 billion over the prior-year restated net deficit of $1.2 billion (220.8%) during the year ended June 30, 2015.

Chart 5 presents a two-year comparison of the expenses of the State's business-type activities.

Chart 5

Expenses – Business-type Activities – Two-year Comparison
Years ended June 30, 2015 and 2014
(amounts in billions)



Fund Financial Analysis

The State's governmental funds' balance increased by $6.3 billion over the prior year's restated ending fund balance. Proprietary funds' net position increased by $2.8 billion for fiscal year 2014-15, of which $2.0 billion was in the Unemployment Programs Fund, reducing its net position deficit to $872 million.

Governmental Funds

The governmental funds' Balance Sheet reported $78.1 billion in assets, $52.0 billion in liabilities and deferred inflows of resources, and $26.1 billion in fund balance as of June 30, 2015. Total assets of governmental funds increased by 5.0%, while total liabilities and deferred inflows of resources decreased by 4.8%, resulting in a total fund balance increase of $6.3 billion (31.5%) over the prior year's restated balance.

Within the governmental funds' total fund balance, $59 million is classified as nonspendable, as this amount consists of long-term interfund receivables, loans receivable, or legal or contractual requirements. Additionally, $26.5 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, $4.2 billion is classified as committed for specific purposes and $17 million is classified as assigned for specific purposes. The unassigned balance of the governmental funds is a negative $4.7 billion.

The Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds reported $249.9 billion in revenues, $248.4 billion in expenditures, and a net $4.7 billion in receipts from other financing sources. The ending fund balance of the governmental funds for the year ended June 30, 2015, was $26.1 billion, a $6.3 billion increase over the prior year's restated ending fund balance of $19.8 billion.

Personal income taxes, which account for 56.3% of tax revenues and 31.3% of total governmental fund revenues, increased by $9.5 billion over the prior fiscal year. Sales and use taxes, which account for 27.6% of tax revenues and 15.4% of total governmental fund revenues, increased by $2.0 billion over the prior fiscal year. Corporation taxes, which account for 7.8% of tax revenues and 4.3% of total governmental fund revenues, increased by $1.5 billion over the prior fiscal year. Governmental fund expenditures increased by $30.0 billion over the prior fiscal year, primarily for education and health and human services. The net other financing source from the issuance of general obligation bonds and commercial paper was $6.7 billion, a decrease of 8.9% from the prior fiscal year.

Chart 6 presents a two-year comparison of governmental funds' tax revenues.

Chart 6

Governmental Funds Tax Revenue – Two-year Comparison
Years ended June 30, 2015 and 2014
(amounts in billions)

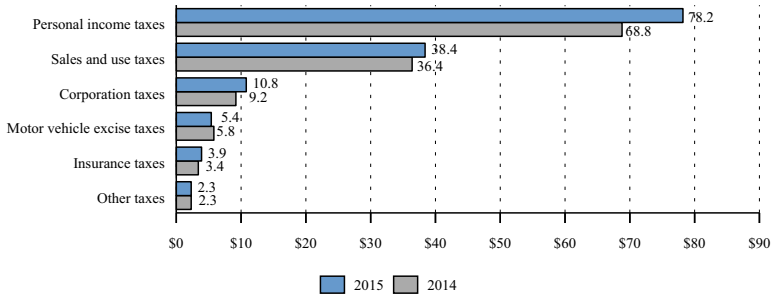
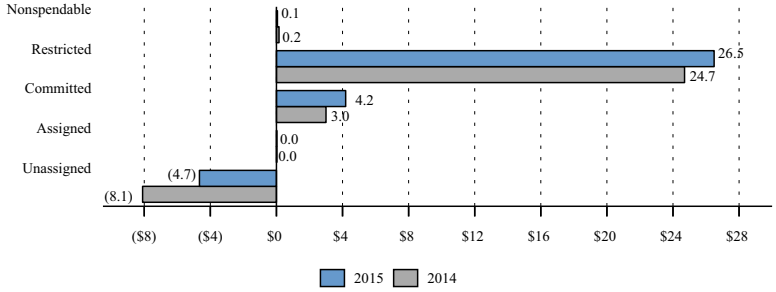


Chart 7 presents a two-year comparison of the components of the governmental funds' balance.

Chart 7

Governmental Funds – Components of Fund Balance – Two-year Comparison
Years ended June 30, 2015 and 2014
(amounts in billions)



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 $2.2 billion. The Federal Fund, the Transportation Fund, and the Environmental and Natural Resources Fund ended the fiscal year with fund balances of $218 million, $8.2 billion, and $8.4 billion, respectively. The nonmajor governmental funds ended the fiscal year with a total fund balance of $11.5 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 $22.2 billion; liabilities and deferred inflows of resources of $24.4 billion; and nonspendable, restricted, and committed fund balances of $53 million, $2.3 billion, and $103 million, respectively, leaving the General Fund with a negative unassigned fund balance of $4.7 billion. Total assets of the General Fund increased by $2.8 billion (14.3%) over the prior fiscal year, while the total liabilities and deferred inflows of resources of the General Fund decreased by $2.4 billion (9.1%). The total net fund balance deficit decreased by $5.2 billion (70.1%).

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances, the General Fund had an excess of revenues over expenditures of $9.6 billion ($116.8 billion in revenues and $107.2 billion in expenditures). Approximately $111.3 billion (95.3%) of General Fund revenue is derived from the State's largest three taxes—personal income taxes ($76.9 billion), sales and use taxes ($23.6 billion), and corporation taxes ($10.8 billion). As a result of fund classifications made to comply with generally accepted governmental accounting principles, a total of $336 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 2014-15 fiscal year, total General Fund revenue increased by $12.6 billion (12.1%). The increase is a result of increases in personal income taxes of $9.3 billion (13.8%), sales and use taxes of $1.4 billion (6.1%), and corporation taxes of $1.5 billion (16.6%).

General Fund expenditures increased by $11.8 billion (12.4%). The largest increases were in education and general government expenditures, which were up $9.7 billion and $1.0 billion, respectively. The General Fund's deficit for the year ended June 30, 2015, was $2.2 billion, an improvement of $5.2 billion over the prior year's ending fund deficit of $7.4 billion.

Federal Fund: The Federal Fund reports federal grant revenues and the related expenditures to support the grant programs. The largest of these programs is for health and human services, which accounted for $73.3 billion (85.8%) of the total $85.4 billion in 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 fund's expenditures, amounting to $7.0 billion (8.3%) of the total. The Federal Fund's revenues increased by $14.8 billion, which was approximately the same amount of increase in the combined expenditures and transfers, resulting in only a $6 million fund balance increase over the prior year's ending fund balance of $212 million.

Transportation Fund: The Transportation Fund accounts for fuel taxes, bond proceeds, and other revenues used primarily for highway and passenger rail construction. The Transportation Fund's revenues decreased by 2.1%, while its expenditures decreased by 2.9%. Other financing sources provided net receipts of $2.6 billion. The Transportation Fund ended the fiscal year with an $8.2 billion fund balance, an increase of $751 million over the prior year.

Environmental and Natural Resources Fund: The Environmental and Natural Resources 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 $881 million. The Environmental and Natural Resources Fund ended the fiscal year with an $8.4 billion fund balance, an increase of $658 million (8.5%) over the prior year.

Proprietary Funds

The net position at the beginning of the year for many of the State's proprietary funds was restated as a result of the recognition of net pension liabilities associated with the implementation of GASB Statements No. 68 and No. 71. The cumulative impact on the proprietary funds' beginning net position as a result of this implementation was a decrease of $7.3 billion—$6.5 billion for enterprise funds and $791 million for internal service funds.

Enterprise Funds: The total net position of the enterprise funds at June 30, 2015, was $1.5 billion—$2.7 billion greater than the prior year's restated net deficit position of $1.2 billion. The Unemployment Programs Fund had a decrease in its net deficit position of $2.0 billion, while the California State University Fund and nonmajor enterprise funds increased their net positions by $497 million and $156 million, respectively.

As shown on the proprietary funds' Statement of Net Position, total assets and deferred outflows of resources for the enterprise funds were $35.3 billion as of June 30, 2015. Of this amount, current assets totaled $11.5 billion, noncurrent assets totaled $22.7 billion, and deferred outflows of resources totaled $1.1 billion. The total liabilities and deferred inflows of resources for the enterprise funds was $33.8 billion. The three largest liabilities of the enterprise funds are $12.7 billion in revenue bonds payable, $6.2 billion in net pension liability, and $5.7 billion in noncurrent loans payable. During the 2014-15 fiscal year, the State reduced by $1.9 billion the balance of the loans from the U.S. Department of Labor that covered prior-year deficits in the Unemployment Programs Fund leaving a balance of $5.7 billion as of June 30, 2015.

Total net position consisted of four segments: net investment in capital assets of $2.3 billion, a nonexpendable restricted net position of $13 million, a restricted expendable net position of $4.5 billion, and an unrestricted net deficit of $5.4 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 $22.9 billion, operating expenses of $22.9 billion, and net expenses from other transactions of $66 million. The largest sources of operating revenue were unemployment and disability insurance receipts of $13.4 billion in the Unemployment Programs Fund, and lottery ticket sales of $5.5 billion collected by the State Lottery Fund. The unemployment and disability insurance receipts in the Unemployment Programs Fund decreased by $1.8 billion from $15.2 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 $11.1 billion to beneficiaries by the Unemployment Programs Fund, personal services of $4.2 billion by the California State University Fund, and lottery prizes of $3.5 billion distributed by the State Lottery Fund.

Internal Service Funds: The total net deficit of the internal service funds was $209 million as of June 30, 2015. The net position consists of three segments: net investment in capital assets of $292 million, a restricted expendable net position of $142 million, and an unrestricted net deficit of $642 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 a net position of $6.5 billion. The pension and other employee benefit trust funds ended the fiscal year with a net position of $513.5 billion. The State's only investment trust fund, the Local Agency Investment Fund, ended the fiscal year with a net position of $21.5 billion. Agency funds act as clearing accounts and thus do not have a net position.

For the year ended June 30, 2015, the fiduciary funds' combined net position was $541.5 billion, a $4.2 billion increase over the prior year restated 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 $101.4 billion was increased by $15.5 billion. This increase is mainly comprised of funding augmentations for education, health and human services, and other general government programs. The Proposition 98 minimum guarantee increased education funding as the result of increased General Fund revenue in the 2014-15 fiscal year. The increase in health and human services program funding is primarily due to the continuing implementation of the Patient Protection and Affordable Care Act, as well as caseload increases and augmentations for program contingencies. As provided in the Budget Act of 2014, sections 3.60 and 6.20, the augmentation for the purpose of state employee compensation and benefits and the reimbursement of mandate-related costs to cities, counties, and special districts increased the funding for the other general government programs. During fiscal year 2014-15, the General Fund actual budgetary basis expenditures were $115.1 billion, or $1.8 billion less than the final budgeted amount of $116.9 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, 2015
(amounts in millions)

	Original	Final	Increase
Budgeted amounts			
State and consumer services	$ 15	$ 17	$ 2
Business and transportation	9	92	83
Resources	1,151	1,639	488
Health and human services	29,002	30,449	1,447
Correctional programs	9,385	9,913	528
Education	50,061	61,654	11,593
General government:			
Tax relief	417	427	10
Debt service	5,144	5,164	20
Other general government	6,293	7,580	1,287
Total	**$ 101,477**	**$ 116,935**	**$ 15,458**

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2015, the State's investment in capital assets for its governmental and business-type activities amounted to $132.4 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/development 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, 2015, the State's capital assets increased $7.3 billion, or 5.8% over the prior fiscal year. The majority of the increase occurred in state highway infrastructure, buildings and other depreciable property, and construction/development in progress. Included in the capital assets increase is a $3.6 billion beginning balance restatement, primarily for the understated state highway infrastructure and construction in progress.

Additional information on the State's capital assets can be found in Note 7.

Table 4 presents a summary of the primary government's capital assets for governmental and business-type activities.

Table 4

Capital Assets – Primary Government – Two-year Comparison
June 30, 2015 and 2014
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	$ 19,131	$ 18,258	$ 237	$ 222	$ 19,368	$ 18,480
State highway infrastructure	70,686	65,269	—	—	70,686	65,269
Collections – nondepreciable	23	23	11	7	34	30
Buildings and other depreciable property	28,310	27,554	12,274	11,738	40,584	39,292
Intangible assets – amortizable	1,215	1,091	338	336	1,553	1,427
Less: accumulated depreciation/amortization	(12,668)	(12,150)	(4,939)	(4,581)	(17,607)	(16,731)
Construction/development in progress	16,085	14,858	1,183	764	17,268	15,622
Intangible assets – nonamortizable	419	1,466	116	249	535	1,715
Total	**$ 123,201**	**$ 116,369**	**$ 9,220**	**$ 8,735**	**$ 132,421**	**$ 125,104**

Note: Prior-year adjustments recorded in the current year have not been reflected in the prior-year column.

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. 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 2014-15 fiscal year, the actual amount spent on preservation was 50.4% 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 with 84.3% of lane miles judged to be of excellent, good, or fair quality in the last completed pavement-condition survey. The State is responsible for maintaining 49,718 lane miles and 13,218 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

At June 30, 2015, the State had total bonded debt outstanding of $112.2 billion. Of this amount, $81.1 billion (72.3%) represents general obligation bonds, which are backed by the full faith and credit of the State. Included in the $81.1 billion of general obligation bonds is $944 million of Economic Recovery bonds that are secured by a pledge of revenues derived from dedicated sales and use taxes and will be fully paid during fiscal year 2015-2016. The current portion of general obligation bonds outstanding is $3.0 billion and the long-term portion is $78.1 billion. The remaining $31.1 billion (27.7%) of bonded debt outstanding represents revenue bonds, which are secured solely by specified revenue sources. The current portion of revenue bonds outstanding is $1.7 billion and the long-term portion is $29.4 billion.

During the fiscal year, the State issued $6.6 billion in new general obligation bonds for children's hospitals; public primary, secondary, community college and university education facilities; highway safety, traffic reduction, air quality and port security; transportation; housing and emergency shelters; local and passenger rail projects; safe drinking water; water quality and supply, flood control, river and coastal protection; medical research; earthquake safety and public building rehabilitation; veterans' homes; high-speed passenger train 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 – Primary Government – Two-year Comparison
Years ended June 30, 2015 and 2014
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Government-wide noncurrent liabilities						
General obligation bonds	$ 77,527	$ 79,287	$ 579	$ 617	$ 78,106	$ 79,904
Revenue bonds payable	17,739	18,270	11,670	12,070	29,409	30,340
Total bonded debt	95,266	97,557	12,249	12,687	107,515	110,244
Net pension liability/obligation	57,456	3,238	6,249	—	63,705	3,238
Net other postemployment benefits obligation	21,594	18,617	735	628	22,329	19,245
Mandated cost claims payable	2,377	7,715	—	—	2,377	7,715
Loans payable	—	—	5,671	7,633	5,671	7,633
Compensated absences payable	3,681	3,751	188	183	3,869	3,934
Workers compensation benefits payable	3,448	3,291	3	3	3,451	3,294
Capital lease obligations	215	200	1,136	1,180	1,351	1,380
Certificates of participation and commercial paper	482	589	89	51	571	640
Other noncurrent liabilities	2,378	2,563	1,191	1,141	3,569	3,704
Total noncurrent liabilities	**186,897**	**137,521**	**27,511**	**23,506**	**214,408**	**161,027**
Current portion of long-term obligations	5,071	5,807	2,078	1,931	7,149	7,738
Total long-term obligations	**$ 191,968**	**$ 143,328**	**$ 29,589**	**$ 25,437**	**$ 221,557**	**$ 168,765**

Note: Prior-year adjustments recorded in the current year have not been reflected in the prior-year column.

During the 2014-15 fiscal year, the State implemented GASB Statements No. 68 and 71, which resulted in the elimination of the June 30, 2014 net pension obligation of $3.2 billion and the recognition of a net pension liability of $63.7 billion at June 30, 2015—a net increase of $60.5 billion in long-term obligations. All other long-term obligations not associated with pensions decreased by a net $4.0 billion from the prior year. The largest decreases were $4.8 billion in state-mandated cost claims payable, $2.8 billion in general obligation bonds, and $2.0 billion in loans payable to the U.S. Department of Labor for prior-year shortfalls in the unemployment program. The largest increase was $3.1 billion in other postemployment benefit obligations because the State does not fully fund the annual actuarially calculated cost of these benefits.

Note 10, Long-term Obligations; Notes 11 through 16; and Notes 24 and 25 include additional information on the State's long-term obligations.

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, which strengthens the budget stabilization account. 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.

Economic Condition and Future Budgets

The Economy for the Year Ending June 30, 2015

The U.S. economy completed its sixth year of recovery as California ended its fiscal year on June 30, 2015. California's income growth outperformed that of the nation as a whole during the 2014-15 fiscal year. The State's total personal income increased by 5.5% during the year, compared to the 4.6% increase posted for the U.S. as a whole. As personal income grew, consumer spending also increased, as demonstrated by the 9.9% increase in automobile registrations (an increase from the 6.6% year-over-year increase observed in the 2013-14 fiscal year). During the 2014-15 fiscal year, a total of 1.9 million new vehicle registrations were recorded.

The State's real estate market showed signs of continued strength during the fiscal year. As of June 2015, prices for existing single-family homes were 7.0% higher and sales were up 11% compared to the prior year. Homebuilding continued in California at an accelerated rate, with permits issued during the 2014-15 fiscal year increasing by approximately 10% to nearly 94,000 units. Nonresidential construction increased by 4.1%, with the value of nonresidential permits increasing to $23.5 billion.

California's labor market continued to add jobs during the 2014-15 fiscal year. Total employment for June 2015 rose to 17.8 million jobs, a gain of more than 481,000 jobs from June 2014. Mirroring that increase, the State's unemployment rate fell from 7.5% at June 2014 to 6.3% at June 2015.

Economic Outlook for the 2015-16 Fiscal Year as of December 31, 2015

California's economy continued to improve during the first several months of the fiscal year beginning July 1, 2015. Job gains, falling unemployment, increases in personal income, higher auto sales, and rising construction illustrated the size and scope of this growth.

Employment opportunities in California continued to improve during the first several months of the 2015-16 fiscal year. Seasonally adjusted job growth averaged about 8,900 jobs per month, although the pace of growth slowed somewhat relative to the gains observed during the 2014-15 fiscal year. California's jobless rate continued to fall during the first half of fiscal year 2015-16. By December, it had receded to 5.8% from 6.3% in June 2015.

California's personal income growth continued to outpace that of the nation during the first quarter of fiscal year 2015-16. During that period, the State's total personal income increased by 6.5% over the same period last year, compared to a 4.6% increase nationally. The pace of new car sales continued to increase during the beginning of the 2015-16 fiscal year, with an annual increase of 10.3% for the 12 months ending December 2015.

The housing market continued to show strength during the first half of the 2015-16 fiscal year. As of December 2015, home prices were up 7.8% relative to prices during the same period one year earlier, and the number of sales had increased by 10.7% from the level observed in December 2014. New residential construction accelerated slightly in the first half of the 2015-16 fiscal year. The number of permits for new residential units increased to an annual pace of 95,000 units as of December 2015, an increase of 11.9% compared to the same period last year.

California's 2015-16 Budget

California's 2015-16 Budget Act was enacted on June 24, 2015. The Budget Act appropriated $167.6 billion—$115.4 billion from the General Fund, $45.7 billion from special funds, and $6.5 billion from bond funds. The General Fund's budgeted expenditures increased $896 million, or 0.8% over last year's General Fund budget. The General Fund's revenues were projected to be $115.0 billion after a projected $1.9 billion transfer to the Budget Stabilization Account (Rainy Day Fund). General Fund revenue comes predominantly from taxes, with personal income taxes expected to provide 66.5% of total revenue. California's major taxes (personal income, sales and use, and corporation taxes) are projected to supply approximately 96.9% of the General Fund's resources in the 2015-16 fiscal year.

The spending plan for the 2015-16 fiscal year implemented the first year of Proposition 2, approved by voters in November 2014, which uses spikes in capital gains to save money for the next recession and to pay down the State's debts and unfunded liabilities. Despite the projected $1.9 billion transfer to the Budget Stabilization Account and $1.9 billion allocated for debt reduction, including special fund loan repayments and a partial settle-up of Proposition 98 underfunding, the budget projected a surplus in the General Fund for the fourth consecutive year. The General Fund is projected to end the 2015-16 fiscal year with $4.6 billion in total reserves—$3.5 billion in the Budget Stabilization Account and $1.1 billion reserved for economic uncertainties.

The budget's projected increases in General Fund revenue triggered higher education spending through the Proposition 98 minimum funding guarantees for fiscal year 2015-16. The spending plan included $7.6 billion in both ongoing and one-time Proposition 98 funding increases. The largest ongoing augmentation of $6.0 billion is for the implementation of the Local Control Funding Formula. The budget package also provided one-time augmentations of $3.8 billion for paying down the education mandate claims backlog and $992 million for eliminating the remaining school and community college payment deferrals. The spending plan also increased funding for child care and preschool programs by $423 million (18%) and for the California State University and the University of California by a combined $495 million (8%) over the 2014-15 funding levels.

The 2015-16 spending plan included the adoption of the California Earned Income Tax Credit (EITC), a personal income tax credit that is intended to reduce poverty among California's poorest working families by increasing their after-tax income. For tax year 2015, the first year that the California EITC will be available, an estimated two million individuals will qualify (approximately 825,000 tax returns) with an average credit amount of $460 per return, reducing revenues available to the General Fund by an estimated $380 million in the 2015-16 fiscal year.

The spending plan for the 2015-16 fiscal year included $20.2 billion in General Fund money for health programs, an increase of $715 million (3.7%) over the 2014-15 funding level. This increase primarily addressed increases in both caseload and utilization of services, as well as partially restored funding for In-Home Supportive Services and extended Medi-Cal coverage to previously ineligible residents. The budget also included $125 million in General Fund spending to address the State's aging infrastructure; these funds help address the backlog of deferred-maintenance projects and help state departments reduce the need for costlier new infrastructure.

Since the passage of the Budget Act, General Fund revenues have exceeded estimates used in preparing the budget. As of January 1, 2016, revenues were $884.6 million more than forecasted, while total disbursements were $307 million below estimates. As a result, the General Fund's temporary borrowing was $1.4 billion less than projected, leaving a balance at December 31, 2015, of $11.1 billion in outstanding loans—which for the first time in 15 years is comprised entirely of internal borrowing from special funds rather than external loans such as revenue anticipation notes.

California's 2016-17 Budget

The Governor released his proposed 2016-17 budget on January 7, 2016. The budget restores some previous budget cuts and expands services, but continues to place strong emphasis on building reserves, paying down existing obligations, and restoring and upgrading the State's infrastructure. Although a strengthening economy continues to push revenues higher, the Governor's budget includes provisions for the next recession, as history has shown that the General Fund's major revenue source, personal income taxes, drops precipitously during economic downturns. The budget allocates a significant portion of discretionary resources to increasing total reserves beyond constitutional funding requirements such as those required by Proposition 2 and Proposition 98. The budget projects total reserves of $10.2 billion by the end of the 2016-17 fiscal year—$6.0 billion in the Budget Stabilization Account as required under Proposition 2, $2.2 billion in the General Fund's reserve for economic uncertainties, and an additional optional reserve of $2.0 billion. In addition to the required transfer to the Budget Stabilization Account, Proposition 2 requires that an equivalent amount be used to pay down existing debts and reduce unfunded liabilities in excess of current base amounts. During the 2016-17 fiscal year, the Governor proposes to spend a total of $1.6 billion to repay some of the General Fund's loans from special funds and transportation projects, to partially settle-up previous Proposition 98 underfunding, and to reduce some of the University of California employee pension liabilities.

The 2016-17 Governor's Budget projects that General Fund revenues and transfers will be $120.6 billion and expenditures will be $122.6 billion, leaving an estimated $3.2 billion year-end balance that includes the $2.2 billion reserve for economic uncertainties. In the proposed budget, the General Fund began fiscal year 2015-16 with a surplus balance of $3.7 billion; it is projected to begin fiscal year 2016-17 with a surplus of approximately $5.2 billion. Estimated General Fund revenues and transfers are 2.6% more than the revised 2015-16 estimate of $117.5 billion, while the 2016-17 expenditures are 5.6% greater than the revised 2015-16 estimate of $116.1 billion.

Personal income tax is projected to increase by $2.5 billion (3.1%) over the prior-year revised estimate. This represents a major component of the $3.8 billion General Fund revenue increase. Sales and use taxes are also projected to increase by $0.7 billion (2.8%) and corporation tax by $0.7 billion (6.3%). The budget's projected increases in General Fund revenue trigger higher education spending through the Proposition 98 minimum funding guarantees for both fiscal year 2015-16 and 2016-17. The Governor's budget includes $4.3 billion in additional Proposition 98 spending, with a large portion of the new funding ($2.8 billion) dedicated to augmenting the Local Control Funding Formula. The Governor's budget package also provides $1.4 billion to pay down the backlog of education mandate claims, thereby reducing the State's outstanding Proposition 98 obligations.

The Governor's budget also includes various proposals to improve public infrastructure and reflects many of the proposals that the Governor outlined last summer in his transportation funding package. In the transportation package, the Governor proposed spending $36.0 billion over the next decade to improve the maintenance of the State's highways and roads, expand public transit, and improve critical trade routes. The fiscal year 2016-17 budget commits spending on infrastructure using both General Fund and special fund sources, including $1.5 billion to replace and renovate state office buildings and a $250 million grant program to replace or renovate county jails. The budget also proposes a one-time allocation of $807 million for statewide maintenance projects to address some of the State's $77.0 billion infrastructure deferred-maintenance backlog.

The Governor's budget for the 2016-17 fiscal year includes increased spending for health and human services of $2.1 billion (6.6%), mainly within the Medi-Cal program, for continued implementation of federal health care reform, which has enabled millions of Californians to obtain health care coverage. The 2016-17 budget also proposes a $3.1 billion cap-and-trade expenditure plan to reduce greenhouse gas emissions, sets aside

$350 million for potential increases in employee compensation as a result of the 2016 collective bargaining process, and provides funding for drought-related activities.

According to the Legislative Analyst's Office, California's nonpartisan fiscal and policy advisor, the State may be reaching the peak of its long economic expansion. Planning for the next downturn, which includes setting aside budget reserves, is an important priority. The Governor's emphasis on reserves is prudent, as a large budget reserve is the key to weathering the next recession with minimal disruption to public programs. Additionally, the budget's focus on renovating, adapting, or improving the State's infrastructure to meet current and future needs is appropriate, as much of the State's infrastructure is aging.

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, 2015
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and pooled investments	$ 29,824,636	$ 5,359,824	$ 35,184,460	$ 2,625,369
Amount on deposit with U.S. Treasury	—	11,643	11,643	—
Investments	298,514	2,711,621	3,010,135	7,812,541
Restricted assets:				
Cash and pooled investments	2,356,430	789,320	3,145,750	219,958
Investments	—	—	—	3,304
Due from other governments	—	20,584	20,584	—
Net investment in direct financing leases	97,802	13,915	111,717	—
Receivables (net)	16,894,083	2,128,019	19,022,102	4,098,133
Internal balances	(230,203)	230,203	—	—
Due from primary government	—	—	—	168,660
Due from other governments	17,780,085	289,152	18,069,237	92,938
Prepaid items	115,818	49,767	165,585	1,357
Inventories	78,689	18,385	97,074	207,457
Recoverable power costs (net)	—	108,000	108,000	—
Other current assets	64,849	5,378	70,227	336,872
Total current assets	67,280,703	11,735,811	79,016,514	15,566,589
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	288,505	694,460	982,965	29,185
Investments	—	372,496	372,496	4,700
Loans receivable	—	284,213	284,213	—
Investments	—	1,450,600	1,450,600	25,986,785
Net investment in direct financing leases	929,070	350,760	1,279,830	—
Receivables (net)	1,739,297	348,503	2,087,800	2,521,842
Loans receivable	4,286,114	4,057,580	8,343,694	3,590,232
Recoverable power costs (net)	—	3,770,000	3,770,000	—
Long-term prepaid charges	6,610	1,452,689	1,459,299	—
Capital assets:				
Land	19,130,659	237,295	19,367,954	1,125,463
State highway infrastructure	70,685,662	—	70,685,662	—
Collections – nondepreciable	22,630	11,088	33,718	394,180
Buildings and other depreciable property	28,310,554	12,274,972	40,585,526	46,455,921
Intangible assets – amortizable	1,215,226	337,629	1,552,855	863,343
Less: accumulated depreciation/amortization	(12,667,983)	(4,939,363)	(17,607,346)	(21,852,228)
Construction/development in progress	16,085,342	1,182,567	17,267,909	2,859,030
Intangible assets – nonamortizable	419,274	115,761	535,035	5,098
Other noncurrent assets	—	21,251	21,251	294,902
Total noncurrent assets	130,450,960	22,022,501	152,473,461	62,278,453
Total assets	**197,731,663**	**33,758,312**	**231,489,975**	**77,845,042**
DEFERRED OUTFLOWS OF RESOURCES	**6,127,476**	**1,050,366**	**7,177,842**	**5,706,742**
Total assets and deferred outflows of resources	**$ 203,859,139**	**$ 34,808,678**	**$ 238,667,817**	**$ 83,551,784**

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	$ 21,753,559	$ 317,610	$ 22,071,169	$ 2,440,495
Due to component units	168,660	—	168,660	—
Due to other governments	11,437,475	125,000	11,562,475	2
Revenues received in advance	1,452,360	312,303	1,764,663	1,140,375
Tax overpayments	4,385,298	—	4,385,298	—
Deposits	472,920	—	472,920	863,825
Contracts and notes payable	105	—	105	26,518
Unclaimed property liability	773,487	—	773,487	—
Interest payable	1,203,862	67,119	1,270,981	49,787
Securities lending obligations	—	—	—	812,088
Benefits payable	—	474,410	474,410	—
Current portion of long-term obligations	5,070,767	2,077,542	7,148,309	4,137,025
Other current liabilities	672,168	466,770	1,138,938	1,768,877
Total current liabilities	47,390,661	3,840,754	51,231,415	11,238,992
Noncurrent liabilities:				
Loans payable	—	5,670,653	5,670,653	—
Lottery prizes and annuities	—	742,955	742,955	—
Compensated absences payable	3,680,640	188,390	3,869,030	286,796
Workers compensation benefits payable	3,447,670	2,976	3,450,646	410,329
Certificates of participation, commercial paper, and other borrowings	481,885	89,001	570,886	2,424
Capital lease obligations	214,930	1,135,691	1,350,621	463,503
General obligation bonds payable	77,527,575	579,318	78,106,893	—
Revenue bonds payable	17,738,950	11,669,577	29,408,527	19,461,720
Mandated cost claims payable	2,376,998	—	2,376,998	—
Net other postemployment benefits obligation	21,593,644	735,176	22,328,820	9,524,839
Net pension liability	57,456,241	6,248,976	63,705,217	10,814,302
Revenues received in advance	—	13,213	13,213	—
Other noncurrent liabilities	2,378,587	435,137	2,813,724	1,845,620
Total noncurrent liabilities	186,897,120	27,511,063	214,408,183	42,809,533
Total liabilities	**234,287,781**	**31,351,817**	**265,639,598**	**54,048,525**
DEFERRED INFLOWS OF RESOURCES	**11,989,171**	**2,002,482**	**13,991,653**	**5,368,446**
Total liabilities and deferred inflows of resources	**$ 246,276,952**	**$ 33,354,299**	**$ 279,631,251**	**$ 59,416,971**

(continued)

The notes to the financial statements are an integral part of this statement.

Statement of Net Position (continued)

June 30, 2015
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
NET POSITION				
Net investment in capital assets	$ 100,694,652	$ 2,278,252	$ 102,972,904	$ 12,669,964
Restricted:				
Nonexpendable – endowments	—	13,448	13,448	5,537,668
Expendable:				
Endowments and gifts	—	—	—	10,421,237
Business and transportation	11,258,588	6,700	11,265,288	—
Resources	4,349,837	446,898	4,796,735	—
Health and human services	3,565,865	153,730	3,719,595	—
Education	919,856	59,068	978,924	1,757,383
General government	4,165,287	229,275	4,394,562	—
Unemployment programs	—	3,601,837	3,601,837	—
State and consumer services	765,710	22,749	788,459	—
Correctional programs	937	3,239	4,176	—
Indenture	—	—	—	531,976
Statute	—	—	—	1,266,685
Other purposes	1,606,422	—	1,606,422	16,092
Total expendable	26,632,502	4,523,496	31,155,998	13,993,373
Unrestricted	(169,744,967)	(5,360,817)	(175,105,784)	(8,066,192)
Total net position (deficit)	**(42,417,813)**	**1,454,379**	**(40,963,434)**	**24,134,813**
Total liabilities, deferred inflows of resources, and net position	**$ 203,859,139**	**$ 34,808,678**	**$ 238,667,817**	**$ 83,551,784**

(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, 2015
(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	$ 15,804,281	$ 6,502,363	$ 1,016,290	$ —	$ (8,285,628)		$ (8,285,628)	
Education	59,521,018	53,498	7,061,401	—	(52,406,119)		(52,406,119)	
Health and human services	122,063,805	8,259,696	73,854,732	—	(39,949,377)		(39,949,377)	
Resources	6,419,591	4,546,413	337,573	—	(1,535,605)		(1,535,605)	
State and consumer services	903,782	626,960	5,602	—	(271,220)		(271,220)	
Business and transportation	12,897,591	4,382,901	2,544,713	1,319,430	(4,650,547)		(4,650,547)	
Correctional programs	11,483,573	18,557	75,926	—	(11,389,090)		(11,389,090)	
Interest on long-term debt	4,880,625	—	—	—	(4,880,625)		(4,880,625)	
Total governmental activities	233,974,266	24,390,388	84,896,237	1,319,430	(123,368,211)		(123,368,211)	
Business-type activities:								
Electric Power	799,000	799,000	—	—		$ —	—	
Water Resources	1,019,378	1,019,378	—	—		—	—	
State Lottery	5,560,299	5,553,418	—	—		(6,881)	(6,881)	
Unemployment Programs	11,390,227	13,402,902	—	—		2,012,675	2,012,675	
California State University	6,847,789	3,113,988	1,666,292	—		(2,067,509)	(2,067,509)	
State Water Pollution Control Revolving	9,082	65,959	—	107,746		164,623	164,623	
Housing Loan	58,280	57,742	—	—		(538)	(538)	
Other enterprise programs	77,475	78,625	—	—		1,150	1,150	
Total business-type activities	25,761,530	24,091,012	1,666,292	107,746		103,520	103,520	
Total primary government	**$ 259,735,796**	**$ 48,481,400**	**$ 86,562,529**	**$ 1,427,176**	**$ (123,368,211)**	**$ 103,520**	**$ (123,264,691)**	
Component Units								
University of California	30,859,351	18,629,708	8,695,729	186,836				$ (3,347,078)
California Housing Finance Agency	206,703	52,796	—	—				(153,907)
Nonmajor component units	1,963,502	1,009,482	546,288	39,320				(368,412)
Total component units	**$ 33,029,556**	**$ 19,691,986**	**$ 9,242,017**	**$ 226,156**				**$ (3,869,397)**
General revenues:								
Personal income taxes					$ 78,098,865	$ —	$ 78,098,865	$ —
Sales and use taxes					38,224,080	—	38,224,080	—
Corporation taxes					10,720,647	—	10,720,647	—
Motor vehicle excise tax					5,393,994	—	5,393,994	—
Insurance taxes					3,926,319	—	3,926,319	—
Other taxes					2,235,498	—	2,235,498	—
Investment and interest					58,016	—	58,016	1,464,303
Escheat					400,807	—	400,807	—
Other					—	—	—	3,069,190
Transfers					(2,554,970)	2,554,970	—	—
Total general revenues and transfers					**136,503,256**	**2,554,970**	**139,058,226**	**4,533,493**
Change in net position					13,135,045	2,658,490	15,793,535	664,096
Net position (deficit) – beginning, restated					**(55,552,858)**	**(1,204,111)**	**(56,756,969)**	**23,470,717**
Net position (deficit) – ending					**$ (42,417,813)**	**$ 1,454,379**	**$ (40,963,434)**	**$ 24,134,813**

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.

Fund Financial Statements

Balance Sheet

Governmental Funds

June 30, 2015
(amounts in thousands)

	General	Federal	Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
ASSETS						
Cash and pooled investments	$ 5,841,755	$ 356,429	$ 4,411,190	$ 6,570,692	$ 11,403,104	$ 28,583,170
Investments	—	—	—	—	298,514	298,514
Receivables (net)	14,395,822	13,474	1,053,857	475,990	2,600,372	18,539,515
Due from other funds	1,601,534	—	1,190,006	85,124	900,066	3,776,730
Due from other governments	239,905	16,977,663	7,860	56,003	485,135	17,766,566
Interfund receivables	46,526	—	2,952,261	623,097	1,138,895	4,760,779
Loans receivable	50,058	210,255	—	1,330,521	2,695,280	4,286,114
Other assets	8,094	—	47,840	—	8,914	64,848
Total assets	**$ 22,183,694**	**$ 17,557,821**	**$ 9,663,014**	**$ 9,141,427**	**$ 19,530,280**	**$ 78,076,236**
LIABILITIES						
Accounts payable	$ 1,717,420	$ 1,270,482	$ 354,471	$ 396,527	$ 686,547	$ 4,425,447
Due to other funds	3,941,117	13,662,231	146,689	99,142	2,803,333	20,652,512
Due to component units	134,328	—	95	148	34,089	168,660
Due to other governments	5,821,371	2,261,320	303,878	50,514	3,474,868	11,911,951
Interfund payables	5,281,728	—	11,096	40,000	8,574	5,341,398
Revenues received in advance	653,076	114,710	20,600	136,613	172,853	1,097,852
Tax overpayments	4,385,298	—	—	—	—	4,385,298
Deposits	1,299	—	2,920	942	467,074	472,235
Interest payable	—	1,010	—	—	23,246	24,256
Unclaimed property liability	773,487	—	—	—	—	773,487
General obligation bonds payable	—	—	—	—	14,550	14,550
Other liabilities	376,789	17,067	516,524	6,968	120,232	1,037,580
Total liabilities	**23,085,913**	**17,326,820**	**1,356,273**	**730,854**	**7,805,366**	**50,305,226**
DEFERRED INFLOWS OF RESOURCES	**1,326,413**	**13,121**	**89,678**	**36,726**	**203,043**	**1,668,981**
Total liabilities and deferred inflows of resources	**24,412,326**	**17,339,941**	**1,445,951**	**767,580**	**8,008,409**	**51,974,207**
FUND BALANCES						
Nonspendable	53,431	—	—	—	5,620	59,051
Restricted	2,266,635	217,880	8,161,754	5,884,242	9,960,291	26,490,802
Committed	102,793	—	55,538	2,491,685	1,543,340	4,193,356
Assigned	—	—	—	—	16,767	16,767
Unassigned	(4,651,491)	—	(229)	(2,080)	(4,147)	(4,657,947)
Total fund balances (deficit)	**(2,228,632)**	**217,880**	**8,217,063**	**8,373,847**	**11,521,871**	**26,102,029**
Total liabilites, deferred inflows of resources, and fund balances	**$ 22,183,694**	**$ 17,557,821**	**$ 9,663,014**	**$ 9,141,427**	**$ 19,530,280**	**$ 78,076,236**

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		**$ 26,102,029**
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	19,128,347	
State highway infrastructure	70,685,662	
Collections – nondepreciable	22,630	
Buildings and other depreciable property	27,631,704	
Intangible assets – amortizable	1,146,654	
Less: accumulated depreciation/amortization	(12,097,288)	
Construction/development in progress	14,776,655	
Intangible assets – nonamortizable	419,274	
		121,713,638
• 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.		1,668,981
• Internal service funds are used by management to charge the costs of certain activities, such as building construction and 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.		(6,563,306)
• 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.		(3,840,801)
• Deferred inflows and outflows of resources related to pension transactions are not reported in the funds.		(6,350,068)
• 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.		561,539
• General obligation bonds and related accrued interest totaling $77,964,771, revenue bonds totaling $7,023,904, and certificates of participation and commercial paper totaling $493,770 are not due and payable in the current period and are not reported in the funds.		(85,482,445)
• The following liabilities are not due and payable in the current period and are not reported in the funds:		
Compensated absences	(3,527,945)	
Capital leases	(274,760)	
Net pension liability	(56,753,085)	
Net other postemployment benefits obligation	(21,075,900)	
Mandated cost claims	(2,787,639)	
Workers' compensation	(3,401,590)	
Proposition 98 funding guarantee	(1,256,469)	
Pollution remediation obligations	(1,133,606)	
Other noncurrent liabilities	(16,386)	
		(90,227,380)
Net position of governmental activities		**$ (42,417,813)**

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, 2015

(amounts in thousands)

	General	Federal	Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
REVENUES						
Personal income taxes	$ 76,879,115	$ —	$ —	$ —	$ 1,366,501	$ 78,245,616
Sales and use taxes	23,639,933	—	610,124	—	14,139,915	38,389,972
Corporation taxes	10,780,647	—	—	—	—	10,780,647
Motor vehicle excise taxes	—	—	5,393,994	—	—	5,393,994
Insurance taxes	2,456,208	—	—	—	1,470,111	3,926,319
Other taxes	690,901	—	5,487	168,474	1,448,013	2,312,875
Intergovernmental	—	86,202,193	—	—	1,538,474	87,740,667
Licenses and permits	8,025	—	4,198,242	380,364	2,684,363	7,270,994
Charges for services	298,709	—	138,981	129,702	282,503	849,895
Fees	257,260	—	19,551	2,376,714	6,347,816	9,001,341
Penalties	590,604	27	44,078	30,185	844,492	1,509,386
Investment and interest	25,412	—	19,124	46,398	28,756	119,690
Escheat	400,768	—	—	—	6,131	406,899
Other	749,792	—	74,042	1,844,862	1,306,448	3,975,144
Total revenues	**116,777,374**	**86,202,220**	**10,503,623**	**4,976,699**	**31,463,523**	**249,923,439**
EXPENDITURES						
Current:						
General government	5,225,800	1,015,259	162,522	106,964	9,691,850	16,202,395
Education	55,130,065	7,048,306	2,919	2,011	769,320	62,952,621
Health and human services	29,547,182	73,303,228	2,759	31,562	19,374,305	122,259,036
Resources	1,322,656	143,225	185,988	4,093,296	261,281	6,006,446
State and consumer services	15,781	5,602	105,911	74,692	468,788	670,774
Business and transportation	10,728	3,772,675	10,836,105	265,871	251,838	15,137,217
Correctional programs	9,748,977	56,625	—	—	1,377,324	11,182,926
Capital outlay	625,282	—	—	282,964	111,089	1,019,335
Debt service:						
Bond and commercial paper retirement	2,390,345	78,090	1,063,171	326,213	4,624,561	8,482,380
Interest and fiscal charges	3,146,751	6,199	4,460	15,910	1,300,479	4,473,799
Total expenditures	**107,163,567**	**85,429,209**	**12,363,835**	**5,199,483**	**38,230,835**	**248,386,929**
Excess (deficiency) of revenues over (under) expenditures	9,613,807	773,011	(1,860,212)	(222,784)	(6,767,312)	1,536,510
OTHER FINANCING SOURCES (USES)						
General obligation bonds and commercial paper issued	—	—	3,274,250	337,720	731,195	4,343,165
Refunding debt issued	—	—	182,295	802,055	4,001,750	4,986,100
Payment to refund long-term debt	—	—	(46,070)	(612,325)	(3,106,698)	(3,765,093)
Premium on bonds issued	268,740	—	172,522	118,146	557,403	1,116,811
Remarketing bonds issued	—	—	—	—	100,000	100,000
Payment to remarketing agent	—	—	—	—	(100,000)	(100,000)
Capital leases	625,282	—	—	—	—	625,282
Transfers in	734,875	—	28	243,712	4,365,519	5,344,134
Transfers out	(6,026,740)	(766,705)	(971,974)	(8,660)	(160,675)	(7,934,754)
Total other financing sources (uses)	**(4,397,843)**	**(766,705)**	**2,611,051**	**880,648**	**6,388,494**	**4,715,645**
Net change in fund balances	5,215,964	6,306	750,839	657,864	(378,818)	6,252,155
Fund balances (deficit) – beginning	**(7,444,596)**	**211,574**	**7,466,224**	**7,715,983** *	**11,900,689** *	**19,849,874**
Fund balances (deficit) – ending	**$ (2,228,632)**	**$ 217,880**	**$ 8,217,063**	**$ 8,373,847**	**$ 11,521,871**	**$ 26,102,029**

* 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 **$ 6,252,155**

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:

Purchase of assets	5,669,440	
Disposal of assets	(2,264,015)	
Depreciation expense, net of asset disposal	(723,675)	
		2,681,750

- Some revenues in the Statement of Activities do not provide current financial resources, and therefore are unavailable in governmental funds. (325,032)

- Internal service funds are used by management to charge the costs of certain activities, such as building construction and architectural services, procurement, and technology, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. 120,404

- The issuance of long-term debt instruments provides current financial resources to governmental funds, while the repayment of the principal of long-term debt is an expenditure of governmental funds. Neither transaction, however, has any effect on the Statement of Activities. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The following shows the effect of these differences in the treatment of long-term debt and related items:

	General Obligation Bonds	Revenue Bonds	COPs and Commercial Paper	Total	
Debt issued	(6,713,070)	(1,692,050)	(1,024,145)	(9,429,265)	
Premium on debt issued	(890,443)	(226,368)	—	(1,116,811)	
Accreted interest	—	(42,891)	—	(42,891)	
Principal repayments	7,111,215	242,651	1,128,515	8,482,381	
Payments to refund/remarket long-term debt	1,856,369	2,008,724	—	3,865,093	
Related expenses not reported in governmental funds:					
Premium/discount amortization	208,498	24,335	(46)	232,787	
Deferred gain/loss on refunding	(15,191)	(74,141)	(68)	(89,400)	
Prepaid insurance	—	(11,927)	—	(11,927)	
Accrued interest	899	(80)	—	819	
	1,558,277	228,253	104,256		1,890,786

(continued)

- The following expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized as expenditures in governmental funds. Once the use of current financal resources is required, expenditures are recognized in governmental funds but are eliminated from the Statement of Activities. In the current period, the net adjustment consist of:

Compensated absences	60,365	
Capital leases	(14,672)	
Net pension liability	382,933	
Net other postemployment benefits obligation	(2,903,353)	
Mandated cost claims	4,927,540	
Workers' compensation	(153,729)	
Proposition 98 funding guarantee	262,999	
Pollution remediation obligations	(51,640)	
Other noncurrent liabilities	4,539	
		2,514,982

Change in net position of governmental activities **$ 13,135,045**

(concluded)

Statement of Net Position

Proprietary Funds

June 30, 2015
(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
ASSETS								
Current assets:								
Cash and pooled investments	$ —	$ 509,569	$ 292,480	$ 3,556,385	$ 343,434	$ 657,956	$ 5,359,824	$ 1,241,466
Amount on deposit with U.S. Treasury	—	—	—	11,643	—	—	11,643	—
Investments	—	—	93,165	—	2,618,456	—	2,711,621	—
Restricted assets:								
Cash and pooled investments	752,000	—	—	—	—	37,320	789,320	2,356,430
Due from other governments	—	—	—	—	—	20,584	20,584	—
Net investment in direct financing leases	—	—	—	—	13,915	—	13,915	466,796
Receivables (net)	—	79,935	510,582	1,325,458	180,377	31,667	2,128,019	23,549
Due from other funds	4,000	996	339	4,356	1,012	1,601	12,304	494,789
Due from other governments	—	37,406	—	39,586	—	212,160	289,152	13,519
Prepaid items	—	—	—	5,223	44,530	14	49,767	115,818
Inventories	—	5,160	9,941	—	—	3,284	18,385	78,689
Recoverable power costs (net)	108,000	—	—	—	—	—	108,000	—
Other current assets	—	—	5,378	—	—	—	5,378	—
Total current assets	864,000	633,066	911,885	4,942,651	3,201,724	964,586	11,517,912	4,791,056
Noncurrent assets:								
Restricted assets:								
Cash and pooled investments	611,000	83,361	—	—	99	—	694,460	288,505
Investments	300,000	72,496	—	—	—	—	372,496	—
Loans receivable	—	—	—	—	—	284,213	284,213	—
Investments	—	—	846,514	—	586,117	17,969	1,450,600	—
Net investment in direct financing leases	—	—	—	—	350,760	—	350,760	6,914,647
Receivables (net)	—	—	—	79,904	268,599	—	348,503	—
Interfund receivables	—	93,047	—	611,690	—	1,600	706,337	13,955
Loans receivable	—	14,061	—	—	85,389	3,958,130	4,057,580	—
Recoverable power costs (net)	3,770,000	—	—	—	—	—	3,770,000	—
Long-term prepaid charges	—	1,440,309	12,380	—	—	—	1,452,689	4,981
Capital assets:								
Land	—	139,847	9,743	—	86,433	1,272	237,295	2,312
Collections – nondepreciable	—	—	—	—	11,088	—	11,088	—
Buildings and other depreciable property	—	4,772,373	193,721	22,150	7,268,137	18,591	12,274,972	678,850
Intangible assets – amortizable	—	36,808	—	166,966	132,355	1,500	337,629	68,572
Less: accumulated depreciation/amortization	—	(2,074,899)	(73,878)	(24,412)	(2,748,541)	(17,633)	(4,939,363)	(570,695)
Construction/development in progress	—	626,600	—	86,302	469,404	261	1,182,567	1,308,687
Intangible assets – nonamortizable	—	115,075	—	—	686	—	115,761	—
Other noncurrent assets	—	—	—	—	17,719	3,532	21,251	—
Total noncurrent assets	4,681,000	5,319,078	988,480	942,600	6,528,245	4,269,435	22,728,838	8,709,814
Total assets	**5,545,000**	**5,952,144**	**1,900,365**	**5,885,251**	**9,729,969**	**5,234,021**	**34,246,750**	**13,500,870**
DEFERRED OUTFLOWS OF RESOURCES	**144,000**	**219,326**	**9,648**	**24,377**	**648,757**	**4,258**	**1,050,366**	**139,957**
Total assets and deferred outflows of resources	**$ 5,689,000**	**$ 6,171,470**	**$ 1,910,013**	**$ 5,909,628**	**$ 10,378,726**	**$ 5,238,279**	**$ 35,297,116**	**$ 13,640,827**

(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, 2015
(amounts in thousands)

	Electric Power	Water Resources	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
	Business-type Activities – Enterprise Funds							Governmental Activities
LIABILITIES								
Current liabilities:								
Accounts payable	$ 1,344	$ 67,132	$ 52,237	$ 3,679	$ 189,077	$ 4,127	$ 317,596	$ 338,324
Due to other funds	656	45,508	359,587	80,840	133	1,728	488,452	132,661
Due to other governments	—	86,900	—	38,063	—	37	125,000	451
Revenues received in advance	—	—	2,923	25,798	283,549	33	312,303	354,508
Deposits	—	—	—	—	—	—	—	685
Contracts and notes payable	—	—	—	—	—	—	—	13,986
Interest payable	43,000	11,900	—	—	—	12,219	67,119	123,108
Benefits payable	—	—	—	474,410	—	—	474,410	—
Current portion of long-term obligations	750,000	209,386	600,064	—	473,682	44,410	2,077,542	549,798
Other current liabilities	—	939	205	50,122	415,453	51	466,770	29,176
Total current liabilities	795,000	421,765	1,015,016	672,912	1,361,894	62,605	4,329,192	1,542,697
Noncurrent liabilities:								
Interfund payables	—	—	—	—	—	—	—	139,673
Loans payable	—	—	—	5,670,653	—	—	5,670,653	—
Lottery prizes and annuities	—	—	742,955	—	—	—	742,955	—
Compensated absences payable	854	29,392	—	46,058	103,475	8,611	188,390	157,202
Workers' compensation benefits payable	—	—	2,396	—	—	580	2,976	46,080
Certificates of participation, commercial paper, and other borrowings	—	87,901	—	—	1,100	—	89,001	—
Capital lease obligations	—	—	—	—	1,135,691	—	1,135,691	—
General obligation bonds payable	—	135,045	—	—	—	444,273	579,318	—
Revenue bonds payable	4,881,000	2,588,108	—	—	3,809,849	390,620	11,669,577	10,583,876
Net other postemployment benefits obligation	6,146	203,219	49,146	149,904	313,360	13,401	735,176	517,744
Net pension liability	5,000	426,935	80,716	202,113	5,513,655	20,557	6,248,976	703,156
Revenues received in advance	—	—	—	—	13,213	—	13,213	—
Other noncurrent liabilities	—	218,486	—	—	154,370	62,281	435,137	16,327
Total noncurrent liabilities	4,893,000	3,689,086	875,213	6,068,728	11,044,713	940,323	27,511,063	12,164,058
Total liabilities	**5,688,000**	**4,110,851**	**1,890,229**	**6,741,640**	**12,406,607**	**1,002,928**	**31,840,255**	**13,706,755**
DEFERRED INFLOWS OF RESOURCES	**1,000**	**855,191**	**15,766**	**39,875**	**1,086,748**	**3,902**	**2,002,482**	**142,807**
Total liabilities and deferred inflows of resources	**5,689,000**	**4,966,042**	**1,905,995**	**6,781,515**	**13,493,355**	**1,006,830**	**33,842,737**	**13,849,562**
NET POSITION								
Net investment in capital assets	—	1,105,692	129,585	251,006	787,972	3,997	2,278,252	291,868
Restricted:								
Nonexpendable – endowments	—	—	—	—	13,448	—	13,448	—
Expendable:								
Construction	—	99,736	—	—	7,623	—	107,359	140,534
Debt service	—	—	—	—	6,102	37,320	43,422	1,166
Security for revenue bonds	—	—	—	—	—	304,797	304,797	—
Lottery	—	—	94,229	—	—	—	94,229	—
Unemployment programs	—	—	—	3,601,837	—	—	3,601,837	—
Other purposes	—	—	—	—	45,343	326,509	371,852	—
Total expendable	—	99,736	94,229	3,601,837	59,068	668,626	4,523,496	141,700
Unrestricted	—	—	(219,796)	(4,724,730)	(3,975,117)	3,558,826	(5,360,817)	(642,303)
Total net position (deficit)	**—**	**1,205,428**	**4,018**	**(871,887)**	**(3,114,629)**	**4,231,449**	**1,454,379**	**(208,735)**
Total liabilities, deferred inflows of resources, and net position	**$ 5,689,000**	**$ 6,171,470**	**$ 1,910,013**	**$ 5,909,628**	**$ 10,378,726**	**$ 5,238,279**	**$ 35,297,116**	**$ 13,640,827**

(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, 2015

(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	$ —	$ —	$ —	$ 13,394,669	$ —	$ —	$ 13,394,669	$ —
Lottery ticket sales	—	—	5,524,851	—	—	—	5,524,851	—
Power sales	(132,000)	91,780	—	—	—	—	(40,220)	—
Student tuition and fees	—	—	—	—	2,149,786	—	2,149,786	—
Services and sales	—	927,598	—	—	493,790	87,486	1,508,874	2,927,077
Investment and interest	—	—	—	—	—	107,946	107,946	8,343
Rent	—	—	—	—	—	176	176	454,488
Grants and contracts	—	—	—	—	99,546	—	99,546	—
Other	—	—	—	—	194,216	5,437	199,653	—
Total operating revenues	**(132,000)**	**1,019,378**	**5,524,851**	**13,394,669**	**2,937,338**	**201,045**	**22,945,281**	**3,389,908**
OPERATING EXPENSES								
Lottery prizes	—	—	3,501,746	—	—	—	3,501,746	—
Power purchases (net of recoverable power costs)	(144,000)	202,780	—	—	—	—	58,780	—
Personal services	—	320,684	70,482	166,147	4,201,095	43,154	4,801,562	753,850
Supplies	—	—	16,435	—	1,261,999	32,968	1,311,402	11,926
Services and charges	12,000	83,943	563,997	83,463	—	33,107	776,510	1,967,059
Depreciation	—	81,495	8,950	7,936	279,039	342	377,762	52,623
Scholarships and fellowships	—	—	—	—	888,558	—	888,558	—
Distributions to beneficiaries	—	—	—	11,132,681	—	—	11,132,681	—
Interest expense	—	—	—	—	—	33,726	33,726	493,209
Amortization (recovery) of long-term prepaid charges	—	—	—	—	—	—	—	3,347
Other	—	—	—	—	—	752	752	23,429
Total operating expenses	**(132,000)**	**688,902**	**4,161,610**	**11,390,227**	**6,630,691**	**144,049**	**22,883,479**	**3,305,443**
Operating income (loss)	—	330,476	1,363,241	2,004,442	(3,693,353)	56,996	61,802	84,465
NONOPERATING REVENUES (EXPENSES)								
Donations and grants	—	—	—	—	1,666,292	—	1,666,292	—
Private gifts	—	—	—	—	48,060	—	48,060	—
Investment and interest income	931,000	—	28,514	8,233	42,851	1,281	1,011,879	905
Interest expense and fiscal charges	(931,000)	(96,082)	(34,147)	—	(217,098)	(293)	(1,278,620)	(18)
Lottery payments for education	—	—	(1,364,542)	—	—	—	(1,364,542)	—
Other	—	(234,394)	53	—	85,739	(495)	(149,097)	(598)
Total nonoperating revenues (expenses)	**—**	**(330,476)**	**(1,370,122)**	**8,233**	**1,625,844**	**493**	**(66,028)**	**289**
Income (loss) before capital contributions and transfers	—	—	(6,881)	2,012,675	(2,067,509)	57,489	(4,226)	84,754
Capital contributions	—	—	—	—	—	107,746	107,746	—
Transfers in	—	—	—	—	2,564,182	—	2,564,182	100,102
Transfers out	—	—	—	—	—	(9,212)	(9,212)	(64,452)
Change in net position	—	—	(6,881)	2,012,675	496,673	156,023	2,658,490	120,404
Total net position (deficit) – beginning	**—**	**1,205,428**	**10,899** *	**(2,884,562)** *	**(3,611,302)** *	**4,075,426** *	**(1,204,111)**	**(329,139)** *
Total net position (deficit) – ending	**$ —**	**$ 1,205,428**	**$ 4,018**	**$ (871,887)**	**$ (3,114,629)**	**$ 4,231,449**	**$ 1,454,379**	**$ (208,735)**

*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.

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2015

(amounts in thousands)

	Electric Power	Water Resources	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
	Business-type Activities – Enterprise Funds							Governmental Activities
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from customers/employers	$ (133,000)	$ 949,100	$ 5,438,883	$ 13,291,997	$ 2,663,953	$ 343,050	$ 22,553,983	$ 31,908
Receipts from interfund services provided	—	—	—	—	—	1,409	1,409	3,805,178
Payments to suppliers	(19,000)	(283,286)	(212,083)	(83,465)	(1,349,332)	(53,850)	(2,001,016)	(1,680,718)
Payments to employees	(2,000)	(320,684)	(56,155)	(160,179)	(4,307,055)	(36,620)	(4,882,693)	(652,097)
Payments for interfund services used	—	—	(17,933)	(22,463)	—	(425)	(40,821)	—
Payments for Lottery prizes	—	—	(3,653,071)	—	—	—	(3,653,071)	—
Claims paid to other than employees	—	—	(380,341)	(11,140,667)	—	—	(11,521,008)	(363,352)
Other receipts (payments)	227,000	2,647	244,862	73,216	(681,633)	(362,234)	(496,142)	(538,546)
Net cash provided by (used in) operating activities	**73,000**	**347,777**	**1,364,162**	**1,958,439**	**(3,674,067)**	**(108,670)**	**(39,359)**	**602,373**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Changes in interfund payables and loans payable	—	—	—	(1,962,738)	2,332	—	(1,960,406)	1,124
Receipt of bond charges	905,000	—	—	—	—	—	905,000	—
Proceeds from general obligation bonds	—	—	—	—	—	110,000	110,000	—
Proceeds from revenue bonds	1,000	—	—	—	96,341	—	97,341	—
Retirement of general obligation bonds	—	—	—	—	—	(77,455)	(77,455)	—
Retirement of revenue bonds	(618,000)	—	—	—	(91,496)	(25,960)	(735,456)	—
Payment to advance refund escrow agent	(29,000)	—	—	—	—	—	(29,000)	—
Interest paid	(268,000)	—	—	—	(15,607)	(1,717)	(285,324)	(18)
Transfers in	—	—	—	—	2,564,182	—	2,564,182	100,102
Transfers out	—	—	—	—	—	(9,212)	(9,212)	(64,452)
Grants received	—	—	—	—	1,857,365	106,889	1,964,254	—
Lottery payments for education	—	—	(1,347,102)	—	—	—	(1,347,102)	—
Other	—	1,170	—	—	53,753	4,000	58,923	1,819
Net cash provided by (used in) noncapital financing activities	**(9,000)**	**1,170**	**(1,347,102)**	**(1,962,738)**	**4,466,870**	**106,545**	**1,255,745**	**38,575**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Acquisition of capital assets	—	(227,636)	(43,206)	(2,047)	(458,210)	(495)	(731,594)	(1,351,051)
Proceeds from sale of capital assets	—	—	39	—	2,363	—	2,402	780
Proceeds from notes payable and commercial paper	—	191,229	—	—	—	—	191,229	—
Principal paid on notes payable and commercial paper	—	(139,465)	—	—	—	—	(139,465)	—
Proceeds from capital leases	—	—	—	—	3,994	—	3,994	—
Payment on capital debt and leases	—	—	—	—	(491,404)	—	(491,404)	—
Retirement of general obligation bonds	—	(56,875)	—	—	—	—	(56,875)	—
Proceeds from revenue bonds	—	246,873	—	—	911,531	—	1,158,404	840,614
Retirement of revenue bonds	—	(115,580)	—	—	(468,954)	—	(584,534)	(982,847)
Interest paid	—	(210,661)	—	—	—	—	(210,661)	—
Grants received	—	—	—	—	15,046	—	15,046	—
Net cash provided by (used in) capital and related financing activities	**—**	**(312,115)**	**(43,167)**	**(2,047)**	**(485,634)**	**(495)**	**(843,458)**	**(1,492,504)**
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchase of investments	—	(100,866)	(134,891)	—	(9,189,606)	(3,000)	(9,428,363)	—
Proceeds from maturity and sale of investments	—	100,866	115,983	13,572	8,757,747	10,233	8,998,401	—
Earnings on investments	19,000	6,392	21,234	8,233	22,163	1,272	78,294	885
Net cash provided by (used in) investing activities	**19,000**	**6,392**	**2,326**	**21,805**	**(409,696)**	**8,505**	**(351,668)**	**885**
Net increase (decrease) in cash and pooled investments	83,000	43,224	(23,781)	15,459	(102,527)	5,885	21,260	(850,671)
Cash and pooled investments – beginning	**1,280,000**	**549,706**	**316,261**	**3,540,926**	**446,060**	**689,391**	**6,822,344**	**4,737,072**
Cash and pooled investments – ending	**$ 1,363,000**	**$ 592,930**	**$ 292,480**	**$ 3,556,385**	**$ 343,533**	**$ 695,276**	**$ 6,843,604**	**$ 3,886,401**

(continued)

The notes to the financial statements are an integral part of this statement.

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Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2015
(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
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES								
Operating income (loss)	$ —	$ 330,476	$ 1,363,241	$ 2,004,442	$ (3,693,353)	$ 56,996	$ 61,802	$ 84,465
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation	—	81,495	8,950	7,936	279,039	342	377,762	52,623
Provisions and allowances	—	—	1,013	—	—	(46)	967	—
Amortization of premiums and discounts	—	—	—	—	—	280	280	(61,129)
Amortization of long-term prepaid charges and credits	—	(469,142)	—	—	—	—	(469,142)	820
Other	—	2,647	14	—	(89,941)	(16,582)	(103,862)	30,412
Change in account balances:								
Receivables	—	(44,866)	(108,055)	(65,453)	(27,696)	127	(245,943)	84,360
Due from other funds	—	—	—	27,026	1,012	116	28,154	41,320
Due from other governments	—	2,023	—	477	—	1,866	4,366	7,430
Prepaid items	—	—	3,802	—	(5,528)	3,299	1,573	(8,098)
Inventories	—	43	(2,455)	—	—	(160)	(2,572)	(1,989)
Net investment in direct financing leases	—	—	—	—	—	—	—	417,111
Recoverable power costs (net)	75,000	—	—	—	—	—	75,000	—
Other current assets	—	—	(74)	—	—	181	107	—
Loans receivable	—	—	—	—	—	(154,220)	(154,220)	—
Deferred outflow of resources	1,000	—	(2,304)	(6,062)	(94,812)	(572)	(102,750)	(3,694)
Accounts payable	(4,000)	446,542	(1,205)	(2)	(6,657)	906	435,584	(64,093)
Due to other funds	—	(2,616)	(8,839)	31,740	—	461	20,746	(58,957)
Due to component units	—	—	—	—	—	—	—	87
Due to other governments	—	1,175	—	(5,365)	—	30	(4,160)	(544)
Deposits	—	—	—	—	84	—	84	256
Contracts and notes payable	—	—	—	—	—	—	—	(1,216)
Interest payable	—	—	—	—	—	856	856	4,164
Revenues received in advance	—	—	(56)	(37,219)	29,766	4	(7,505)	39,486
Other current liabilities	—	—	37	(3,125)	(4,434)	(2,425)	(9,947)	(10,726)
Benefits payable	—	—	—	(7,986)	27,136	666	19,816	3,215
Lottery prizes and annuities	—	—	93,485	—	—	—	93,485	—
Compensated absences payable	1,000	—	—	(5,370)	12,934	5,823	14,387	(9,514)
Other noncurrent liabilities	—	—	842	(22,475)	(1,188,361)	(10,311)	(1,220,305)	(86,223)
Deferred inflow of resources	—	—	15,766	39,875	1,086,744	3,693	1,146,078	142,807
Total adjustments	73,000	17,301	921	(46,003)	19,286	(165,666)	(101,161)	517,908
Net cash provided by (used in) operating activities	**$ 73,000**	**$ 347,777**	**$ 1,364,162**	**$ 1,958,439**	**$ (3,674,067)**	**$ (108,670)**	**$ (39,359)**	**$ 602,373**
								(concluded)
Noncash investing, capital, and financing activities:								
Interest accreted on annuitized prizes	$ —	$ —	$ 34,147	$ —	$ —	$ —	$ 34,147	$ —
Interest accreted on zero coupon bonds	—	—	15,425	—	—	—	15,425	—
Unclaimed lottery prizes directly allocated to another entity	—	—	27,177	—	—	—	27,177	—
Long-term debt retirement from bond issuance	—	689,780	—	—	—	—	689,780	—
Contributed capital assets	—	—	—	—	36,232	—	36,232	—
Change in accrued capital asset purchases	—	—	—	—	10,605	—	10,605	—
Amortization of bond premium and discount	80,000	15,614	—	—	17,545	—	113,159	—
Amortization of deferred loss on refundings	22,000	10,000	—	—	5,699	—	37,699	—
Bond proceeds paid directly to advance refund escrow agent	917,000	—	—	—	—	—	917,000	—
Accrued interest on refunded revenue bonds	20,000	—	—	—	—	—	20,000	—
Other miscellaneous noncash transactions	2,000	—	(7,490)	—	8,363	3,977	6,850	—

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Statement of Fiduciary Net Position

Fiduciary Funds and Similar Component Units

June 30, 2015
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment	Agency
ASSETS				
Cash and pooled investments	$ 101,928	$ 2,940,340	$ 21,504,127	$ 4,827,693
Investments, at fair value:				
Short-term	—	12,707,656	—	—
Equity securities	3,349,734	268,578,798	—	—
Debt securities	2,031,408	115,764,947	—	—
Real estate	198,961	57,568,471	—	—
Other	849,852	57,427,128	—	—
Securities lending collateral	—	28,888,660	—	—
Total investments	6,429,955	540,935,660	—	—
Receivables (net)	10,477	5,926,837	—	1,926,646
Due from other funds	9,849	608,354	—	16,371,599
Due from other governments	—	3,129	—	33,856
Prepaid items	—	—	—	26,492
Loans receivable	—	35,558	—	6,459
Other assets	155,984	932,630	—	89
Total assets	**6,708,193**	**551,382,508**	**21,504,127**	**$ 23,192,834**
DEFERRED OUTFLOWS OF RESOURCES	**—**	**16,501**	**—**	
Total assets and deferred outflows of resources	**6,708,193**	**551,399,009**	**21,504,127**	
LIABILITIES				
Accounts payable	39,809	3,801,498	29	$ 14,886,579
Due to other governments	—	1,184	14,950	5,628,542
Tax overpayments	—	—	—	1,100
Benefits payable	—	2,821,114	—	—
Revenues received in advance	—	—	—	27,336
Deposits	155,984	—	—	1,151,203
Securities lending obligations	—	28,897,720	—	—
Loans payable	—	1,447,405	—	—
Other liabilities	8,737	919,688	—	1,498,074
Total liabilities	**204,530**	**37,888,609**	**14,979**	**$ 23,192,834**
DEFERRED INFLOWS OF RESOURCES	**—**	**27,234**	**—**	
Total liabilities and deferred inflows of resources	**204,530**	**37,915,843**	**14,979**	
NET POSITION				
Restricted for pension benefits, pool participants, and other employee benefits	**$ 6,503,663**	**$ 513,483,166**	**$ 21,489,148**	

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, 2015
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment
ADDITIONS			
Contributions:			
Employer	$ —	$ 14,750,955	$ —
Plan member	—	7,365,689	—
Non-employer	—	1,425,796	—
Total contributions	—	23,542,440	—
Investment income:			
Net appreciation (depreciation) in fair value of investments	(155,564)	9,012,090	—
Interest, dividends, and other investment income	319,385	7,079,959	54,171
Less: investment expense	(3,832)	(1,399,844)	—
Net investment income	159,989	14,692,205	54,171
Receipts from depositors	3,254,403	—	21,814,940
Other	—	46,129	—
Total additions	**3,414,392**	**38,280,774**	**21,869,111**
DEDUCTIONS			
Distributions paid and payable to participants	—	32,818,765	52,505
Refunds of contributions	—	337,913	—
Administrative expense	—	520,134	1,666
Payments to and for depositors	3,051,624	1,182,770	21,445,867
Total deductions	**3,051,624**	**34,859,582**	**21,500,038**
Change in net position	362,768	3,421,192	369,073
Net position – beginning	**6,140,895**	**510,061,974 ***	**21,120,075**
Net position – ending	**$ 6,503,663**	**$ 513,483,166**	**$ 21,489,148**

* Restated

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, 2015
(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
ASSETS				
Current assets:				
Cash and pooled investments	$ 357,200	$ 1,118,938	$ 1,149,231	$ 2,625,369
Investments	7,328,527	61,762	422,252	7,812,541
Restricted assets:				
Cash and pooled investments	—	—	219,958	219,958
Investments	—	—	3,304	3,304
Receivables (net)	3,496,109	177,151	424,873	4,098,133
Due from primary government	167,349	—	1,311	168,660
Due from other governments	92,938	—	—	92,938
Prepaid items	—	429	928	1,357
Inventories	207,457	—	—	207,457
Other current assets	243,475	34,582	58,815	336,872
Total current assets	11,893,055	1,392,862	2,280,672	15,566,589
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	—	—	29,185	29,185
Investments	—	—	4,700	4,700
Investments	23,800,070	288,083	1,898,632	25,986,785
Receivables (net)	2,301,059	—	220,783	2,521,842
Loans receivable	—	3,292,045	298,187	3,590,232
Long-term prepaid charges	—	—	—	—
Capital assets:				
Land	972,954	—	152,509	1,125,463
Collections – nondepreciable	384,221	—	9,959	394,180
Buildings and other depreciable property	44,441,009	1,546	2,013,366	46,455,921
Intangible assets – amortizable	853,032	—	10,311	863,343
Less: accumulated depreciation/amortization	(20,835,110)	(792)	(1,016,326)	(21,852,228)
Construction in progress	2,826,673	—	32,357	2,859,030
Intangible assets – nonamortizable	—	—	5,098	5,098
Other noncurrent assets	233,814	14,954	46,134	294,902
Total noncurrent assets	54,977,722	3,595,836	3,704,895	62,278,453
Total assets	**66,870,777**	**4,988,698**	**5,985,567**	**77,845,042**
DEFERRED OUTFLOWS OF RESOURCES	**5,651,870**	**28,302**	**26,570**	**5,706,742**
Total assets and deferred outflows of resources	**$ 72,522,647**	**$ 5,017,000**	**$ 6,012,137**	**$ 83,551,784**

(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, 2015
(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
LIABILITIES				
Current liabilities:				
Accounts payable	$ 1,670,011	$ 74,183	$ 696,301	$ 2,440,495
Due to other governments	—	—	2	2
Revenues received in advance	1,065,978	—	74,397	1,140,375
Deposits	640,955	221,569	1,301	863,825
Contracts and notes payable	—	—	26,518	26,518
Interest payable	—	48,180	1,607	49,787
Securities lending obligations	812,088	—	—	812,088
Current portion of long-term obligations	3,788,795	59,596	288,634	4,137,025
Other current liabilities	1,649,966	218	118,693	1,768,877
Total current liabilities	9,627,793	403,746	1,207,453	11,238,992
Noncurrent liabilities:				
Compensated absences payable	274,373	—	12,423	286,796
Workers' compensation benefits payable	353,138	—	57,191	410,329
Certificates of participation, commercial paper, and other borrowings	—	—	2,424	2,424
Capital lease obligations	109,596	—	353,907	463,503
Revenue bonds payable	16,300,896	2,860,893	299,931	19,461,720
Net other postemployment benefits obligation	9,390,079	25,756	109,004	9,524,839
Net pension liability	10,670,953	43,722	99,627	10,814,302
Other noncurrent liabilities	1,183,147	225,358	437,115	1,845,620
Total noncurrent liabilities	38,282,182	3,155,729	1,371,622	42,809,533
Total liabilities	**47,909,975**	**3,559,475**	**2,579,075**	**54,048,525**
DEFERRED INFLOWS OF RESOURCES	**5,329,276**	**8,230**	**30,940**	**5,368,446**
Total liabilities and deferred inflows of resources	**53,239,251**	**3,567,705**	**2,610,015**	**59,416,971**
NET POSITION				
Net investment in capital assets	12,138,049	754	531,161	12,669,964
Restricted:				
Nonexpendable – endowments	4,533,644	—	1,004,024	5,537,668
Expendable:				
Endowments and gifts	10,411,034	—	10,203	10,421,237
Education	824,786	—	932,597	1,757,383
Indenture	—	531,976	—	531,976
Employee benefits	—	—	—	—
Workers' compensation liability	—	—	—	—
Statute	—	984,897	281,788	1,266,685
Other purposes	—	—	16,092	16,092
Total expendable	11,235,820	1,516,873	1,240,680	13,993,373
Unrestricted	(8,624,117)	(68,332)	626,257	(8,066,192)
Total net position	**19,283,396**	**1,449,295**	**3,402,122**	**24,134,813**
Total liabilities, deferred inflows of resources, and net position	**$ 72,522,647**	**$ 5,017,000**	**$ 6,012,137**	**$ 83,551,784**

(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, 2015
(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
OPERATING EXPENSES				
Personal services	$ 18,565,392	$ 28,868	$ 505,912	$ 19,100,172
Scholarships and fellowships	547,072	—	52,270	599,342
Supplies	2,876,444	—	11,221	2,887,665
Services and charges	273,042	18,329	1,205,843	1,497,214
Department of Energy laboratories	1,228,125	—	—	1,228,125
Depreciation	1,697,915	243	72,173	1,770,331
Interest expense and fiscal charges	662,514	89,960	31,840	784,314
Grants provided	827,466	—	—	827,466
Other	4,181,381	69,303	84,243	4,334,927
Total operating expenses	**30,859,351**	**206,703**	**1,963,502**	**33,029,556**
PROGRAM REVENUES				
Charges for services	18,629,708	52,796	1,009,482	19,691,986
Operating grants and contributions	8,695,729	—	546,288	9,242,017
Capital grants and contributions	186,836	—	39,320	226,156
Total program revenues	**27,512,273**	**52,796**	**1,595,090**	**29,160,159**
Net revenues (expenses)	(3,347,078)	(153,907)	(368,412)	(3,869,397)
GENERAL REVENUES				
Investment and interest income	1,191,968	239,262	33,073	1,464,303
Other	2,630,580	15,299	423,311	3,069,190
Total general revenues	**3,822,548**	**254,561**	**456,384**	**4,533,493**
Change in net position	475,470	100,654	87,972	664,096
Net position – beginning	**18,807,926**	**1,348,641 ***	**3,314,150 ***	**23,470,717**
Net position – ending	**$ 19,283,396**	**$ 1,449,295**	**$ 3,402,122**	**$ 24,134,813**

* 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.

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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, 2015:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68,* both effective for the fiscal year ended June 30, 2015. The primary objective of these statements is to improve accounting and financial reporting by state and local governments for pensions. These statements establish standards for measuring and recognizing net pension liability, deferred outflows of resources, deferred inflows of resources, and expenses related to the State's defined benefit pension plans administered by the California Public Employees' Retirement System. These statements also address the circumstances in which the State, as a non-employer entity, has a legal requirement to make contributions directly to the California State Teachers' Retirement System's pension plans in accordance with provisions of the California Education Code. In addition, these statements necessitate new note disclosures and required supplementary information related to pension plans.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for the fiscal year ended June 30, 2015. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement provides guidance for the following government combinations: (a) mergers of legally separate entities in which no significant consideration is exchanged, (b) acquisitions in which a government acquires another entity or the operations of another entity in exchange for significant consideration, and (c) transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. In addition, this statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. This statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

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' financial activities are reported in 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. The GSTSC is authorized to issue bonds as necessary to provide sufficient funds for carrying out its purpose. The GSTSC's financial activity 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 95814.

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 benefit 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 found 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 found 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 usually 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 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 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's financial statements may be found 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 to finance 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 the executive director, who administers the day-to-day operations. CalHFA's financial statements may be found 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, 2014).

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, 2015, CADA had total assets and deferred outflows of resources of $32.6 million, total liabilities and deferred inflows of resources of $22.9 million, and total net position of $9.7 million. Total revenues for the fiscal year were $10.5 million and expenses were $9.2 million, resulting in an increase in net position of $1.3 million. As 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. As 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. As 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 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. As the primary government is not financially accountable for the State Fund, 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 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. As 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. As 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 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. As 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. As 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. As 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, 300 South Spring Street, Suite 8500, 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 money 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 within the ensuing 12 months, the State reports a deferred inflow of resources until such time as 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 a 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. For fiduciary funds and similar component units, pension investments are reported at fair market value.

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 (CSU) system 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 include 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 unmatured general obligation bonds, unmatured revenue bonds, capital lease obligations, certificates of participation, commercial paper, net pension liability, net other postemployment benefits obligation (OPEB), employees' compensated absences and workers' compensation claims, pollution remediation obligations, amounts owed for lawsuits, reimbursement for costs mandated by the State, outstanding Proposition 98 funding guarantee owed to schools, the liability for Lottery prizes and annuities, loans from other governments, and the primary government's share of the University of California's pension liability that is due in more than one year. In the government-wide financial statements, the obligations are reported as liabilities in the applicable governmental activities, business-type activities, and component units columns of the Statement of Net Position. The current portion—amount due within one year—of the long-term obligations is reported under current liabilities.

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. Costs 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 fiscal 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.

Deferred outflows of resources consist of the following transactions:

- *Loss on Refunding of Debt*: The defeasance of previously outstanding general obligation and revenue bonds results 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 component units.
- *Net Pension Liability*: Increases in net pension liability that are not recognized in pension expense for the reporting period are reported as deferred outflows of resources related to pensions. Differences between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic or demographic factors, or of other inputs used by the actuaries to determine total pension liability; and increases in the State's proportionate share of net pension liability for plans that have a special funding situation, such as CalSTRS, are all recognized in pension expense over the average of the expected remaining service lives of participating employees. A deferred outflow of resources is also reported when projected earnings on pension plan investments exceed actual earnings, with the net difference amortized to pension expense over a five-year period beginning in the current reporting period. Employer contributions, and state contributions in the case of CalSTRS' special funding situation, made subsequent to the measurement date are reported as deferred outflows of resources related to pensions and reduce net pension liability in the following year. Deferred outflows of resources related to net pension liability are reported for governmental activities, business-type activities, fiduciary funds, and component units.

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:

- *Unavailable Revenues*: Governmental funds report deferred inflows of resources for earned and measurable revenue from long-term receivables that is not available within 12 months of the end of the reporting period. These deferred amounts are recognized as revenue in the periods that they become available.

- *Gain on Refunding of Debt*: The defeasance of previously outstanding general obligation and revenue bonds results 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*: Reductions in net pension liability that are not recognized in pension expense for the reporting period are reported as deferred inflows of resources related to pensions. Differences between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic or demographic factors, or of other inputs used by the actuaries to determine total pension liability; and decreases in the State's proportionate share of net pension liability for plans that have a special funding situation, such as CalSTRS, are all recognized against pension expense over the average of the expected remaining service lives of participating employees. A deferred inflow of resources is also reported when actual earnings on pension plan investments exceed projected earnings, with the net difference amortized against pension expense over a five-year period beginning in the current reporting period. Deferred inflows of resources related to net pension liability are reported for governmental activities, business-type activities, fiduciary funds, and component units.
- *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.

M. Abnormal Account Balances

In the 2014-15 fiscal year, the Water Resources Electric Power Fund had a net refund of $132 million in 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 2014-15 fiscal year, the fund returned $183 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 Combining 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.

1. Net Position

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, 2015, the government-wide financial statements show restricted net position for the primary government of $31.2 billion, of which $7.2 billion is due to enabling legislation.

Unrestricted net position is neither restricted nor invested in capital assets.

2. Fund Balance

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 state law as adopted by the California State Legislature. The state law that commits fund balance to a specific purpose must have been adopted 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 incorporates 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, in governmental funds created by state law for a specific purpose, other than the General Fund, all resources 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.

3. Budget Stabilization Account

In accordance with Article 16, Section 20 of the California State Constitution, the State maintains the Budget Stabilization Account. The Budget Stabilization Account is reported in the General Fund. By October 1 of each fiscal year, a transfer must be made from the General Fund to the Budget Stabilization Account in an amount equal to one-half of (a) 1.5% of the estimated General Fund revenues for that fiscal year and (b) personal capital gains tax revenues in excess of 8% of estimated General Fund taxes for that fiscal year less amounts that must be spent on Proposition 98. The remaining half of the calculated amount is used as appropriated by the State Legislature to pay down (1) interfund loans, (2) specified debts to local governments, and (3) debts for pension and retiree health benefits.

The State Legislature may suspend or reduce the transfer to or withdraw funds from the Budget Stabilization Account if the Governor declares a budget emergency. For this purpose, budget emergency means either (1) a natural disaster or other event that creates a condition of extreme peril to the safety of persons or property, or (2) there is not enough money to keep General Fund spending at the highest level of the past three fiscal years (adjusted for changes in state population and cost of living). The amount of the withdrawal from the Budget Stabilization Account is limited to the actual amount needed for the natural disaster or to keep General Fund spending at the highest level of the past three years. In addition, if there was no budget emergency in the prior fiscal year, no more than one-half of the Budget Stabilization Account balance may be withdrawn; the entire remaining balance could be withdrawn in the second straight year of a budget emergency.

When the balance of the Budget Stabilization Account reaches 10% of the estimated General Fund revenues for that fiscal year, the amount that would have been transferred to the Budget Stabilization Account would instead be used to build and maintain infrastructure. At June 30, 2015, the Budget Stabilization Account had restricted fund balance of $1.6 billion.

P. Restatement of Beginning Fund Balances and Net Position

1. Fund Financial Statements

The beginning fund balance of *governmental funds* increased by a net total of $85 million for understated loans receivable in the *Environmental and Natural Resources Fund* and a small overstatement of rental income by a *building authority.*

The beginning net position of the *internal service funds* decreased by $877 million. This decrease is comprised of $791 million due to the recognition of net pension liability and deferred outflows of resources in all applicable funds resulting from the implementation of GASB Statements No. 68 and No. 71 and $86 million in the *Public Buildings Construction Fund* for prior-period corrections for deferred amounts on

debt refundings, construction work in progress, and the liability for interest earned on cash received for lease payments.

(amounts in thousands)	Net Position June 30, 2014 (previously reported)	GASB Statements No. 68 and No. 71 Implementation	Other Restatements	Net Position Beginning of Year (restated)
Public Buildings Construction	$ 287,401	$ —	$ (85,519)	$ 201,882
Architecture Revolving	(26,660)	(3,156)	—	(29,816)
Service Revolving	(172,160)	(497,510)	—	(669,670)
Prison Industries	162,953	(30,387)	—	132,566
Financial Information Systems	60,919	(26,339)	—	34,580
Technology Services Revolving	46,834	(182,898)	—	(136,064)
Other internal service programs	239,502	(50,729)	—	188,773
	$ 598,789	**$ (791,019)**	**$ (85,519)**	**$ (277,749)**

The beginning net position of the *enterprise funds* decreased by $6.5 billion due to the recognition of net pension liability and deferred outflows of resources in all applicable funds resulting from the implementation of GASB Statements No. 68 and No. 71.

(amounts in thousands)	Net Position June 30, 2014 (previously reported)	GASB Statements No. 68 and No. 71 Implementation	Other Restatements	Net Position Beginning of Year (restated)
State Lottery	$ 101,109	$ (90,210)	$ —	$ 10,899
Unemployment Programs	(2,657,890)	(226,672)	—	(2,884,562)
California State University	2,570,368	(6,181,670)	—	(3,611,302)
State Water Pollution Control Revolving	3,664,859	(1,251)	—	3,663,608
Housing Loan	150,908	(14,589)	—	136,319
Other enterprise programs	282,609	(7,110)	—	275,499
	$ 4,111,963	**$ (6,521,502)**	**$ —**	**$ (2,409,539)**

The beginning net position of the *fiduciary funds and similar component units* decreased by $163 million due to the recognition of net pension liability and deferred outflows of resources in all applicable funds resulting from the implementation of GASB Statements No. 68 and No. 71.

(amounts in thousands)	Net Position June 30, 2014 (previously reported)	GASB Statements No. 68 and No. 71 Implementation	Other Restatements	Net Position Beginning of Year (restated)
State Teachers' Retirement	$ 190,474,016	$ (161,907)	$ —	$ 190,312,109
Deferred Compensation	12,345,396	(561)	—	12,344,835
Other pension and other employee benefit trust	4,442,461	(362)	—	4,442,099
	$ 207,261,873	**$ (162,830)**	**$ —**	**$ 207,099,043**

The beginning net position of the *discretely presented component units* decreased by $137 million mainly due to the recognition of net pension liability and deferred outflows of resources in all applicable funds resulting from the implementation of GASB Statements No. 68 and No. 71.

(amounts in thousands)	Net Position June 30, 2014 (previously reported)	GASB Statements No. 68 and No. 71 Implementation	Other Restatements	Net Position Beginning of Year (restated)
California Housing Finance Agency	$ 1,397,469	$ (48,828)	$ —	$ 1,348,641
Financing authorities	286,096	(4,785)	—	281,311
California State University Auxiliary Organizations	2,621,256	(51,463)	2,717	2,572,510
Other component units	160,627	(34,859)	—	125,768
	$ 4,465,448	**$ (139,935)**	**$ 2,717**	**$ 4,328,230**

2. Government-wide Financial Statements

The beginning net position of the *governmental activities* decreased by $57.6 billion. In addition to the amounts described in the previous section for governmental funds and internal service funds, the restatement comprises a $3.5 billion increase for understated capital assets, a $60.2 billion decrease due to the recognition of net pension liability and deferred outflows of resources resulting from the implementation of GASB Statements No. 68 and No. 71, and a $67 million decrease for prior-period corrections to deferred amounts on debt refunding.

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 primarily prepared 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, 2015, increased spending authority for the budgetary/legal basis-reported

General Fund and Transportation Funds, and decreased spending authority for the Environmental and Natural Resources 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 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 related organizations participate in the State Treasurer's Office pooled investment program. As of June 30, 2015, the discretely presented component units and related organizations account for approximately 3.8% 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, 2015, totaling approximately $7.4 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, 2015, the State Treasurer's Office had on deposit with a fiscal agent amounts totaling $21 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 $21 million in interest revenue received by the General Fund from the pooled investment program in fiscal year 2014-15 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, 2015, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 250 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, 2015, 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, 2015, medium-term asset-backed securities comprised approximately 1.1% 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 1.21% 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 matches 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 (NRSRO). 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	270 days	30%	10 % of issuer's outstanding Commercial Paper	A-3/P-3/F-3
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

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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 $5.4 billion of time deposits and $442 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, 2015, only $94 million, or 0.2% of the total pooled investments, was invested in mortgage-backed securities.

Table 2

Schedule of Investments – Primary Government – Interest Rate Risk
June 30, 2015
(amounts in thousands)

	Fair Value at Year End	Weighted Average Maturity (in years)
Pooled investments		
U.S. Treasury bills and notes	$ 33,070,932	1.00
U.S. Agency bonds and discount notes	8,298,919	0.63
Supranational debentures and discount notes (IBRD)	450,788	1.16
Small Business Administration loans	581,898	0.25
Mortgage-backed securities	94,369	2.53
Certificates of deposit	14,642,626	0.24
Bank notes	699,897	0.17
Commercial paper	5,922,245	0.14
Total pooled investments	**63,761,674**	
Other primary government investments		
U.S. Treasuries and agencies	2,443,607	3.28
Guaranteed investment contracts	201,327	7.78
Corporate debt securities	927,517	1.12
Repurchase agreements	8,137	0.00
Other	1,252,643	2.36
Total other primary government investments	**4,833,231**	
Funds outside primary government included in pooled investments		
Less: investment trust funds	21,475,804	
Less: other trust and agency funds	4,492,741	
Less: discretely presented component units and related organizations	2,396,850	
Total primary government investments	**$ 40,229,510**	

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 NRSROs 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, 2015
(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	$ 7,545,968
A-1/P-1/F-1	AA/Aa/AA	21,968,549
A-2/P-2/F-2	A/A/A	499,958
Not rated		94,369
Not applicable		33,652,830
Total pooled investments		**$ 63,761,674**
Other primary government investments		
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 820,431
A-1/P-1/F-1	AA/Aa/AA	1,800,911
A-2/P-2/F-2	A/A/A	843,945
A-3/P-3/F-3	BBB/Baa/BBB	26,163
Not rated		627,455
Not applicable		714,326
Total other primary government investments		**$ 4,833,231**

c. Custodial Credit Risk

The State 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, 2015, 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, 2015, the State had investments in the Federal National Mortgage Association totaling 6.2% of the total pooled 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 may be found 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 may be found 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 may be found on its website at www.CalHFA.ca.gov.

NOTE 4: ACCOUNTS RECEIVABLE

Table 4 presents the disaggregation of accounts receivable attributable to taxes; licenses, permits, and fees; Lottery retailer collections; unemployment program receipts; and the California State University. Other receivables are for interest, gifts, grants, penalties, and other charges.

Table 4

Schedule of Accounts Receivable
June 30, 2015
(amounts in thousands)

	Taxes	Licenses, Permits and Fees	Lottery Retailers	Unemployment Programs	California State University	Other	Total
Current governmental activities							
General Fund	$ 13,033,171	$ —	$ —	$ —	$ —	$ 1,362,651	$ 14,395,822
Federal Fund	—	—	—	—	—	13,474	13,474
Transportation Fund	565,456	405,690	—	—	—	82,711	1,053,857
Environmental and Natural Resources Fund	—	363,142	—	—	—	112,848	475,990
Nonmajor governmental funds	415,952	1,710,651	—	—	—	473,769	2,600,372
Internal service funds	—	—	—	—	—	23,549	23,549
Adjustment:							
Unavailable revenue [1]	(1,158,019)	(70,224)	—	—	—	(440,738)	(1,668,981)
Total current governmental activities	**$ 12,856,560**	**$ 2,409,259**	**$ —**	**$ —**	**$ —**	**$ 1,628,264**	**$ 16,894,083**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ 1,158,019**	**$ 70,224**	**$ —**	**$ —**	**$ —**	**$ 511,054** [2]	**$ 1,739,297**
Current business-type activities							
Water Resources Fund	$ —	$ —	$ —	$ —	$ —	$ 79,935	$ 79,935
State Lottery Fund	—	—	510,582	—	—	—	510,582
Unemployment Programs Fund	—	—	—	1,325,458	—	—	1,325,458
California State University	—	—	—	—	180,377	—	180,377
Nonmajor enterprise programs	—	—	—	—	—	31,667	31,667
Total current business-type activities	**$ —**	**$ —**	**$ 510,582**	**$ 1,325,458**	**$ 180,377**	**$ 111,602**	**$ 2,128,019**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ —**	**$ —**	**$ —**	**$ 79,904**	**$ 268,599**	**$ —**	**$ 348,503**

[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 $70 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, 2015
(amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Governments	Loans Receivable	Total
Primary government					
Debt service	$ 1,594,193	$ 372,496	$ 20,584	$ 284,213	$ 2,271,486
Construction	2,306,240	—	—	—	2,306,240
Operations	223,000	—	—	—	223,000
Other	5,282	—	—	—	5,282
Total primary government	**4,128,715**	**372,496**	**20,584**	**284,213**	**4,806,008**
Discretely presented component units					
Debt service	243,530	8,004	—	—	251,534
Other	5,613	—	—	—	5,613
Total discretely presented component units	**249,143**	**8,004**	**—**	**—**	**257,147**
Total restricted assets	**$ 4,377,858**	**$ 380,500**	**$ 20,584**	**$ 284,213**	**$ 5,063,155**

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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 $6.4 billion from governmental funds and the corresponding lease obligation were eliminated within the governmental activities column of the government-wide Statement of Net Position.

The CSU system 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**
2016	$ 108,038	$ 53,050	$ 161,088	$ 31,497
2017	106,188	39,986	146,174	27,285
2018	93,035	32,698	125,733	27,351
2019	83,396	26,183	109,579	27,355
2020	71,356	13,369	84,725	50,207
2021-2025	325,682	63,603	389,285	149,273
2026-2030	290,097	61,453	351,550	132,368
2031-2035	229,931	15,557	245,488	90,394
2036-2040	26,895	—	26,895	26,028
2041-2045	—	—	—	20,219
Total minimum lease payments	**1,334,618**	**305,899**	**1,640,517**	**581,977**
Less: unearned income	541,238	72,407	613,645	217,302
Net investment in direct financing leases	793,380	233,492	1,026,872	364,675
Less: current portion	56,225	41,577	97,802	13,915
Noncurrent net investment in direct financing leases	**$ 737,155**	**$ 191,915**	**$ 929,070**	**$ 350,760**

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, 2015
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets not being depreciated/amortized				
Land	$ 18,774,012 *	$ 399,907	$ 43,260	$ 19,130,659
State highway infrastructure	68,914,148 *	1,773,783	2,269	70,685,662
Collections	22,630	—	—	22,630
Construction/development in progress	15,209,323 *	3,638,256	2,762,237	16,085,342
Intangible assets	408,792 *	10,503	21	419,274
Total capital assets not being depreciated/amortized	**103,328,905**	**5,822,449**	**2,807,787**	**106,343,567**
Capital assets being depreciated/amortized				
Buildings and improvements	21,924,881 *	862,187	111,647	22,675,421
Infrastructure	735,712	609	165	736,156
Equipment and other assets	4,759,897 *	319,768	180,688	4,898,977
Intangible assets	1,091,014 *	134,356	10,144	1,215,226
Total capital assets being depreciated/amortized	**28,511,504**	**1,316,920**	**302,644**	**29,525,780**
Less accumulated depreciation/amortization for:				
Buildings and improvements	7,198,655 *	562,163	52,386	7,708,432
Infrastructure	342,602	17,921	113	360,410
Equipment and other assets	3,904,064 *	314,763	177,150	4,041,677
Intangible assets	474,141 *	92,608	9,285	557,464
Total accumulated depreciation/amortization	**11,919,462**	**987,455**	**238,934**	**12,667,983**
Total capital assets being depreciated/amortized, net	**16,592,042**	**329,465**	**63,710**	**16,857,797**
Governmental activities, capital assets, net	**$ 119,920,947**	**$ 6,151,914**	**$ 2,871,497**	**$ 123,201,364**
Business-type activities				
Capital assets not being depreciated/amortized				
Land	$ 222,138	$ 15,157	$ —	$ 237,295
Collections	7,711	3,571	194	11,088
Construction/development in progress	896,686 *	606,540	320,659	1,182,567
Intangible assets	116,009 *	3,862	4,110	115,761
Total capital assets not being depreciated/amortized	**1,242,544**	**629,130**	**324,963**	**1,546,711**
Capital assets being depreciated/amortized				
Buildings and improvements	10,826,885 *	407,696	5,690	11,228,891
Infrastructure	261,997	44,672	1,120	305,549
Equipment and other assets	650,858 *	106,124	16,450	740,532
Intangible assets	336,051	6,288	4,710	337,629
Total capital assets being depreciated/amortized	**12,075,791**	**564,780**	**27,970**	**12,612,601**
Less accumulated depreciation/amortization for:				
Buildings and improvements	3,981,523 *	285,981	1,832	4,265,672
Infrastructure	71,654	13,048	282	84,420
Equipment and other assets	390,350 *	60,264	13,322	437,292
Intangible assets	137,841 *	18,469	4,331	151,979
Total accumulated depreciation/amortization	**4,581,368**	**377,762**	**19,767**	**4,939,363**
Total capital assets being depreciated/amortized, net	**7,494,423**	**187,018**	**8,203**	**7,673,238**
Business-type activities, capital assets, net	**$ 8,736,967**	**$ 816,148**	**$ 333,166**	**$ 9,219,949**

* 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, 2015
(amounts in thousands)

	Amount
Governmental activities	
General government	$ 131,670
Education	167,972
Health and human services	81,264
Resources	53,004
State and consumer services	82,140
Business and transportation	176,774
Correctional programs	242,008
Internal service funds (charged to the activities that utilize the fund)	52,623
Total governmental activities	**987,455**
Business-type activities	**377,762**
Total primary government	**$ 1,365,217**

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, 2015
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets not being depreciated/amortized				
Land	$ 1,002,521	$ 128,756	$ 5,814	$ 1,125,463
Collections	390,678	5,459	1,957	394,180
Construction/development in progress	3,661,522	48,073	850,565	2,859,030
Intangible assets	5,082	16	—	5,098
Total capital assets not being depreciated/amortized	**5,059,803**	**182,304**	**858,336**	**4,383,771**
Capital assets being depreciated/amortized				
Buildings and improvements	32,783,672	2,648,548	156,131	35,276,089
Infrastructure	685,086	49,411	210	734,287
Equipment and other depreciable assets	10,031,132	772,271	357,858	10,445,545
Intangible assets	835,971	76,082	48,710	863,343
Total capital assets being depreciated/amortized	**44,335,861**	**3,546,312**	**562,909**	**47,319,264**
Less accumulated depreciation/amortization for:				
Buildings and improvements	12,860,339	1,045,662	99,692	13,806,309
Infrastructure	329,097	23,574	222	352,449
Equipment and other depreciable assets	7,061,557	597,315	326,366	7,332,506
Intangible assets	291,763	103,780	34,579	360,964
Total accumulated depreciation/amortization	**20,542,756**	**1,770,331**	**460,859**	**21,852,228**
Total capital assets being depreciated/amortized, net	**23,793,105**	**1,775,981**	**102,050**	**25,467,036**
Capital assets, net	**$ 28,852,908**	**$ 1,958,285**	**$ 960,386**	**$ 29,850,807**

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, 2015
(amounts in thousands)

	Education	Health and Human Services	Resources	Business and Transportation	General Government and Others	Total
Governmental activities						
General Fund	$ 312,814	$ 733,355	$ 233,825	$ 269	$ 437,157	$ 1,717,420
Federal Fund	403,593	412,169	60,427	286,519	107,774	1,270,482
Transportation Fund	95	4	2,795	318,705	32,872	354,471
Environmental and Natural Resources Fund	221	407	347,232	45,004	3,663	396,527
Nonmajor governmental funds	18,356	205,826	5,985	22,935	433,445	686,547
Internal service funds	—	—	16,955	—	321,369	338,324
Adjustment:						
Fiduciary funds	925,940	15,409,090	—	83,216	571,542	16,989,788
Total governmental activities	**$ 1,661,019**	**$ 16,760,851**	**$ 667,219**	**$ 756,648**	**$ 1,907,822**	**$ 21,753,559**
Business-type activities						
Electric Power Fund	$ —	$ —	$ 1,344	$ —	$ —	$ 1,344
Water Resources Fund	—	—	67,132	—	—	67,132
State Lottery Fund	—	—	—	—	52,237	52,237
Unemployment Programs Fund	—	—	—	—	3,679	3,679
California State University	189,077	—	—	—	—	189,077
Nonmajor enterprise funds	—	168	51	—	3,908	4,127
Adjustment:						
Fiduciary funds	—	—	—	—	14	14
Total business-type activities	**$ 189,077**	**$ 168**	**$ 68,527**	**$ —**	**$ 59,838**	**$ 317,610**

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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 the 2014-15 fiscal year, the State issued $2.8 billion in RANs on September 10, 2014. The RANs were repaid in June 2015.

NOTE 10: LONG-TERM OBLIGATIONS

As of June 30, 2015, the primary government had long-term obligations totaling $221.6 billion. Of that amount, $7.2 billion is due within one year. For governmental activities, the largest change is attributed to the implementation of GASB Statements No. 68 and No. 71, which caused a $65.9 billion restatement of the beginning net pension liability after incorporating the existing net pension obligation balance of $3.2 billion. During the fiscal year, the net pension liability decreased by $11.6 billion, resulting in an ending balance of $57.5 billion. Other notable changes in governmental activities' long-term obligations include decreases of $4.8 billion in mandated cost claims payable and $2.8 billion in general obligation bonds 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, 2015, the pollution remediation obligations increased by $52 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, 2015, the State estimates that remediation costs at Stringfellow will total $426 million. At two other sites, Leviathan Mine and BKK Landfill, obligating events have occurred that may result in significant liability to the State, but reasonable estimates of the remediation costs cannot be made at this time. The State has reached a settlement for ongoing remediation costs at Leviathan Mine; the related natural resource damages claims are expected to result in Federal Court litigation in the next five years. 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 $21 million owed to the University of California, and the Technology Services Revolving Fund notes payable of $30 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 liabilities, the Proposition 98 funding guarantee, lawsuits, and reimbursement of costs incurred by local agencies and school districts for costs mandated by the State.

For business-type activities, the largest change in long-term obligations is attributed to the implementation of GASB Statements No. 68 and No. 71, which caused a $7.6 billion restatement of the beginning net pension liability. During the fiscal year, the net pension liability decreased by $1.3 billion, resulting in an ending balance of $6.3 billion. There was also a decrease of $2.0 billion in loans payable to the U.S. Department of Labor to cover shortfalls in the Unemployment Programs Fund.

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Table 11 summarizes the changes in long-term obligations during the year ended June 30, 2015.

Table 11

Schedule of Changes in Long-term Obligations
(amounts in thousands)

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015	Due Within One Year	Noncurrent Liabilities
Governmental activities						
Compensated absences payable	$ 3,755,889	$ 1,364,970	$ 1,434,849	$ 3,686,010	$ 5,370	$ 3,680,640
Workers' compensation benefits payable	3,701,432	565,614	426,855	3,840,191	392,521	3,447,670
Certificates of participation and commercial paper outstanding	598,170	1,024,145	1,128,515	493,800	11,915	481,885
Discounts	(76)	—	(46)	(30)	(30)	—
Total certificates of participation and commercial paper payable	598,094	1,024,145	1,128,469	493,770	11,885	481,885
Capital lease obligations	260,088	89,899	75,227	274,760	59,830	214,930
General obligation bonds outstanding	80,295,870	6,613,070	9,959,600	76,949,340	2,807,950	74,141,390
Premiums	2,980,477	890,443	310,458	3,560,462	174,277	3,386,185
Total general obligation bonds payable	83,276,347	7,503,513	10,270,058	80,509,802	2,982,227	77,527,575
Revenue bonds outstanding	17,938,261	2,420,135	3,170,901	17,187,495	591,296	16,596,199
Accreted interest	424,426	42,891	—	467,317	—	467,317
Premiums	556,468	338,897	138,786	756,579	80,008	676,571
Discounts	(1,712)	—	(292)	(1,420)	(283)	(1,137)
Total revenue bonds payable	18,917,443	2,801,923	3,309,395	18,409,971	671,021	17,738,950
Mandated cost claims payable	7,850,652	401,836	5,245,922	3,006,566	629,568	2,376,998
Net other postemployment benefits obligation	18,616,859	4,907,194	1,930,409	21,593,644	—	21,593,644
Net pension liability	69,080,083 *	—	11,623,842	57,456,241	—	57,456,241
Other long-term obligations:						
Proposition 98 funding guarantee	1,929,082	—	416,613	1,512,469	256,000	1,256,469
Pollution remediation obligations	1,081,966	108,839	57,199	1,133,606	45,206	1,088,400
Other	102,899	10,934	62,976	50,857	17,139	33,718
Total other long-term obligations	3,113,947	119,773	536,788	2,696,932	318,345	2,378,587
Total governmental activities	**$ 209,170,834**	**$ 18,778,867**	**$ 35,981,814**	**$ 191,967,887**	**$ 5,070,767**	**$ 186,897,120**
Business-type activities						
Loans payable	$ 7,633,391	$ —	$ 1,962,738	$ 5,670,653	$ —	$ 5,670,653
Lottery prizes and annuities	1,234,440	3,780,704	3,680,249	1,334,895	591,940	742,955
Compensated absences payable	321,346	116,784	100,569	337,561	149,171	188,390
Workers' compensation benefits payable	2,538	580	142	2,976	—	2,976
Certificates of participation and commercial paper outstanding	204,647	325,640	293,101	237,186	148,185	89,001
Capital lease obligations	1,250,274	33,410	73,275	1,210,409	74,718	1,135,691
General obligation bonds outstanding	675,480	110,000	134,330	651,150	70,815	580,335
Discounts	(1,086) *	—	(69)	(1,017)	—	(1,017)
Total general obligation bonds payable	674,394	110,000	134,261	650,133	70,815	579,318
Revenue bonds outstanding	12,334,333	2,308,780	2,829,595	11,813,518	919,050	10,894,468
Premiums	657,710	391,958	192,373	857,295	81,992	775,303
Discounts	(216) *	—	(22)	(194)	—	(194)
Total revenue bonds payable	12,991,827	2,700,738	3,021,946	12,670,619	1,001,042	11,669,577
Net other postemployment benefits obligation	628,422	176,739	69,985	735,176	—	735,176
Net pension liability	7,566,667 *	—	1,317,691	6,248,976	—	6,248,976
Other long-term obligations	498,193	25,097	33,269	490,021	41,671	448,350
Total business-type activities	**$ 33,006,139**	**$ 7,269,692**	**$ 10,687,226**	**$ 29,588,605**	**$ 2,077,542**	**$ 27,511,063**

* 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 and will be fully redeemed by June 30, 2016.

Table 12

Schedule of Debt Service Requirements for Certificates of Participation – Primary Government
(amounts in thousands)

Year Ending June 30	Principal	Interest	Total
2016	$ 11,915	$ 626	$ 12,541
Total	**$ 11,915**	**$ 626**	**$ 12,541**

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 current "Letter of Credit" or "Note Purchase" agreements for the general obligation commercial paper program authorize the issuance of notes in an aggregate principal amount not to exceed $2.2 billion. As of June 30, 2015, the general obligation commercial paper program had $482 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, 2015, the enterprise fund commercial paper program had $88 million in outstanding notes.

The primary government has a bond anticipation note (BAN) program that consists of borrowing for capital improvements on certain California State University campuses. As of June 30, 2015, $149 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 $2.0 billion commercial paper program with tax-exempt and taxable components. At June 30, 2015, outstanding taxable commercial paper totaled $1.1 billion. 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, 2015. 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 2014-15 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, 2015, was approximately $3.0 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, 2015, amounted to approximately $268 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 72.3% 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 $254 million for governmental activities and $913 million for business-type activities.

The capital lease commitments do not include $6.4 billion in lease-purchase agreements with the SPWB and $228 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 may be found 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
2016	$ 230,627	$ 58,448	$ 22,666	$ 135,130	$ 446,871
2017	164,390	52,674	20,207	130,853	368,124
2018	113,330	41,421	16,874	130,122	301,747
2019	71,186	36,490	12,656	105,569	225,901
2020	47,706	15,793	18,552	99,841	181,892
2021-2025	50,311	55,031	24,011	430,212	559,565
2026-2030	9,488	19,283	17,333	397,082	443,186
2031-2035	5,750	16,600	8,214	336,380	366,944
2036-2040	104	7,971	3,980	96,677	108,732
2041-2045	104	891	441	2,387	3,823
2046-2050	104	—	397	—	501
2051-2055	104	—	33	—	137
2056-2060	59	—	33	—	92
2061-2065	—	—	32	—	32
2066-2070	—	—	32	—	32
2071-2075	—	—	31	—	31
2076-2080	—	—	31	—	31
2081-2085	—	—	31	—	31
2086-2090	—	—	31	—	31
2091-2095	—	—	31	—	31
2096-2100	—	—	31	—	31
Total minimum lease payments	**$ 693,263**	**304,602**	**$ 145,647**	**1,864,253**	**$ 3,007,765**
Less: amount representing interest		29,842		653,844	
Present value of net minimum lease payments		**274,760**		**1,210,409**	
Less: current portion		59,830		74,718	
Capital lease obligation, net of current portion		**$ 214,930**		**$ 1,135,691**	

NOTE 14: COMMITMENTS

As of June 30, 2015, the primary government had commitments of $7.3 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 $1.1 billion from local governments and $6.2 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 $579 million for various education programs, $315 million for terrorism prevention and disaster-preparedness response projects, $288 million for services under the workforce development program, $158 million for services provided under various public health programs, $136 million for community service programs, $53 million for services provided under the welfare program, $50 million for services provided under the rehabilitation program, and $21 million for services provided under the child support program.

The primary government had other commitments, totaling $9.0 billion, that are not included as a liability on the Balance Sheet or the Statement of Net Position. The $9.0 billion in commitments includes grant agreements totaling approximately $5.3 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 $9.0 billion in commitments includes $311 million in undisbursed loan commitments for various programs aimed at providing housing and emergency shelter to persons in need and $1.5 billion for undisbursed loan commitments to qualified agencies for clean water projects.

The $9.0 billion in commitments also includes contracts of $1.1 billion 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 $353 million for CSU construction projects. CSU participates in forward-purchase contracts of natural gas and electricity. As of June 30, 2015, CSU's obligation under these special purchase arrangements requires it to purchase at fixed prices an estimated total of $41 million in electricity through December 2019 and $14 million in natural gas through June 2017. The primary government also had commitments of $47 million to veterans for the purchase of properties under contracts of sale. The California State Lottery Commission had commitments of $346 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, 2015, the primary government encumbered expenditures of $928 million for the General Fund, $2.4 billion for the Transportation Fund, $919 million for the Environmental and Natural Resources Fund, and $720 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, 2015, 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 may be found 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 may be found 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 may be found on its website at www.CalPERS.ca.gov. Additional disclosure for the California State Teachers' Retirement System's (CalSTRS) commitments is included in its separately issued financial statements, which may be found on its website at www.CalSTRS.com.

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, 2015, the State had $76.9 billion in outstanding general obligation bonds related to governmental activities and $651 million related to business-type activities. In addition, $30.1 billion in long-term general obligation bonds had been authorized but not issued, of which $29.5 billion is related to governmental activities and $596 million is related to business-type activities. The total amount authorized but not issued includes $15.4 billion authorized by the applicable finance committees for issuance in the form of commercial paper notes. Of this amount, $482 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, 2015, the State had $3.0 billion in 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. 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 2014-15.

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 October 15, 2015; November 10, 2016; and April 5, 2018. 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 December 1, 2016; December 1, 2017; May 1, 2018; 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 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, 2015, the State had $944 million in Economic Recovery Bonds outstanding.

C. Mandatory Tender Bonds

As of June 30, 2015, the State had $1.1 billion in outstanding general obligation mandatory tender bonds, including $650 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 December 1, 2016; December 1, 2017; May 1, 2018; December 3, 2018; and December 1, 2019. 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, 2015, 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 7.2% for the federal fiscal year ending September 30, 2014, and by 7.3% for the federal fiscal year ending September 30, 2015. 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, 2015. The estimated debt service requirements for the $3.0 billion variable-rate general obligation bonds are calculated using the actual interest rates in effect on June 30, 2015. 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 Bonds 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**
2016	$ 2,807,950	$ 3,951,620	$ 6,759,570	$ 70,815	$ 25,326	$ 96,141
2017	2,852,670	3,842,390	6,695,060	69,685	22,689	92,374
2018	2,896,470	3,726,218	6,622,688	56,490	20,414	76,904
2019	2,898,845	3,601,053	6,499,898	43,015	18,798	61,813
2020	2,935,925	3,449,752	6,385,677	26,935	17,623	44,558
2021 - 2025	12,724,245	15,331,329	28,055,574	61,725	75,484	137,209
2026 - 2030	13,995,495	12,282,231	26,277,726	67,410	65,694	133,104
2031 - 2035	15,231,320	8,865,256	24,096,576	143,535	39,304	182,839
2036 - 2040	14,346,095	4,343,223	18,689,318	93,950	13,926	107,876
2041 - 2045	6,260,325	651,281	6,911,606	17,590	405	17,995
Total	**$ 76,949,340**	**$ 60,044,353**	**$ 136,993,693**	**$ 651,150**	**$ 299,663**	**$ 950,813**

F. General Obligation Bond Defeasances

1. Current Year

On October 7, 2014, the primary government issued $988 million in general obligation bonds to current and advance refund $1.1 billion in outstanding general obligation bonds maturing in 2015 to 2035. 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 $253 million and resulted in an economic gain of $172 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 2.87% per year over the life of the new bonds.

On November 25, 2014, the primary government issued $306 million in general obligation bonds to advance refund $337 million in outstanding general obligation bonds maturing in 2021 to 2035. 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 $65 million and resulted in an economic gain of $46 million, discounted at 2.92% per year over the life of the new bonds.

On March 18, 2015, the primary government issued $1.0 billion in general obligation bonds to current refund $1.1 billion in outstanding general obligation bonds maturing in 2016 to 2030. 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 $198 million and resulted in an economic gain of $164 million, discounted at 2.56% per year over the life of the new bonds.

On April 29, 2015, the primary government issued $987 million in general obligation bonds to current and advance refund $1.1 billion in outstanding general obligation bonds maturing in 2016 to 2036. 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 $180 million and resulted in an economic gain of $131 million, discounted at 2.62% 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, 2015, the outstanding balance of general obligation bonds defeased in prior years was approximately $1.2 billion.

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 $57 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. 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 fiscal year. However, the use of the appropriated monies has never been required. In 2013 and 2015, bonds were issued to partially refund the 2005 bonds. Total principal and interest remaining on all asset-backed bonds is $17.0 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 $426 million, while Tobacco Settlement Revenue and interest earned totaled $415 million. These bonds are included in the governmental activities column of the government-wide Statement of Net Position.

Under state law, the 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. Total principal and interest remaining on the bonds is $16.8 billion, payable through 2040. These revenue bonds are included in the governmental activities column of the government-wide Statement of Net Position.

For the specific debt service coverage ratios, refer to the Schedule of Pledged Revenue Coverage in the Statistical Section.

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. For specific debt service coverage ratios, refer to the Schedule of Pledged Revenue Coverage in the Statistical Section.

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 2014-15, which may be found 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 2014-15, which may be found 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, 2015
(amounts in thousands)

Primary government	
Governmental activities	
Transportation Fund	$ 53,723
Public Buildings Construction Fund	11,130,616
Nonmajor governmental funds:	
Golden State Tobacco Securitization Corporation Fund	6,967,374
Building authorities	258,258
Total governmental activities	**18,409,971**
Business-type activities	
Electric Power Fund	5,631,000
Water Resources Fund	2,724,008
California State University	3,910,999
Nonmajor enterprise funds	404,612
Total business-type activities	**12,670,619**
Total primary government	**31,080,590**
Discretely presented component units	
University of California	17,467,386
California Housing Finance Agency	2,914,626
Nonmajor component units	309,756
Total discretely presented component units	**20,691,768**
Total revenue bonds payable	**$ 51,772,358**

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 Component Units	
	Governmental Activities		Business-type Activities			
Year Ending June 30	Principal	Interest	Principal	Interest	Principal	Interest *
2016	$ 591,296	$ 858,208	$ 919,050	$ 555,988	$ 386,998	$ 925,202
2017	625,556	831,513	954,065	514,121	434,681	886,121
2018	678,501	800,147	989,480	469,303	415,335	865,604
2019	658,931	762,017	1,019,565	422,559	427,014	845,899
2020	665,426	789,235	1,063,263	374,653	734,588	822,541
2021-2025	3,114,090	3,343,161	3,207,625	1,192,117	2,718,705	3,698,495
2026-2030	3,279,722	2,513,758	1,565,880	695,558	3,163,040	2,919,168
2031-2035	3,146,085	1,677,003	1,172,825	368,348	3,468,190	2,144,417
2036-2040	2,203,805	985,318	689,850	133,932	3,374,673	1,352,821
2041-2045	1,643,505	700,592	231,915	21,045	2,416,771	719,407
2046-2050	1,047,895	3,310,986	—	—	950,695	405,613
2051-2115	—	—	—	—	1,360,000	4,139,561
Total	**$ 17,654,812**	**$ 16,571,938**	**$ 11,813,518**	**$ 4,747,624**	**$ 19,850,690**	**$ 19,724,849**

* Includes interest on variable-rate bonds based on rates in effect on June 30, 2015.

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D. Revenue Bond Defeasances

1. Current Year – Governmental Activities

In April 2015, the GSTSC issued $1.7 billion in Enhanced Tobacco Settlement Asset-Backed bonds to refund $2.0 billion in outstanding bonds with maturities in June of 2035, 2038, and 2045. The net proceeds of the refunding bonds were 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 the bonds has been removed from the financial statements. The refunding will decrease debt service payments by $268 million and will result in an economic gain of $9 million.

During the 2014-15 fiscal year, the State Public Works Board issued $469 million in lease revenue refunding bonds. The bond proceeds were used to refund $538 million in outstanding lease revenue bonds. The net proceeds of the refunding bonds were 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 those bonds has been removed from the financial statements. This refunding will decrease debt service payments by $73 million and will result in an economic gain of $62 million for the refunded bonds. The lease revenue bonds are reported in the Public Buildings Construction Fund, an internal service fund.

2. Current Year – Business-type Activities

In August 2014, the California State University issued $748 million in systemwide revenue refunding bonds to 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 $74 million over the life of the bonds and will result in an economic gain of $52 million for the refunded bonds.

On October 30, 2014, the Department of Water Resources issued $646 million in refunding water system revenue bonds to advance refund $690 million in outstanding water system revenue bonds. The net proceeds of the refunding bonds, along with funds on-hand, were 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 the bonds has been removed from the financial statements. This refunding will decrease debt service payments by $70 million and will result in an economic gain of $56 million.

On April 1, 2015, the Department of Water Resources issued $766 million in refunding electric power revenue bonds to advance refund $813 million in outstanding electric power revenue bonds. The net proceeds were 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 those bonds has been removed from the financial statements. This refunding will decrease debt service payments over the next seven years by $52 million and will result in an economic gain of $46 million. The electric power revenue bonds are reported in the Electric Power Fund.

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, 2015, the outstanding balance of revenue bonds defeased in prior years was $186 million for governmental activities and $2.8 billion for business-type activities.

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, 2015
(amounts in thousands)

	Due To											
Due From	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**	**Nonmajor Governmental Funds**	**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	$ —	$ —	$ —	$ 358,219	$ —	$ —	$ —	$ —	$ 11	$ —	$ 276,237	$ 3,306,650	$ 3,941,117
Federal Fund	497,312	995,284	68,265	99,064	—	—	—	2,000	—	1,019	18,568	11,980,719	13,662,231
Transportation Fund	—	—	—	43,696	—	—	—	—	—	—	21,771	81,222	146,689
Environmental and Natural Resources Fund	60,275	19,512	—	88	—	—	—	—	—	—	18,754	513	99,142
Nonmajor governmental funds	948,876	171,839	12,259	18,246	—	—	—	—	543	58	34,376	1,617,136	2,803,333
Total governmental funds	**1,506,463**	**1,186,635**	**80,524**	**519,313**	**—**	**—**	**—**	**2,000**	**554**	**1,077**	**369,706**	**16,986,240**	**20,652,512**
Enterprise funds													
Electric Power	123	—	—	—	—	—	—	—	—	—	533	—	656
Water Resources Fund	428	36	12	—	—	—	—	—	—	—	45,032	—	45,508
State Lottery Fund	331	—	—	359,237	—	—	—	—	—	—	19	—	359,587
Unemployment Programs Fund	80,840	—	—	—	—	—	—	—	—	—	—	—	80,840
California State University Fund	70	—	—	1	—	—	—	—	—	—	62	—	133
Nonmajor enterprise funds	1,091	—	379	225	—	—	—	—	—	—	19	14	1,728
Total enterprise funds	**82,883**	**36**	**391**	**359,463**	**—**	**—**	**—**	**—**	**—**	**—**	**45,665**	**14**	**488,452**
Internal service funds	**12,188**	**3,335**	**4,209**	**21,290**	**4,000**	**996**	**339**	**2,356**	**458**	**524**	**79,418**	**3,548**	**132,661**
Total due from other funds	**$ 1,601,534**	**$ 1,190,006**	**$ 85,124**	**$ 900,066**	**$ 4,000**	**$ 996**	**$ 339**	**$ 4,356**	**$ 1,012**	**$ 1,601**	**$ 494,789**	**$ 16,989,802**	**$ 21,273,625**

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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 $2.9 billion in Transportation Fund loans payable from the General Fund also includes $932 million 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, 2015
(amounts in thousands)

	Interfund Payables								
Interfund Receivables	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**	**Nonmajor Governmental Funds**	**Water Resources Fund**	**Unemployment Programs Fund**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Total**
Governmental funds									
General Fund	$ —	$ 2,909,563	$ 623,097	$ 1,128,780	$ —	$ 611,690	$ 1,600	$ 6,998	$ 5,281,728
Transportation Fund	—	—	—	10,000	—	—	—	1,096	11,096
Environmental and Natural Resources Fund	—	40,000	—	—	—	—	—	—	40,000
Nonmajor governmental funds	5,876	2,698	—	—	—	—	—	—	8,574
Total governmental funds	**5,876**	**2,952,261**	**623,097**	**1,138,780**	**—**	**611,690**	**1,600**	**8,094**	**5,341,398**
Internal service funds	**40,650**	**—**	**—**	**115**	**93,047**	**—**	**—**	**5,861**	**139,673**
Total primary government	**$ 46,526**	**$ 2,952,261**	**$ 623,097**	**$ 1,138,895**	**$ 93,047**	**$ 611,690**	**$ 1,600**	**$ 13,955**	**$ 5,481,071**

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, 2015
(amounts in thousands)

	Due To Component Units		
Due From	**University of California**	**Nonmajor Component Units**	**Total**
Governmental funds			
General Fund	$ 133,017	$ 1,311	$ 134,328
Transportation Fund	95	—	95
Environmental and Natural Resources Fund	148	—	148
Nonmajor governmental funds	34,089	—	34,089
Total governmental funds	**167,349**	**1,311**	**168,660**
Total primary government	**$ 167,349**	**$ 1,311**	**$ 168,660**

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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 $3.3 billion to nonmajor governmental funds, mainly for support of trial courts and for the retirement of Economic Recovery Bonds. The General Fund also transferred $2.6 billion to the California State University, an enterprise fund. The Transportation Fund transferred $836 million in weight fee revenues to the Transportation Debt Service Fund, a nonmajor governmental fund, for reimbursement of debt service costs. The Federal Fund transferred $568 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, 2015
(amounts in thousands)

	Transferred To						
Transferred From	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**	**Nonmajor Governmental Funds**	**California State University Fund**	**Internal Service Funds**	**Total**
Governmental funds							
General Fund	$ —	$ —	$ 28,853	$ 3,336,603	$ 2,564,182	$ 97,102	$ 6,026,740
Federal Fund	567,500	—	169,154	30,051	—	—	766,705
Transportation Fund	76,110	—	17,405	878,459	—	—	971,974
Environmental and Natural Resources Fund	853	—	—	7,807	—	—	8,660
Nonmajor governmental funds	58,675	28	28,300	73,672	—	—	160,675
Total governmental funds	**703,138**	**28**	**243,712**	**4,326,592**	**2,564,182**	**97,102**	**7,934,754**
Nonmajor enterprise funds	**9,212**	—	—	—	—	—	**9,212**
Internal service funds	**22,525**	—	—	**38,927**	—	**3,000**	**64,452**
Total primary government	**$ 734,875**	**$ 28**	**$ 243,712**	**$ 4,365,519**	**$ 2,564,182**	**$ 100,102**	**$ 8,008,418**

NOTE 19: FUND BALANCES, FUND AND NET POSITION DEFICITS, AND ENDOWMENTS

A. Fund Balances

Table 21 shows the composition of the governmental fund balances.

Table 21

Schedule of Fund Balances by Function
June 30, 2015
(amounts in thousands)

	General Fund	Federal Fund	Transportation Fund	Environmental and Natural Resources Fund	Nonmajor Governmental Funds
Nonspendable					
Long-term interfund receivables	$ 46,526	$ —	$ —	$ —	$ —
Long-term loans receivable	6,905	—	—	—	—
Other	—	—	—	—	5,620
Total nonspendable	**53,431**	**—**	**—**	**—**	**5,620**
Restricted					
General government	5,645	—	—	6,821	4,011,121
Education	453,172	1,434	1,175	—	464,075
Health and human services	195,293	257	—	1,551,919	1,818,396
Resources	672	10,709	—	4,225,446	113,010
State and consumer services	5,431	—	225,310	44,847	490,122
Business and transportation	—	205,480	7,935,269	55,209	3,062,630
Correctional programs	—	—	—	—	937
Budget stabilization	1,606,422	—	—	—	—
Total restricted	**2,266,635**	**217,880**	**8,161,754**	**5,884,242**	**9,960,291**
Committed					
General government	16,468	—	—	19,506	319,269
Education	2,946	—	—	—	38,842
Health and human services	4,280	—	1,341	—	332,183
Resources	1,323	—	6	2,442,998	694,807
State and consumer services	—	—	—	29,181	62,006
Business and transportation	—	—	54,191	—	91,907
Correctional programs	77,776	—	—	—	4,326
Total committed	**102,793**	**—**	**55,538**	**2,491,685**	**1,543,340**
Assigned – general government	**—**	**—**	**—**	**—**	**16,767**
Unassigned	**(4,651,491)**	**—**	**(229)**	**(2,080)**	**(4,147)**
Total fund balances (deficit)	**$ (2,228,632)**	**$ 217,880**	**$ 8,217,063**	**$ 8,373,847**	**$ 11,521,871**

B. Fund and Net Position Deficits

Table 22 shows the fund and net position deficit balances.

Table 22

Schedule of Fund and Net Position Deficits
June 30, 2015
(amounts in thousands)

	Governmental Funds	Internal Service Funds	Enterprise Funds
General Fund	$ 2,228,632	$ —	$ —
Architecture Revolving Fund	—	28,461	—
Service Revolving Fund	—	677,510	—
Technology Services Revolving Fund	—	138,957	—
Water Resources Revolving Fund	—	612	—
Unemployment Programs Fund	—	—	871,887
California State University Fund	—	—	3,114,629
Total fund balance and net position deficits	**$ 2,228,632**	**$ 845,540**	**$ 3,986,516**

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, 2015, the value of restricted endowments and gifts totaled $14.9 billion, and unrestricted endowments and gifts totaled $2.5 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 $2.3 billion at June 30, 2015. 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 $1.0 billion and $10 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 $3.8 billion as of June 30, 2015. This estimate is primarily based 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 $5.4 billion is discounted to $3.8 billion using a 3.5% interest rate. Of the total discounted liability, $392 million is a current liability, of which $263 million is included in the General Fund, $127 million in the special revenue funds, and $2 million in the internal service funds. The remaining $3.4 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 and student 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 present value of the anticipated future payments, discounted at rates of either 2% or 5%. Claims for employee and student health care are not discounted.

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	
	2015	2014	2015	2014
Unpaid claims, beginning	$ 3,703,970	$ 3,509,555	$ 644,578	$ 631,798
Incurred claims	566,194	639,704	736,443	467,191
Claim payments	(426,997)	(445,289)	(688,879)	(454,411)
Unpaid claims, ending	**$ 3,843,167 ***	**$ 3,703,970**	**$ 692,142**	**$ 644,578**

* Includes $2,976 for business-type activities.

NOTE 21: DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

In the fund financial statements, governmental funds reported deferred inflows of resources of $1.6 billion as 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. For descriptions of the deferred outflows and deferred inflows of resources transactions, see Note 1.L.

Table 24

Schedule of Deferred Outflows and Deferred Inflows of Resources
June 30, 2015
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Deferred outflows of resources:				
Loss on refunding of debt	$ 792,380	$ 366,612	$ 1,158,992	$ 391,207
Decrease in fair value of hedging derivatives	—	—	—	114,637
Net pension liability	5,335,096	683,754	6,018,850	5,200,898
Total deferred outflows of resources	**6,127,476**	**1,050,366**	**7,177,842**	**5,706,742**
Deferred inflows of resources:				
Gain on refunding of debt	163,702	—	163,702	272
Service concession arrangements	70,316	—	70,316	72,024
Net pension liability	11,755,153	1,226,857	12,982,010	5,295,580
Other deferred inflows	—	775,625	775,625	570
Total deferred inflows of resources	**$ 11,989,171**	**$ 2,002,482**	**$ 13,991,653**	**$ 5,368,446**

NOTE 22: NO COMMITMENT DEBT

The California Housing Finance Agency (CalHFA), a major component unit, issued conduit debt to provide financial assistance for the acquisition, construction, and development of multifamily rental housing. As of June 30, 2015, the CalHFA had $372 million of conduit debt obligations outstanding, which is not debt of the State.

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, 2015, these component units had approximately $3.9 billion of debt outstanding, 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 legal proceedings were accrued as a liability in the government-wide financial statements: those decided against the primary government before June 30, 2015; those in progress as of June 30, 2015, and settled or decided against the primary government as of March 11, 2016; and those having a high probability of resulting in a decision against the primary government as of March 11, 2016, 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 in 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 and 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. The trial court has denied class certification and the plaintiffs have appealed. 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 previously 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, but the Court of Appeal reversed the decision and sent the case back to the trial court for a further determination of the merits of the taxpayer's case. Trial is currently scheduled for August 2016. 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. A hearing on the motions was heard on November 24, 2015. An estimate of potential loss is not possible.

A writ petition, *Bekkerman et al v. California Board of Equalization*, has been filed against the primary government challenging the validity of a Board of Equalization (the Board) sales tax regulation (Cal. Code of Regulations, Title 18, section 1585) that requires the sales tax charged on a mobile telephone be based on the full "unbundled" price of the phone, rather than any discounted price that is contingent on a service plan commitment. A companion class action has been filed, but not yet served, pending resolution of the writ. If the sales tax regulation is invalidated, the companion class action could lead to an order requiring the Board to refund up to $1 billion of sales tax collections. The superior court will hold a hearing on the merits of the writ on October 21, 2016.

The primary government was a defendant in the following cases: *Anthem Blue Cross v. David Maxwell-Jolly, et al.*; *Molina Family Health Plan v. DHCS*; *and Health Net of California v. DHCS* 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 total potential loss is more than $400 million based on three separate settlement agreements that were entered into in 2013 and 2014. The primary government is involved in similar disputes with LA Care and other local initiatives regarding application of budget reduction factors to managed-care capitation rates; these disputes are still pending in administrative hearings. The combined total potential loss is more than $900 million.

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

The California Public Employees' Retirement System (CalPERS) provides retirement and health benefits to eligible employees of the State, public agencies, and public schools through single-employer, agent multiple-employer, and cost-sharing plans. The California State Teachers' Retirement System (CalSTRS) provides pension benefits to full-time and part-time employees of the State's public school system. Both are fiduciary component units of the State, and their financial activity is included in the pension and other employee benefit trust funds column of the fiduciary funds and similar component units' financial statements of this report.

CalPERS administers four defined benefit retirement plans: the Public Employees' Retirement Fund (PERF), the Judges' Retirement Fund (Judges'), the Judges' Retirement Fund II (Judges' II), and the Legislators' Retirement Fund (Legislators'). CalPERS previously administered three defined contribution plans: the State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF), the Public Employees' Deferred Compensation Fund, and the Supplemental Contribution Program Fund. However, effective June 1, 2014, the SPOFF plan was termininated and, as directed by state statute, the remaining funds were transferred to the Supplemental Contribution Program Fund in March 2015.

The PERF accounts for the majority of assets and liabilities reported for CalPERS' plans. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. The report may be found on CalPERS' website at www.CalPERS.ca.gov.

Contributions to the CalPERS' 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 found on its website at www.CalSTRS.com.

Member contributions to CalSTRS' pension plans are recognized in the period in which the contributions are earned. Employer and state contributions are recognized when earned and when the employer or the State 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.

For the purpose of measuring net pension liability, deferred ouflows and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of CalPERS' and CalSTRS' plans and changes to the plans' fiduciary net positions has been determined on the same basis as reported by the plans.

The University of California, a discretely presented component unit, administers the University of California Retirement System (UCRS), which consists of two defined benefit plans funded with University and employee contributions, and four defined contribution plans with options to participate in internally or externally managed investment portfolios generally funded with employee non-elective and elective contributions. The State does not directly contribute to the UCRS. Additional information on the UCRS can be found in the University's separately issued financial statements on its website at www.ucop.edu.

A. California Public Employees' Retirement System

1. Public Employees' Retirement Fund (PERF)

***Plan Description*:** The PERF is comprised of and reported as three separate entities for financial reporting purposes, of which the State reports only PERF A. PERF A is comprised of agent multiple-employer plans, which include the State of California and most public agencies' rate plans that have more than 100 active members. PERF B is a cost-sharing multiple-employer plan comprised of school employers and consisting of non-teaching and non-certified employee members. PERF C is a cost-sharing multiple-employer plan comprised of public agencies' plans that generally have fewer than 100 active members. Employers participating in the PERF as of June 30, 2014, included the primary government and certain discretely presented component units; 1,517 school employers, including charter schools; and 1,746 public agencies. As the State is not an employer in PERF B or PERF C, the term "PERF" is used hereafter to refer exclusively to the agent multiple-employer plans that include employees of the primary government and certain discretely presented component units.

CalPERS acts as the common investment and administrative agent for participating employers. State employees served by the PERF include first- and second-tier miscellaneous and industrial employees, California Highway Patrol (CHP) employees, peace officers and firefighters, and other safety members.

***Benefits Provided*:** All employees in a covered class of employment who work half-time or more are eligible to participate in the PERF. The PERF provides retirement, death, disability, and survivor benefits. Vesting occurs after five years, or after ten years for second-tier employees. The benefit provisions are established by the Public Employees' Retirement Law (PERL) and the Public Employees' Pension Reform Act of 2013 (PEPRA), and are summarized in Appendix B of the State's June 30, 2013 Actuarial Valuation Report, which may be found at www.CalPERS.ca.gov/docs/forms-publications/2013-state-valuation.pdf. In general, for the PERF plans, retirement benefits are based on a formula using on a member's years of service credit, age at retirement, and final compensation (average salary for a defined period of employment). Retirement formulas vary based on:

- Classification (e.g., miscellaneous, safety, industrial, CHP, or peace officers and firefighters);
- Membership category (pre-PEPRA and post-PEPRA); and
- Specific provisions in employees' contracts.

The four basic types of retirement are:

- Service Retirement – The "normal" retirement is a lifetime benefit. In most cases, employees become eligible for service retirement as early as age 50 with five years of service credit. If the employee became a member on or after January 1, 2013, he or she must be at least 52 year old with at least five years of service to retire. Second-tier employees (miscellaneous and industrial) become eligible at age 55 with at least ten years of service credit.
- Vested Deferred Retirement – Vested members who leave employment but keep their contribution balances on deposit with CalPERS are eligible for this benefit.
- Disability Retirement – Vested members who can no longer perform the usual duties of their current position due to illness or injury may receive this benefit.
- Industrial Disability Retirement – This benefit is available for eligible safety members, industrial employees, CHP employees, and peace officers and firefighters, who are unable to perform the usual duties of their current position due to job-related illness or injury.

***Employees Covered by Benefit Terms*:** The State's June 30, 2014 Actuarial Valuation Report provides information about the number of employees by type covered within the various PERF plans. Table 25 shows the number of employees covered by the benefit terms of each of the PERF plans as of the most recent valuation.

Table 25

Number of Employees by Type Covered by Benefit Terms – PERF Plans
June 30, 2014

	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol	Total PERF Plans
Inactive employees or beneficiaries currently receiving benefits	177,825	12,065	21,547	32,925	8,523	**252,885**
Inactive employees entitled to but not yet receiving benefits	49,717	3,137	5,601	6,390	355	**65,200**
Active employees	195,561	19,376	30,665	45,320	7,465	**298,387**
Total	**423,103**	**34,578**	**57,813**	**84,635**	**16,343**	**616,472**

***Contributions*:** Section 20814(c) of PERL 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. The total plan contributions are determined through CalPERS' annual actuarial valuation process. 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 employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. These rates reflect section 20683.2, which mandates that certain employees must contribute more as of July 1, 2013. Furthermore, any reduction in employer contributions due to the increase in the employee contributions must be paid by the employer toward the unfunded liability.

Table 26 shows the average active employee and the employer contribution rates for each of the PERF plans as a percentage of annual pay for the measurement period ended June 30, 2014.

Table 26

Contribution Rates – PERF Plans
June 30, 2014

	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol
Average active employee rate	6.525 %	7.571 %	10.421 %	11.252 %	10.319 %
Employer rate of annual payroll	21.137 %	16.446 %	17.905 %	31.320 %	35.897 %
Total	**27.662 %**	**24.017 %**	**28.326 %**	**42.572 %**	**46.216 %**

***Actuarial Methods and Assumptions*:** The total pension liability for PERF plans was measured as of June 30, 2014 (measurement date), by rolling forward the total pension liability determined by the June 30, 2013 actuarial valuation (valuation date), based on the actuarial methods and assumptions shown in Table 27.

Table 27

Actuarial Methods and Assumptions – PERF Plans

Valuation date:	June 30, 2013
Actuarial cost method:	Entry age normal
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.65% net of pension plan investment expense but without reduction for administrative expenses; includes inflation
Mortality	Mortality rates are based on the 2014 CalPERS Experience Study adopted by the CalPERS Board and include 20 years of mortality improvements using Scale BB published by the Society of Actuaries.
Post-retirement benefit adjustments (COLAs)	Contract COLA up to 2.75% until the Purchasing Power Protection Allowance floor on purchasing power applies.

***Discount Rate*:** The discount rate used to measure the total pension liability was 7.65% for the PERF. 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 differ from the actuarially assumed discount rate. Results of the testing showed that none of the tested plans would exhaust assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% was applied to all plans in the PERF. The stress test results are presented in the "GASB Crossover Testing Report," which may be found on CalPERS' website at www.CalPERS.ca.gov/docs/gasb-crossover-testing-2013.pdf.

CalPERS is scheduled to review all actuarial assumptions as part of its regular asset liability management review cycle, scheduled to be completed in February 2018. Any changes to the discount rate will require action on the part of CalPERS' Board of Administration and proper stakeholder outreach.

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 but without reduction for administrative expenses; includes inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short- and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, CalPERS calculated expected compound (geometric) returns 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- 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- 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.

Table 28 shows long-term expected geometric real rate of return by asset class for all plans in the PERF.

Table 28

Long-term Expected Real Rate of Return by Asset Class – PERF Plans

Asset Class	New Strategic Allocation	Real Return Years 1 – 10 [1]	Real Return Years 11+ [2]
Global equity	47.0 %	5.25 %	5.71 %
Global fixed income	19.0	0.99	2.43
Inflation sensitive	6.0	0.45	3.36
Private equity	12.0	6.83	6.95
Real estate	11.0	4.50	5.13
Infrastructure and forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)
Total	**100.0 %**		

[1] An expected inflation rate of 2.5% used for this period.

[2] An expected inflation rate of 3.0% used for this period.

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***Changes in Net Pension Liability*:** Table 29 shows changes in net pension liability recognized over the measurement period for the PERF plans.

Table 29

Changes in Net Pension Liability – PERF Plans
(amounts in thousands)

	State Miscellaneous			State Industrial			State Safety			State Peace Officers and Firefighters		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2013 (Valuation Date)	$ 88,885,115	$ 60,017,620	$ 28,867,495	$ 3,181,282	$ 2,420,958	$ 760,324	$ 8,682,750	$ 6,583,260	$ 2,099,490	$ 34,655,771	$ 22,713,610	$ 11,942,161
Changes recognized for the measurement period:												
Service cost	1,477,762	—	1,477,762	92,324	—	92,324	402,902	—	402,902	816,836	—	816,836
Interest on total pension liability	6,670,928	—	6,670,928	241,278	—	241,278	663,219	—	663,219	2,622,406	—	2,622,406
Employer contributions	—	2,156,312	(2,156,312)	—	88,516	(88,516)	—	339,232	(339,232)	—	959,741	(959,741)
Employee contributions	—	766,896	(766,896)	—	44,459	(44,459)	—	196,148	(196,148)	—	331,956	(331,956)
Investment income	—	10,370,838	(10,370,838)	—	423,076	(423,076)	—	1,162,050	(1,162,050)	—	3,964,754	(3,964,754)
Benefit payments, including refunds	(4,844,631)	(4,844,631)	—	(146,977)	(146,977)	—	(429,353)	(429,353)	—	(1,568,738)	(1,568,738)	—
Administrative expense	—	(86,473)	86,473	—	(3,583)	3,583	—	(9,945)	9,945	—	(33,334)	33,334
Net changes	**3,304,059**	**8,362,942**	**(5,058,883)**	**186,625**	**405,491**	**(218,866)**	**636,768**	**1,258,132**	**(621,364)**	**1,870,504**	**3,654,379**	**(1,783,875)**
Balance at June 30, 2014 (Measurement Date)	**$ 92,189,174**	**$ 68,380,562**	**$ 23,808,612**	**$ 3,367,907**	**$ 2,826,449**	**$ 541,458**	**$ 9,319,518**	**$ 7,841,392**	**$ 1,478,126**	**$ 36,526,275**	**$ 26,367,989**	**$ 10,158,286**

(continued)

Table 29 (continued)

Changes in Net Pension Liability – PERF Plans (continued)
(amounts in thousands)

	California Highway Patrol			Total PERF Plans		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2013 (Valuation Date)	$ 9,604,872	$ 5,759,985	$ 3,844,887	$ 145,009,790	$ 97,495,433	$ 47,514,357
Changes recognized for the measurement period:						
Service cost	191,730	—	191,730	2,981,554	—	2,981,554
Interest on total pension liability	724,474	—	724,474	10,922,305	—	10,922,305
Employer contributions	—	277,702	(277,702)	—	3,821,503	(3,821,503)
Employee contributions	—	83,161	(83,161)	—	1,422,620	(1,422,620)
Investment income	—	1,005,007	(1,005,007)	—	16,925,725	(16,925,725)
Benefit payments, including refunds	(460,991)	(460,991)	—	(7,450,690)	(7,450,690)	—
Administrative expense	—	(8,417)	8,417	—	(141,752)	141,752
Net changes	**455,213**	**896,462**	**(441,249)**	**6,453,169**	**14,577,406**	**(8,124,237)**
Balance at June 30, 2014 (Measurement Date)	**$ 10,060,085**	**$ 6,656,447**	**$ 3,403,638**	**$ 151,462,959**	**$ 112,072,839**	**$ 39,390,120**

Reported in governmental activities	$ 32,215,408
Reported in business-type activities	6,248,976
Reported by discretely presented component units	48,009
Not reported in government-wide Statement of Net Position [1]	877,727
Total net pension liability – PERF plans	**$ 39,390,120**

(concluded)

[1] Includes amounts allocated to related organizations and fiduciary funds. Additionally, this amount includes the net pension liability for discretely presented component units with a reporting period ended December 31, 2014, that have not yet implemented GASB Statements No. 68 and No. 71. Also includes adjustments for net pension liability understatements or overstatements included in the separately issued financial statements of proprietary funds and component units.

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*:** Table 30 shows the net pension liability of the State, with regard to the PERF plans, calculated using the discount rate of 7.65%, as well as what the State's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65%) or one percentage point higher (8.65%) than the current rate.

Table 30

Net Pension Liability Sensitivity – PERF Plans
June 30, 2015
(amounts in thousands)

	Current Rate -1%	Current Rate 7.65%	Current Rate +1%
State Miscellaneous	$ 35,024,779	$ 23,808,612	$ 14,184,286
State Industrial	998,904	541,458	153,711
State Safety	2,750,450	1,478,126	397,559
State Peace Officers and Firefighters	15,304,428	10,158,286	5,835,514
California Highway Patrol	4,813,585	3,403,638	2,218,532
Total PERF plans	**$ 58,892,146**	**$ 39,390,120**	**$ 22,789,602**

***Pension Plans Fiduciary Net Position*:** Detailed information about the PERF plans' fiduciary net position is available in the separately issued CalPERS financial report.

***Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions*:** For the PERF plans, for the year ended June 30, 2015, the State recognized pension expense of $3.4 billion. At June 30, 2015, the State reported deferred outflows of resources from contributions made by the State to the PERF plans subsequent to the measurement date of June 30, 2014, but prior to the year ended June 30, 2015, and deferred inflows of resources for the net difference between projected and actual earnings on plan investments. 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 subsequent year.

Table 31 shows pension expense and sources of deferred outflows and deferred inflows of resources related to each PERF plan.

Table 31

Pension Expense and Sources of Deferred Outflows and Deferred Inflows of Resources Related to Pensions – PERF Plans
June 30, 2015
(amounts in thousands)

		Deferred Outflows of Resources	Deferred Inflows of Resources
	Pension Expense	Employer Contributions Subsequent to the Measurement Date	Difference Between Projected and Actual Earnings on Investments
State Miscellaneous	$ 1,799,177	$ 2,583,400	$ (4,701,748)
State Industrial	61,241	104,769	(191,591)
State Safety	243,403	387,508	(525,536)
State Peace Officers and Firefighters	973,488	1,148,597	(1,797,622)
California Highway Patrol	292,287	352,139	(455,834)
Total PERF plans	**$ 3,369,596**	**$ 4,576,413**	**$ (7,672,331)**

Table 32 shows amounts reported as deferred inflows of resources related to pensions that will be recognized in pension expense in future years for the PERF plans. Increases to pension expense are shown as positive amounts and decreases to pension expense are shown as negative amounts.

Table 32

Recognition of Deferred Inflows of Resources – PERF Plans
(amounts in thousands)

Year Ending June 30	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol	PERF Total
2016	$ (1,175,437)	$ (47,898)	$ (131,384)	$ (449,406)	$ (113,959)	$ (1,918,084)
2017	(1,175,437)	(47,898)	(131,384)	(449,406)	(113,959)	(1,918,084)
2018	(1,175,437)	(47,898)	(131,384)	(449,405)	(113,958)	(1,918,082)
2019	(1,175,437)	(47,897)	(131,384)	(449,405)	(113,958)	(1,918,081)

***Payable to the Pension Plans*:** At June 30, 2015, the State reported a payable of $608 million for the outstanding amount of contributions to the PERF pension plans required for the year ended June 30, 2015.

2. Single-employer Plans

***Plan Description*:** CalPERS administers three single-employer defined benefit retirement plans.

Judges' – Judges' membership includes judges working in the California Supreme Court, the courts of appeal, and the superior courts who were appointed or elected prior to November 9, 1994. Judges' is funded on a "pay-as-you-go" basis, where short-term investments, contributions received during the year, and a General Fund augmentation are used to provide funding for benefit payments.

Judges' II – Judges' II membership includes judges working in the California Supreme Court, the courts of appeal, and the superior courts, who were appointed or elected on or after November 9, 1994. There are two types of service retirement available for plan members: the Defined Benefit Plan and the Monetary Credit Plan, in which members can choose a single lump sum payment or annuity at retirement.

Legislators' – Legislators' was established in 1947 and its members consist of state legislators, constitutional offices, and legislative statutory officers. The PEPRA closed Legislators' to new participants effective January 1, 2013.

***Benefits Provided*:** All employees in a covered class of employment who work on a half-time basis or more are eligible to participate. The benefits for the defined benefit plans are based on a member's years of service, age, final compensation, and a benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service. Benefits are established in accordance with the provisions of the Judges' Retirement Law, Judges' Retirement System II Law, and Legislators' Retirement Law. Additional information is available in the Actuarial Valuation Report for each plan, which may be found on CalPERS' website at www.CalPERS.ca.gov.

Judges' – The four basic types of retirement are:

- Service Retirement – Members must be at least age 60 with 20 years of service or age 70 with at least 10 years of service.
- Deferred Retirement – Vested members are eligible for deferred retirement at any age.
- Disability Retirement – The service requirement is four years. The retirement allowance is 65% of a judge's final salary, or 75% of his or her final salary if the judge has 20 or more years of service.
- Death Benefits – Beneficiaries may receive 25% of a current active judge's salary for life if the judge was not eligible for retirement. Beneficiaries receive one-half of what the retirement allowance would have been if the judge had retired on the date of death.

Judges' II – The four basic types of retirement are:

- Service Retirement – Judges must be at least age 65 with 20 years of service or age 70 with a minimum of five years of service to receive the defined benefit plan. Judges must have at least five years of service to receive the monetary credit plan.
- Disability Retirement (non-work related) – Judges who have five years of service and become permanently disabled because of a mental or physical disability may apply to the Commission on Judicial Performance for disability retirement.
- Disability Retirement (work related) – Judges receive 65% of their average monthly salary earned during the 12 months preceding their retirement date, regardless of age or length of service.
- Death Benefits – Beneficiaries receive the judge's monetary credits or three times the annual salary at the time of death, whichever is greater, if the judge was not eligible for retirement. Beneficiaries receive one-half of the retirement pension for life if the judge was retired on the date of death.

Legislators' – The three basic types of retirement are:

- Service Retirement – Members must be age 60, with four or more years of service credit, or any age with 20 or more years. The retirement age for legislative statutory officers is 55, or any age with 20 years or more of service credit.
- Disability Retirement – Disability retirement uses the same formula as service retirement. There is no reduction for members of the Legislature if retirement is before age 60.
- Death Benefits – Beneficiaries have multiple options depending on whether the member was eligible for retirement or was retired at the time of death.

***Employees Covered by Benefit Terms*:** The June 30, 2014 actuarial valuation reports for each single-employer plan provide information about the number of employees by type covered within the plans. Table 33 shows the number of employees covered by the benefit terms of each of the single-employer plans as of the most recent valuation.

Table 33

Number of Employees by Type Covered by Benefit Terms – Single-employer Plans
June 30, 2014

	Judges'	Judges' II	Legislators'	Total
Inactive employees or beneficiaries currently receiving benefits	1,912	71	248	**2,231**
Inactive employees entitled to but not yet receiving benefits	25	3	16	**44**
Active employees	279	1,392	11	**1,682**
Total	**2,216**	**1,466**	**275**	**3,957**

***Contributions*:** As Judges' is funded on a "pay-as-you-go" basis, the actuarially determined contribution requirements are the estimated amount of benefit payouts during the year. Currently, Judges' member contributions are 8% of pay. In certain situations, employers make member contributions.

Judges' II contribution rates are determined through the CalPERS' annual actuarial valuation process as required by section 75600.5 of the PERL.

For Legislators', the State's contribution is determined annually by an actuary in accordance with section 20814 of the PERL. For the measurement period ended June 30, 2014, the Legislators' actuarially determined employer contribution rate was 1.554% of annual payroll. However, because the minimum employer contribution rate under PEPRA is the greater of the actuarially determined employer rate or the employer normal cost, the required contribution rate was 38.381%.

Table 34 shows the average active employee and the employer contribution rates for each of the single-employer plans as a percentage of annual pay for the measurement period ended June 30, 2014.

Table 34

Contribution Rates – Single-employer Plans
June 30, 2014

	Judges'	Judges' II	Legislators'
Average active employee rate	"Pay-	8.150 %	7.532 %
Employer rate of annual payroll	as-you-	22.687 %	38.381 %
Total	go"	**30.837 %**	**45.913 %**

***Actuarial Methods and Assumptions*:** The total pension liability for single-employer plans was measured as of June 30, 2014 (measurement date), by rolling forward the total pension liability determined by the June 30, 2013 actuarial valuations (valuation date), based on the actuarial methods and assumptions shown in Table 35.

Table 35

Actuarial Methods and Assumptions – Single-employer Plans

Valuation date:	June 30, 2013
Actuarial cost method:	Entry age normal
Actuarial assumptions:	
Discount rate	Judges' 4.25%, Judges' II 7.00%, Legislators' 5.75%
Inflation	All single-employer plans – 2.75%
Salary increases	All single-employer plans – 3.00%
Investment rate of return	Judges' 4.25%, Judges' II 7.00%, Legislators' 5.75%, net of pension plan investment and administrative expenses; includes inflation.
Mortality	Mortality rates are based on the 2014 CalPERS Experience Study adopted by the CalPERS Board and include 20 years of mortality improvements using Scale BB published by the Society of Actuaries.
Post-retirement benefit adjustments (COLAs)	Judges' – 3.00% Judges' II – 2.75% Legislators' – 2.75%

***Discount Rate*:** 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 differ from the actuarially assumed discount rate. For the single-employer plans, the following rates were used:

Judges' – 4.25%, reflecting the short-term nature of the assets. As the plan is insufficiently funded, CalPERS uses a discount rate of 4.25%, which falls within a reasonable range of yields on 20-year tax-exempt general obligation municipal bonds with an average rating of AA.

Judges' II – 7.00%

Legislators' – 5.75%

With the exception of Judges', which uses a lower rate of return, the information regarding the discount rate and the long-term expected real rate of return described previously for the PERF plans is also applicable to the single-employer plans. GAAP requires that the long-term discount rate should be determined without reduction for pension plan administrative expense. For Judges' II and Legislators', the discount rates are net of administrative expenses, resulting in a lower rate and, consequently, a slightly lower net pension asset for each plan.

Table 36 shows long-term expected geometric real rates of return by asset class for Judges' II and Legislators'.

Table 36

Long-term Expected Real Rate of Return by Asset Class – Judges' II and Legislators' Plans

Asset Class	Judges' II New Strategic Allocation	Legislators' New Strategic Allocation	Real Return Years 1 – 10 [1]	Real Return Years 11+ [2]
Global equity	50.0 %	24.0 %	5.25 %	5.71 %
Global fixed income	34.0	39.0	1.79	2.40
Treasury inflation protected securities	5.0	26.0	1.00	2.25
Commodities	3.0	3.0	1.66	4.95
Real estate	8.0	8.0	3.25	7.88
Total	**100.0 %**	**100.0 %**		

[1] An expected inflation rate of 2.5% used for this period.
[2] An expected inflation rate of 3.0% used for this period.

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***Changes in Net Pension Liability*:** Table 37 shows the changes in net pension liability recognized over the measurement period for the single-employer plans.

Table 37

Changes in Net Pension Liability – Single-employer Plans
(amounts in thousands)

	Judges'			Judges' II			Legislators'			Total Single-employer Plans		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2013 (Valuation Date)	**$ 3,383,310**	**$ 53,820**	**$ 3,329,490**	**$ 837,198**	**$ 795,967**	**$ 41,231**	**$ 115,806**	**$ 122,148**	**$ (6,342)**	**$ 4,336,314**	**$ 971,935**	**$ 3,364,379**
Changes recognized for the measurement period:												
Service cost	27,581	—	27,581	78,670	—	78,670	732	—	732	106,983	—	106,983
Interest on total pension liability	140,256	—	140,256	61,044	—	61,044	6,465	—	6,465	207,765	—	207,765
Employer contributions	—	191,148	(191,148)	—	57,027	(57,027)	—	565	(565)	—	248,740	(248,740)
Employee contributions	—	7,248 *	(7,248) *	—	20,413	(20,413)	—	113	(113)	—	27,774	(27,774)
Investment income	—	59	(59)	—	150,168	(150,168)	—	15,372	(15,372)	—	165,599	(165,599)
Benefit payments, including refunds	(193,935)	(193,935)	—	(8,950)	(8,950)	—	(7,482)	(7,482)	—	(210,367)	(210,367)	—
Administrative expense	—	(1,141)	1,141	—	(785)	785	—	(362)	362	—	(2,288)	2,288
Net changes	**(26,098)**	**3,379**	**(29,477)**	**130,764**	**217,873**	**(87,109)**	**(285)**	**8,206**	**(8,491)**	**104,381**	**229,458**	**(125,077)**
Balance at June 30, 2014 (Measurement Date)	**$ 3,357,212**	**$ 57,199**	**$ 3,300,013**	**$ 967,962**	**$ 1,013,840**	**$ (45,878)**	**$ 115,521**	**$ 130,354**	**$ (14,833)**	**$ 4,440,695**	**$ 1,201,393**	**$ 3,239,302**
										Reported in governmental activities		**$ 3,239,302**

* Includes other income and other investment income.

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*:** Judges' net pension liability was calculated using a discount rate of 4.25%; Judges' II used 7%; and Legislators' used 5.75%. Table 38 shows the net pension liability for each single-employer plan, calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

Table 38

Net Pension Liability Sensitivity – Single-employer Plans
June 30, 2015
(amounts in thousands)

	Current Rate -1%	Current Rate	Current Rate +1%
Judges' (4.25%)	$ 3,690,642	$ 3,300,013	$ 2,972,824
Judges' II (7.0%)	86,070	(45,878)	(150,976)
Legislators' (5.75%)	(1,163)	(14,833)	(26,009)
Total Single-employer Plans	**$ 3,775,549**	**$ 3,239,302**	**$ 2,795,839**

***Pension Plans Fiduciary Net Position*:** Detailed information about the single-employer plans' fiduciary net position is available in the separately issued CalPERS financial report.

***Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions*:** For the single-employer plans, for the year ended June 30, 2015, the State recognized pension expense of $200 million. At June 30, 2015, the State reported deferred outflows of resources from contributions made by the State to the single-employer plans subsequent to the measurement date of June 30, 2014, but prior to the year ended June 30, 2015, which will be recognized as a reduction of the net pension liability in the subsequent year. Table 39 shows pension expense and sources of deferred outflows and deferred inflows of resources related to each single-employer plan.

Table 39

Pension Expense and Sources of Deferred Outflows and Deferred Inflows of Resources Related to Pensions – Single-employer Plans
June 30, 2015
(amounts in thousands)

	Judges'	Judges' II	Legislators'	Total
Pension expense	$ 158,900	$ 42,932	$ (1,381)	**$ 200,451**
Deferred outflows of resources due to employer contributions subsequent to the measurement date	3,598	59,982	544	**64,124**
Deferred outflows of resources related to net difference between projected and actual earnings on pension plan investments	2,771	—	—	**2,771**
Deferred inflows of resources related to net difference between projected and actual earnings on pension plan investments	—	(73,014)	(6,545)	**(79,559)**

Table 40 shows amounts reported as deferred outflows and deferred inflows of resources related to pensions that will be recognized in pension expense in future years for the single-employer plans. Increases to pension expense are shown as positive amounts and decreases to pension expense are shown as negative amounts.

Table 40

Recognition of Deferred Outflows and Deferred Inflows of Resources – Single-employer Plans
(amounts in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources		
Year Ending June 30	**Judges'**	**Judges' II**	**Legislators'**	**Total**
2016	$ 693	$ (18,254)	$ (1,636)	$ **(19,197)**
2017	693	(18,254)	(1,636)	**(19,197)**
2018	693	(18,254)	(1,636)	**(19,197)**
2019	692	(18,253)	(1,637)	**(19,198)**

B. California State Teachers' Retirement System

The State reports a net pension liability, deferred outflows and deferred inflows of resources, and expenses as a result of its statutory requirement to contribute to the State Teachers' Retirement Fund as a non-employer contributing entity.

***Plan Description*:** CalSTRS administers the State Teachers' Retirement Fund, which is an employee benefit trust fund created to finance the State Teachers' Retirement Plan (STRP). The STRP is a cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and survivor benefits to teachers and certain other employees of the California public school system. 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. CalSTRS issues a publicly available financial report, which may be found on CalSTRS' website at www.CalSTRS.com.

***Benefits Provided*:** 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, 420,887 active and 182,815 inactive program members, and 275,627 benefit recipients as of June 30, 2014. 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.

***Contributions*:** The DB Program contribution rates for members and employers are 8.00% and 8.25% of creditable compensation, respectively. The General Fund contribution is 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 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 of the immediately preceding calendar year. The normal cost deficit is the difference between the actuarially determined normal cost rate and the member and employer contributions. Based on CalSTRS' June 30, 2013 Defined Benefit Actuarial Valuation Report, which may be found on CalSTRS' website at http://www.CalSTRS.com/sites/main/files/file-attachments/2013_db_valuation_report.pdf, there is no normal cost deficit, but there is an unfunded obligation for benefits in place as of July 1, 1990.

Assembly Bill (AB) 1469, signed into law on June 24, 2014, 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 State increased its contributions beginning in the fourth quarter of fiscal year 2013-14. The State contributed a total of $1.5 billion for fiscal year 2014-15.

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, then 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; it 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, 260 individuals were receiving benefits from the RB program.

***Actuarial Methods and Assumptions*:** The total pension liability in the June 30, 2013 actuarial valuation (valuation date) was determined using the actuarial methods and assumptions shown in Table 41, applied to the measurement period ended June 30, 2014.

Table 41

Actuarial Methods and Assumptions – CalSTRS

Valuation date	June 30, 2013
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Investment rate of return	7.60 %
Consumer price inflation	3.00 %
Projected wage growth	3.75 %
Post-retirement benefit increases (COLAs)	2.00 % simple

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries.

***Discount Rate*:** The discount rate used to measure the total pension liability was 7.60%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases created by AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60%) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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. The best estimate ranges were developed using capital market assumptions from CalSTRS' general investment consultant as an input to the process. Based on the model from CalSTRS' consulting actuary's investment practice, a best estimate range was determined by assuming that the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date on which current experience study was approved by the CalSTRS board.

Table 42 shows the assumed allocation and best estimates of 10-year geometric real rate of return for each major asset class.

Table 42

Long-term Expected Real Rate of Return by Asset Class – CalSTRS

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47 %	4.50 %
Private equity	12	6.20
Real estate	15	4.35
Inflation sensitive	5	3.20
Fixed income	20	0.20
Cash/liquidity	1	0.00
Total	**100 %**	

***Pension Liabilities, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions*:** CalSTRS' net pension liability was measured as of June 30, 2014 (measurement date) by applying update procedures and rolling forward the total pension liability determined by the actuarial valuation as of June 30, 2013 (valuation date). The State's proportion of the net pension liability was based on CalSTRS' calculated non-employer contributions to the pension plan relative to the total contributions of the State and all participating school districts. Per CalSTRS' revenue recognition policy, CalSTRS recognizes state contributions for the entire fiscal year at the beginning of each fiscal year. Contributions excluded from the proportionate share per CalSTRS' policy include employer contributions for retirement incentives, additional service credit, and unused sick leave. As of June 30, 2014, the State's proportionate share of the CalSTRS' net pension liability was 37.65%, or $22.0 billion; this amount is reported in the governmental activities column of the government-wide Statement of Net Position as of June 30, 2015.

As a result of its requirement to contribute to CalSTRS, the State recognized expense of $1.9 billion for the year ended June 30, 2015 and reported deferred outflows and deferred inflows of resources as shown in Table 43.

Table 43

Sources of Deferred Outflows and Deferred Inflows of Resources Related to Pensions – CalSTRS
June 30, 2015
(amounts in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ —	$ 5,417,835
State contributions subsequent to the measurement date	1,486,004	—
Total	**$ 1,486,004**	**$ 5,417,835**

The $1.5 billion reported as deferred outflows of resources resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Table 44 shows amounts reported as deferred inflows of resources related to pensions that will be recognized in pension expense in futures years as a result of the State's requirement to contribute to CalSTRS. Increases to pension expense are shown as positive amounts and decreases to pension expense are shown as negative amounts.

Table 44

Recognition of Deferred Inflows of Resources – CalSTRS
(amounts in thousands)

Year Ending June 30	Amount
2016	$ (1,354,459)
2017	(1,354,459)
2018	(1,354,459)
2019	(1,354,458)

***Sensitivity of the State's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*:** Table 45 shows the State's proportionate share of the net pension liability calculated using the discount rate of 7.60%, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.60%) or one percentage point higher (8.60%) than the current rate.

Table 45

Net Pension Liability Sensitivity – CalSTRS
June 30, 2015
(amounts in thousands)

	Current Rate –1%	Current Rate 7.60%	Current Rate +1%
State's proportionate share of net pension liability	$ 34,294,632	$ 22,001,531	$ 11,751,318

***Pension Plan Fiduciary Net Position*:** Detailed information about CalSTRS' pension plans' fiduciary net position is available in the separately issued CalSTRS financial report.

NOTE 25: POSTEMPLOYMENT HEALTH CARE BENEFITS

***State of California Other Postemployment Benefits (OPEB) 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 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 2014-15 fiscal year, approximately 177,870 annuitants were enrolled to receive health benefits and approximately 144,660 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 premium 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 premium 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 2015 monthly State contribution was $655 for one-party coverage, $1,246 for two-party coverage, and $1,605 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 fiscal year 2014-15 monthly contribution rate for the trial courts with single-employer defined benefit plans, the latest year for which contribution information is available, ranged from $0 to $1,059,640, with the average being $84,523. 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, 2015, the State contributed $2.0 billion toward annuitants' health and dental benefits. Of this amount, the trial courts represent $52 million and certain discretely presented component units represent $4 million.

***Annual OPEB Cost and Net OPEB Obligation*:** The State's annual OPEB cost (expense) is calculated based on the ARC. Table 46 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, 2015, and the two preceding years, including trial courts.

Table 46

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, 2013	$ 4,992,924	35.33 %	$ 16,267,964
June 30, 2014	5,129,284	37.20	19,489,030
June 30, 2015	5,156,787	39.33	22,617,653

Table 47 presents the components of the State's net OPEB obligation to the OPEB plan, including trial courts.

Table 47

Schedule of Net OPEB Obligation
June 30, 2015
(amounts in thousands)

	Amount
Annual required contribution	$ 5,100,227
Interest on net OPEB obligation	833,117
Adjustment to annual required contribution	(776,557)
Annual OPEB cost	**5,156,787**
Contributions made	(2,028,164)
Increase in net OPEB obligation	**3,128,623**
Net OPEB obligation – beginning of year	**19,489,030**
Net OPEB obligation – end of year	**$ 22,617,653**

***Funded Status and Funding Progress*:** As of June 30, 2015—the most recent actuarial valuation date for the State substantive plan—the actuarial accrued liability (AAL) for benefits was $74.2 billion, and the actuarial value of assets was $86 million, resulting in an unfunded actuarial accrued liability (UAAL) of $74.1 billion. The covered payroll (annual payroll of active employees covered by the plan) was $20.2 billion, and the ratio of the UAAL to the covered payroll was 367%.

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, 2015 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 2016 and 8.00% in 2017 initially, reduced to an ultimate rate of 4.50% in 2022. 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, 2015, but prior to the date of the auditor's report.

A. Debt Issuances

In August 2015, the California State University issued $1.1 billion in revenue bonds to refund certain maturities of Systemwide Revenue Bonds series 2005A, 2005B, 2005C, and 2007A; repay bond anticipation

notes; refund other outstanding bond indebtedness by auxiliary organizations; fund new capital projects; and pay related issuance costs.

In September 2015, the Department of Water Resources issued $109 million in water system revenue bonds to redeem certain outstanding commercial paper notes, to fund deposits to the debt service reserve account, to fund capitalized interest, and to pay related issuance costs.

In September and November 2015, the primary government issued $1.9 billion and $972 million, respectively, in general obligation bonds to finance or refinance capital facilities or other voter-approved costs for public purposes, including parks, clean water and clean air; reading and literacy improvement and public libraries; safe drinking water; children's hospitals; earthquake safety and public building rehabilitation; public primary, secondary, community college and university education facilities; highway safety, traffic reduction, air quality, and port security; transportation; safe and clean drinking water; clean water, watershed protection and flood protection; water security, water quality, water supply and river, coastal and beach protection; water conservation; seismic retrofit; wildlife, coastal and parkland conservation; veterans' homes; medical research; and housing and emergency shelter.

In October 2015, the primary government issued $446 million in veterans' general obligation bonds to finance or refinance obligations that were issued to finance contracts for the purchase of homes and farms for military veterans who reside in California.

In October 2015 and November 2015, the State Public Works Board issued a combined total of $772 million in lease revenue bonds to refund and defease outstanding lease revenue bond series 2002A, 2002C, 2003D, 2005A, 2005B, and 2005K; finance and refinance the cost of design and/or construction of various projects for the benefit of the Department of Corrections and Rehabilitation; and pay related issuance costs.

In November 2015, two of the State's building authorities issued $163 million in lease revenue bonds to refinance all of their outstanding bonds for two state office buildings, to fund a debt service reserve account, and to pay related issuance costs.

B. Other

In July 2015, Standard and Poor's Rating Services raised the State's general obligation rating to "AA-" from "A+", citing the enactment of the State's fiscal year 2015-2016 budget, marking improved fiscal sustainability.

In July 2015, the Electric Power Fund received $23 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 August 2015, the primary government defeased the remaining $930 million outstanding balance of the Economic Recovery Bonds by placing $988 million into a special irrevocable escrow trust account with the State Treasury to provide for all future debt service payments on the defeased bonds. The bonds will be fully redeemed in 2018.

California's demand for unemployment insurance benefits required the State to continue borrowing from the U.S. Department of Labor during the 2015-16 fiscal year. As of June 30, 2015, the State had $5.7 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 11, 2016, the State had an outstanding loan balance of $6.7 billion. While the State continued to request additional loans during 2016, it estimates that these loans will be fully repaid in 2018.

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Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios

For the Past Fiscal Year [1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

STATE MISCELLANEOUS [2]	2014 [3]
Total pension liability	
Service cost	$ 1,477,762
Interest	6,670,928
Benefit payments, including refunds of employee contributions	(4,844,631)
Net change in total pension liability	3,304,059
Total pension liability – beginning	**88,885,115**
Total pension liability – ending (a)	**$ 92,189,174**
Plan fiduciary net position	
Contributions – employer	2,156,312
Contributions – employee	766,896
Net investment income	10,370,838
Benefit payments, including refunds of employee contributions	(4,844,631)
Administrative expense	(86,473)
Net change in plan fiduciary net position	8,362,942
Plan fiduciary net position – beginning	**60,017,620**
Plan fiduciary net position – ending (b)	**$ 68,380,562**
State's net pension liability – ending (a) – (b)	**$ 23,808,612**
Plan fiduciary net position as a percentage of the total pension liability	74.17%
Covered-employee payroll	$ 10,019,739
State's net pension liability as a percentage of covered-employee payroll	237.62%

(continued)

[1] This schedule will be built prospectively until it contains ten years of data.
[2] This schedule includes amounts attributable to fiduciary funds, related organizations, and discretely presented component units, which are not part of the primary government.
[3] The date in the column heading represents the end of the measurement period of the net pension liability, which is one year prior to the reporting period.

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Fiscal Year [1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

STATE INDUSTRIAL [2]	2014 [3]
Total pension liability	
Service cost	$ 92,324
Interest	241,278
Benefit payments, including refunds of employee contributions	(146,977)
Net change in total pension liability	186,625
Total pension liability – beginning	**3,181,282**
Total pension liability – ending (a)	**$ 3,367,907**
Plan fiduciary net position	
Contributions – employer	88,516
Contributions – employee	44,459
Net investment income	423,076
Benefit payments, including refunds of employee contributions	(146,977)
Administrative expense	(3,583)
Net change in plan fiduciary net position	405,491
Plan fiduciary net position – beginning	**2,420,958**
Plan fiduciary net position – ending (b)	**$ 2,826,449**
State's net pension liability – ending (a) – (b)	**$ 541,458**
Plan fiduciary net position as a percentage of the total pension liability	83.92%
Covered-employee payroll	$ 532,490
State's net pension liability as a percentage of covered-employee payroll	101.68%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Fiscal Year [1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

STATE SAFETY [2]	2014 [3]
Total pension liability	
Service cost	$ 402,902
Interest	663,219
Benefit payments, including refunds of employee contributions	(429,353)
Net change in total pension liability	636,768
Total pension liability – beginning	**8,682,750**
Total pension liability – ending (a)	**$ 9,319,518**
Plan fiduciary net position	
Contributions – employer	339,232
Contributions – employee	196,148
Net investment income	1,162,050
Benefit payments, including refunds of employee contributions	(429,353)
Administrative expense	(9,945)
Net change in plan fiduciary net position	1,258,132
Plan fiduciary net position – beginning	**6,583,260**
Plan fiduciary net position – ending (b)	**$ 7,841,392**
State's net pension liability – ending (a) – (b)	**$ 1,478,126**
Plan fiduciary net position as a percentage of the total pension liability	84.14%
Covered-employee payroll	$ 1,901,235
State's net pension liability as a percentage of covered-employee payroll	77.75%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Fiscal Year [1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

STATE PEACE OFFICERS AND FIREFIGHTERS [2]	2014 [3]
Total pension liability	
Service cost	$ 816,836
Interest	2,622,406
Benefit payments, including refunds of employee contributions	(1,568,738)
Net change in total pension liability	1,870,504
Total pension liability – beginning	**34,655,771**
Total pension liability – ending (a)	**$ 36,526,275**
Plan fiduciary net position	
Contributions – employer	959,741
Contributions – employee	331,956
Net investment income	3,964,754
Benefit payments, including refunds of employee contributions	(1,568,738)
Administrative expense	(33,334)
Net change in plan fiduciary net position	3,654,379
Plan fiduciary net position – beginning	**22,713,610**
Plan fiduciary net position – ending (b)	**$ 26,367,989**
State's net pension liability – ending (a) – (b)	**$ 10,158,286**
Plan fiduciary net position as a percentage of the total pension liability	72.19%
Covered-employee payroll	$ 3,030,525
State's net pension liability as a percentage of covered-employee payroll	335.20%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Fiscal Year [1]
(amounts in thousands)

PUBLIC EMPLOYEES' RETIREMENT FUND PLANS

	2014 [3]
CALIFORNIA HIGHWAY PATROL	
Total pension liability	
Service cost	$ 191,730
Interest	724,474
Benefit payments, including refunds of employee contributions	(460,991)
Net change in total pension liability	455,213
Total pension liability – beginning	**9,604,872**
Total pension liability – ending (a)	**$ 10,060,085**
Plan fiduciary net position	
Contributions – employer	277,702
Contributions – employee	83,161
Net investment income	1,005,007
Benefit payments, including refunds of employee contributions	(460,991)
Administrative expense	(8,417)
Net change in plan fiduciary net position	896,462
Plan fiduciary net position – beginning	**5,759,985**
Plan fiduciary net position – ending (b)	**$ 6,656,447**
State's net pension liability – ending (a) – (b)	**$ 3,403,638**
Plan fiduciary net position as a percentage of the total pension liability	66.17%
Covered-employee payroll	$ 765,283
State's net pension liability as a percentage of covered-employee payroll	444.76%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Fiscal Year [1]
(amounts in thousands)

SINGLE-EMPLOYER PLANS

	2014 [3]
JUDGES'	
Total pension liability	
Service cost	$ 27,581
Interest	140,256
Benefit payments, including refunds of employee contributions	(193,935)
Net change in total pension liability	(26,098)
Total pension liability – beginning	**3,383,310**
Total pension liability – ending (a)	**$ 3,357,212**
Plan fiduciary net position	
Contributions – employer	191,148
Contributions – employee	7,248
Net investment income	59
Benefit payments, including refunds of employee contributions	(193,935)
Administrative expense	(1,141)
Net change in plan fiduciary net position	3,379
Plan fiduciary net position – beginning	**53,820**
Plan fiduciary net position – ending (b)	**$ 57,199**
State's net pension liability – ending (a) – (b)	**$ 3,300,013**
Plan fiduciary net position as a percentage of the total pension liability	1.70%
Covered-employee payroll	$ 163,574
State's net pension liability as a percentage of covered-employee payroll	2017.44%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Fiscal Year [1]
(amounts in thousands)

SINGLE-EMPLOYER PLANS

	2014 [3]
JUDGES' II	
Total pension liability	
Service cost	$ 78,670
Interest	61,044
Benefit payments, including refunds of employee contributions	(8,950)
Net change in total pension liability	130,764
Total pension liability – beginning	**837,198**
Total pension liability – ending (a)	**$ 967,962**
Plan fiduciary net position	
Contributions – employer	57,027
Contributions – employee	20,413
Net investment income	150,168
Benefit payments, including refunds of employee contributions	(8,950)
Administrative expense	(785)
Net change in plan fiduciary net position	217,873
Plan fiduciary net position – beginning	**795,967**
Plan fiduciary net position – ending (b)	**$ 1,013,840**
State's net pension liability/(asset) – ending (a) – (b)	**$ (45,878)**
Plan fiduciary net position as a percentage of the total pension liability	104.74%
Covered-employee payroll	$ 40,476
State's net pension liability/(asset) as a percentage of covered-employee payroll	-113.35%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Fiscal Year [1]
(amounts in thousands)

SINGLE-EMPLOYER PLANS

	2014 [3]
LEGISLATORS'	
Total pension liability	
Service cost	$ 732
Interest	6,465
Benefit payments, including refunds of employee contributions	(7,482)
Net change in total pension liability	(285)
Total pension liability – beginning	**115,806**
Total pension liability – ending (a)	**$ 115,521**
Plan fiduciary net position	
Contributions – employer	565
Contributions – employee	113
Net investment income	15,372
Benefit payments, including refunds of employee contributions	(7,482)
Administrative expense	(362)
Net change in plan fiduciary net position	8,206
Plan fiduciary net position – beginning	**122,148**
Plan fiduciary net position – ending (b)	**$ 130,354**
State's net pension liability/(asset) – ending (a) – (b)	**$ (14,833)**
Plan fiduciary net position as a percentage of the total pension liability	112.84%
Covered-employee payroll	$ 1,471
State's net pension liability as a percentage of covered-employee payroll	-1008.36%

(concluded)

Schedule of State Pension Contributions

For the Past Fiscal Year [1]
(amounts in thousands)

	2015
PUBLIC EMPLOYEES' RETIREMENT FUND PLANS	
STATE MISCELLANEOUS [2]	
Actuarially determined contribution	$ 2,421,157
Contributions in relation to the actuarially determined contribution	(2,583,400)
Contribution deficiency (excess)	$ (162,243)
Covered-employee payroll	$ 10,655,117
Contributions as a percentage of covered-employee payroll	24.25%
STATE INDUSTRIAL [2]	
Actuarially determined contribution	$ 92,024
Contributions in relation to the actuarially determined contribution	(104,769)
Contribution deficiency (excess)	$ (12,745)
Covered-employee payroll	$ 577,713
Contributions as a percentage of covered-employee payroll	18.14%
STATE SAFETY [2]	
Actuarially determined contribution	$ 341,509
Contributions in relation to the actuarially determined contribution	(387,508)
Contribution deficiency (excess)	$ (45,999)
Covered-employee payroll	$ 2,003,716
Contributions as a percentage of covered-employee payroll	19.34%
STATE PEACE OFFICERS AND FIREFIGHTERS [2]	
Actuarially determined contribution	$ 1,086,102
Contributions in relation to the actuarially determined contribution	(1,148,597)
Contribution deficiency (excess)	$ (62,495)
Covered-employee payroll	$ 3,115,364
Contributions as a percentage of covered-employee payroll	36.87%

(continued)

[1] This schedule will be built prospectively until it contains ten years of data.
[2] This schedule includes amounts attributable to fiduciary funds, related organizations, and discretely presented component units, which are not part of the primary government.

Schedule of State Pension Contributions (continued)

For the Past Fiscal Year [1]
(amounts in thousands)

	2015
PUBLIC EMPLOYEES' RETIREMENT FUND PLANS	
CALIFORNIA HIGHWAY PATROL	
Actuarially determined contribution	$ 323,393
Contributions in relation to the actuarially determined contribution	(352,139)
Contribution deficiency (excess)	$ (28,746)
Covered-employee payroll	$ 809,610
Contributions as a percentage of covered-employee payroll	43.49%
SINGLE-EMPLOYER PLANS	
JUDGES'	
Actuarially determined contribution	$ 1,884,555
Contributions in relation to the actuarially determined contribution	(3,598)
Contribution deficiency (excess)	$ 1,880,957
Covered-employee payroll	$ 167,542
Contributions as a percentage of covered-employee payroll	2.15%
JUDGES' II	
Actuarially determined contribution	$ 63,193
Contributions in relation to the actuarially determined contribution	(59,982)
Contribution deficiency (excess)	$ 3,211
Covered-employee payroll	$ 41,458
Contributions as a percentage of covered-employee payroll	144.68%
LEGISLATORS'	
Actuarially determined contribution	$ 260
Contributions in relation to the actuarially determined contribution	(544)
Contribution deficiency (excess)	$ (284)
Covered-employee payroll	$ 1,397
Contributions as a percentage of covered-employee payroll	38.94%

(continued)

Schedule of State Pension Contributions (continued)

For the Past Fiscal Year [1]
(amounts in thousands)

Notes to Required Supplementary Information
Public Employees' Retirement Fund (PERF) and Single-Employer Plans

Actual contribution amounts:	Based on statutorily required contributions as outlined in California Government Code section 20683.2, which dictates that any excess employer contributions due to increased employee contributions must be allocated to the unfunded liability.
Covered-employee payroll:	Pensionable earnings provided by the employer
Valuation date:	Actuarially determined contribution rates were calculated as of June 30, 2013.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method	See each plan's June 30, 2013 Actuarial Valuation Report.
Asset valuation method	Actuarial value of assets; for details see each plan's June 30, 2013 Actuarial Valuation Report.
Inflation	2.75%
Salary increases	PERF – varies by entry age and service Judges' – not applicable Judges' II – 3.00% Legislators' – 3.00%
Payroll growth	3.00%
Investment rate of return	Net of pension plan investment expenses and administrative expenses; includes inflation: PERF – 7.50%, which is used for contribution purposes Judges' – 4.25% Judges' II – 7.00% Legislators' – 5.75%
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	Mortality rates are based on the 2014 CalPERS Experience Study adopted by the CalPERS Board and post-retirement mortality rates include 20 years of projected on-going mortality improvements using Scale BB published by the Society of Actuaries.

Schedule of the State's Proportionate Share of Net Pension Liability – CalSTRS

For the Past Fiscal Year [1]
(amounts in thousands)

	2014 [2]
State's proportion of CalSTRS' net pension liability	37.65%
State's proportionate share of CalSTRS' net pension liability	$ 22,001,531
Plan fiduciary net position as a percentage of the total pension liability	76.52%

[1] This schedule will be built prospectively until it contains ten years of data.

[2] The date in the column heading represents the end of the measurement period of the net pension liability, which is one year prior to the reporting period.

Schedule of the State's Contributions – CalSTRS

For the Past Fiscal Year [1]
(amounts in thousands)

	2015
Statutorily required contribution	$ 1,486,004
Contributions in relation to the statutorily required contribution	1,486,004
Annual contribution deficiency/(excess)	$ —

[1] This schedule will be built prospectively until it contains ten years of data.

Notes to Required Supplementary Information
State's Participation in CalSTRS

Actual contribution amounts:	Based on statutorily required contributions as outlined in California Education Code sections 22954 and 22955, as well as California Public Resources Code section 6217
Changes in benefit terms:	The California Pension Employees' Pension Reform Act of 2013 resulted in a new benefit formula, CalSTRS 2% at 62, for members first hired on or after January 1, 2013. Significant changes from the previous CalSTRS 2% at 60 benefit formula include raising the normal retirement age from 60 to 62 and placing a limit on creditable compensation to 120% of the Social Security wage base, annually adjusted for changes in the Consumer Price Index.
Valuation date:	Actuarially determined contribution rates were calculated as of June 30, 2013.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method/period	Level percent of payroll, open period, 30 years remaining amortization period
Asset valuation method	Expected value with 33% adjustment to market value
Consumer price inflation	3.00%
Payroll growth	3.75%
Investment rate of return	For calculating the actuarially determined contribution: 7.50%, net of pension plan investment and administrative expenses For calculating total pension liability: 7.60%, net of pension plan investment expenses, but gross of administrative expenses
Interest on accounts	4.50%
Post-retirement benefit increases (COLAs)	2.00% simple

Schedule of Funding Progress

(amounts in millions)

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, 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
June 30, 2015	86	74,189	74,103	0.1	20,180	367.2
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.

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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, 2015, are in the following categories and amounts: state highway infrastructure (completed highway projects) totaling $70.7 billion, land purchased for highway projects totaling $14.1 billion, and infrastructure construction-in-progress (uncompleted highway projects) totaling $11.7 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, 2015, there were no donations of infrastructure, and relinquishments are $3.5 million of state highway infrastructure (completed highway projects) and $707,000 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 Manual for Bridge Element Inspection."

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, it loses asset value, as represented by a decline in its BHI. When a 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 2012-13 through 2014-15:

Fiscal Year Ended June 30	Established BHI Baseline [1]	Actual BHI
2013	80.0	94.8
2014	80.0	95.6
2015	80.0	95.7

[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, 2015:

BHI Description	Bridge Count	Percent	Network BHI
Excellent	6,224	47.08 %	99.9
Good	4,984	37.71	96.9
Acceptable	768	5.81	85.9
Fair	678	5.13	74.4
Poor	236	1.79	58.6
Does not carry traffic	328	2.48	88.4
Total	**13,218**	**100.00 %**	

Note: Effective July 2014, Caltrans changed standards for the BHI calculation from AASHTO's "Commonly Recognized Elements for Bridge Inspection" to AASHTO's "Guide Manual for Bridge Element Inspection." Adoption of the new standards resulted in minor changes to the measurements.

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 a roadway's pavement condition by the following descriptions:

1. Excellent/good condition – few potholes or cracks
2. Fair condition – moderate number of potholes or cracks
3. Poor condition – significant or extensive number of potholes or cracks

Statewide lane miles are considered "distressed lane miles" if they are in 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	26.2 %
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 [1]	Lane Miles	Distressed Lane Miles
Excellent/Good	29,534	—
Fair	12,364	—
Poor	7,820	7,820
Total	**49,718**	**7,820**

[1] Pavement condition categorization in the most recent *State of the Pavement* report has been altered. Previously, distressed lane miles were categorized as "fair" or "poor" conditions. Currently, all distressed lane miles are characterized as "poor" condition. The total number of distressed lane miles is unchanged.

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)[1]	Actual Preservation Costs (in millions)[1]
2011	$ 3,209	$ 3,170
2012	3,325	3,042
2013	2,858	2,531
2014	2,421	2,104
2015	3,337	1,685

[1] In fiscal year 2014-15, the methodology for identifying the preservation budgeted and actual costs was adjusted to include additional costs not previously reported.

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Budgetary Comparison Schedule

General Fund and Major Special Revenue Funds

Year Ended June 30, 2015

(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	$ 9,617,712	$ 9,809,000	$ 9,908,607	$ 99,607	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Intergovernmental	—	—	—	—	77,131,605	77,131,605	77,131,605	—	—	—	—	—
Cigarette and tobacco taxes	84,343	84,000	86,317	2,317	—	—	—	—	—	—	—	—
Inheritance, estate, and gift taxes	—	—	—	—	—	—	—	—	—	—	—	—
Insurance gross premiums tax	2,490,301	2,486,000	2,444,573	(41,427)	—	—	—	—	—	—	—	—
Vehicle license fees	758	758	21,449	20,691	—	—	—	—	—	—	—	—
Motor vehicle fuel tax	—	—	—	—	—	—	—	—	5,544,107	5,679,036	5,713,698	34,662
Personal income tax	71,698,570	75,384,000	76,862,208	1,478,208	—	—	—	—	—	—	—	—
Retail sales and use taxes	23,438,344	23,684,000	23,667,703	(16,297)	—	—	—	—	—	—	—	—
Other major taxes and licenses	366,901	353,000	358,509	5,509	—	—	—	—	3,995,374	4,030,508	4,041,791	11,283
Other revenues	1,953,374	1,555,242	1,635,566	80,324	27	27	27	—	460,574	449,899	383,635	(66,264)
Total revenues	**109,650,303**	**113,356,000**	**114,984,932**	**1,628,932**	**77,131,632**	**77,131,632**	**77,131,632**	**—**	**10,000,055**	**10,159,443**	**10,139,124**	**(20,319)**
EXPENDITURES												
State and consumer services	15,269	17,004	15,872	(1,132)	5,605	5,605	5,605	—	116,239	116,239	107,328	(8,911)
Business and transportation	8,659	92,189	92,171	(18)	3,334,568	3,334,568	3,334,568	—	9,993,707	10,016,595	9,238,172	(778,423)
Resources	1,151,572	1,638,355	1,480,892	(157,463)	343,035	343,035	343,035	—	178,274	178,274	177,729	(545)
Health and human services	29,001,967	30,448,933	29,491,187	(957,746)	62,608,991	62,608,991	62,608,991	—	3,624	3,624	2,716	(908)
Correctional programs	9,384,760	9,913,264	9,786,848	(126,416)	56,625	56,625	56,625	—	—	—	—	—
Education	50,061,331	61,654,357	61,572,526	(81,831)	7,058,766	7,058,766	7,058,766	—	2,695	2,695	2,443	(252)
General government:					—	—	—	—	—	—	—	—
Tax relief	416,755	427,382	416,756	(10,626)	—	—	—	—	—	—	—	—
Debt service	5,143,758	5,163,514	5,149,628	(13,886)	—	—	—	—	1,798	2,414	1,440	(974)
Other general government	6,292,542	7,579,811	7,134,691	(445,120)	853,813	853,813	853,813	—	1,568,016	1,568,015	1,474,412	(93,603)
Total expenditures	**101,476,613**	**116,934,809**	**115,140,571**	**(1,794,238)**	**74,261,403**	**74,261,403**	**74,261,403**	**—**	**11,864,353**	**11,887,856**	**11,004,240**	**(883,616)**
OTHER FINANCING SOURCES (USES)												
Transfers from other funds	—	—	420,981	—	—	—	5,765,678	—	—	—	18,018,462	—
Transfers to other funds	—	—	(2,656,548)	—	—	—	(8,628,600)	—	—	—	(18,390,483)	—
Other additions and deductions	—	—	441,107	—	—	—	(9,452)	—	—	—	(390,058)	—
Total other financing sources (uses)	**—**	**—**	**(1,794,460)**	**—**	**—**	**—**	**(2,872,374)**	**—**	**—**	**—**	**(762,079)**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	(1,950,099)	—	—	—	(2,145)	—	—	—	(1,627,195)	—
Fund balances – beginning	**—**	**—**	**8,409,889**	**—**	**—**	**—**	**9,177**	**—**	**—**	**—**	**17,230,591**	**—**
Fund balances – ending	**$ —**	**$ —**	**$ 6,459,790**	**$ —**	**$ —**	**$ —**	**$ 7,032**	**$ —**	**$ —**	**$ —**	**$ 15,603,396**	**$ —**

(continued)

Budgetary Comparison Schedule (continued)

General Fund and Major Special Revenue Funds

Year Ended June 30, 2015

(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	159,709	159,709	159,709	—
Other revenues	4,951,728	4,951,728	4,951,728	—
Total revenues	**5,111,437**	**5,111,437**	**5,111,437**	**—**
EXPENDITURES				
State and consumer services	84,307	84,307	75,819	(8,488)
Business and transportation	267,839	267,839	266,991	(848)
Resources	6,277,882	4,890,634	4,463,202	(427,432)
Health and human services	40,687	40,687	36,001	(4,686)
Correctional programs	—	—	—	—
Education	11,289	11,289	8,925	(2,364)
General government:				
Tax relief	—	—	—	—
Debt service	—	—	—	—
Other general government	142,114	151,255	104,207	(47,048)
Total expenditures	**6,824,118**	**5,446,011**	**4,955,145**	**(490,866)**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	551,017	—
Transfers to other funds	—	—	(237,125)	—
Other additions and deductions	—	—	7,152,061	—
Total other financing sources (uses)	**—**	**—**	**7,465,953**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	7,622,245	—
Fund balances – beginning	**—**	**—**	**11,526,758**	**—**
Fund balances – ending	**$ —**	**$ —**	**$ 19,149,003**	**$ —**

(concluded)

Reconciliation of Budgetary Basis Fund Balances of the General Fund and the Major Special Revenue Funds to GAAP Basis Fund Balances

June 30, 2015

(amounts in thousands)

		Major Special Revenue Funds		
	General	Federal	Transportation	Environmental and Natural Resources
Budgetary fund balance reclassified into GAAP statement fund structure	**$ 6,459,790**	**$ 7,032**	**$ 15,603,396**	**$ 19,149,003**
Basis difference:				
Interfund receivables	46,526	—	2,944,261	623,097
Loans receivable	50,058	210,255	—	1,330,521
Interfund payables	(5,281,728)	—	(11,096)	(40,000)
Escheat property	(859,805)	—	—	—
Bonds authorized but unissued	—	—	(12,602,700)	(12,553,992)
Tax revenues	(213,820)	—	—	—
Fund classification changes	2,247,037	2,107	—	—
Other	300,000	—	2,859,692	(53,412)
Timing difference:				
Liabilities budgeted in subsequent years	(4,976,690)	(1,514)	(576,490)	(81,370)
GAAP fund balance (deficit) – ending	**$ (2,228,632)**	**$ 217,880**	**$ 8,217,063**	**$ 8,373,847**

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 typically are legislatively authorized annually, continually, or by project. While the encumbrances relate to all programs' expenditures on a budgetary basis, adjustments for encumbrances are made under "other general government," except for Environmental and Natural Resources where adjustments for encumbrances are made under each program's expenditures.

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 increases of $47 million in the General Fund, $2.9 billion in the Transportation Fund, and $623 million in the Environmental and Natural Resources Fund. The adjustments related to loans receivable caused increases of $50 million in the General Fund, $210 million in the Federal Fund, and $1.3 billion in the 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 decreases of $5.3 billion in the General Fund, $11 million in the Transportation Fund, and $40 million in 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 an $860 million decrease in the General Fund.

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 decreases of $12.6 billion in the Transportation Fund and $12.6 billion 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 decrease of $214 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 increases of $2.2 billion 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 increases of $300 million in the General Fund and $2.9 billion in the Transportation Fund, and a decrease of $53 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 decreases of $5.0 billion in the General Fund, $2 million in the Federal Fund, $576 million in the Transportation Fund, and $81 million in the Environmental and Natural Resources Fund. The large decrease in the General Fund primarily consists of $2.3 billion for medical assistance, $1.1 billion for June 2015 payroll that was deferred to July 2015, $591 million for pension contributions, $327 million for payments to K-12 schools and higher education institutions, and $273 million for workers' compensation claims.

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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 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 dedicated to local governments for realigning costs from the State to local governments, and a 0.5% state sales tax 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 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 used to construct hospitals.

The **Local Government Construction Fund** accounts for bond proceeds used to construct schools, libraries, and other major capital facilities for local governments.

Building authorities are blended component units 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, 2015
(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	$ 1,207,408	$ 976,860	$ 430,995	$ 2,531,159	$ 1,257,156	$ 1,105,012	$ 554,187	$ 1,745,689	$ 9,808,466
Investments	—	—	—	—	—	298,514	—	—	298,514
Receivables (net)	92,633	18,407	257,917	71,648	1,460,945	283,315	200,847	214,645	2,600,357
Due from other funds	41,544	118,700	17,920	33,727	99,455	30,034	—	368,936	710,316
Due from other governments	10,436	393,196	—	—	1,539	24,687	—	50,252	480,110
Interfund receivables	244,835	191,660	—	—	12,000	310,000	—	380,400	1,138,895
Loans receivable	123,114	2,466,487	—	—	32,156	—	—	73,523	2,695,280
Other assets	27	—	—	—	—	8,887	—	—	8,914
Total assets	**$ 1,719,997**	**$ 4,165,310**	**$ 706,832**	**$ 2,636,534**	**$ 2,863,251**	**$ 2,060,449**	**$ 755,034**	**$ 2,833,445**	**$ 17,740,852**
LIABILITIES									
Accounts payable	$ 43,888	$ 76,054	$ 83,941	$ 5,817	$ 44,025	$ 174,810	$ 446	$ 257,000	$ 685,981
Due to other funds	32,617	398,482	11,018	28,237	2,115,813	18,157	—	44,050	2,648,374
Due to component units	—	1,350	30,802	—	—	—	—	1,937	34,089
Due to other governments	178	209,245	68,549	2,560,381	137,889	147,145	—	351,402	3,474,789
Interfund payables	5,103	—	—	—	—	—	—	3,471	8,574
Revenues received in advance	38,198	2,021	—	—	20,381	78,346	—	33,907	172,853
Deposits	—	—	—	—	—	448,152	—	18,922	467,074
Interest payable	—	—	—	—	—	—	—	—	—
General obligation bonds payable	—	—	—	—	—	—	—	—	—
Other liabilities	16,022	659	1	—	—	81,271	—	21,062	119,015
Total liabilities	**136,006**	**687,811**	**194,311**	**2,594,435**	**2,318,108**	**947,881**	**446**	**731,751**	**7,610,749**
DEFERRED INFLOWS OF RESOURCES	**—**	**—**	**197,160**	**—**	**—**	**—**	**—**	**5,883**	**203,043**
Total liabilities and deferred inflows of resources	**136,006**	**687,811**	**391,471**	**2,594,435**	**2,318,108**	**947,881**	**446**	**737,634**	**7,813,792**
FUND BALANCES									
Nonspendable	—	—	—	—	—	5,620	—	—	5,620
Restricted	848,134	3,197,149	315,361	10,333	420,732	985,999	754,588	1,844,615	8,376,911
Committed	735,857	280,350	—	31,768	125,597	104,182	—	254,155	1,531,909
Assigned	—	—	—	—	—	16,767	—	—	16,767
Unassigned	—	—	—	(2)	(1,186)	—	—	(2,959)	(4,147)
Total fund balances	**1,583,991**	**3,477,499**	**315,361**	**42,099**	**545,143**	**1,112,568**	**754,588**	**2,095,811**	**9,927,060**
Total liabilites, deferred inflows of resources, and fund balances	**$ 1,719,997**	**$ 4,165,310**	**$ 706,832**	**$ 2,636,534**	**$ 2,863,251**	**$ 2,060,449**	**$ 755,034**	**$ 2,833,445**	**$ 17,740,852**

(continued)

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2015
(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	$ 1,025,636	$ —	$ 1,025,636	$ 224,996	$ 91,208	$ 126,168	$ 38,085	$ 88,545	$ 569,002	$ 11,403,104
Investments	—	—	—	—	—	—	—	—	—	298,514
Receivables (net)	—	—	—	—	—	—	—	15	15	2,600,372
Due from other funds	11,367	151,303	162,670	137	72	90	20,258	6,523	27,080	900,066
Due from other governments	—	—	—	—	—	5,025	—	—	5,025	485,135
Interfund receivables	—	—	—	—	—	—	—	—	—	1,138,895
Loans receivable	—	—	—	—	—	—	—	—	—	2,695,280
Other assets	—	—	—	—	—	—	—	—	—	8,914
Total assets	**$ 1,037,003**	**$ 151,303**	**$ 1,188,306**	**$ 225,133**	**$ 91,280**	**$ 131,283**	**$ 58,343**	**$ 95,083**	**$ 601,122**	**$ 19,530,280**
LIABILITIES										
Accounts payable	$ 12	$ —	$ 12	$ 421	$ 22	$ 50	$ —	$ 61	$ 554	$ 686,547
Due to other funds	—	151,303	151,303	615	—	1,601	—	1,440	3,656	2,803,333
Due to component units	—	—	—	—	—	—	—	—	—	34,089
Due to other governments	—	—	—	—	—	—	—	79	79	3,474,868
Interfund payables	—	—	—	—	—	—	—	—	—	8,574
Revenues received in advance	—	—	—	—	—	—	—	—	—	172,853
Deposits	—	—	—	—	—	—	—	—	—	467,074
Interest payable	23,039	—	23,039	—	—	—	207	—	207	23,246
General obligation bonds payable	14,550	—	14,550	—	—	—	—	—	—	14,550
Other liabilities	—	—	—	—	—	—	1,217	—	1,217	120,232
Total liabilities	**37,601**	**151,303**	**188,904**	**1,036**	**22**	**1,651**	**1,424**	**1,580**	**5,713**	**7,805,366**
DEFERRED INFLOWS OF RESOURCES	—	—	—	—	—	—	—	—	—	203,043
Total liabilities and deferred inflows of resources	**37,601**	**151,303**	**188,904**	**1,036**	**22**	**1,651**	**1,424**	**1,580**	**5,713**	**8,008,409**
FUND BALANCES										
Nonspendable	—	—	—	—	—	—	—	—	—	5,620
Restricted	999,402	—	999,402	224,097	91,258	129,632	56,919	82,072	583,978	9,960,291
Committed	—	—	—	—	—	—	—	11,431	11,431	1,543,340
Assigned	—	—	—	—	—	—	—	—	—	16,767
Unassigned	—	—	—	—	—	—	—	—	—	(4,147)
Total fund balances	**999,402**	**—**	**999,402**	**224,097**	**91,258**	**129,632**	**56,919**	**93,503**	**595,409**	**11,521,871**
Total liabilites, deferred inflows of resources, and fund balances	**$ 1,037,003**	**$ 151,303**	**$ 1,188,306**	**$ 225,133**	**$ 91,280**	**$ 131,283**	**$ 58,343**	**$ 95,083**	**$ 601,122**	**$ 19,530,280**

(concluded)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2015
(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	$ —	$ 1,366,501	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,366,501
Sales and use taxes	—	—	—	12,556,502	—	—	—	—	12,556,502
Insurance taxes	—	—	—	—	1,470,111	—	—	—	1,470,111
Other taxes	101,503	608,656	737,498	—	—	—	—	356	1,448,013
Intergovernmental	—	744,851	—	—	(22,370)	815,993	—	—	1,538,474
Licenses and permits	368,516	18,339	—	2,285,641	—	—	—	11,098	2,683,594
Charges for services	40,379	2,848	686	—	93	56,639	—	181,858	282,503
Fees	953,555	631	34	—	3,635,721	617,438	—	1,140,437	6,347,816
Penalties	18,334	10,092	—	—	8,543	497,013	—	310,510	844,492
Investment and interest	7,316	2,914	1,019	665	1,690	2,435	500	6,066	22,605
Escheat	35	—	—	—	—	6,092	—	4	6,131
Other	16,946	38,497	421	—	332,991	154,193	414,492	344,362	1,301,902
Total revenues	**1,506,584**	**2,793,329**	**739,658**	**14,842,808**	**5,426,779**	**2,149,803**	**414,992**	**1,994,691**	**29,868,644**
EXPENDITURES									
Current:									
General government	556,439	557,657	17,461	4,259,667	1,517	3,177,005	394	1,061,468	9,631,608
Education	20,577	100,257	50,419	—	221,435	—	—	9,736	402,424
Health and human services	338,114	2,568,918	577,598	9,366,816	5,878,004	—	—	644,855	19,374,305
Resources	54,833	114,142	10,222	—	309	—	—	51,836	231,342
State and consumer services	454,218	—	—	—	—	210	—	14,360	468,788
Business and transportation	80,449	161,500	—	—	—	—	—	9,889	251,838
Correctional programs	—	123,772	—	1,221,506	—	—	—	32,046	1,377,324
Capital outlay	—	21	—	—	—	—	—	—	21
Debt service:									
Bond and commercial paper retirement	—	23,780	—	—	89,045	—	133,900	—	246,725
Interest and fiscal charges	—	376	—	—	178	—	292,173	—	292,727
Total expenditures	**1,504,630**	**3,650,423**	**655,700**	**14,847,989**	**6,190,488**	**3,177,215**	**426,467**	**1,824,190**	**32,277,102**
Excess (deficiency) of revenues over (under) expenditures	1,954	(857,094)	83,958	(5,181)	(763,709)	(1,027,412)	(11,475)	170,501	(2,408,458)
OTHER FINANCING SOURCES (USES)									
General obligation bonds and commercial paper issued	—	178,775	—	—	225,870	—	—	—	404,645
Refunding debt issued	—	22,380	—	—	—	—	1,692,050	—	1,714,430
Payment to refund long-term debt	—	(12,137)	—	—	—	—	(2,008,724)	—	(2,020,861)
Premium on bonds issued	—	2,907	—	—	140	—	226,368	—	229,415
Remarketing bonds issued	—	—	—	—	—	—	—	—	—
Payment to remarketing agent	—	—	—	—	—	—	—	—	—
Transfers in	5,172	417,763	—	45	229,671	1,043,355	—	106,482	1,802,488
Transfers out	(5,637)	(24,000)	(71,263)	—	—	—	—	(59,670)	(160,570)
Total other financing sources (uses)	**(465)**	**585,688**	**(71,263)**	**45**	**455,681**	**1,043,355**	**(90,306)**	**46,812**	**1,969,547**
Net change in fund balances	1,489	(271,406)	12,695	(5,136)	(308,028)	15,943	(101,781)	217,313	(438,911)
Fund balances – beginning	**1,582,502**	**3,748,905**	**302,666**	**47,235**	**853,171**	**1,096,625**	**856,369**	**1,878,498**	**10,365,971**
Fund balances – ending	**$ 1,583,991**	**$ 3,477,499**	**$ 315,361**	**$ 42,099**	**$ 545,143**	**$ 1,112,568**	**$ 754,588**	**$ 2,095,811**	**$ 9,927,060**

(continued)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (continued)

Nonmajor Governmental Funds

Year Ended June 30, 2015
(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	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,366,501
Sales and use taxes	1,583,413	—	1,583,413	—	—	—	—	—	—	14,139,915
Insurance taxes	—	—	—	—	—	—	—	—	—	1,470,111
Other taxes	—	—	—	—	—	—	—	—	—	1,448,013
Intergovernmental	—	—	—	—	—	—	—	—	—	1,538,474
Licenses and permits	—	—	—	—	—	—	—	769	769	2,684,363
Charges for services	—	—	—	—	—	—	—	—	—	282,503
Fees	—	—	—	—	—	—	—	—	—	6,347,816
Penalties	—	—	—	—	—	—	—	—	—	844,492
Investment and interest	2,143	—	2,143	685	168	3,067	38	50	4,008	28,756
Escheat	—	—	—	—	—	—	—	—	—	6,131
Other	1,260	—	1,260	—	—	—	—	3,286	3,286	1,306,448
Total revenues	**1,586,816**	**—**	**1,586,816**	**685**	**168**	**3,067**	**38**	**4,105**	**8,063**	**31,463,523**
EXPENDITURES										
Current:										
General government	16,577	—	16,577	—	43,665	—	—	—	43,665	9,691,850
Education	—	—	—	—	—	366,896	—	—	366,896	769,320
Health and human services	—	—	—	—	—	—	—	—	—	19,374,305
Resources	—	—	—	—	—	—	—	29,939	29,939	261,281
State and consumer services	—	—	—	—	—	—	—	—	—	468,788
Business and transportation	—	—	—	—	—	—	—	—	—	251,838
Correctional programs	—	—	—	—	—	—	—	—	—	1,377,324
Capital outlay	—	—	—	71,737	389	10,394	—	28,548	111,068	111,089
Debt service:										
Bond and commercial paper retirement	2,487,380	281,646	2,769,026	244,170	62,175	1,257,085	38,800	6,580	1,608,810	4,624,561
Interest and fiscal charges	393,206	554,222	947,428	6,320	215	33,998	19,701	90	60,324	1,300,479
Total expenditures	**2,897,163**	**835,868**	**3,733,031**	**322,227**	**106,444**	**1,668,373**	**58,501**	**65,157**	**2,220,702**	**38,230,835**
Excess (deficiency) of revenues over (under) expenditures	(1,310,347)	(835,868)	(2,146,215)	(321,542)	(106,276)	(1,665,306)	(58,463)	(61,052)	(2,212,639)	(6,767,312)
OTHER FINANCING SOURCES (USES)										
General obligation bonds and commercial paper issued	—	—	—	5,370	146,770	172,435	—	1,975	326,550	731,195
Refunding debt issued	—	—	—	448,490	13,485	1,815,110	—	10,235	2,287,320	4,001,750
Payment to refund long-term debt	—	—	—	(274,626)	(15,546)	(789,832)	—	(5,833)	(1,085,837)	(3,106,698)
Premium on bonds issued	—	—	—	71,193	13,116	242,386	—	1,293	327,988	557,403
Remarketing bonds issued	—	—	—	—	—	100,000	—	—	100,000	100,000
Payment to remarketing agent	—	—	—	—	—	(100,000)	—	—	(100,000)	(100,000)
Transfers in	1,606,422	835,868	2,442,290	—	—	—	54,052	66,689	120,741	4,365,519
Transfers out	—	—	—	—	—	(105)	—	—	(105)	(160,675)
Total other financing sources (uses)	**1,606,422**	**835,868**	**2,442,290**	**250,427**	**157,825**	**1,439,994**	**54,052**	**74,359**	**1,976,657**	**6,388,494**
Net change in fund balances	296,075	—	296,075	(71,115)	51,549	(225,312)	(4,411)	13,307	(235,982)	(378,818)
Fund balances – beginning	**703,327**	**—**	**703,327**	**295,212**	**39,709**	**354,944**	**61,330** *	**80,196**	**831,391**	**11,900,689**
Fund balances – ending	**$ 999,402**	**$ —**	**$ 999,402**	**$ 224,097**	**$ 91,258**	**$ 129,632**	**$ 56,919**	**$ 93,503**	**$ 595,409**	**$ 11,521,871**

* Restated

(concluded)

Budgetary Comparison Schedule

Budgetary Basis

Nonmajor Governmental Funds[1]

Year Ended June 30, 2015
(amounts in thousands)

	Budget Amounts	Actual Amounts	Variance with Final Budget
REVENUES			
Cigarette and tobacco taxes	$ 479,802	$ 479,802	$ —
Vehicle license fees	1,726,723	1,726,723	—
Personal income tax	1,366,501	1,366,501	—
Retail sales and use taxes	14,139,967	14,139,967	—
Other major taxes and licenses	1,478,440	1,478,440	—
Other revenues	11,406,666	11,406,666	—
Total revenues	**30,598,099**	**30,598,099**	**—**
EXPENDITURES			
State and consumer services	509,136	473,859	(35,277)
Business and transportation	1,343,062	1,196,130	(146,932)
Resources	278,514	237,542	(40,972)
Health and human services	21,683,565	21,524,323	(159,242)
Correctional programs	31,922	30,508	(1,414)
Education	499,482	487,999	(11,483)
General government:			
Tax relief	36	36	—
Other general government	9,253,436	8,768,189	(485,247)
Total expenditures	**33,599,153**	**32,718,586**	**(880,567)**
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	—	25,220,450	—
Transfers to other funds	—	(23,184,960)	—
Other additions and deductions	—	94,881	—
Total other financing sources (uses)	**—**	**2,130,371**	**—**
Excess of revenues and other sources over expenditures and other uses	—	9,886	—
Fund balances – beginning	**—**	**11,987,411** *	—
Fund balances – ending	**$ —**	**$ 11,997,297**	**$ —**

* Restated

[1] 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.

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.

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, 2015
(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	$ —	$ 284,522	$ 110,175	$ 213,401	$ 46,438	$ 56,310	$ 18,738	$ 511,882	$ 1,241,466
Restricted assets:									
Cash and pooled investments	2,356,430	—	—	—	—	—	—	—	2,356,430
Net investment in direct financing leases	466,796	—	—	—	—	—	—	—	466,796
Receivables (net)	—	500	889	1,422	9	9,415	7,644	3,670	23,549
Due from other funds	246,480	41,673	34,276	320	6,094	37,288	75,199	53,459	494,789
Due from other governments	—	—	1,005	196	—	787	—	11,531	13,519
Prepaid items	—	—	89,552	500	6,482	8,012	10,194	1,078	115,818
Inventories	—	—	6,869	39,924	—	30,992	904	—	78,689
Total current assets	3,069,706	326,695	242,766	255,763	59,023	142,804	112,679	581,620	4,791,056
Noncurrent assets:									
Restricted assets:									
Cash and pooled investments	288,505	—	—	—	—	—	—	—	288,505
Net investment in direct financing leases	6,914,647	—	—	—	—	—	—	—	6,914,647
Interfund receivables	—	—	—	—	—	—	—	13,955	13,955
Long-term prepaid charges	4,981	—	—	—	—	—	—	—	4,981
Capital assets:									
Land	—	—	—	—	—	—	—	2,312	2,312
Buildings and other depreciable property	—	317	142,186	162,646	1,650	327,661	33,845	10,545	678,850
Intangible assets – amortizable	—	—	9,381	3,672	1,556	51,569	2,394	—	68,572
Less: accumulated depreciation/amortization	—	(317)	(106,751)	(122,088)	(1,274)	(297,265)	(36,239)	(6,761)	(570,695)
Construction/development in progress	1,172,569	—	—	1,811	134,145	—	—	162	1,308,687
Total noncurrent assets	8,380,702	—	44,816	46,041	136,077	81,965	—	20,213	8,709,814
Total assets	**11,450,408**	**326,695**	**287,582**	**301,804**	**195,100**	**224,769**	**112,679**	**601,833**	**13,500,870**
DEFERRED OUTFLOWS OF RESOURCES	**67,139**	**1,436**	**35,619**	**6,713**	**2,919**	**16,956**	**—**	**9,175**	**139,957**
Total assets and deferred outflows of resources	**$ 11,517,547**	**$ 328,131**	**$ 323,201**	**$ 308,517**	**$ 198,019**	**$ 241,725**	**$ 112,679**	**$ 611,008**	**$ 13,640,827**

(continued)

Combining Statement of Net Position (continued)

Internal Service Funds

June 30, 2015
(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	$ 77,402	$ 7,850	$ 11,839	$ 3,147	$ 25,108	$ 15,321	$ 16,955	$ 180,702	$ 338,324
Due to other funds	13,991	8	74,408	8,653	3,957	615	553	30,476	132,661
Due to other governments	—	—	—	—	—	6	17	428	451
Revenues received in advance	5,769	321,158	25,527	454	—	1,540	60	—	354,508
Deposits	—	—	685	—	—	—	—	—	685
Contracts and notes payable	—	—	105	—	—	13,881	—	—	13,986
Interest payable	123,108	—	—	—	—	—	—	—	123,108
Current portion of long-term obligations	546,740	—	—	2,195	863	—	—	—	549,798
Other liabilities	24,961	74	16	1,461	—	—	577	2,087	29,176
Total current liabilities	791,971	329,090	112,580	15,910	29,928	31,363	18,162	213,693	1,542,697
Noncurrent liabilities:									
Interfund payables	—	1,530	3,614	—	37,650	1,635	95,129	115	139,673
Compensated absences payable	—	6,811	69,999	10,163	1,932	46,087	—	22,210	157,202
Workers' compensation benefits payable	—	1,134	22,173	16,415	—	6,358	—	—	46,080
Revenue bonds payable	10,583,876	—	—	—	—	—	—	—	10,583,876
Net other postemployment benefits obligation	—	14,658	261,327	53,753	—	83,690	—	104,316	517,744
Net pension liability	—	2,813	443,449	25,170	23,477	163,031	—	45,216	703,156
Other noncurrent liabilities	—	—	—	—	—	16,327	—	—	16,327
Total noncurrent liabilities	10,583,876	26,946	800,562	105,501	63,059	317,128	95,129	171,857	12,164,058
Total liabilities	**11,375,847**	**356,036**	**913,142**	**121,411**	**92,987**	**348,491**	**113,291**	**385,550**	**13,706,755**
DEFERRED INFLOWS OF RESOURCES	**—**	**556**	**87,569**	**8,926**	**4,636**	**32,191**	**—**	**8,929**	**142,807**
Total liabilities and deferred inflows of resources	**11,375,847**	**356,592**	**1,000,711**	**130,337**	**97,623**	**380,682**	**113,291**	**394,479**	**13,849,562**
NET POSITION									
Net investment in capital assets	—	—	44,816	46,041	136,077	58,676	—	6,258	291,868
Restricted – expendable:									
Construction	140,534	—	—	—	—	—	—	—	140,534
Debt service	1,166	—	—	—	—	—	—	—	1,166
Total expendable	141,700	—	—	—	—	—	—	—	141,700
Unrestricted	—	(28,461)	(722,326)	132,139	(35,681)	(197,633)	(612)	210,271	(642,303)
Total net position (deficits)	**141,700**	**(28,461)**	**(677,510)**	**178,180**	**100,396**	**(138,957)**	**(612)**	**216,529**	**(208,735)**
Total liabilites and net position	**$ 11,517,547**	**$ 328,131**	**$ 323,201**	**$ 308,517**	**$ 198,019**	**$ 241,725**	**$ 112,679**	**$ 611,008**	**$ 13,640,827**

(concluded)

Combining Statement of Revenues, Expenses, and Changes in Fund Net Position

Internal Service Funds

Year Ended June 30, 2015

(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	$ —	$ 185,652	$ 644,184	$ 280,237	$ 114,267	$ 360,366	$ 427,155	$ 915,216	$ 2,927,077
Investment and interest	8,215	—	—	—	—	128	—	—	8,343
Rent	454,488	—	—	—	—	—	—	—	454,488
Total operating revenues	**462,703**	**185,652**	**644,184**	**280,237**	**114,267**	**360,494**	**427,155**	**915,216**	**3,389,908**
OPERATING EXPENSES									
Personal services	—	26,722	263,201	67,677	17,375	167,767	—	211,108	753,850
Supplies	—	—	—	5,088	—	—	6,812	26	11,926
Services and charges	3,646	157,575	335,725	155,389	126,293	165,553	363,352	659,526	1,967,059
Depreciation	—	—	9,985	6,388	385	29,401	6,213	251	52,623
Interest expense	492,868	—	—	—	—	341	—	—	493,209
Amortization of long-term prepaid charges	3,347	—	—	—	—	—	—	—	3,347
Other	23,429	—	—	—	—	—	—	—	23,429
Total operating expenses	**523,290**	**184,297**	**608,911**	**234,542**	**144,053**	**363,062**	**376,377**	**870,911**	**3,305,443**
Operating income (loss)	(60,587)	1,355	35,273	45,695	(29,786)	(2,568)	50,778	44,305	84,465
NONOPERATING REVENUES (EXPENSES)									
Investment and interest income	405	—	—	210	—	—	—	290	905
Interest expense and fiscal charges	—	—	—	(18)	—	—	—	—	(18)
Other	—	—	—	(273)	—	(325)	—	—	(598)
Total nonoperating revenues (expenses)	**405**	**—**	**—**	**(81)**	**—**	**(325)**	**—**	**290**	**289**
Income (loss) before transfers	(60,182)	1,355	35,273	45,614	(29,786)	(2,893)	50,778	44,595	84,754
Transfers in	—	—	—	—	95,602	—	—	4,500	100,102
Transfers out	—	—	(43,113)	—	—	—	—	(21,339)	(64,452)
Change in net position	(60,182)	1,355	(7,840)	45,614	65,816	(2,893)	50,778	27,756	120,404
Total net position (deficit) – beginning	**201,882 ***	**(29,816) ***	**(669,670) ***	**132,566 ***	**34,580 ***	**(136,064) ***	**(51,390)**	**188,773 ***	**(329,139)**
Total net position (deficit) – ending	**$ 141,700**	**$ (28,461)**	**$ (677,510)**	**$ 178,180**	**$ 100,396**	**$ (138,957)**	**$ (612)**	**$ 216,529**	**$ (208,735)**

* Restated

Combining Statement of Cash Flows

Internal Service Funds

Year Ended June 30, 2015

(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	$ 25,684	$ —	$ —	$ 6,224	$ —	$ —	$ —	$ —	$ 31,908
Receipts from interfund services provided	810,928	205,418	660,680	266,088	111,043	360,957	382,077	1,007,987	3,805,178
Payments to suppliers	(323)	(168,156)	(357,379)	(156,605)	(141,373)	(171,557)	(7,852)	(677,473)	(1,680,718)
Payments to employees	—	(27,698)	(223,413)	(63,424)	(18,551)	(145,356)	—	(173,655)	(652,097)
Payments for interfund services used	—	—	—	—	—	—	—	—	—
Claims paid to other than employees	—	—	—	—	—	—	(363,352)	—	(363,352)
Other receipts (payments)	(537,869)	(1,541)	13,619	(55)	—	(5,699)	104	(7,105)	(538,546)
Net cash provided by (used in) operating activities	**298,420**	**8,023**	**93,507**	**52,228**	**(48,881)**	**38,345**	**10,977**	**149,754**	**602,373**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Changes in interfund payables and loans payable	—	1,531	(212)	—	—	(116)	(79)	—	1,124
Interest paid	—	—	—	(18)	—	—	—	—	(18)
Transfers in	—	—	—	—	95,602	—	—	4,500	100,102
Transfers out	—	—	(43,113)	—	—	—	—	(21,339)	(64,452)
Other	—	—	—	—	—	—	—	1,819	1,819
Net cash provided by (used in) noncapital financing activities	**—**	**1,531**	**(43,325)**	**(18)**	**95,602**	**(116)**	**(79)**	**(15,020)**	**38,575**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisition of capital assets	(1,253,654)	—	(22,998)	(8,184)	(44,301)	(15,679)	(6,213)	(22)	(1,351,051)
Proceeds from sale of capital assets	—	—	106	674	—	—	—	—	780
Proceeds from revenue bonds	840,614	—	—	—	—	—	—	—	840,614
Retirement of revenue bonds	(982,847)	—	—	—	—	—	—	—	(982,847)
Net cash used in capital and related financing activities	**(1,395,887)**	**—**	**(22,892)**	**(7,510)**	**(44,301)**	**(15,679)**	**(6,213)**	**(22)**	**(1,492,504)**
CASH FLOWS FROM INVESTING ACTIVITIES									
Earnings on investments	405	—	—	192	—	—	—	288	885
Net cash provided by (used in) investing activities	**405**	**—**	**—**	**192**	**—**	**—**	**—**	**288**	**885**
Net increase (decrease) in cash and pooled investments	(1,097,062)	9,554	27,290	44,892	2,420	22,550	4,685	135,000	(850,671)
Cash and pooled investments – beginning	**3,741,997**	**274,968**	**82,885**	**168,509**	**44,018**	**33,760** [1]	**14,053**	**376,882** [1]	**4,737,072**
Cash and pooled investments – ending	**$ 2,644,935**	**$ 284,522**	**$ 110,175**	**$ 213,401**	**$ 46,438**	**$ 56,310**	**$ 18,738**	**$ 511,882**	**$ 3,886,401**

(continued)

[1] The California Health and Human Services Automation fund was included in the Technology Services Revolving column in the prior fiscal year and is now included in the Other Internal Service Programs column.

Combining Statement of Cash Flows (continued)

Internal Service Funds

Year Ended June 30, 2015
(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)	$ (60,587)	$ 1,355	$ 35,273	$ 45,695	$ (29,786)	$ (2,568)	$ 50,778	$ 44,305	$ 84,465
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:									
Depreciation	—	—	9,985	6,388	385	29,401	6,213	251	52,623
Amortization of premiums and discounts	(61,129)	—	—	—	—	—	—	—	(61,129)
Amortization of long-term prepaid charges	820	—	—	—	—	—	—	—	820
Other	30,467	—	—	(55)	—	—	—	—	30,412
Change in account balances:									
Receivables	—	(474)	2,913	409	—	5,112	5,285	71,115	84,360
Due from other funds	(32,907)	(14,031)	9,451	97	(3,225)	(4,784)	320	86,399	41,320
Due from other governments	—	—	18,873	111	—	10	—	(11,564)	7,430
Prepaid items	—	(4,364)	3,883	(218)	(4)	(7,700)	870	(565)	(8,098)
Inventories	—	—	1,142	(2,119)	—	(1,091)	79	—	(1,989)
Net investment in direct financing leases	417,111	—	—	—	—	—	—	—	417,111
Deferred outflow of resources	2,505	(1,181)	4,539	(1,495)	(792)	(2,189)	—	(5,081)	(3,694)
Accounts payable	(218)	(6,217)	(26,679)	(2,073)	(15,076)	3,128	(1,989)	(14,969)	(64,093)
Due to other funds	(35)	(1,511)	1,523	(451)	1	(1,405)	2	(57,081)	(58,957)
Due to component units	—	—	—	—	—	—	—	87	87
Due to other governments	(194)	—	(162)	—	—	(1)	13	(200)	(544)
Deposits	—	—	256	—	—	—	—	—	256
Contracts and notes payable	—	—	(510)	—	—	(706)	—	—	(1,216)
Interest payable	4,164	—	—	—	—	—	—	—	4,164
Revenues received in advance	(18)	35,782	2,609	(441)	—	1,540	14	—	39,486
Other current liabilities	(1,559)	(1,541)	(4,838)	(1,572)	—	—	91	(1,307)	(10,726)
Benefits payables	—	—	—	—	—	—	—	3,215	3,215
Compensated absences payable	—	(1,594)	5,611	586	(31)	15,828	(50,699)	20,785	(9,514)
Other noncurrent liabilities	—	1,243	(57,931)	(1,560)	(4,989)	(28,421)	—	5,435	(86,223)
Deferred inflow of resources	—	556	87,569	8,926	4,636	32,191	—	8,929	142,807
Total adjustments	359,007	6,668	58,234	6,533	(19,095)	40,913	(39,801)	105,449	517,908
Net cash provided by (used in) operating activities	**$ 298,420**	**$ 8,023**	**$ 93,507**	**$ 52,228**	**$ (48,881)**	**$ 38,345**	**$ 10,977**	**$ 149,754**	**$ 602,373**

(concluded)

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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 **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, 2015
(amounts in thousands)

	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
ASSETS				
Current assets:				
Cash and pooled investments	$ 265,126	$ 149,855	$ 242,975	$ 657,956
Restricted assets:				
Cash and pooled investments	37,320	—	—	37,320
Due from other governments	20,584	—	—	20,584
Receivables (net)	—	31,423	244	31,667
Due from other funds	1,248	127	226	1,601
Due from other governments	211,594	—	566	212,160
Prepaid items	—	—	14	14
Inventories	—	—	3,284	3,284
Total current assets	535,872	181,405	247,309	964,586
Noncurrent assets:				
Restricted assets:				
Loans receivable	284,213	—	—	284,213
Investments	—	17,969	—	17,969
Interfund receivables	—	—	1,600	1,600
Loans receivable	3,054,846	787,189	116,095	3,958,130
Capital assets:				
Land	—	443	829	1,272
Buildings and other depreciable property	—	16,260	2,331	18,591
Intangible assets – amortizable	—	—	1,500	1,500
Less: accumulated depreciation/amortization	—	(15,968)	(1,665)	(17,633)
Construction/development in progress	—	—	261	261
Other noncurrent assets	—	3,532	—	3,532
Total noncurrent assets	3,339,059	809,425	120,951	4,269,435
Total assets	**3,874,931**	**990,830**	**368,260**	**5,234,021**
DEFERRED OUTFLOWS OF RESOURCES	**42**	**3,334**	**882**	**4,258**
Total assets and deferred outflows of resources	**$ 3,874,973**	**$ 994,164**	**$ 369,142**	**$ 5,238,279**

	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
LIABILITIES				
Current liabilities:				
Accounts payable	$ —	$ 24	$ 4,103	$ 4,127
Due to other funds	126	229	1,373	1,728
Due to other governments	—	—	37	37
Revenues received in advance	3	—	30	33
Interest payable	388	11,831	—	12,219
Current portion of long-term obligations	13,992	20,900	9,518	44,410
Other current liabilities	—	—	51	51
Total current liabilities	14,509	32,984	15,112	62,605
Noncurrent liabilities:				
Compensated absences payable	—	—	8,611	8,611
Workers' compensation benefits payable	—	—	580	580
General obligation bonds payable	—	444,273	—	444,273
Revenue bonds payable	30,905	359,715	—	390,620
Net other postemployment benefits obligation	—	5,435	7,966	13,401
Net pension liability	1,119	13,093	6,345	20,557
Other noncurrent liabilities	—	443	61,838	62,281
Total noncurrent liabilities	32,024	822,959	85,340	940,323
Total liabilities	**46,533**	**855,943**	**100,452**	**1,002,928**
DEFERRED INFLOWS OF RESOURCES	**209**	**2,440**	**1,253**	**3,902**
Total liabilities and deferred inflows of resources	**46,742**	**858,383**	**101,705**	**1,006,830**
NET POSITION				
Net investment in capital assets	—	735	3,262	3,997
Restricted – expendable:				
Debt service	37,320	—	—	37,320
Security for revenue bonds	304,797	—	—	304,797
Other purposes	—	135,046	191,463	326,509
Total expendable	342,117	135,046	191,463	668,626
Unrestricted	3,486,114	—	72,712	3,558,826
Total net position	**3,828,231**	**135,781**	**267,437**	**4,231,449**
Total liabilities and net position	**$ 3,874,973**	**$ 994,164**	**$ 369,142**	**$ 5,238,279**

Combining Statement of Revenues, Expenses, and Changes in Fund Net Position

Nonmajor Enterprise Funds

Year Ended June 30, 2015
(amounts in thousands)

	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
OPERATING REVENUES				
Services and sales	$ 9,609	$ 2,014	$ 75,863	$ 87,486
Investment and interest	55,554	52,287	105	107,946
Rent	—	—	176	176
Other	—	3,441	1,996	5,437
Total operating revenues	**65,163**	**57,742**	**78,140**	**201,045**
OPERATING EXPENSES				
Personal services	340	12,469	30,345	43,154
Supplies	—	—	32,968	32,968
Services and charges	7,693	11,453	13,961	33,107
Depreciation	—	141	201	342
Interest expense	—	33,726	—	33,726
Other	752	—	—	752
Total operating expenses	**8,785**	**57,789**	**77,475**	**144,049**
Operating income (loss)	56,378	(47)	665	56,996
NONOPERATING REVENUES (EXPENSES)				
Investment and interest income	796	—	485	1,281
Interest expense and fiscal charges	(293)	—	—	(293)
Other	(4)	(491)	—	(495)
Total nonoperating revenues (expenses)	**499**	**(491)**	**485**	**493**
Income (loss) before capital contributions and transfers	56,877	(538)	1,150	57,489
Capital contributions	107,746	—	—	107,746
Transfers out	—	—	(9,212)	(9,212)
Change in net position	164,623	(538)	(8,062)	156,023
Total net position – beginning	**3,663,608 ***	**136,319 ***	**275,499 ***	**4,075,426**
Total net position – ending	**$ 3,828,231**	**$ 135,781**	**$ 267,437**	**$ 4,231,449**

* Restated

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended June 30, 2015
(amounts in thousands)

	State Water Pollution Control Revolving	Housing Loan	Other Enterprise Programs	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers/employers	$ 52,105	$ 212,995	$ 77,950	$ 343,050
Receipts from interfund services provided	—	—	1,409	1,409
Payments to suppliers	(8,439)	(3,023)	(42,388)	(53,850)
Payments to employees	(340)	(12,443)	(23,837)	(36,620)
Payments for interfund services used	(4)	—	(421)	(425)
Claims paid to other than employees	—	—	—	—
Other receipts (payments)	(173,255)	(176,173)	(12,806)	(362,234)
Net cash provided by (used in) operating activities	**(129,933)**	**21,356**	**(93)**	**(108,670)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from general obligation bonds	—	110,000	—	110,000
Retirement of general obligation bonds	—	(77,455)	—	(77,455)
Retirement of revenue bonds	(13,000)	(12,960)	—	(25,960)
Interest paid	(1,717)	—	—	(1,717)
Transfers out	—	—	(9,212)	(9,212)
Grants received	106,889	—	—	106,889
Other	4,000	—	—	4,000
Net cash provided by (used in) noncapital financing activities	**96,172**	**19,585**	**(9,212)**	**106,545**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	—	—	(495)	(495)
Proceeds from sale of capital assets	—	—	—	—
Net cash provided by (used in) capital and related financing activities	**—**	**—**	**(495)**	**(495)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	—	(3,000)	—	(3,000)
Proceeds from maturity and sale of investments	—	10,233	—	10,233
Earnings on investments	785	—	487	1,272
Net cash provided by (used in) investing activities	**785**	**7,233**	**487**	**8,505**
Net increase (decrease) in cash and pooled investments	(32,976)	48,174	(9,313)	5,885
Cash and pooled investments – beginning	**335,422**	**101,681**	**252,288**	**689,391**
Cash and pooled investments – ending	**$ 302,446**	**$ 149,855**	**$ 242,975**	**$ 695,276**

(continued)

Combining Statement of Cash Flows (continued)

Nonmajor Enterprise Funds

Year Ended June 30, 2015
(amounts in thousands)

	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)	$ 56,378	$ (47)	$ 665	$ 56,996
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	—	141	201	342
Provisions and allowances	—	(46)	—	(46)
Amortization of premiums and discounts	—	280	—	280
Other	(16,582)	—	—	(16,582)
Change in account balances:				
Receivables	—	146	(19)	127
Due from other funds	(4)	—	120	116
Due from other governments	1,820	—	46	1,866
Prepaid items	—	—	3,299	3,299
Inventories	—	—	(160)	(160)
Other current assets	—	181	—	181
Loans receivable	(171,550)	16,552	778	(154,220)
Deferred outflow of resources	35	(298)	(309)	(572)
Accounts payable	—	(180)	1,086	906
Due to other funds	(29)	49	441	461
Due to other governments	—	—	30	30
Interest payable	—	856	—	856
Revenues received in advance	(1)	—	5	4
Other current liabilities	—	—	(2,425)	(2,425)
Benefits payables	—	—	666	666
Compensated absences payable	—	—	5,823	5,823
Other noncurrent liabilities	—	1,282	(11,593)	(10,311)
Deferred inflows of resources	—	2,440	1,253	3,693
Total adjustments	(186,311)	21,403	(758)	(165,666)
Net cash provided by (used in) operating activities	**$ (129,933)**	**$ 21,356**	**$ (93)**	**$ (108,670)**
				(concluded)
Noncash investing, capital, and financing activities				
Miscellaneous noncash activities	$ —	$ 3,977	$ —	$ 3,977

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, 2015
(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ASSETS				
Cash and pooled investments	$ 1	$ 78,638	$ 23,289	$ 101,928
Investments, at fair value:				
Equity securities	3,349,734	—	—	3,349,734
Debt securities	2,031,408	—	—	2,031,408
Real estate	198,961	—	—	198,961
Other	849,852	—	—	849,852
Total investments	6,429,955	—	—	6,429,955
Receivables (net)	8,555	1,922	—	10,477
Due from other funds	—	9,828	21	9,849
Other assets	—	155,984	—	155,984
Total assets	**6,438,511**	**246,372**	**23,310**	**6,708,193**
LIABILITIES				
Accounts payable	8,939	15,797	15,073	39,809
Deposits	—	155,984	—	155,984
Other liabilities	—	1,755	6,982	8,737
Total liabilities	**8,939**	**173,536**	**22,055**	**204,530**
NET POSITION				
Held in trust for benefits and other purposes	**$ 6,429,572**	**$ 72,836**	**$ 1,255**	**$ 6,503,663**

Combining Statement of Changes in Fiduciary Net Position

Private Purpose Trust Funds

Year Ended June 30, 2015
(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ADDITIONS				
Investment income:				
Net appreciation in fair value of investments	$ (155,564)	$ —	$ —	$ (155,564)
Interest, dividends, and other investment income	319,385	—	—	319,385
Less: investment expense	(3,832)	—	—	(3,832)
Net investment income	159,989	—	—	159,989
Receipts from depositors	3,017,247	233,825	3,331	3,254,403
Total additions	**3,177,236**	**233,825**	**3,331**	**3,414,392**
DEDUCTIONS				
Payments to and for depositors	2,775,988	272,391	3,245	3,051,624
Total deductions	**2,775,988**	**272,391**	**3,245**	**3,051,624**
Change in net position	401,248	(38,566)	86	362,768
Net position – beginning	**6,028,324**	**111,402**	**1,169**	**6,140,895**
Net position – ending	**$ 6,429,572**	**$ 72,836**	**$ 1,255**	**$ 6,503,663**

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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 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 and cost-sharing multiple-employer retirement plans that provide 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 including the 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, 2015
(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	$ 2,353,478	$ 508,007	$ 1,918	$ 8,303	$ 757	$ 17,400	$ 50,477	$ 2,940,340
Investments, at fair value:								
Short-term	8,162,842	4,231,825	37,817	7	4	224,022	51,139	12,707,656
Equity securities	153,436,183	104,580,292	—	614,393	38,208	7,180,675	2,729,047	268,578,798
Debt securities	77,889,244	31,871,871	—	455,046	83,253	3,667,889	1,797,644	115,764,947
Real estate	31,185,446	26,383,025	—	—	—	—	—	57,568,471
Other	28,808,840	26,715,679	—	—	—	1,902,609	—	57,427,128
Securities lending collateral	10,761,058	18,029,379	—	45,466	3,497	—	49,260	28,888,660
Total investments	310,243,613	211,812,071	37,817	1,114,912	124,962	12,975,195	4,627,090	540,935,660
Receivables (net)	1,871,340	3,968,462	2,423	7,314	150	21,028	56,120	5,926,837
Due from other funds	607,942	279	10	6	—	103	14	608,354
Due from other governments	—	3,125	—	—	—	4	—	3,129
Loans receivable	—	34,293	—	—	—	1,265	—	35,558
Other assets	706,657	225,973	—	—	—	—	—	932,630
Total assets	**315,783,030**	**216,552,210**	**42,168**	**1,130,535**	**125,869**	**13,014,995**	**4,733,701**	**551,382,508**
DEFERRED OUTFLOWS OF RESOURCES	—	16,398	—	—	—	68	35	16,501
Total assets and deferred outflows of resources	**315,783,030**	**216,568,608**	**42,168**	**1,130,535**	**125,869**	**13,015,063**	**4,733,736**	**551,399,009**
LIABILITIES								
Accounts payable	11,891	3,784,135	131	385	58	2,599	2,299	3,801,498
Due to other governments	—	1,184	—	—	—	—	—	1,184
Benefits payable	1,604,419	1,177,908	—	—	603	2,138	36,046	2,821,114
Securities lending obligations	10,756,054	18,043,187	—	45,584	3,506	—	49,389	28,897,720
Loans payable	—	1,447,405	—	—	—	—	—	1,447,405
Other liabilities	646,148	265,373	860	424	233	2,574	4,076	919,688
Total liabilities	**13,018,512**	**24,719,192**	**991**	**46,393**	**4,400**	**7,311**	**91,810**	**37,888,609**
DEFERRED INFLOWS OF RESOURCES	—	27,080	—	—	—	94	60	**27,234**
Total liabilities and deferred inflows of resources	**13,018,512**	**24,746,272**	**991**	**46,393**	**4,400**	**7,405**	**91,870**	**37,915,843**
NET POSITION								
Restricted for pension benefits, pool participants, and other employee benefits	**$ 302,764,518**	**$ 191,822,336**	**$ 41,177**	**$ 1,084,142**	**$ 121,469**	**$ 13,007,658**	**$ 4,641,866**	**$ 513,483,166**

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, 2015
(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	$ 10,079,467	$ 2,677,815	$ 180,910	$ 65,629	$ 590	$ 1,155	$ 1,745,389	$ 14,750,955
Plan member	3,724,310	2,509,712	3,877	22,242	105	944,230	161,213	7,365,689
Non-employer	—	1,425,796	—	—	—	—	—	1,425,796
Total contributions	13,803,777	6,613,323	184,787	87,871	695	945,385	1,906,602	23,542,440
Investment income:								
Net appreciation (depreciation) in fair value of investments	5,863,437	3,129,803	—	(2,432)	(72)	40,633	(19,279)	9,012,090
Interest, dividends, and other investment income	1,922,607	4,782,101	90	630	42	373,742	747	7,079,959
Less: investment expense	(1,096,570)	(300,260)	(2)	(599)	(64)	(495)	(1,854)	(1,399,844)
Net investment income	6,689,474	7,611,644	88	(2,401)	(94)	413,880	(20,386)	14,692,205
Other	13,523	3,935	2,198	—	—	18,716	7,757	46,129
Total additions	**20,506,774**	**14,228,902**	**187,073**	**85,470**	**601**	**1,377,981**	**1,893,973**	**38,280,774**
DEDUCTIONS								
Distributions to beneficiaries	18,922,292	12,476,893	201,734	14,024	7,393	33,455	1,162,974	32,818,765
Refunds of contributions	240,623	87,694	134	16	1,693	7,753	—	337,913
Administrative expense	340,880	154,088	1,227	1,127	400	16,525	5,887	520,134
Payments to and for depositors	—	—	—	—	—	657,425	525,345	1,182,770
Total deductions	**19,503,795**	**12,718,675**	**203,095**	**15,167**	**9,486**	**715,158**	**1,694,206**	**34,859,582**
Change in net position	1,002,979	1,510,227	(16,022)	70,303	(8,885)	662,823	199,767	3,421,192
Net position – beginning	**301,761,539**	**190,312,109** *	**57,199**	**1,013,839**	**130,354**	**12,344,835** *	**4,442,099** *	**510,061,974**
Net position – ending	**$ 302,764,518**	**$ 191,822,336**	**$ 41,177**	**$ 1,084,142**	**$ 121,469**	**$ 13,007,658**	**$ 4,641,866**	**$ 513,483,166**

* Restated

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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, 2015
(amounts in thousands)

	Receipting and Disbursing	Deposit	Other Agency Activities	Total
ASSETS				
Cash and pooled investments	$ 2,222,278	$ 2,580,812	$ 24,603	$ 4,827,693
Receivables (net)	1,809,534	115,601	1,511	1,926,646
Due from other funds	16,367,127	3,699	773	16,371,599
Due from other governments	33,852	4	—	33,856
Prepaid items	26,001	491	—	26,492
Loans receivable	—	—	6,459	6,459
Other assets	55	34	—	89
Total assets	**$ 20,458,847**	**$ 2,700,641**	**$ 33,346**	**$ 23,192,834**
LIABILITIES				
Accounts payable	$ 14,778,032	$ 105,739	$ 2,808	$ 14,886,579
Due to other governments	5,617,817	4,069	6,656	5,628,542
Tax overpayments	1,100	—	—	1,100
Revenues received in advance	26,639	697	—	27,336
Deposits	35,184	1,106,164	9,855	1,151,203
Other liabilities	75	1,483,972	14,027	1,498,074
Total liabilities	**$ 20,458,847**	**$ 2,700,641**	**$ 33,346**	**$ 23,192,834**

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Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

Year Ended June 30, 2015
(amounts in thousands)

Receipting and Disbursing Fund

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
ASSETS				
Cash and pooled investments	$ 2,190,374	$ 182,809,132	$ 182,777,228	$ 2,222,278
Receivables (net)	2,019,572	4,623,126	4,833,164	1,809,534
Due from other funds	20,690,185	22,554,755	26,877,813	16,367,127
Due from other governments	7,652	28,962	2,762	33,852
Prepaid items	28,734	26,002	28,735	26,001
Other assets	55	—	—	55
Total assets	**$ 24,936,572**	**$ 210,041,977**	**$ 214,519,702**	**$ 20,458,847**
LIABILITIES				
Accounts payable	$ 14,886,495	$ 53,919,440	$ 54,027,903	$ 14,778,032
Due to other governments	9,974,859	26,341,033	30,698,075	5,617,817
Tax overpayments	4,632	84,041	87,573	1,100
Revenues received in advance	21,053	26,637	21,051	26,639
Deposits	39,160	—	3,976	35,184
Other liabilities	10,373	—	10,298	75
Total liabilities	**$ 24,936,572**	**$ 80,371,151**	**$ 84,848,876**	**$ 20,458,847**

Deposit Fund

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
ASSETS				
Cash and pooled investments	$ 1,467,960	$ 19,676,449	$ 18,563,597	$ 2,580,812
Receivables (net)	108,472	194,077	186,948	115,601
Due from other funds	2,755	2,205	1,261	3,699
Due from other governments	10	15	21	4
Prepaid items	194	297	—	491
Other assets	38	15	19	34
Total assets	**$ 1,579,429**	**$ 19,873,058**	**$ 18,751,846**	**$ 2,700,641**
LIABILITIES				
Accounts payable	$ 52,793	$ 883,725	$ 830,779	$ 105,739
Due to other governments	2,329	1,787	47	4,069
Revenues received in advance	1,072	—	375	697
Deposits	940,470	985,912	820,218	1,106,164
Other liabilities	582,765	18,630,800	17,729,593	1,483,972
Total liabilities	**$ 1,579,429**	**$ 20,502,224**	**$ 19,381,012**	**$ 2,700,641**

Other Agency Activity Funds

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
ASSETS				
Cash and pooled investments	$ 23,893	$ 1,607	$ 897	$ 24,603
Receivables (net)	1,518	—	7	1,511
Due from other funds	769	76	72	773
Loans receivable	7,257	—	798	6,459
Total assets	**$ 33,437**	**$ 1,683**	**$ 1,774**	**$ 33,346**
LIABILITIES				
Accounts payable	$ 3,081	$ 5	$ 278	$ 2,808
Due to other governments	7,045	2	391	6,656
Deposits	7,973	1,882	—	9,855
Other liabilities	15,338	—	1,311	14,027
Total liabilities	**$ 33,437**	**$ 1,889**	**$ 1,980**	**$ 33,346**

Total Agency Funds

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
ASSETS				
Cash and pooled investments	$ 3,682,227	$ 202,487,188	$ 201,341,722	$ 4,827,693
Receivables (net)	2,129,562	4,817,203	5,020,119	1,926,646
Due from other funds	20,693,709	22,557,036	26,879,146	16,371,599
Due from other governments	7,662	28,977	2,783	33,856
Prepaid items	28,928	26,299	28,735	26,492
Loans receivable	7,257	—	798	6,459
Other assets	93	15	19	89
Total assets	**$ 26,549,438**	**$ 229,916,718**	**$ 233,273,322**	**$ 23,192,834**
LIABILITIES				
Accounts payable	$ 14,942,369	$ 54,803,170	$ 54,858,960	$ 14,886,579
Due to other governments	9,984,233	26,342,822	30,698,513	5,628,542
Tax overpayments	4,632	84,041	87,573	1,100
Revenues received in advance	22,125	26,637	21,426	27,336
Deposits	987,603	987,794	824,194	1,151,203
Other liabilities	608,476	18,630,800	17,741,202	1,498,074
Total liabilities	**$ 26,549,438**	**$ 100,875,264**	**$ 104,231,868**	**$ 23,192,834**

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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 for 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.

Financing authorities provide financing for transportation, business development and public improvements, and coastal and inland urban waterfront restoration projects. These agencies include: the California Alternative Energy and Advanced Transportation Financing Authority, the California Infrastructure and Economic Development Bank, and the California Urban Waterfront Area Restoration Financing Authority.

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.

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, 2014.

Other component units provide legal education programs, financial assistance to businesses, and health benefits for state employees and annuitants. These entities include: the University of California Hastings College of the Law; the State Assistance Fund for Enterprise, Business and Industrial Development Corporation; and the Public Employees' Contingency Reserve.

Combining Statement of Net Position

Nonmajor Component Units

June 30, 2015
(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
ASSETS					
Current assets:					
Cash and pooled investments	$ 5,261	$ 391,673	$ 86,164	$ 666,133	$ 1,149,231
Investments	—	420,151	2,101	—	422,252
Restricted assets:					
Cash and pooled investments	214,345	—	1,718	3,895	219,958
Investments	—	—	3,304	—	3,304
Receivables (net)	19,719	378,618	4,982	21,554	424,873
Due from primary government	—	—	—	1,311	1,311
Prepaid items	—	—	764	164	928
Other current assets	—	58,504	311	—	58,815
Total current assets	239,325	1,248,946	99,344	693,057	2,280,672
Noncurrent assets:					
Restricted assets:					
Cash and pooled investments	—	29,185	—	—	29,185
Investments	—	—	4,700	—	4,700
Investments	—	1,825,233	—	73,399	1,898,632
Receivables (net)	—	206,859	—	13,924	220,783
Loans receivable	294,992	—	—	3,195	298,187
Capital assets:					
Land	—	125,188	22,232	5,089	152,509
Collections – nondepreciable	—	9,959	—	—	9,959
Buildings and other depreciable property	21	1,171,758	704,967	136,620	2,013,366
Intangible assets – amortizable	—	9,260	—	1,051	10,311
Less: accumulated depreciation/amortization	(2)	(524,300)	(438,791)	(53,233)	(1,016,326)
Construction in progress	—	16,232	15,141	984	32,357
Intangible assets – nonamortizable	—	5,098	—	—	5,098
Other noncurrent assets	—	37,404	—	8,730	46,134
Total noncurrent assets	295,011	2,911,876	308,249	189,759	3,704,895
Total assets	**534,336**	**4,160,822**	**407,593**	**882,816**	**5,985,567**
DEFERRED OUTFLOWS OF RESOURCES	**4,876**	**10,091**	**—**	**11,603**	**26,570**
Total assets and deferred outflows of resources	**$ 539,212**	**$ 4,170,913**	**$ 407,593**	**$ 894,419**	**$ 6,012,137**

(continued)

Combining Statement of Net Position (continued)

Nonmajor Component Units

June 30, 2015
(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
LIABILITIES					
Current liabilities:					
Accounts payable	$ 1,083	$ 79,094	$ 6,918	$ 609,206	$ 696,301
Due to other governments	2	—	—	—	2
Revenues received in advance	—	68,873	4,307	1,217	74,397
Deposits	—	—	866	435	1,301
Contracts and notes payable	—	26,065	104	349	26,518
Interest payable	1,126	—	481	—	1,607
Current portion of long-term obligations	5,995	229,048	2,016	51,575	288,634
Other current liabilities	20,453	86,051	2,909	9,280	118,693
Total current liabilities	28,659	489,131	17,601	672,062	1,207,453
Noncurrent liabilities:					
Compensated absences payable	315	2,801	8,833	474	12,423
Workers' compensation benefits payable	—	56,860	331	—	57,191
Certificates of participation, commercial paper, and other borrowings	—	2,424	—	—	2,424
Capital lease obligations	—	353,906	1	—	353,907
Revenue bonds payable	202,296	52,190	24,320	21,125	299,931
Net other postemployment benefits obligation	1,290	84,993	7,005	15,716	109,004
Net pension liability	4,288	71,132	—	24,207	99,627
Other noncurrent liabilities	17,259	386,766	13,489	19,601	437,115
Total noncurrent liabilities	225,448	1,011,072	53,979	81,123	1,371,622
Total liabilities	**254,107**	**1,500,203**	**71,580**	**753,185**	**2,579,075**
DEFERRED INFLOWS OF RESOURCES	**811**	**15,898**	—	**14,231**	**30,940**
Total liabilities and deferred inflows of resources	**254,918**	**1,516,101**	**71,580**	**767,416**	**2,610,015**
NET POSITION					
Net investment in capital assets	—	191,711	270,684	68,766	531,161
Restricted:					
Nonexpendable – endowments	—	981,900	—	22,124	1,004,024
Expendable:					
Endowments and gifts	—	—	—	10,203	10,203
Education	—	914,518	—	18,079	932,597
Statute	281,788	—	—	—	281,788
Other purposes	2,506	—	13,222	364	16,092
Total expendable	284,294	914,518	13,222	28,646	1,240,680
Unrestricted	—	566,683	52,107	7,467	626,257
Total net position	**284,294**	**2,654,812**	**336,013**	**127,003**	**3,402,122**
Total liabilities, deferred inflows of resources, and net position	**$ 539,212**	**$ 4,170,913**	**$ 407,593**	**$ 894,419**	**$ 6,012,137**

(concluded)

Combining Statement of Activities

Nonmajor Component Units

Year Ended June 30, 2015

(amounts in thousands)

	Financing Authorities	California State University Auxiliary Organizations	District Agricultural Associations	Other Component Units	Total
OPERATING EXPENSES					
Personal services	$ 2,485	$ 364,547	$ 102,941	$ 35,939	$ 505,912
Scholarships and fellowships	—	48,640	—	3,630	52,270
Supplies	—	—	—	11,221	11,221
Services and charges	3,416	1,067,195	103,360	31,872	1,205,843
Depreciation	2	49,726	19,270	3,175	72,173
Interest expense and fiscal charges	4,632	25,121	1,058	1,029	31,840
Other	—	74,786	1,747	7,710	84,243
Total operating expenses	**10,535**	**1,630,015**	**228,376**	**94,576**	**1,963,502**
PROGRAM REVENUES					
Charges for services	1,585	716,467	225,618	65,812	1,009,482
Operating grants and contributions	861	531,882	—	13,545	546,288
Capital grants and contributions	—	38,216	179	925	39,320
Total program revenues	**2,446**	**1,286,565**	**225,797**	**80,282**	**1,595,090**
Net revenues (expenses)	(8,089)	(343,450)	(2,579)	(14,294)	(368,412)
GENERAL REVENUES					
Investment and interest income	10,005	16,344	53	6,671	33,073
Other	1,067	409,408	3,978	8,858	423,311
Total general revenues	**11,072**	**425,752**	**4,031**	**15,529**	**456,384**
Change in net position	2,983	82,302	1,452	1,235	87,972
Net position – beginning	**281,311** *	**2,572,510** *	**334,561**	**125,768** *	**3,314,150**
Net position – ending	**$ 284,294**	**$ 2,654,812**	**$ 336,013**	**$ 127,003**	**$ 3,402,122**

* Restated

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)

	2006	2007	2008	2009	2010	2011 [2]	2012	2013	2014 [3]	2015 [4]
Governmental activities										
Net investment in capital assets	$ 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	$ 100,694,652
Restricted – Expendable	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	26,632,502
Unrestricted [1]	(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)	(169,744,967)
Total governmental activities net position (deficit)	**$ 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**	**$ (42,417,813)**
Business-type activities										
Net investment in capital assets	$ 818,405	$ 208,268	$ 49,510	$ (130,634)	$ 89,334	$ 1,382,957	$ 1,561,258	$ 1,718,648	$ 2,065,550	$ 2,278,252
Restricted – Nonexpendable	—	—	—	—	—	21,812	21,584	20,627	16,219	13,448
Restricted – Expendable	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	4,523,496
Unrestricted	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)	(5,360,817)
Total business-type activities net position (deficit)	**$ 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**	**$ 1,454,379**
Primary government										
Net investment in capital assets	$ 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	$ 102,972,904
Restricted – Nonexpendable	—	—	—	—	—	21,812	21,584	20,627	16,219	13,448
Restricted – Expendable	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	31,155,998
Unrestricted	(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)	(175,105,784)
Total primary government net position (deficit)	**$ 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**	**$ (40,963,434)**

[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.

[4] In fiscal year 2015, the net position of governmental activities and business-type activities significantly decreased as a result of implementing GASB Statements No. 68 and No. 71 requiring the recognition of net pension liability and related pension expense and deferred outflows and inflows of resources.

Schedule of Changes in Net Position

For the Past Ten Fiscal Years

(accrual basis of accounting, amounts in thousands)

	2006	2007	2008	2009	2010	2011 [4]	2012	2013	2014 [5]	2015
Governmental activities										
Expenses										
General government [1]	$ 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	$ 15,804,281
Education	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	59,521,018
Health and human services	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	122,063,805
Resources	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	6,419,591
State and consumer services	595,602	1,214,740	1,129,063	1,518,402	979,962	1,405,019	1,241,269	1,475,486	589,715	903,782
Business and transportation	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	12,897,591
Correctional programs	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	11,483,573
Interest on long-term debt	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	4,880,625
Total expenses	**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**	**233,974,266**
Program revenues										
Charges for services:										
General government [1]	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	6,502,363
Education	3,360,919	2,689,906	3,343,205	3,483,072	4,231,692	110,423	81,212	64,480	67,165	53,498
Health and human services	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	8,259,696
Resources	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	4,546,413
State and consumer services	640,088	704,512	692,348	658,486	654,034	660,196	724,222	682,503	586,055	626,960
Business and transportation	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	4,382,901
Correctional programs	37,203	30,821	27,702	21,592	18,097	14,981	16,757	45,153	13,645	18,557
Operating grants/contributions	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	84,896,237
Capital grants/contributions	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	1,319,430
Total program revenues	**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**	**110,606,055**
Total governmental activities net program expenses	**(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)**	**(123,368,211)**
General revenues and other changes in net position										
General revenues:										
Personal income taxes	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	78,098,865
Sales and use taxes	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	38,224,080
Corporation taxes	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	10,720,647
Motor vehicle excise taxes [2]	—	—	—	—	—	—	5,263,435	5,219,605	5,777,167	5,393,994
Insurance taxes	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	3,926,319
Other taxes [2]	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	2,235,498
Investment and interest	504,655	730,066	639,059	175,584	114,933	62,946	72,237	57,285	80,969	58,016
Escheat	291,549	334,002	282,287	315,642	149,996	229,146	372,215	551,580	487,937	400,807
Transfers	23,259	29,855	54,994	21,015	(13,441,875)	(3,251,598)	(2,031,032)	(1,997,759)	(2,296,010)	(2,554,970)
Special item [3]	1,218,311	—	—	—	—	—	—	—	(54,537)	—
Total general revenues and other changes in net position	**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**	**136,503,256**
Total governmental activities change in net position	**$ 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**	**$ 13,135,045**

(continued)

[1] Tax relief program expenses and revenues 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)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Business-type activities										
Expenses										
Electric Power	$ 5,342,000	$ 5,865,000	$ 5,362,000	$ 4,560,000	$ 3,908,000	$ 2,317,000	$ 915,000	$ 488,000	$ 835,000	$ 799,000
Water Resources	949,691	951,590	1,009,214	914,837	1,069,662	1,115,793	1,047,574	1,127,195	983,048	1,019,378
Public Buildings Construction [5]	334,094	334,777	371,904	420,465	494,332	390,173	403,853	410,404	—	—
State Lottery	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	5,560,299
Unemployment Programs	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	11,390,227
California State University [4]	—	—	—	—	—	5,851,355	6,181,397	6,196,541	6,544,936	6,847,789
High Technology Education	30,871	22,704	16,916	15,590	15,025	9,590	7,778	6,568	847	—
Toll Facilities	18,265	—	—	—	—	—	—	—	—	—
State University Dormitory Building Maintenance and Equipment	491,914	844,798	699,018	486,349	856,106	—	—	—	—	—
State Water Pollution Control Revolving	20,427	12,702	13,056	12,261	16,893	10,953	8,780	3,698	5,072	9,082
Housing Loan	138,988	127,206	132,101	130,777	122,114	104,667	89,570	70,356	57,206	58,280
Other enterprise programs	113,976	141,859	122,921	147,441	130,329	118,006	78,601	58,578	79,641	77,475
Total expenses	**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**	**25,761,530**
Program revenues										
Charges for services:										
Electric Power	5,342,000	5,865,000	5,362,000	4,560,000	3,908,000	2,317,000	915,000	488,000	835,000	799,000
Water Resources	949,691	951,590	1,009,214	914,837	1,069,662	1,115,793	1,047,574	1,127,195	983,048	1,019,378
Public Buildings Construction [5]	384,442	396,895	384,816	366,151	430,069	456,467	428,260	616,041	—	—
State Lottery	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	5,553,418
Unemployment Programs	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	13,402,902
California State University [4]	—	—	—	—	—	2,505,545	2,915,123	2,891,432	3,014,030	3,113,988
High Technology Education	26,508	22,966	20,600	15,975	13,015	10,498	8,452	5,585	424	—
Toll Facilities	21	—	—	—	—	—	—	—	—	—
State University Dormitory Building Maintenance and Equipment	512,231	554,851	640,208	811,454	599,571	—	—	—	—	—
State Water Pollution Control Revolving	64,740	78,564	71,404	59,923	56,121	55,957	57,540	60,173	62,985	65,959
Housing Loan	127,733	130,293	130,139	109,636	85,321	89,224	84,830	66,050	65,247	57,742
Other enterprise programs	129,048	134,018	137,476	124,952	98,957	105,676	74,693	80,540	77,671	78,625
Operating grants/contributions	—	—	—	—	—	1,216,808	1,249,995	1,323,345	1,491,559	1,666,292
Capital grants/contributions	56,942	182,989	189,064	71,882	91,808	86,272	106,057	142,304	80,903	107,746
Total program revenues	**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**	**25,865,050**
Total business-type activities net program revenues (expenses)	**1,660,380**	**(110,635)**	**(1,506,005)**	**(5,006,048)**	**(18,640,625)**	**(2,921,487)**	**(956,324)**	**(615,462)**	**(401,987)**	**103,520**
Other changes in net position										
Transfers	(23,259)	(29,855)	(54,994)	(21,015)	13,441,875	3,251,598	2,031,032	1,997,759	2,296,010	2,554,970
Special item [3]	—	—	—	—	—	—	—	—	(26,913)	—
Total business-type activities change in net position	**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**	**2,658,490**
Total primary government change in net position	**$ 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**	**$ 15,793,535**

(concluded)

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Schedule of Fund Balances – Governmental Funds

For the Past Ten Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

	2006	2007	2008	2009	2010	2011 [1]	2012	2013	2014	2015
General Fund										
Reserved	$ 1,999,953	$ 2,596,537	$ 2,113,149	$ 2,260,504	$ 1,320,782	$ —	$ —	$ —	$ —	$ —
Unreserved	672,862	(4,504,075)	(6,282,018)	(18,344,400)	(20,929,640)	—	—	—	—	—
Nonspendable	—	—	—	—	—	148,019	7,614	140,107	128,609	53,431
Restricted	—	—	—	—	—	156,496	80,849	178,643	394,246	2,266,635
Committed	—	—	—	—	—	29,850	19,600	22,879	125,120	102,793
Unassigned	—	—	—	—	—	(20,273,606)	(23,069,351)	(14,596,085)	(8,092,571)	(4,651,491)
Total General Fund	**$ 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)**	**$ (2,228,632)**
All other governmental funds										
Reserved	$ 16,198,481	$ 21,955,300	$ 19,512,083	$ 27,465,566	$ 41,087,578	$ —	$ —	$ —	$ —	$ —
Unreserved, reported in:										
Special revenue funds	(806,558)	(914,843)	(1,817,290)	(3,539,254)	(8,554,611)	—	—	—	—	—
Capital projects funds	(882,550)	(1,128,608)	(837,349)	686,113	838,879	—	—	—	—	—
Nonspendable	—	—	—	—	—	39,448	—	15,022	27,260	5,620
Restricted	—	—	—	—	—	27,709,325	24,790,661	24,137,270	24,269,093	24,224,167
Committed	—	—	—	—	—	2,701,702	2,109,089	2,318,035	2,914,747	4,090,563
Assigned	—	—	—	—	—	268,888	3	209,171	18,857	16,767
Unassigned	—	—	—	—	—	(21,847)	(103,177)	(176,066)	(20,145)	(6,456)
Total all other governmental funds	**$ 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**	**$ 28,330,661**

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)

	2006	2007	2008	2009	2010	2011 [4]	2012	2013	2014	2015
Revenues										
Personal income taxes	$ 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	$ 78,245,616
Sales and use taxes	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	38,389,972
Corporation taxes	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	10,780,647
Motor vehicle excise taxes [1]	—	—	—	—	—	—	5,263,435	5,219,605	5,777,167	5,393,994
Insurance taxes	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	3,926,319
Other taxes [1]	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	2,312,875
Intergovernmental	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	87,740,667
Licenses and permits	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	7,270,994
Charges for services	1,002,410	911,387	1,025,569	986,773	974,181	1,008,647	728,980	741,201	769,302	849,895
Fees and penalties	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	10,510,727
Investment and interest	1,058,119	1,555,202	1,591,025	1,108,058	281,881	212,116	175,898	135,928	137,754	119,690
Escheat	291,549	334,002	282,287	315,642	149,996	229,146	372,215	551,580	488,945	406,899
Other	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	3,975,144
Total revenues	**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**	**249,923,439**
Expenditures										
General government [2]	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	16,202,395
Education	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	62,952,621
Health and human services	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	122,259,036
Resources	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	6,006,446
State and consumer services	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	670,774
Business and transportation	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	15,137,217
Correctional programs	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	11,182,926
Capital outlay	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	1,019,335
Debt service:										
Bond and commercial paper retirement	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	8,482,380
Interest and fiscal charges	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	4,473,799
Total expenditures	**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**	**248,386,929**
Excess (deficiency) of revenues over (under) expenditures	(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	1,536,510
Other financing sources (uses)										
General obligation bonds and commercial paper issued	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	4,343,165
Revenue bonds issued	—	—	—	97,635	—	—	—	—	—	—
Refunding/remarketing debt issued	5,086,944	9,098,376	1,798,685	—	4,176,050	—	4,300,555	4,634,365	2,077,330	5,086,100
Payment to refund/remarket long-term debt	(4,561,944)	(7,840,621)	(1,844,006)	—	(4,221,604)	—	(4,508,834)	(3,174,613)	(328,024)	(3,865,093)
Premium on bonds issued [3]	—	—	295,439	126,107	267,980	32,607	667,931	964,211	505,026	1,116,811
Proceeds from loans	—	—	—	—	1,996,737	35,538	—	—	—	—
Capital leases [4]	748,037	178,936	268,686	364,813	811,816	204,631	528,804	710,440	1,486,204	625,282
Transfers in	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	5,344,134
Transfers out	(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)	(7,934,754)
Total other financing sources	**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**	**4,715,645**
Total change in fund balance	**$ 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**	**$ 6,252,155**
Debt service as a percentage of noncapital expenditures	5.7%	4.7%	6.3%	4.5%	3.9%	3.8%	4.6%	4.8%	5.2%	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)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Personal Income by Industry (all items restated as footnoted) [1]										
Farm earnings	$ 12,293,563	$ 10,502,902	$ 12,862,117	$ 10,766,257	$ 11,973,440	$ 12,433,312	$ 14,373,226	$ 15,953,332	$ 18,767,437	$ 18,560,552
Forestry, fishing, and other natural resources	5,297,340	6,066,166	6,233,699	6,187,051	6,127,860	6,688,211	6,900,901	7,743,716	8,076,643	8,659,023
Mining	3,424,432	4,165,677	4,176,102	6,137,953	4,001,858	5,050,332	6,134,672	6,911,286	7,013,354	7,385,126
Construction and utilities	83,625,469	88,987,518	84,582,353	76,445,719	63,216,733	58,750,008	60,811,474	65,928,561	70,797,118	75,576,543
Manufacturing	117,178,686	122,230,122	124,761,057	122,428,281	113,614,593	116,160,042	120,509,059	125,072,129	126,048,200	132,615,238
Wholesale trade	50,654,666	54,567,859	58,438,881	57,837,584	52,413,990	53,651,640	57,504,570	60,311,839	62,616,627	66,144,195
Retail trade	73,229,969	75,214,254	75,601,717	69,458,834	66,365,074	67,715,988	70,779,805	74,234,215	75,894,902	78,534,752
Transportation and warehousing	30,156,650	31,592,849	32,801,341	32,256,160	30,368,585	31,087,284	33,824,998	35,135,030	37,043,358	38,833,012
Information, finance, and insurance	123,795,537	128,340,864	131,366,347	126,010,535	121,932,283	125,369,696	129,712,308	141,119,181	153,349,567	161,835,867
Real estate	29,891,241	27,965,840	21,311,535	21,821,327	19,921,652	20,855,431	25,097,591	39,569,936	42,279,138	43,788,740
Services	361,118,487	389,562,325	409,727,938	429,018,004	412,103,397	423,008,875	450,544,104	487,634,028	499,309,509	530,499,047
Federal, civilian	20,752,518	20,978,437	21,578,358	22,347,584	23,426,267	25,978,417	26,293,383	26,445,830	26,115,850	26,693,256
Military	12,363,039	12,812,404	13,447,304	14,560,197	15,558,704	16,264,215	16,059,376	15,919,310	15,310,087	15,085,749
State and local government	155,244,124	164,416,341	176,638,739	185,038,204	184,143,378	184,921,413	189,223,878	188,589,329	194,043,006	202,399,507
Other [2]	319,926,857	364,427,649	391,815,515	422,435,111	411,968,541	435,511,866	483,233,158	521,746,921	512,840,700	532,917,049
Total personal income	**$ 1,398,952,578**	**$ 1,501,831,207**	**$ 1,565,343,003**	**$ 1,602,748,801**	**$ 1,537,136,355**	**$ 1,583,446,730**	**$ 1,691,002,503**	**$ 1,812,314,643**	**$ 1,849,505,496**	**$ 1,939,527,656**
Average effective rate [3]	4.6%	5.1%	5.0%	5.7%	5.2%	4.7%	5.3%	5.0%	6.1%	5.6%

(continued)

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

[1] 2005-2013 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)

	2005	2006	2007	2008	2009 [1]	2010	2011	2012	2013	2014 [5]
Taxable Sales by Industry [1]										
Retail										
Apparel	$ 18,712,125	$ 19,829,416	$ 20,855,890	$ 22,120,094						
General merchandise	56,787,153	59,264,894	59,897,350	56,425,472						
Specialty	52,376,758	54,695,680	34,122,471	27,380,740						
Food	21,128,469	21,864,179	22,461,059	21,504,308						
Restaurant and bars	46,412,847	49,229,418	51,658,575	52,051,404						
Household	17,388,704	17,383,449	16,720,852	17,199,187						
Building materials	36,152,218	36,163,326	32,656,324	26,647,007						
Automotive	112,167,922	115,154,535	117,864,918	106,555,420						
Other	14,681,929	15,481,675	30,787,663	27,434,795						
Business and personal service	23,090,910	23,650,322	23,355,672	22,045,958						
All other	138,005,393	146,935,543	150,669,375	152,289,155						
Total taxable sales	**$ 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%						
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	$ 54,729,606
Furniture and home furnishings stores					8,481,020	8,742,984	9,280,688	9,937,187	10,645,523	8,290,335
Electronics and appliance stores					13,384,338	13,749,019	14,297,402	14,744,723	14,765,485	10,780,393
Building materials, garden equipment and supplies					23,978,313	24,750,865	26,064,428	27,438,083	29,680,053	23,587,585
Food and beverage					22,546,285	22,787,407	23,606,132	24,511,714	25,289,203	19,243,439
Health and personal care stores					9,244,958	9,525,910	10,309,491	10,787,801	11,294,049	8,477,588
Gasoline stations					39,077,835	45,226,491	55,210,076	58,006,168	56,860,585	43,650,926
Clothing and clothing accessories stores					25,641,272	27,267,430	29,600,057	32,357,516	34,918,036	25,631,794
Sporting goods, hobby, book and music stores					10,294,172	10,365,480	10,602,711	10,751,814	11,113,831	7,777,313
General merchandise stores					44,921,639	46,323,804	48,219,018	49,996,451	51,431,094	35,793,192
Miscellaneous store retailers					16,385,169	16,569,690	17,187,402	17,880,765	18,382,224	13,802,936
Nonstore retailers					2,849,864	2,830,615	3,081,188	4,375,432	7,296,839	5,778,327
Food services and drinking places					49,921,543	51,282,453	54,755,944	59,037,320	62,776,360	50,531,383
All other outlets					145,278,339	150,570,269	165,050,017	177,014,427	184,399,899	143,419,530
Total taxable sales					**$ 456,492,945**	**$ 477,347,985**	**$ 520,568,055**	**$ 558,387,249**	**$ 586,839,617**	**$ 451,494,347**
Direct sales tax rate [2]					6.25% [3]	6.25%	6.25%	6.25%	6.50% [4]	6.50% (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.

[5] 2014 sales tax includes the first three quarters only.

Schedule of Revenue Payers by Income Level/ Industry

For Calendar Years 2005 and 2013

Personal Income Tax Filers and Liability by Income Level [1]

	2005			
	Number of Filers	Percent of Total	Tax Liability [2]	Percent of Total
Under $ 50,000	9,160,419	65.0 %	$ 1,811,403	4.2 %
50,000 to 99,999	3,013,992	21.4	5,500,804	12.8
100,000 to 149,999	1,013,447	7.2	4,920,879	11.4
150,000 to 199,999	379,560	2.7	3,418,150	7.9
200,000 to 299,999	256,536	1.8	3,768,329	8.7
300,000 to 399,999	96,486	0.7	2,322,951	5.4
400,000 to 499,999	46,814	0.3	1,549,207	3.6
500,000 to 599,999	28,099	0.2	1,180,688	2.7
600,000 to 699,999	18,250	0.1	931,649	2.2
700,000 to 799,999	12,602	0.1	754,617	1.7
800,000 to 899,999	8,458	0.1	571,634	1.3
900,000 to 999,999	7,527	0.1	585,496	1.4
1,000,000 to 1,999,999	27,274	0.2	3,169,761	7.4
2,000,000 to 2,999,999	7,434	0.1	1,611,398	3.7
3,000,000 to 3,999,999	3,291	0.0	1,037,541	2.4
4,000,000 to 4,999,999	1,810	0.0	740,608	1.7
$ 5,000,000 and over	5,896	0.0	9,249,210	21.5
Total	**14,087,895**	**100.0 %**	**$ 43,124,325**	**100.0 %**

	2013			
	Number of Filers	Percent of Total	Tax Liability [2]	Percent of Total
Under $ 50,000	9,549,671	61.5 %	$ 1,396,252	2.5 %
50,000 to 99,999	3,265,205	21.1	5,639,339	10.1
100,000 to 149,999	1,296,856	8.4	6,207,337	11.3
150,000 to 199,999	575,201	3.7	5,008,725	9.0
200,000 to 299,999	432,933	2.8	6,240,174	11.3
300,000 to 399,999	151,111	1.0	3,541,194	6.4
400,000 to 499,999	70,980	0.5	2,340,079	4.2
500,000 to 599,999	38,634	0.2	1,635,841	2.9
600,000 to 699,999	24,779	0.2	1,302,480	2.3
700,000 to 799,999	16,995	0.1	1,070,707	1.9
800,000 to 899,999	11,615	0.1	856,683	1.5
900,000 to 999,999	8,610	0.1	720,373	1.3
1,000,000 to 1,999,999	33,152	0.2	4,409,909	7.9
2,000,000 to 2,999,999	8,288	0.1	2,151,781	3.9
3,000,000 to 3,999,999	3,640	0.0	1,395,555	2.5
4,000,000 to 4,999,999	1,968	0.0	1,001,131	1.8
$ 5,000,000 and over	5,745	0.0	10,704,400	19.2
Total	**15,495,383**	**100.0 %**	**$ 55,621,960**	**100.0 %**

Source: California Franchise Tax Board

[1] For California resident tax returns. Calendar year 2013 is the most recent year for which data is available.

[2] Amounts are in thousands.

For Calendar Years 2005 and 2014

Sales Tax Permits and Tax Liability by Industry

	2005 (Using Business Codes) [1]			
	Number of Permits [2]	Percent of Total	Tax Liability [3]	Percent of Total
Retail:				
Apparel	41,596	3.9 %	$ 982,387	3.5 %
General merchandise	16,606	1.6	2,981,326	10.6
Specialty	211,859	20.0	2,749,780	9.8
Food	25,220	2.4	1,109,245	3.9
Restaurant and bars	86,393	8.2	2,436,674	8.6
Household	33,765	3.2	912,907	3.2
Building materials	11,342	1.1	1,897,991	6.7
Automotive	36,720	3.5	5,888,816	20.9
Other	22,528	2.1	770,801	2.7
Business and personal service	104,358	9.9	1,212,273	4.3
All other	467,442	44.1	7,245,283	25.8
Total	**1,057,829**	**100.0 %**	**$ 28,187,483**	**100.0 %**

	2014 (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	31,278	3.1 %	$ 3,557,424	12.1 %
Furniture and home furnishings stores	16,283	1.6	538,872	1.8
Electronics and appliance stores	21,345	2.1	700,726	2.4
Building materials, garden equipment & supplies	15,551	1.5	1,533,193	5.2
Food and beverage	31,014	3.1	1,250,824	4.3
Health and personal care stores	22,318	2.2	551,043	1.9
Gasoline stations	9,797	1.0	2,837,310	9.7
Clothing and clothing accessories stores	59,174	5.9	1,666,067	5.7
Sporting goods, hobby, book & music stores	23,946	2.4	505,525	1.7
General merchandise stores	14,366	1.4	2,326,557	7.9
Miscellaneous store retailers	108,378	10.8	897,191	3.1
Nonstore retailers	233,431	23.3	375,591	1.3
Food services and drinking places	99,340	9.9	3,284,540	11.2
All other outlets	317,586	31.7	9,322,269	31.7
Total	**1,003,807**	**100.0 %**	**$ 29,347,132**	**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 262 and 263 by the direct sales tax rate. Amounts are in thousands. The 2014 sales tax includes the first three quarters only.

Schedule of Personal Income Tax Rates

For Calendar Years 2005-2014

Married Filing Jointly and Surviving Spouse

Tax Rate [2]	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	2014 Income Level
1.0	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	Up to $15,498
2.0	12,639 – 29,958	13,245 – 31,396	13,655 – 32,370	14,337 – 33,988	14,121 – 33,478	14,249 – 33,780	14,633 – 34,692	14,911 – 35,352	15,165 – 35,952	15,499 – 36,742
4.0	29,959 – 47,282	31,397 – 49,552	32,371 – 51,088	33,989 – 53,642	33,479 – 52,838	33,781 – 53,314	34,693 – 54,754	35,353 – 55,794	35,953 – 56,742	36,743 – 57,990
6.0	47,283 – 65,638	49,553 – 68,788	51,089 – 70,920	53,643 – 74,466	52,839 – 73,350	53,315 – 74,010	54,755 – 76,008	55,795 – 77,452	56,743 – 78,768	57,991 – 80,500
8.0	65,639 – 82,952	68,789 – 86,934	70,921 – 89,628	74,467 – 94,110	73,351 – 92,698	74,011 – 93,532	76,009 – 96,058	77,453 – 97,884	78,769 – 99,548	80,501 – 101,738
9.3	82,953 – 1,000,000	86,935 – 1,000,000	89,629 – 999,999	94,111 – 1,000,000	92,699 – 1,000,000	93,533 –1,000,000	96,059 – 1,000,000	97,885 – 500,000	99,549 – 508,500	101,739 – 519,688
10.3	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	500,001 – 600,000	508,501 – 610,200	519,689 – 623,624
11.3	—	—	—	—	—	—	—	600,001 – 1,000,000	610,201 – 1,000,000	623,625 – 1,000,000
12.3	—	—	—	—	—	—	—	$1,000,001 and over	1,000,001 – 1,017,000	1,000,001 – 1,039,374
13.3	—	—	—	—	—	—	—	—	$1,017,001 and over	$1,039,375 and over

Single and Married Filing Separately

Tax Rate [2]	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	2014 Income Level
1.0	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	Up to $7,749
2.0	6,320 – 14,979	6,623 – 15,698	6,828 – 16,185	7,169 – 16,994	7,061 – 16,739	7,125 – 16,890	7,317 – 17,346	7,456 – 17,676	7,583 – 17,976	7,750 – 18,371
4.0	14,980 – 23,641	15,699 – 24,776	16,186 – 25,544	16,995 – 26,821	16,740 – 26,419	16,891 – 26,657	17,347 – 27,377	17,677 – 27,897	17,977 – 28,371	18,372 – 28,995
6.0	23,642 – 32,819	24,777 – 34,394	25,545 – 35,460	26,822 – 37,233	26,420 – 36,675	26,658 – 37,005	27,378 – 38,004	27,898 – 38,726	28,372 – 39,384	28,996 – 40,250
8.0	32,820 – 41,476	34,395 – 43,467	35,461 – 44,814	37,234 – 47,055	36,676 – 46,349	37,006 – 46,766	38,005 – 48,029	38,727 – 48,942	39,385 – 49,774	40,251 – 50,869
9.3	41,477 – 1,000,000	43,468 – 1,000,000	44,815 – 1,000,000	47,056 – 1,000,000	46,350 – 1,000,000	46,767 – 1,000,000	48,030 –1,000,000	48,943 – 250,000	49,775 – 254,250	50,870 – 259,844
10.3	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	250,001 – 300,000	254,251 – 305,100	259,845 – 311,812
11.3	—	—	—	—	—	—	—	300,001 – 500,000	305,101 – 508,500	311,813 – 519,687
12.3	—	—	—	—	—	—	—	500,001 – 1,000,000	508,501 – 1,000,000	519,688 – 1,000,000
13.3	—	—	—	—	—	—	—	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over

Head of Household

Tax Rate [2]	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	2014 Income Level
1.0	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	Up to $15,508
2.0	12,645 – 29,959	13,252 – 31,397	13,663 – 32,370	14,346 – 33,989	14,131 – 33,479	14,258 – 33,780	14,643 – 34,692	14,921 – 35,351	15,175 – 35,952	15,509 – 36,743
4.0	29,960 – 38,619	31,398 – 40,473	32,371 – 41,728	33,990 – 43,814	33,480 – 43,157	33,781 – 43,545	34,693 – 44,721	35,352 – 45,571	35,953 – 46,346	36,744 – 47,366
6.0	38,620 – 47,796	40,474 – 50,090	41,729 – 51,643	43,815 – 54,225	43,158 – 53,412	43,546 – 53,893	44,722 – 55,348	45,572 – 56,400	46,347 – 57,359	46,367 – 58,621
8.0	47,797 – 56,456	50,091 – 59,166	51,644 – 61,000	54,226 – 64,050	53,413 – 63,089	53,894 – 63,657	55,349 – 65,376	56,401 – 66,618	57,360 – 67,751	58,622 – 69,242
9.3	56,457 – 1,000,000	59,167 – 1,000,000	61,001 – 1,000,000	64,051 – 1,000,000	63,090 – 1,000,000	63,658 – 1,000,000	65,377 – 1,000,000	66,619 – 340,000	67,752 – 345,780	69,243 – 353,387
10.3	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	$1,000,001 and over	340,001 – 408,000	345,781 – 414,936	353,388 – 424,065
11.3	—	—	—	—	—	—	—	408,001 – 680,000	414,937 – 691,560	424,066 – 706,774
12.3	—	—	—	—	—	—	—	680,001 – 1,000,000	691,561 – 1,000,000	706,775 – 1,000,000
13.3	—	—	—	—	—	—	—	$1,000,001 and over	$1,000,001 and over	$1,000,001 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)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Personal income tax revenue [1]	$ 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	$ 67,584,256
Adjusted gross income [2]	$ 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	$ 1,216,002,700
Average effective rate [3]	4.6%	5.1%	5.0%	5.7%	5.2%	4.7%	5.3%	5.0%	6.1%	5.6%

[1] Personal income tax revenue is reported on a fiscal year basis.

[2] Source: California Franchise Tax Board. Fiscal year 2014 information reflects returns processed as of November 2015.

[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)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Governmental activities										
General obligation bonds [1]	$ 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	$ 80,509,802
Revenue bonds [2]	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	18,409,971
Certificates of participation and commercial paper	923,890	1,358,051	1,736,089	1,407,908	1,342,119	1,335,340	46,098	538,593	598,094	493,770
Capital lease obligations [3]	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	274,760
Total governmental activities	**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**	**99,688,303**
Business-type activities										
General obligation bonds [1, 4]	1,963,305	1,954,220	1,907,243	1,702,377	1,477,663	1,218,639	1,118,634	887,053	674,394	650,133
Revenue bonds [2, 4]	22,812,509	22,934,094	23,003,097	23,053,114	24,538,094	23,290,315	24,790,918	25,558,129	12,991,827	12,670,619
Certificates of participation and commercial paper	231,121	179,782	67,204	51,307	64,518	139,974	67,325	77,560	204,647	237,186
Capital lease obligations	—	—	—	—	—	791,489	817,687	909,871	1,250,274	1,210,409
Total business-type activities	**25,006,935**	**25,068,096**	**24,977,544**	**24,806,798**	**26,080,275**	**25,440,417**	**26,794,564**	**27,432,613**	**15,121,142**	**14,768,347**
Total primary government	**$ 84,702,108**	**$ 89,051,552**	**$ 95,326,407**	**$ 107,092,107**	**$ 117,747,412**	**$ 118,638,167**	**$ 120,498,312**	**$ 123,371,957**	**$ 118,173,114**	**$ 114,456,650**
Debt as a percentage of personal income [5]	6.1%	5.9%	6.1%	6.7%	7.7%	7.5%	7.1%	6.8%	6.4%	5.9%
Amount of debt per capita [6]	$ 2,364	$ 2,472	$ 2,630	$ 2,926	$ 3,186	$ 3,178	$ 3,196	$ 3,241	$ 3,075	$ 2,950

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] Amounts for 2014 were restated.

[5] Ratio calculated using personal income data shown on pages 280 and 281 for the prior calendar year.

[6] Amount calculated using population data shown on pages 280 and 281 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)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net general bonded debt										
General obligation bonds [1]	$ 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	$ 80,215,650
Economic Recovery bonds	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	944,285
Less: restricted debt service fund	212,883	792,841	552,326	894	113,172	143,777	330,297	278,425	318,171	818,321
Net Economic Recovery bonds	**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**	**125,964**
Net general bonded debt	**$ 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**	**$ 80,341,614**
Net general bonded debt as a percentage of personal income [2]	3.5%	3.4%	3.7%	4.4%	5.1%	5.1%	4.8%	4.6%	4.5%	4.1%
Amount of net general bonded debt per capita [3]	$ 1,361	$ 1,428	$ 1,594	$ 1,922	$ 2,140	$ 2,157	$ 2,171	$ 2,179	$ 2,176	$ 2,071

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 280 and 281 for the prior calendar year.

[3] Amount calculated using population data shown on pages 280 and 281 for the prior calendar year.

Schedule of General Obligation Bonds Outstanding

June 30, 2015

(amounts in thousands)

Governmental activity	
California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection	$ 2,102,570
California Library Construction and Renovation	276,185
California Park and Recreational Facilities	12,325
California Parklands	2,650
California Safe Drinking Water	55,065
California Stem Cell Research and Cures	1,396,355
California Wildlife, Coastal, and Park Land Conservation	114,210
Children's Hospital	1,299,435
Class Size Reduction Public Education Facilities	5,661,230
Clean Air and Transportation Improvement	787,835
Clean Water	10,045
Clean Water and Water Conservation	4,405
Clean Water and Water Reclamation	20,375
Community Parklands	2,795
County Correctional Facility Capital Expenditure	15,565
County Correctional Facility Capital Expenditure and Youth Facility	71,255
Disaster Preparedness and Flood Prevention	2,231,645
Earthquake Safety and Public Building Rehabilitation	72,495
Economic Recovery	944,285
Fish and Wildlife Habitat Enhancement	5,035
Higher Education Facilities	384,490
Highway Safety, Traffic Reduction, Air Quality, and Port Security	15,413,335
Housing Emergency Shelter	2,084,620
Housing and Homeless	1,470
Kindergarten-University Public Education Facilities	30,842,155
Lake Tahoe Acquisitions	150
New Prison Construction	32,230
Passenger Rail and Clean Air	42,025
Public Education Facilities	1,396,980
Safe, Clean, Reliable Water Supply	545,745
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection	1,398,450
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection	2,396,365
Safe Neighborhood Parks	1,468,840
Safe, Reliable High-Speed Passenger Train	808,970
School Building and Earthquake	14,635
School Facilities	1,060,600
Seismic Retrofit	1,155,030
State, Urban, and Coastal Park	3,930
Veterans' Homes	35,205
Veterans Housing and Homeless Prevention	125
Voting Modernization	28,840
Water Conservation	22,870
Water Conservation and Water Quality	31,645
Water Security, Clean Drinking Water, Coastal and Beach Protection	2,694,875
Total governmental activity	**76,949,340**
Business-type activity	
California Water Resources Development	184,960
Veterans Farm and Home Building	466,190
Total business-type activity	**651,150**
Total outstanding general obligation bonds	**77,600,490**
Unamortized bond premiums/discounts	3,559,445
Total general obligation bonds payable	**$ 81,159,935**

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 [7]	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
	2015	57,742	24,413	33,329	12,960	14,095	27,055	1.23
Water Resources	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	174,660	145,660	320,320	0.95
	2014	973,508	798,653	174,855	150,911	107,727	258,638	0.68
	2015	1,019,378	607,407	411,971	203,481	200,563	404,044	1.02
Water Pollution Control	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
	2015	56,350	1,092	55,258	42,940	293	43,233	1.28

(continued)

Source: California State Controller'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 Construction 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.

[7] Principal amounts for prior years 2013 and 2014 have been updated.

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	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
	2015	799,000	(132,000)	931,000	618,000	268,000	886,000	1.05
Public Buildings Construction	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
	2015	462,703	3,646	459,057	782,975	492,868	1,275,843	0.36
High Technology Education [4]	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]	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)	126,395	181,969	308,364	(4.99)
	2014	4,505,589	6,376,502	(1,870,913)	257,964	173,424	431,388	(4.34)
	2015	4,780,280	6,363,534	(1,583,254)	400,412	177,642	578,054	(2.74)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
CSU Channel Islands Financing Authority [4]	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	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
	2015	54,090	—	54,090	38,800	19,701	58,501	0.92
Golden State Tobacco Securitization Corporation	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
	2015	414,992	—	414,992	133,900	292,173	426,073	0.97
Grant Anticipation Revenue Vehicles [6]	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
	2015	84,289	—	84,289	78,090	6,199	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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Population (in thousands)										
California	35,828	36,021	36,250	36,604	36,961	37,336	37,702	38,063	38,431	38,803
% Change	0.7%	0.5%	0.6%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
United States	295,517	298,380	301,231	304,094	306,772	309,347	311,722	314,112	316,498	318,857
% Change	0.9%	1.0%	1.0%	1.0%	0.9%	0.8%	0.8%	0.8%	0.8%	0.7%
Total personal income (in millions)										
California	$ 1,398,953	$ 1,501,831	$ 1,565,343	$ 1,602,749	$ 1,537,136	$ 1,583,447	$ 1,691,003	$ 1,812,315	$ 1,849,505	$ 1,939,528
% Change	5.7%	7.4%	4.2%	2.4%	-4.1%	3.0%	6.8%	7.2%	2.1%	4.9%
United States	$ 10,610,320	$ 11,381,350	$ 11,995,419	$ 12,492,705	$ 12,079,444	$ 12,459,613	$ 13,233,436	$ 13,904,485	$ 14,064,468	$ 14,683,147
% Change	5.5%	7.3%	5.4%	4.1%	-3.3%	3.1%	6.2%	5.1%	1.2%	4.4%
Per capita personal income										
California [1]	$ 39,046	$ 41,693	$ 43,182	$ 43,786	$ 41,588	$ 42,411	$ 44,852	$ 47,614	$ 48,125	$ 49,984
% Change	5.1%	6.8%	3.6%	1.4%	-5.0%	2.0%	5.8%	6.2%	1.1%	3.9%
United States [1]	$ 35,904	$ 38,144	$ 39,821	$ 41,082	$ 39,376	$ 40,277	$ 42,453	$ 44,266	$ 44,438	$ 46,049
% Change	4.6%	6.2%	4.4%	3.2%	-4.2%	2.3%	5.4%	4.3%	0.4%	3.6%
Labor force and employment (in thousands)										
California										
Civilian labor force	17,545	17,687	17,921	18,203	18,208	18,316	18,385	18,511	18,573	18,941
Employed	16,592	16,821	16,961	16,890	16,145	16,052	16,227	16,740	17,044	17,600
Unemployed	953	865	960	1,313	2,064	2,265	2,158	1,771	1,530	1,341
Unemployment rate	5.4%	4.9%	5.4%	7.2%	11.3%	12.4%	11.7%	9.6%	8.2%	7.1%
United States employment rate	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%	8.9%	8.1%	7.4%	6.2%

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] Calculated by dividing total personal income by population.

Schedule of Employment by Industry

For Calendar Years 2005 and 2014

	2005		2014	
Industry	**Employees**	**Percent of Total State Employment**	**Employees**	**Percent of Total State Employment**
Services	5,945,000	38.5 %	7,144,600	44.4 %
Government				
Federal	195,800	1.3	183,900	1.1
Military	54,600	0.4	58,400	0.4
State and Local	2,169,700	14.1	2,168,800	13.4
Retail trade	1,659,300	10.8	1,633,800	10.2
Manufacturing	1,505,200	9.8	1,269,600	7.9
Information, finance, and insurance	1,110,200	7.2	976,300	6.1
Construction and utilities	961,000	6.2	733,500	4.6
Wholesale trade	673,600	4.4	715,100	4.5
Transportation and warehousing	431,400	2.8	464,100	2.9
Farming	378,200	2.5	417,200	2.6
Real estate	283,600	1.8	265,900	1.7
Natural resources and mining	23,600	0.2	31,300	0.2
Total	**15,391,200**	**100.0 %**	**16,062,500**	**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
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	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
2015	45,381	139,957	44,654	24,959	5,552	39,636	60,897	361,036

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.

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Schedule of Operating Indicators by Function

For the Past Ten Fiscal Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Government										
State Lottery										
Total revenue [1]	$ 3,585	$ 3,318	$ 3,050	$ 2,955	$ 3,041	$ 3,439	$ 4,371	$ 4,446	$ 5,035	$ 5,525
Allocation to Education Fund [1]	$ 1,259	$ 1,177	$ 1,069	$ 1,028	$ 1,072	$ 1,103	$ 1,300	$ 1,262	$ 1,328	$ 1,364
Judicial Council of California										
Supreme Court [2, 10]										
Cases filed	9,465	9,198	10,752	9,486	9,759	10,328	9,232	8,027	7,907	N/A
Cases disposed	9,965	9,324	10,593	9,689	9,537	10,200	9,724	8,493	7,745	N/A
Courts of Appeal										
Notices of appeal filed [3, 10]										
Civil	6,018	6,116	5,913	5,958	6,122	6,258	6,505	6,052	5,983	N/A
Criminal	6,516	6,508	6,681	6,819	6,857	6,877	6,387	6,004	6,373	N/A
Juvenile	2,715	2,880	2,900	2,858	2,759	2,106	2,830	2,713	2,857	N/A
Trial Courts										
Total civil cases [4, 10]										
Filings	1,418,722	1,462,820	1,582,092	1,729,648	1,647,817	1,574,569	1,454,810	1,355,345	1,260,999	N/A
Dispositions	1,267,534	1,286,736	1,280,184	1,537,243	1,530,502	1,599,388	1,432,231	1,321,710	1,214,658	N/A
Department of Food and Agriculture										
Milk production (million lbs.) [5, 10]	38,830	40,683	41,203	39,512	40,385	41,462	41,801	41,256	42,337	N/A
Farm land (thousand acres) [5, 10]	25,700	25,400	25,400	25,500	25,500	25,600	25,600	25,500	25,500	N/A
Education										
Public Colleges and Universities										
Fall enrollment [10]										
Community Colleges [10]	1,644,103	1,723,782	1,823,731	1,822,838	1,747,235	1,655,077	1,582,281	1,582,457	1,577,539	N/A
California State University	417,156	433,017	437,008	433,054	412,372	426,534	436,560	446,530	460,200	N/A
University of California [10]	214,298	220,034	226,040	231,853	234,464	236,691	238,686	244,126	N/A	N/A
K-12 Schools										
Fall enrollment										
Public	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	6,235,520
Private	594,597	583,794	564,734	536,393	531,111	515,143	497,019	516,119	511,286	503,295

(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 November 2015.
[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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Health and Human Services										
Department of Public Health										
Vital statistics										
Live births [5,10]	562,157	566,137	551,567	526,774	509,974	502,023	503,788	494,390	500,748 [11]	504,304 [11]
Department of Social Services										
Total Food Stamp households (avg. per month)	809,782	823,335	892,992	1,067,358	1,340,857	1,576,042	1,757,387	1,898,283	2,004,016	2,102,031
Employment Development Department										
Number of employed [5, 6, 10]	15,613,300	15,691,100	15,142,000	14,326,300	14,476,400	14,614,600	15,240,400	16,109,200	16,062,300	N/A
Resources										
Department of Fish and Wildlife										
Sport fishing licenses sold [7, 10]	2,924,325	3,003,783	2,857,236	2,838,776	2,410,008	2,483,680	2,580,762	2,539,244	2,490,383	2,456,997
Hunting licenses sold [7, 10]	1,655,760	1,718,657	1,670,190	1,679,864	1,677,864	1,863,202	1,988,755	2,032,788	1,979,796	1,787,885
California Energy Commission										
Electrical energy generation plus net imports (gigawatt hours) [10]	298,310	304,900	307,448	298,502	291,141	293,761	302,239	296,203	296,843	N/A
State and Consumer Services										
Franchise Tax Board										
Personal Income Tax [5, 10]										
Number of tax returns filed	14,382,677	15,016,273	14,806,335	14,638,204	14,814,427	15,042,359	15,152,800	15,487,100	15,877,000	N/A
Taxable income [1]	$ 812,008	$ 872,869	$ 799,490	$ 729,658	$ 794,758	$ 838,347	$ 948,523	$ 949,655	$ 1,064,347	N/A
Total tax liability [1]	$ 45,716	$ 49,693	$ 41,676	$ 38,870	$ 44,472	$ 43,921	$ 58,652	$ 55,679	$ 66,583	N/A
Corporation Tax [5]										
Number of tax returns filed	684,363	709,937	722,358	727,675	738,224	754,315	784,086	801,045	N/A	N/A
Income reported for taxation [1]	$ 140,325	$ 121,843	$ 67,921	$ 55,367	$ 96,965	$ 93,456	$ 96,772	$ 101,913	N/A	N/A
Total tax liability [1]	$ 9,992	$ 9,414	$ 9,106	$ 7,858	$ 8,604	$ 7,808	$ 6,921	$ 7,166	N/A	N/A
Business and Transportation										
Department of Motor Vehicles										
Motor vehicle registration [5]	33,882,029	32,047,124	31,920,649	31,799,398	31,987,821	31,802,483	31,946,422	32,903,847	33,550,486	N/A
License issued by age [5, 8]										
Under age 18	268,199	262,415	244,481	229,545	218,997	227,069	224,809	221,385	223,024	N/A
Between 18-80	22,450,786	22,804,927	22,922,361	22,910,011	23,001,119	23,150,222	23,462,971	23,824,697	24,195,705	N/A
Over age 80	518,102	562,518	552,150	560,491	579,397	579,207	602,508	597,350	595,739	N/A
California Highway Patrol										
Total number of DUI arrests [5]	94,251	92,270	97,019	95,135	89,814	86,901	79,993	76,860	73,425	59,849
Department of Transportation										
Highway center-line miles – rural [5, 9]	10,821	10,830	10,811	10,808	10,785	10,780	10,784	10,315	10,312	N/A
Highway center-line miles – urban [5, 9]	4,422	4,439	4,393	4,384	4,375	4,353	4,363	4,789	4,787	N/A
Correctional Programs										
Department of Corrections and Rehabilitation										
Division of Adult Institutions										
Institution population at December 31 each year	171,310	170,452	170,283	167,922	162,200	147,181	132,768	134,333	134,431	127,815
Division of Juvenile Justice										
Institution population at June 30 each year	2,962	2,531	1,877	1,589	1,474	1,263	922	712	675	659

(concluded)

Schedule of Capital Asset Statistics by Function

For the Past Ten Fiscal Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Government										
Department of Food and Agriculture										
Vehicles and mobile equipment [1]	907	915	818	803	746	809	804	792	747	747
Square footage of structures (in thousands)	453	453	453	466	466	466	466	455	455	455
Department of Justice										
Vehicles and mobile equipment	968	966	826	870	816	677	531	527	520	520
Department of Military										
Vehicles and mobile equipment	210	182	206	182	208	249	233	211	211	211
Square footage of structures (in thousands)	3,388	3,388	3,387	3,383	3,154	3,530	3,511	3,623	4,019	3,977
Department of Veterans Affairs										
Veterans homes	3	3	3	5	6	6	6	8	8	8
Vehicles and mobile equipment	111	248	251	120	113	132	143	267	285	285
Square footage of structures (in thousands)	1,598	1,598	1,598	1,683	1,600	2,086	2,086	2,488	2,543	2,541
Education										
California State University										
Vehicles and mobile equipment [1]	601	3,343	3,994	4,015	4,338	4,415	4,415	4,466	4,619	4,619
Campuses	23	23	23	23	23	23	23	23	23	23
Square footage of structures (in thousands)	59,921	62,198	63,971	66,686	69,049	71,287	73,785	73,866	73,316	73,988
Health and Human Services										
Department of Developmental Services										
Vehicles and mobile equipment	655	829	839	701	569	818	789	632	424	571
Developmental centers	7	7	7	7	5	5	5	4	4	3
Square footage of structures (in thousands)	5,181	5,181	5,186	5,187	5,185	5,294	5,294	5,279	5,308	4,699
Department of State Hospitals [2]										
Vehicles and mobile equipment	655	629	638	658	665	709	718	699	886	752
State hospitals	5	5	5	5	5	5	5	7	7	7
Square footage of structures (in thousands)	4,673	6,359	6,364	6,348	6,331	6,331	6,336	6,457	6,460	6,445

(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] In fiscal year 2012, portions of the Department of Mental Health became the Department of State Hospitals.

[3] 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.

Schedule of Capital Asset Statistics by Function (continued)

For the Past Ten Fiscal Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Resources										
Department of Fish and Wildlife										
Vehicles and mobile equipment	3,182	3,311	2,868	3,640	2,630	3,180	3,012	2,896	2,954	2,954
Square footage of structures (in thousands)	1,112	1,120	1,192	1,269	1,301	1,313	1,317	1,317	1,311	1,311
Department of Forestry and Fire										
Vehicles and mobile equipment	2,572	2,945	3,043	3,067	2,598	2,804	2,810	2,845	2,748	2,748
Square footage of structures (in thousands)	3,885	3,883	3,869	3,851	3,947	3,943	3,935	3,641	3,632	3,664
Department of Parks and Recreation										
Vehicles and mobile equipment	2,742	2,988	3,023	3,220	3,102	3,715	4,200	3,311	3,489	3,489
State Parks	278	276	279	278	278	279	280	280	279	280
Acres of state park land (in thousands)	1,552	1,235	1,248	1,331	1,365	1,334	1,333	1,590	1,590	1,605
Square footage of structures (in thousands)	6,350	6,350	6,350	6,350	6,350	6,433	6,623	6,598	6,751	6,761
State Lands Commission										
Vehicles and mobile equipment	49	51	49	57	47	50	42	42	41	41
Acres of land (in thousands)	4,496	4,492	4,491	4,491	4,491	4,491	4,491	4,489	4,489	4,482
State and Consumer Services										
Department of Consumer Affairs										
Vehicles and mobile equipment	1,050	640	726	718	574	578	574	518	554	554
Department of General Services										
Vehicles and mobile equipment	6,894	7,330	7,558	6,736	5,761	5,670	4,991	5,226	5,053	5,053
Square footage of structures (in thousands)	17,350	18,084	18,084	18,084	18,394	18,602	19,180	19,098	19,367	19,448
Business and Transportation										
California Highway Patrol										
Vehicles and mobile equipment [3]	4,105	4,655	5,228	5,914	5,422	5,337	5,013	5,341	5,170	5,170
Square footage of structures (in thousands)	1,087	1,110	1,118	1,118	1,135	1,135	1,149	1,149	1,166	1,169
Department of Motor Vehicles										
Vehicles and mobile equipment	373	458	434	417	366	366	366	294	295	295
Square footage of structures (in thousands)	1,827	1,866	1,848	1,855	1,855	1,842	1,842	1,842	1,845	1,786
Department of Transportation										
Vehicles and mobile equipment	11,048	11,130	11,098	13,346	11,302	12,759	12,690	11,767	11,596	11,596
Square footage of structures (in thousands)	6,632	6,618	6,229	6,434	6,444	6,519	8,131	8,170	7,960	7,965
Correctional Programs										
Department of Corrections and Rehabilitation										
Vehicles and mobile equipment [1]	6,451	6,657	7,908	7,778	5,787	5,985	5,952	5,156	5,137	5,968
Prisons and juvenile facilities	32	41	41	39	39	39	39	37	37	39
Square footage of structures (in thousands)	40,622	40,777	40,831	40,852	41,228	41,399	41,399	40,606	40,726	40,590

(concluded)

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