



Audit Committee  
California Housing Finance Agency  
Sacramento, California

We have audited the financial statements of the California Housing Loan Insurance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency) for the year ended December 31, 2013, and have issued our report thereon dated April 29, 2014. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

**Significant audit findings**

***Qualitative aspects of accounting practices***

*Accounting policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Fund are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2013.

We noted no transactions entered into by the Fund during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

*Accounting estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

- Management evaluates the reserves for unpaid losses and loss adjustment expense on an annual basis based on changes in nature and volume of insurance portfolio, historical analysis of delinquent loans and anticipated economic conditions that may affect the borrower's ability to pay. Management of the Fund has provided us with details regarding the process used in formulating these estimates.
- Computations performed by independent outside specialists, including actuarial assumptions of future paid losses, future expenses necessary to run-off existing business and future renewal premium, were relied upon to establish the premium deficiency reserve.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

***Difficulties encountered in performing the audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Uncorrected misstatements***

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

***Corrected misstatements***

The attached schedule summarizes material misstatements detected as a result of audit procedures that were corrected by management.

***Disagreements with management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

***Management representations***

We have requested certain representations from management that are included in the attached management representation letter dated April 29, 2014.

***Management consultations with other independent accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Significant issues discussed with management prior to engagement***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the Fund's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

**The Fund's ability to continue as a going concern**

The following condition, when considered and after considering management's plans, caused us to conclude that substantial doubt about the Fund's ability to continue as a going concern for a reasonable time remains:

- The Fund has experienced recurring losses, and Management of the Fund has concluded that there is substantial doubt as to the Fund's ability to continue as a going concern.

These conditions and events and management's plans for addressing them are disclosed in Note 2 to the financial statements. We concluded the disclosures are adequate. The outcome of these uncertainties could result in the realizability of assets and the settlement of liabilities at amounts materially different than their carrying values in the financial statements which were prepared on a going concern basis.

Because we concluded there is substantial doubt about the Fund's ability to continue as a going concern, we included an emphasis-of-matter paragraph in our auditors' report reflecting that conclusion. The paragraph states:

The accompanying financial statements have been prepared assuming that the Fund will continue as a going concern. As discussed in Note 2 to the financial statements, the Fund has suffered recurring losses from operations and has a net capital deficiency that raised substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

**Other information in documents containing audited financial statements**

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

This communication is intended solely for the information and use of the Board of Directors and management of California Housing Loan Insurance Fund and is not intended to be and should not be used by anyone other than these specified parties.



**CliftonLarsonAllen LLP**

Bellevue, Washington  
April 29, 2014

Client: 026-03268000 - California Housing Finance Agency  
 Engagement: AUD - California Housing Loan Insurance Fund  
 Period Ending: 12/31/2013  
 Trial Balance: 0900 - TB  
 Workpaper: 0920.00 - Adjusting Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 1</b>				
To revese the CLA and Milliman accruals that did not occur as of year end.				
3019-0000	Accounts payable - expenditure		97,557.50	
9012-0000	Operating expenses - CAHLIF			97,557.50
<b>Total</b>			<b>97,557.50</b>	<b>97,557.50</b>
<b>Adjusting Journal Entries JE # 2</b>				
Correct employee cash out of accrued leave to correct account. Client provided entry after CLA noticed negative balance in account.				
9014-9021	Accrued leave time expense		68,289.00	
9011-0000	Personal services - CAHLIF			68,289.00
<b>Total</b>			<b>68,289.00</b>	<b>68,289.00</b>

 CalHFA California Housing Finance Agency

April 29, 2014

CliftonLarsonAllen LLP  
3000 Northup Way, Suite 200  
Bellevue, Washington 98004

This representation letter is provided in connection with your audits of the financial statements of California Housing Loan Insurance Fund (the Fund), which is administered by the California Housing Finance Agency, as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of April 29, 2014 the following representations made to you during your audit.

#### Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 28, 2014 for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- We acknowledge and have fulfilled our responsibility for 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions used in making those estimates, and we believe the estimates and the significant assumptions used in making those accounting estimates are reasonable.
- Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.

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- Related party relationships and transactions, including, but not limited to, revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- No events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
- We have not identified or been notified of any uncorrected financial statement misstatements.
- The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- Guarantees, whether written or oral, under which the entity is contingently liable, if any, have been properly recorded or disclosed in accordance with U.S. GAAP.
- We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- Regarding the entity's ability to continue as a going concern for a reasonable period of time:
  - Our plans to continue to operate and monitor the Fund are intended to mitigate the adverse effects of conditions or events that indicate there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.
  - We believe the likelihood those plans can be effectively implemented is reasonably possible.
  - Note 2 to the financial statements discloses all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including principal conditions and events and management's plans.
- We have no intention of terminating our participation in the Public Employees Retirement Fund, administered by CalPERS as part of the State of California as the primary government or taking any other action that could result in an effective termination or reportable event for the plan. We are not aware of any occurrences that could result in the termination of our pension plan to which we contribute. The Fund has no liability for pension costs or benefits other than the normal annual required contributions as determined by CalPERS. As such required contributions have been remitted.
- We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefits (OPEB) liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- We agree with the findings of the specialist in evaluating the unpaid claim liabilities and analysis of reinsurance program 75% quota share, and have adequately considered the qualifications of the specialist in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to the

specialist with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have affected the independence or objectivity of the specialist.

- The reserves for unpaid losses and loss adjustment expense, including amounts for incurred but not reported claims, net of the quota share arrangement and net of salvage and subrogation recoverable, has been determined using appropriate historical and expected frequency and loss severity, estimated ultimate costs of settling the claims (including the effects of inflation and other societal and economic factors), using past experience and are the most appropriate under the circumstances. The Fund's reinsurance agreement provides for a recovery of a proportionate level of claim expenses from the reinsurer. The Fund remains liable to its policyholders if the reinsurer is unable to satisfy their obligations under the reinsurance agreement. Management has assessed that financial strength of Genworth and does not believe that the Fund is exposed to any significant credit or counterparty risk other than which has been disclosed to you and is included in the financial statements.
- The Fund entered into a reinsurance treaty and administrative services agreement with Genworth (formally known as General Electric Mortgage Insurance Corporation) effective March 1, 2003. This agreement ceded to Genworth 75% quota share of the insurance risk for 93% of loans insured by the Fund at December 31, 2013. The remaining 7% of loans insured by the Fund do not have reinsurance coverage from Genworth as of December 31, 2013.
- The reinsurer must assume significant insurance risk under the reinsured portions of the underlying contract; and it is reasonably possible that the reinsurer realize a significant loss. Both of these conditions were met as of December 31, 2013. The reinsurance agreement with Genworth provides 75% loss coverage (which represents significant insurance risk) and it is reasonably possible that Genworth will realize a significant loss, as such probability is greater than remote (meeting the FASB ASC 944 standard for reasonable possibility). In addition, the amounts and disclosures used in the financial statements and underlying accounting records related to the reinsurance contract with Genworth are adequate.
- With respect to the Fund's reserves for claim and claim judgment expenses:
  - a. For the year ended December 31, 2013, we have processed claims received by the Fund in a manner and timing consistent with prior years.
  - b. We have considered all information that, in our judgment, is necessary to adequately estimate the claim and claim adjustment expense reserves at the balance-sheet date, including, among other things:
    - o Anticipated and historical claims experience of the Fund
    - o Anticipated and historical claims experience of the mortgage insurance industry
    - o Expected impact of inflation and other economic or social factors on future payments of losses incurred at the balance-sheet date
    - o Lines and geographical locations of the business written and assumed by the Fund
    - o The Fund's underwriting and claims policies and procedures

- o The timeliness and reliability of reports from reinsures
  - o Estimates of claim recoveries, exclusive of reinsurance recoveries.
  - c. The Fund has considered and properly disclosed in the financial statements all the information with respect to claim and claim adjustment expense reserves and related claim recoveries, which in our judgment, is necessary to adequately identify and understand the nature of reserving estimates and underlying coverage issues, including the potential volatility, complexity, and uncertainty of such estimates and the possibility that the ultimate liability may vary significantly from the recorded reserve and related recovery amounts.
  - d. The reserve for unpaid claims and claim adjustment expenses for the Fund at December 31, 2013 is management's best estimate and makes a reasonable provision for all reported and unreported claims incurred as of December 31, 2013 based upon the consideration of all information available at the date those financial statements were prepared, including actuarial indications and other factors.
- Unearned premiums are fairly stated at December 31, 2013 and the calculations of such are consistent with those of the preceding year. Business expired and reinsurance ceded has been excluded from premiums in force and unearned.
  - The premium deficiency reserve has been determined using appropriate historical data, estimated future losses and expenses and related premium revenue on unexpired business. Management believes this reserve is adequate based on an independent third party actuarial report.

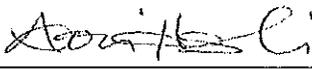
#### Information Provided

- We have provided you with:
  - o Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
  - o Additional information that you have requested from us for the purpose of the audit.
  - o Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - o Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
- All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - o Management;

- Employees who have significant roles in internal control; or
- Others when the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
- We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations and provisions of contracts and grant agreements, or abuse whose effects should be considered when preparing financial statements.
- We are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments, that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
- There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- The insurance in-force files properly reflect all policies and contracts in force as of and for the year ended December 31, 2013.
- Management has disclosed all communications from the Fund's third-party service organization (Genworth) relating to any noncompliance with the Fund's operations at that service organization.
- We have a process to track the status of audit findings and recommendations.
- We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Fund, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- The entity has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

- We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net positions were properly recognized under the policy.
- We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Signature:  Title: EXECUTIVE DIRECTOR

Signature:  Title: COMPTROLLER