



BOARD OF DIRECTORS

*California Housing Finance Agency
Board of Directors*

Audit Committee

November 5, 2014

Burbank Airport Marriott Hotel
& Convention Center
2500 Hollywood Way
Burbank, California
(818) 843-6000

9:00 a.m.

1. Roll Call.
2. Chairman comments.
3. Review and discussion of the Audited Financial Statements for the California Housing Finance Fund for the year ended June 30, 2014, Single Audit of Federal Funds, Proposition 1C and Fannie Mae Agreed-Upon Procedures including a discussion with auditors from CliftonLarsonAllen LLP.
 - A. CliftonLarsonAllen Presentation[Handout]
 - B. CalHFA Governance Letter 1
 - C. Housing Finance Fund Audited Financial Statements 13
 - D. Single Audit Report 81
 - E. Management Letter 95
 - F. Prop 1C Agreed-Upon Procedures 99
 - G. Fannie Mae Document Custodian Agreed-Upon Procedures 101
4. Public testimony.
5. Adjournment.

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CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Board of Directors
 California Housing Finance Fund
 Sacramento, California

We have audited the accompanying financial statements of the California Housing Finance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency), a component unit of the State of California as of June 30, 2014, and have issued our report thereon dated October 13, 2014. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Circular A-133, 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 2 to the financial statements.

As described in Note 2, the Fund changed accounting policies related to the deferred outflows of resources, deferred inflows of resources, and net position by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 65, *Items Previously Reported as Assets and Liabilities*, in 2013. Accordingly, the cumulative effect of the accounting was not material to the financial statement and was adjusted through the current year. Also, as described in Note 2, the Fund changed accounting policies related to the government combinations and disposals of government operations and the consistent reporting by both governments that extends nonexchange financial guarantees and those governments that receive nonexchange financial guarantees, by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 69, *Government Combinations and Disposals of Government Operations* and Statement of Governmental Accounting Standards (GASB Statement) No. 70, *Accounting and financial Reporting for Nonexchange Financial Guarantees*, respectively. Accordingly, neither GASB 69 nor GASB 70 was determined to have any effect on the Fund.

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 estimates affecting the financial statements were:

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- Management's estimate of the allowance for loan losses based on management's knowledge and experience about past and current events, assumptions about future events, and analysis of the collectability. We evaluated the key factors and assumptions used to develop the the accounting for loan losses in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the fair market value of investments and other assets is based on management's knowledge and experience about past and current events, assumptions about future events and outside third parties. We evaluated the key factors and assumptions used to develop the fair market value of investments and other assets in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the fair market value of derivative instrument and evaluation of derivative instrument effectiveness is based on management's knowledge and experience about past and current events, assumptions about future events and outside third parties. We evaluated the key factors and assumptions used to develop the fair market value of derivative instrument and evaluation of derivative instrument effectiveness in determining that it is reasonable in relation to the financial statements taken as a whole.

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

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 October 13, 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.

Significant findings or issues that were discussed, or the subject of correspondence, with management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year. The following summarizes the significant findings or issues arising from the audit that were discussed, or the subject of correspondence, with management:

During FY 2014, management revised their methodology for allowance for loan loss of the single family mortgage receivables and determined that the allowance account was overstated by \$39,494,450 which is the estimated amount of claims payable owed to the Housing Finance Fund from the Housing Loan Insurance Fund. The Agency's staff discovered the error during the process of switching the allowance for loan loss methodology to a loan-by-loan analysis of the single family mortgage receivables and identifying the variance between the old and new allowance calculation.

Other audit findings or issues

We have provided a separate letter to you dated October 13, 2014, communicating internal control related matters identified during the audit.

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.

With respect to the schedule of expenditures of federal awards (SEFA) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the SEFA to determine that the SEFA complies with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the method of preparing it has not changed from

California Housing and Finance Fund
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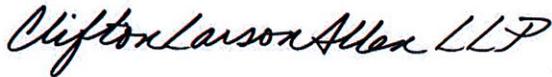
the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated October 13, 2014.

With respect to the supplemental combining program information and SCO GAAP information (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated October 13, 2014.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

* * *

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



CliftonLarsonAllen LLP

Bellevue, Washington
October 13, 2014

CalHFA™ California Housing Finance Agency

CliftonLarsonAllen LLP
 3000 Northup Way, Suite 200
 Bellevue, WA 98004-1446

This representation letter is provided in connection with your audit of the financial statements of California Housing Finance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency), a component unit of the State of California which comprise the statement of net position as of June 30, 2014, and the related statement of revenues, expenses, and changes in net position, and cash flows for the period 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 October 13, 2014, the following representations made to you during your audit of the financial statements as of and for the year ended June 30, 2014.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 21, 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 (including those measured at fair value) and the significant assumptions used in making those accounting estimates are reasonable.

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- 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.
- 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.
- All events occurring subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- 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.
- Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.
- The amount of "uncollateralized" deposits or "uninsured, unregistered securities held by the counterparty but not in the entity's name" as of the financial statement date was properly disclosed in the financial statements.
- Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the financial statement date and have been reduced to their estimated net realizable value.
- We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- We believe that all material expenditures that have been deferred to future periods will be recoverable.
- 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 are not aware of the State making any plans to make frequent amendments to our pension or other postretirement benefit plans.

Information Provided

- We have provided you with:
 - 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.
 - Additional information that you have requested from us for the purpose of the audit.
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - 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.
 - Access to all audit or relevant monitoring reports, if any, received from funding sources.
- All transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
- 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:
 - 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, grantors, regulators, or others.
- We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse whose effects should be considered when preparing financial statements.
- We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 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 entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as made known to you and disclosed in the financial statements.
- We have taken timely and appropriate steps to remedy any findings that you have reported to us.
- 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 have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to California Housing Finance 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 or grant 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.
- The financial statements properly classify all funds and activities.
- Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- Provisions for uncollectible receivables have been properly identified and recorded.
- Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

- Revenues are appropriately classified in the statement of activities within program revenues and other revenues.
- Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- Deposits and investment securities and derivative instruments are properly classified as to risk and are properly valued and disclosed.
- Capital assets are properly capitalized, reported, and, if applicable, depreciated.
- 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 is available and have determined that net position is 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.
- We acknowledge our responsibility for presenting the Combining Program Information (the supplementary information) in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditors' report thereon.
- With respect to federal award programs:
 - We are responsible for understanding and complying with, and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including requirements relating to preparation of the schedule of expenditures of federal awards.
 - We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with OMB Circular A-133 §310.b. The methods of measurement and presentation of the SEFA have not changed from those used in the prior, and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.

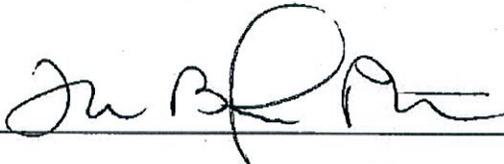
- If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issued the SEFA and the auditors' report thereon.
- We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133, and included in the SEFA expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
- We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- We have received no requests from a federal agency to audit one or more specific programs as a major program.
- We have complied with the direct and material compliance requirements except for noncompliance disclosed to you, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards.
- We have disclosed to you any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the

objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.

- Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- We have disclosed to you all known instances of noncompliance with direct and material compliance requirements occurring subsequent to the period covered by the auditors' report.
- We have disclosed to you whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies and/or material weaknesses in internal control over compliance, have occurred subsequent to the date as of which compliance was audited.
- Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.
- The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- We have charged costs to federal awards in accordance with applicable cost principles.
- We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- We are responsible for preparing a corrective action plan and taking corrective action on each audit finding.

October 13, 2014
CliftonLarsonAllen LLP
Page 8

- o We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

Signature:  Title: Executive Director

Signature:  Title: COMPTROLLER

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CALIFORNIA HOUSING FINANCE AGENCY (A Component Unit of the State of California)

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INDEPENDENT AUDITORS' REPORT

Board of Directors
California Housing Finance Fund
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the California Housing Finance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency), a component unit of the State of California which comprise the statements of net position as of June 30, 2014 and 2013, 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.

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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. 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 auditors' 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2014 and 2013, and the changes in financial position and cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the Agency as of June 30, 2014, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding a Correction of an Error

As described in Note 3 of the financial statements, the Fund recorded a prior period adjustment to correctly record the allowance for loan loss. Our opinion is not modified with respect to that matter.

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 4-16 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The combining program information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining program information is the responsibility of management and was derived from and relates 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. In our opinion, the combining program information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2014, on our consideration of the Fund'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 result 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 Fund's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Bellevue, Washington

October 13, 2014

CALIFORNIA HOUSING FINANCE FUND
Management Discussion and Analysis
of Financial Position and Results of Operations
As of and for the fiscal years ended June 2014 and 2013

Introduction – The California Housing Finance Agency

The California Housing Finance Agency (“Agency”) was created in 1975 by an act of the California Legislature and commenced operations in 1976. The Agency is a component unit of the State of California (“State”) and is included in the State’s Comprehensive Annual Financial Report. The Agency is authorized to administer the activities of the California Housing Finance Fund (“Fund”), the California Housing Loan Insurance Fund (“Mortgage Insurance Fund”) and two state general obligation bond funds. The Agency is governed by a Board of Directors which consists of 13 voting members and three non-voting members. Of the 13 voting members, seven are appointed by the Governor, four are ex-officio and two are appointed by the Legislature. The statutory role of the Board is to: 1) enact the annual financing resolutions that permit the issuance of bonds and 2) enact the Agency’s operating budget and business plan. Subject to the supervision of the Board, the Agency’s day-to-day operational authority statutorily resides with the Agency’s Executive Director. The annual audited financial statements of both the Fund and the Mortgage Insurance Fund are available on the Agency’s website - www.calhfa.ca.gov.

Effective July 1, 2013, pursuant to the Governor’s Reorganization Plan 2, the Agency was moved from being within the Business, Transportation and Housing Agency to being within the Department of Housing and Community Development. The Department does not have any administrative authority over the California Housing Finance Fund. Pursuant to Health and Safety Code section 51000, expenditures from the California Housing Finance Fund are administered by the Agency and are not subject to the supervision or approval of any other officer or division of state government. Further, pursuant to the Health and Safety Code section 51000.1, no officer or division of state government has the authority to transfer any sums of money from any fund or account of the Agency, except as authorized by the executive director of the Agency or designated trustee pertaining to bonds issued by the Agency.

The CalHFA Mortgage Assistance Corporation (“CalHFA MAC”) is a nonprofit public benefit corporation organized under the laws and rules of the state of California and within the meaning of Section 501(c)(3) of the Internal Revenue Code. CalHFA MAC is organized as an entity separate from CalHFA and its purposes, amongst other things are 1) to “develop and administer programs permitted under the Emergency Economic Stabilization Relief Act of 2008 (EESA) and to act as an institution eligible to receive funds under EESA’s Troubled Asset Relief Program,” and 2) to “lessen the burdens of government by assisting CalHFA to prevent or mitigate the impact of foreclosures on low and moderate income persons within the State of California.” Although CalHFA grants CalHFA MAC a license to use “CalHFA” in its name, both acknowledge they are separate entities. Both are created under different provisions of law; the sources of funding for each are different; the funds are maintained separately; each maintains its own set of books and records separately; operational decisions of CalHFA MAC are not under the direction or control of the Agency’s Executive Director or the Agency’s Governing Board. CalHFA MAC is solely responsible for its contractual and other obligations incident to running the Keep Your Home California (“KYHC”) program. The annual audited financial statements of CalHFA MAC are available on the Keep Your Home California website - www.keepyourhomecalifornia.org.

The following Management Discussion and Analysis (“MD&A”) applies only to the activities of the California Housing Finance Fund and should be read in conjunction with the Fund’s financial statements and the notes to the financial statements. Operations of the Fund include the issuance of Agency bonds and notes to fund loans to qualified borrowers for single family houses and multifamily developments. The Agency is entirely self-funded and does not draw upon the general taxing authority of the State.

The financial statements present the totals of the programs and accounts of the Fund. The supplemental combining information of the Fund is organized by the following major categories: Homeownership Programs, Multifamily Rental Housing Programs, and Other Programs and Accounts. This supplemental information and additional information for specific programs and accounts is reported after the Notes to the financial statements.

The Homeownership Programs provide low cost mortgage capital to a network of approved lenders from whom the Fund purchases previously funded and closed loans secured by single family homes purchased by individual borrowers. However, there has been no new loan activity in Homeownership Programs since FY 2010. The Multifamily Rental Housing Programs are typically used to directly fund loans to developers and housing sponsors for the construction or acquisition of multifamily rental housing developments. Within the Multifamily Rental Housing Programs, the Multifamily Housing Revenue Bonds III indenture continues to participate in the FHA-HFA Multifamily Risk-Sharing Program with the U.S. Department of Housing and Urban Development (HUD). Interest rates on the Fund loans are generally below market rate; however, the programs are operated to be self-supporting. The Agency issues its own bonds and uses other available monies to provide the funding for these loan programs. Interest paid to bondholders is generally exempt from both state and federal tax; however, the Agency also issues federally-taxable bonds.

The Other Programs and Accounts category includes the Agency's Housing Assistance Trust ("HAT"), funded periodically from a portion of the Fund's operating income before transfers. The HAT provides a source of funding for low or very low income multifamily developments and other special purpose loans. Loans for these purposes generally would not produce sufficient revenues to support payments to bondholders. These loans typically accrue simple interest with repayment of principal and interest deferred for the term of the loan or until certain events occur, such as a sale of the property. Also included in this category are certain State-funded programs (i.e. Proposition 46 and Proposition 1C Programs and Mental Health Services Act Housing Program), which the Agency has been asked to administer for the State on a contract basis, and certain Federal Programs (i.e. Section 8 Housing Assistance Program and National Foreclosure Mitigation Counseling Program). The Agency also issues Mortgage Credit Certificates for first-time homebuyers. Operating expenses of the Agency's loan and bond programs are paid from an Operating Account. Other accounts maintained by the Agency provide security for the issuance of bonds, emergency contingencies and loan servicing operations.

Summary of Financial Results 2014-2013

- During the last quarter of FY 2014, the Agency discovered an error related to the allowance for loan loss. In the process of revising the allowance for loan loss methodology from an allowance by delinquency category to an allowance on a loan-by-loan basis, it was discovered that an overstatement of the allowance had been recorded as of FY 2013 in the amount of \$39.5 million under the Home Mortgage Revenue Bonds ("HMRB") indenture. In order to correct this error, the financial results for FY 2013 and FY 2012 have been restated and the changes are reflected in the MD&A -see Note #3 – Prior Period Adjustment for an explanation of the adjustments to the Agency's net position.
- Conduit debt obligations previously reported in the Agency's financial statements were removed in FY 2014 -see Note #8- Bonds and Notes Payable and associated Interest Rate Swaps.
- Operating loss before transfers was \$33 million for fiscal year 2014 compared to an operating loss of \$53.4 million for fiscal year 2013. The operating results for fiscal year 2014 improved by \$20.4 million, or 38.2%, when compared to fiscal year 2013.
- Other revenues were negative \$47.4 million for fiscal year 2014 compared to \$39.3 million in fiscal year 2013. The decrease was primarily due to the decrease in the fair value of the investment swaps for fiscal year 2014.
- The Fund's mortgage loan delinquencies declined as the California housing market continued to improve over the last fiscal year. The Fund's single family loan portfolio consists of 46.5% federally guaranteed loans and 53.5% conventional loans. The overall delinquency ratio of the Fund's single family loan portfolio improved to 9.7% or 1,564 delinquent loans as of June 30, 2014. By comparison, the delinquency ratio for the Agency's single family portfolio was 13% or 2,411 loans as of June 30, 2013. Overall, the total number of delinquent loans declined by 35.1% or 847 loans.
- Under the HMRB indenture, there was a total of \$11.8 million in loans written-off during fiscal year 2014 due to the sale of foreclosed properties (net of insurance payment received) and on short sales (net of insurance payment received), of \$0.9 million and \$10.9 million, respectively. The remaining HMRB foreclosed properties were written down by \$4.2 million to reflect anticipated losses, net of anticipated insurance payment, upon sale of the foreclosed properties.
- The net total allowance for loan loss reserve under the HMRB indenture decreased by \$30.2 million changing from \$69.6 million in fiscal year 2013 to \$39.4 million in fiscal year 2014.
- In April 2014, the Agency issued bonds totaling \$38.9 million under the Multifamily Housing Revenue Bonds III indenture. The Agency continued to actively manage and reduce the Fund's interest expense and exposures within the debt portfolio and redeemed \$944 million of bonds during fiscal year 2014. There were no economic refundings made during the year.
- The Fund had \$89.2 million in new loans receivable during fiscal year 2014. Of the \$89.2 million, \$49.4 million of new loans receivable were in Contract Administration Programs. Total program loans receivable decreased by \$599.7 million. Decreases in program loans receivable for the homeownership loan portfolio were primarily due to the loan prepayments. Loan prepayments include all unscheduled principal payments applied to the unpaid principal balance of a loan such as principal received in loan payoff transactions, short sale and foreclosure transactions, and mortgage insurance claims, etc.

- During fiscal year 2014, \$53.4 million was transferred into the Fund by the State pursuant to the Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006. The funds were used to make loans and grants to borrowers and homeowners through programs administered by the Agency on a contract basis.

Condensed Financial Information:

Condensed Schedule of Assets, Liabilities, and Net Position

The following table presents condensed Schedule of Assets, Liabilities, and Net Position for the Fund as of June 30, 2014 and 2013 and the change from the prior year (dollars in millions):

Condensed Statement of Net Position			
	2014	Restated 2013	Change
Assets			
Cash and investments	\$ 1,585	\$ 1,900	\$ (315)
Program loans receivable-net	3,906	4,506	(600)
Other	79	97	(18)
Total Assets	<u>5,570</u>	<u>6,503</u>	<u>(933)</u>
Deferred Outflows of Resources	25	127	(102)
Liabilities			
Bonds payable-net	3,533	4,499	(966)
Notes payable	63	81	(18)
Other	521	592	(71)
Total Liabilities	<u>4,117</u>	<u>5,172</u>	<u>(1,055)</u>
Deferred Inflows of Resources	-	-	-
Net Position			
Invested in capital assets	1	1	-
Restricted net position	1,477	1,457	20
Total Net Position	<u>\$ 1,478</u>	<u>\$ 1,458</u>	<u>\$ 20</u>

Assets

Of the Fund's assets, 98.6% is represented by cash and investments and program loans receivable. The Fund does not have a significant investment in capital assets, holding \$0.8 million in furniture and equipment.

Total assets decreased by \$933.1 million during fiscal year 2014. The Fund's cash and investments were \$1.59 billion as of June 30, 2014, a decrease of \$315.4 million from June 30, 2013. The cash and investments balance decrease is primarily due to the increase in bond redemption activity in Homeownership and Multifamily Programs.

Of the Fund's assets, 28.5% is in the form of cash and investments at fiscal year end. Of the Fund's investment balance, 4.3% is in investment agreements. The amount of funds invested in investment agreements during the 2014 fiscal year decreased by \$39.4 million. Additionally, \$1.04 billion of the Fund's investments are held in the State's Surplus Money Investment Fund ("SMIF") and earn a variable rate of interest. The amount of funds invested in SMIF during fiscal year 2014 decreased by \$197.6 million.

The composition of cash and investments as of June 30, 2014 and 2013 and the changes from the prior year are shown in the table below (dollars in millions):

Cash and Investments

	<u>2014</u>	<u>Restated 2013</u>	<u>Change</u>
Investment agreements	\$ 66	\$ 105	\$ (39)
SMIF	1,040	1,238	(198)
Open Commercial Paper	35	32	3
Securities	403	490	(87)
Cash	41	35	6
Total Cash and Investments	<u>\$ 1,585</u>	<u>\$ 1,900</u>	<u>\$ (315)</u>

Program loans receivable decreased by \$599.7 million during fiscal year 2014 compared to fiscal year 2013. This decrease is primarily due to loan prepayments along with loan write-offs of \$18.9 million and REO loan write-downs of negative \$4.4 million in fiscal year 2014. Loan prepayments decreased to \$490.9 million during fiscal year 2014 compared to \$575.5 million received in fiscal year 2013. REO properties decreased by \$6.7 million to \$13.4 million during fiscal year 2014 compared to \$20.1 million in fiscal year 2013.

As of June 30, 2014 and June 30, 2013, the fair values of interest rate swaps were in the negative position of \$186.4 million and \$217.7 million, respectively.

Other Assets decreased by \$18.0 million during fiscal year 2014 when compared to fiscal year 2013. The decrease is primarily due to the decrease in the number of REO properties and decrease in accounts receivables.

Liabilities

The Fund's liabilities were \$4.12 billion as of June 30, 2014, a decrease of \$1.05 billion from June 30, 2013. Of the Fund's liabilities, 85.8% is in the form of bond indebtedness. The Fund's bonds payable at June 30, 2014 decreased by \$969 million from the prior year mainly due to the scheduled principal payments, \$944.0 million in bond redemptions offset by the \$38.9 million of bonds issued. The Agency's governing statutes impose a cap of \$13.15 billion for bonds and notes issued and outstanding within the Fund for the year ended June 30, 2014 and 2013.

All of the bonds issued by the Agency are reported within the Fund and the bonds reported no longer include the reporting of conduit bond obligations as liabilities in the accompanying financial statements along with the related assets. The conduit bonds are limited obligations of the Agency, payable solely from the revenues and other funds and money pledged and assigned under the applicable indenture, series indenture, or master pledge and assignment (see Note 8).

The Agency issues both tax-exempt and federally taxable bonds. During the 2014 fiscal year, federally taxable bonds outstanding decreased by \$187.7 million and as of June 30, 2014 represent 25.2% of all bonds outstanding, while tax-exempt bonds outstanding decreased by \$781.2 million and as of June 30, 2014 represent 74.8% of all bonds outstanding. The use of federally taxable bonds allows the Agency to leverage its allocation of the Private Activity Bond volume cap for the Homeownership Programs. This limitation is imposed by the federal government to regulate the issuance of tax-exempt bonds for private purposes. During fiscal year 2014, the Agency issued \$38.9 million in tax-exempt bonds.

Shown below are the amounts of variable and fixed rate indebtedness, by tax status, as of June 30, 2014 and 2013 and the changes from the prior year (dollars in millions):

Bonds Payable			
	2014	Restated 2013	Change
Tax-Exempt Bonds			
*Variable Rate	\$ 1,002	\$ 1,513	\$ (511)
Fixed Rate	1,637	1,907	(270)
Total Tax-Exempt Bonds	<u>2,639</u>	<u>3,420</u>	<u>(781)</u>
Federally Taxable Bonds			
*Variable Rate	510	660	(150)
Fixed Rate	378	416	(38)
Total Federally Taxable Bonds	<u>888</u>	<u>1,076</u>	<u>(188)</u>
Total Bonds Outstanding	<u>\$ 3,527</u>	<u>\$ 4,496</u>	<u>\$ (969)</u>

* Certain variable rate bonds have been swapped to a fixed rate (see Note 8 to the Financial Statements).

All other liabilities decreased by \$71.3 million during fiscal year 2014. The decrease was mainly due to the decrease in Derivative SWAP liability and decrease in deposits and other liabilities.

Net Position

All of the Fund's net position is restricted pursuant to trust agreements with bondholders and the Agency's enabling legislation or net investment in capital assets. The total net position of the Fund increased by \$20.4 million primarily as a result of transfers to the Fund in the amount of \$53.4 million offset by the \$33 million of operating losses for fiscal year 2014.

Revenues, Expenses, and Changes in Net Position

The following table presents condensed schedules of revenues, expenses, and changes in net position for the Fund for the fiscal years ended June 30, 2014 and June 30, 2013 and the changes from the prior year (dollars in millions):

Condensed Schedules of Revenues, Expenses, and Changes in Net Position

	2014	Restated 2013	Change
Operating Revenues:			
Interest income program loans – net	\$ 219	\$ 256	\$ (37)
Interest income investments – net	22	31	(9)
Increase (Decrease) in fair value of investments	-	(25)	25
Other loan fees	30	32	(2)
Other revenues	(47)	39	(86)
Total Operating Revenues	<u>224</u>	<u>333</u>	<u>(109)</u>
Operating Expenses:			
Interest	122	172	(50)
Mortgage servicing fees	9	10	(1)
Salaries & general expenses	41	40	1
Other expenses	85	164	(79)
Total Operating Expenses	<u>257</u>	<u>386</u>	<u>(129)</u>
Operating Loss before transfers	(33)	(53)	20
Transfers in	53	39	14
Increase(decrease) in net position	<u>\$ 20</u>	<u>\$ (14)</u>	<u>\$ 34</u>

Operating Revenues

Total operating revenues of the Fund were \$223.5 million during fiscal year 2014 compared to \$332.7 million during fiscal year 2013, a decrease of \$109.2 million or 32.8%.

Interest income on program loans was \$218.7 million during fiscal year 2014 compared to \$256.3 million during fiscal year 2013, a decrease of \$37.6 million. The decrease in interest income on program loans is primarily the result of a decrease in interest income on program loans and an increase in the yield reduction liability for the Fund's homeownership and multifamily loan portfolios. Overall, program loans receivable decreased \$599.7 million or 13.3% at June 30, 2014 compared to June 30, 2013.

Interest income from investments decreased 28.1% to \$22.5 million in fiscal year 2014 from \$31.3 million in fiscal year 2013. The decrease is primarily due to the decrease in interest income from Investment Agreements. Investment Agreements decreased \$39.4 million from \$105.6 million at June 30, 2013 to \$66.2 million as of June 30, 2014, while SMIF decreased \$197.5 million from \$1.24 billion to \$1.04 billion.

The total changes in fair value of investments was negative \$0.3 million in fiscal year 2014, a net increase of \$25.2 million from fiscal year 2013, which had a negative fair value of investments of \$25.5 million. The slight increase in the Treasury rates during fiscal year 2014 caused the value of the Fund's mortgage-backed securities to decline slightly. The gain or loss on the sale of securities in the fiscal year 2014 was \$0.4 million compared to no activity for the fiscal year ended 2013.

Other loan fees decreased \$1.4 million to \$30.0 million in fiscal year 2014 compared to \$31.4 million for fiscal year 2013.

Other revenues decreased by \$86.7 million to negative \$47.4 million during fiscal year 2014 compared to positive \$39.3 million in fiscal year 2013. The decrease was primarily due to negative results of the effectiveness testing for derivative instruments. The change in fair value of the derivatives for FY 2014 was negative \$70.3 million compared to negative \$6.1 million for FY 2013.

Operating Expenses

Total operating expenses of the Fund were \$256.5 million during fiscal year 2014 compared to \$386.1 million during fiscal year 2013, a decrease of \$129.6 million or 33.6%. The decrease is a combination of the decrease in bond interest expenses, allowance for loan loss, REO expenses, administrative fees expense, and swap expenses.

Bonds payable at June 30, 2014 decreased by \$969 million from June 30, 2013 and bond interest and swap expense, which represents 47.7% of the Fund's total operating expenses, decreased by \$49.6 million or 28.8% compared to fiscal year 2013. The decrease in bond interest and swap expense is attributed to the increased bond redemption activity and the Agency's participation

in the Temporary Credit and Liquidity Program ("TCLP") which provides replacement credit and facilities for existing variable rate debt for State and local Housing Finance Agencies.

Salaries and general expenses slightly increased from \$40.2 million during fiscal year 2013 to \$41.1 million during fiscal year 2014 (as shown in the condensed statements of revenues, expenses and changes in net position).

Operating Loss before Transfers

Operating loss before transfers for fiscal year 2014 was \$33 million compared to an operating loss of \$53.4 million for fiscal year 2013. The \$20.4 million decrease in operating loss before transfers is reflective of the activities mentioned above.

Summary of Financial Results 2013-2012

- Operating loss before transfers was \$53.4 million for fiscal year 2013 compared to an operating loss of \$82.3 million for fiscal year 2012. The operating results for fiscal year 2013 improved by \$28.9 million, or 35.2%, when compared to fiscal year 2012.
- In July 2012, the Agency refunded \$466.1 million of variable rate bonds issued under the HMRB indenture. The Agency continued to actively manage and reduce the Fund's interest expense and exposures within the debt portfolio and redeemed \$1.72 billion of bonds during fiscal year 2013.
- The Fund's mortgage loan delinquencies declined slightly as the California housing market slowly improved over the last fiscal year. The Fund's single family loan portfolio consists of 45.2% federally guaranteed loans and 54.8% conventional loans. The overall delinquency ratio of the Fund's single family loan portfolio was 13% or 2,411 delinquent loans as of June 30, 2013. By comparison, the delinquency ratio for the Agency's single family portfolio was 13.6% or 2,901 loans as of June 30, 2012. Overall, the total number of delinquent loans declined by 16.9% or 490 loans.
- Under the Home Mortgage Revenue Bonds ("HMRB") indenture, there was a total of \$56.7 million of loans written-off during fiscal year 2013 due to the sale of foreclosed properties (net of insurance payment received) and on short sales (net of insurance payment received), of \$33.2 million and \$23.5 million, respectively. The remaining HMRB foreclosed properties were written down by \$6.2 million to reflect anticipated losses, net of anticipated insurance payment, upon sale of the foreclosed properties.
- The net total allowance for loan loss reserve under the HMRB indenture decreased by \$24.3 million changing from \$93.9 million in fiscal year 2012 to \$69.6 million in fiscal year 2013.
- The Fund had \$179.8 million in new loans receivable during fiscal year 2013. Total program loans receivable decreased by close to \$634.5 million at June 30, 2013. Decreases in program loans receivable for the homeownership loan portfolio were primarily due to the loan prepayments. Loan prepayments include all unscheduled principal payments applied to the unpaid principal balance of a loan such as principal received in loan payoff transactions, short sale and foreclosure transactions, and mortgage insurance claims, etc.
- Other revenues were \$39.3 million for fiscal year 2013 compared to \$18.6 million in fiscal year 2012. The increase was primarily due to the increase in the fair value of the investment swaps and increase in the multifamily prepayment penalties fees offset by the decrease in administrative fees revenue for fiscal year 2013.
- During fiscal year 2013, \$38.6 million was transferred into the Fund by the State pursuant to the Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006 and for other loan and grant programs administered by the Agency. The funds were used to make loans and grants to borrowers and homeowners through programs administered by the Agency on a contract basis.

Condensed Financial Information:**Condensed Schedule of Assets, Liabilities, and Net Position**

The following table presents condensed Schedule of Assets, Liabilities, and Net Position for the Fund as of June 30, 2013 and 2012 and the change from the prior year (dollars in millions):

	Condensed Statement of Net Position		
	Restated 2013	Restated 2012	Change
Assets			
Cash and investments	\$ 1,900	\$ 2,789	\$ (889)
Program loans receivable-net	4,506	5,140	(634)
Other	97	500	(403)
Total Assets	<u>6,503</u>	<u>8,429</u>	<u>(1,926)</u>
Deferred Outflows of Resources	127	-	127
Liabilities			
Bonds payable	4,499	6,167	(1,668)
Notes payable	81	88	(7)
Other	592	701	(109)
Total Liabilities	<u>5,172</u>	<u>6,956</u>	<u>(1,784)</u>
Deferred Inflows of Resources	-	-	-
Net Position			
Invested in capital assets	1	1	-
Restricted net position, restated	1,457	1,472	(15)
Total Net Position, restated	<u>\$ 1,458</u>	<u>\$ 1,473</u>	<u>\$ (15)</u>

Assets

Of the Fund's assets, 98.5% is represented by cash and investments and program loans receivable. The Fund does not have a significant investment in capital assets, holding \$1.0 million in furniture and equipment.

Total assets decreased by \$1.93 billion during fiscal year 2013. The Fund's cash and investments were \$1.9 billion as of June 30, 2013, a decrease of \$888.8 million from June 30, 2012. The cash and investments balance decrease is primarily due to the increase in bond redemption activity in Homeownership and Multifamily Programs.

Of the Fund's assets, 29.2% is in the form of cash and investments at fiscal year end. Of the Fund's investment balance, 5.6% is in investment agreements. The amount of funds invested in investment agreements during the 2013 fiscal year decreased by \$106.2 million. Additionally, \$1.24 billion of the Fund's investments are held in the State's Surplus Money Investment Fund ("SMIF") and earn a variable rate of interest. The amount of funds invested in SMIF during fiscal year 2013 decreased by \$74 million.

The composition of cash and investments as of June 30, 2013 and 2012 and the changes from the prior year are shown in the table below (dollars in millions):

Cash and Investments

	Restated 2013	Restated 2012	Change
	Investment agreements	\$ 105	\$ 212
SMIF	1,238	1,312	(74)
Open Commercial Paper	32	-	32
Securities	490	705	(215)
Cash	35	560	(525)
Total Cash and Investments	<u>\$ 1,900</u>	<u>\$ 2,789</u>	<u>\$ (889)</u>

Program loans receivable decreased by \$634.3 million during fiscal year 2013 compared to fiscal year 2012. This decrease is primarily due to loan prepayments along with loan write-offs of \$56.7 million in fiscal year 2013. Loan prepayments decreased to \$575.5 million during fiscal year 2013 compared to \$637.8 million received in fiscal year 2012. REO properties decreased \$66.1 million to \$20.1 million during fiscal year 2013 compared to \$86.2 million in fiscal year 2012.

As of June 30, 2013 and June 30, 2012, the fair values of interest rate swaps were in the negative position of \$217.7 million and \$324.2 million, respectively.

Other Assets decreased by \$402.5 million during fiscal year 2013 when compared to fiscal year 2012. The decrease is primarily due to the recording of the deferred outflow of resources related to interest rate swaps, decrease in the number of REO properties and decrease in cash collateral held by the swap counterparties.

Liabilities

The Fund's liabilities were \$5.17 billion as of June 30, 2013, a decrease of \$1.78 billion from June 30, 2012. Of the Fund's liabilities, 87.0% is in the form of bond indebtedness. The Fund's bonds payable at June 30, 2013 decreased by \$1.67 billion from the prior year mainly due to the scheduled principal payments, \$1.7 billion in bond redemptions offset by the \$133.8 million of bonds issued. The Agency's governing statutes impose a cap of \$13.15 billion for bonds and notes issued and outstanding within the Fund for the year ended June 30, 2013 and 2012.

All of the bonds issued by the Agency are reported within the Fund and the bonds reported no longer include the reporting of conduit bond obligations as liabilities in the accompanying financial statements along with the related assets. The conduit bonds are limited obligations of the Agency, payable solely from the revenues and other funds and money pledged and assigned under the applicable indenture, series indenture, or master pledge and assignment (see Note 8).

The Agency issues both tax-exempt and federally taxable bonds. During the 2013 fiscal year, federally taxable bonds outstanding decreased by \$291.0 million and as of June 30, 2013 represent 23.9% of all bonds outstanding, while tax-exempt bonds outstanding decreased by \$1.37 billion and as of June 30, 2013 represent 76.1% of all bonds outstanding. The use of federally taxable bonds allows the Agency to leverage its allocation of the Private Activity Bond volume cap for the Homeownership Programs. This limitation is imposed by the federal government to regulate the issuance of tax-exempt bonds for private purposes. During fiscal year 2013, the Agency did not issue tax-exempt bonds but issued \$133.8 million in taxable bonds.

Shown below are the amounts of variable and fixed rate indebtedness, by tax status, as of June 30, 2013 and 2012 and the changes from the prior year (dollars in millions):

Bonds Payable			
	Restated 2013	Restated 2012	Change
Tax-Exempt Bonds			
*Variable Rate	\$ 1,513	\$ 2,485	\$ (972)
Fixed Rate	1,907	2,310	(403)
Total Tax-Exempt Bonds	<u>3,420</u>	<u>4,795</u>	<u>(1,375)</u>
Federally Taxable Bonds			
*Variable Rate	660	1,025	(365)
Fixed Rate	416	342	74
Total Federally Taxable Bonds	<u>1,076</u>	<u>1,367</u>	<u>(291)</u>
Total Bonds Outstanding	<u>\$ 4,496</u>	<u>\$ 6,162</u>	<u>\$ (1,666)</u>

All other liabilities decreased by \$109 million during fiscal year 2013. The decrease was mainly due to the decrease in Derivative SWAP liability.

Net Position

All of the Fund's net position is restricted pursuant to trust agreements with bondholders and the Agency's enabling legislation or net investment in capital assets. The total net position of the Fund decreased by \$14.8 million primarily as a result of transfers to the Fund in the amount of \$38.6 million offset by the \$53.4 million of operating losses for fiscal year 2013.

Revenues, Expenses, and Changes in Net Position

The following table presents condensed schedules of revenues, expenses, and changes in net position for the Fund for the fiscal years ended June 30, 2013 and June 30, 2012 and the changes from the prior year (dollars in millions):

Condensed Schedules of Revenues, Expenses, and Changes in Net Position

	Restated 2013	Restated 2012	Change
Operating Revenues:			
Interest income program loans – net	\$ 256	\$ 289	\$ (33)
Interest income investments – net	31	34	(3)
Increase (Decrease) in fair value of investments	(25)	42	(67)
Other loan and commitment fees	32	30	2
Other revenues	39	19	20
Total Operating Revenues	<u>333</u>	<u>414</u>	<u>(81)</u>
Operating Expenses:			
Interest	172	191	(19)
Mortgage servicing fees	10	12	(2)
Salaries & general expenses	40	41	(1)
Other expenses	164	252	(88)
Total Operating Expenses	<u>386</u>	<u>496</u>	<u>(110)</u>
Operating Loss before transfers	(53)	(82)	29
Transfers in	39	75	(36)
Decrease in net position	<u>\$ (14)</u>	<u>\$ (7)</u>	<u>\$ (7)</u>

Operating Revenues

Total operating revenues of the Fund were \$332.7 million during fiscal year 2013 compared to \$413.9 million during fiscal year 2012, a decrease of \$81.2 million or 19.6%.

Interest income on program loans was \$256.3 million during fiscal year 2013 compared to \$289.4 million during fiscal year 2012, a decrease of \$33.2 million. The decrease in interest income on program loans is primarily the result of a decrease in interest income on program loans and a decrease in the yield reduction liability for the Fund's homeownership and multifamily loan portfolios. Overall, program loans receivable decreased \$634.3 million or 12.3% at June 30, 2013 compared to June 30, 2012.

Interest income from investments decreased 8.8% to \$31.3 million in fiscal year 2013 from \$34.3 million in fiscal year 2012. The decrease is primarily due to the decrease in interest income from mortgage backed securities. Investment Agreements decreased \$106.2 million from \$211.9 million at June 30, 2012 to \$105.6 million as of June 30, 2013, while SMIF decreased \$74 million from \$1.31 billion to \$1.24 billion.

The total fair value of investments was negative \$25.5 million in fiscal year 2013, a net decrease of \$67.1 million from fiscal year 2012, which had a positive fair value of investments of \$41.6 million. The increase in the Treasury rates during fiscal year 2013 caused the value of the Fund's mortgage-backed securities to decline. There was no gain or loss on the sale of securities in the fiscal year ending June 30, 2013.

Other loan and commitment fees increased \$1.4 million to \$31.4 million in fiscal year 2013 compared to \$30 million for fiscal year 2012. The increase was primarily due to the increase in prepayment penalty fees. The prepayment penalty fees were \$23.4 million and \$1.3 million as of June 30, 2013 and June 30, 2012, respectively.

Other revenues increased by \$20.7 million to \$39.3 million during fiscal year 2013 compared to \$18.6 million in fiscal year 2012. The increase was primarily due to the change in the fair value of investment swap revenue.

Operating Expenses

Total operating expenses of the Fund were \$386.2 million during fiscal year 2013 compared to \$496.2 million during fiscal year 2012, a decrease of \$110.0 million or 22.2%. The decrease is a combination of the decrease in bond interest expenses, REO expenses, administrative fees expense, and swap expenses.

Bonds payable at June 30, 2013 decreased by \$1.67 billion from June 30, 2012 and bond interest and swap expense, which represents 44.5% of the Fund's total operating expenses, decreased by \$19 million or 10% compared to fiscal year 2012. The decrease in bond interest and swap expense is attributed to the increased bond redemption activity and the Agency's participation in the Temporary Credit and Liquidity Program ("TCLP") which provides replacement credit and facilities for existing variable rate debt for State and local Housing Finance Agencies.

Salaries and general expenses slightly decreased from \$41.3 million during fiscal year 2012 to \$40.2 million during fiscal year 2013 (as shown in the condensed statements of revenues, expenses and changes in net position).

Operating Loss before Transfers

Operating loss before transfers for fiscal year 2013 was \$53.4 million compared to an operating loss of \$82.3 million for fiscal year 2012. The \$28.9 million decrease in operating loss before transfers is reflective of the activities mentioned above.

Economic Factors

Since the Agency is self-supporting, it does not draw upon the general taxing authority of the State. As the State of California's affordable housing lender, however, the Agency's operations can be directly impacted by several market/economic factors as follows:

- Trends in single family home prices – Beginning in FY 2010, the Agency sustained significant losses from the disposition of non-performing single family loans. Over the past fiscal year, however, the losses were significantly lower due to a more stable year for California home sale prices and an upward trend in single family home prices will have a positive impact on the Agency's profitability.
- Success of the lending programs - The Agency's multifamily lending program was reinstated in April 2013 and the Agency's single family lending program was reinstated in August 2013. Successful lending programs will improve the Agency's short-term and potentially long-term profitability.
- Trends in interest rates – The Agency has a significant interest-rate swap portfolio and fluctuations in interest rates impact the Agency's collateral posting requirements. In general, higher interest rates will reduce the collateral posting requirements and improve the Agency's liquidity profile, and lower interest rates will increase the collateral posting requirements and limit the Agency's liquidity profile.
- Trends in the Agency's credit ratings - The Agency now has primarily three credit ratings that materially impact its financial results: i) CalHFA's issuer credit rating (S&P A-/Moody's A3); ii) Home Mortgage Revenue Bonds (S&P A-/Moody's Baa2); and iii) Multifamily Housing Revenue Bonds III (S&P AA/Moody's A1) . FY 2014 was the first time since 2009 in which the rating agency's annual credit reviews resulted in a rating upgrade. During FY 2014, the Multifamily Housing Revenue Bonds III rating was decoupled from CalHFA's issuer credit rating. A positive trend in these three ratings would improve the Agency's prospects in its continued efforts to restructure the Agency's legacy capital structure.

Request for Information

Questions concerning any of the information presented in this financial report or requests for additional information should be addressed to:

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financing@calhfa.ca.gov

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF NET POSITION

June 30, 2014 and June 30, 2013

(Dollars in Thousands)

	2014	Restated
	<u>Totals</u>	<u>2013</u>
		<u>Totals</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 40,507	\$ 34,732
Investments	1,141,498	1,375,758
Current portion - program loans receivable, net of allowance	124,730	154,984
Interest receivable:		
Program loans, net	32,228	30,950
Investments	3,059	4,462
Accounts receivable	12,443	18,908
Other assets	13,869	3,576
Total current assets	<u>1,368,334</u>	<u>1,623,370</u>
Noncurrent assets:		
Investments	403,112	489,991
Program loans receivable, net of allowance	3,781,555	4,350,968
Deferred financing costs	-	17,728
Other assets	17,509	21,504
Total noncurrent assets	<u>4,202,176</u>	<u>4,880,191</u>
Total assets	<u>5,570,510</u>	<u>6,503,561</u>
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging derivatives	25,042	126,717
Deferred loss on refunding	668	-
Total Deferred outflows of resources	<u>25,710</u>	<u>126,717</u>
LIABILITIES		
Current liabilities:		
Bonds payable	67,904	86,548
Notes payable	2,253	2,888
Interest payable	58,170	70,667
Due to other government entities, net	908	898
Compensated absences	4,034	4,263
Deposits and other liabilities	235,253	248,196
Total current liabilities	<u>368,522</u>	<u>413,460</u>
Noncurrent liabilities:		
Bonds payable	3,464,848	4,411,988
Notes payable	61,342	78,170
Due to other government entities, net	35,621	28,888
Other liabilities	186,402	217,718
Unearned revenues	891	21,915
Total noncurrent liabilities	<u>3,749,104</u>	<u>4,758,679</u>
Total liabilities	<u>4,117,626</u>	<u>5,172,139</u>
Commitments and contingencies (see notes 11 and 13)		
DEFERRED INFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging derivatives	-	-
NET POSITION		
Net investment in capital assets	842	962
Restricted by indenture, restated	491,187	386,812
Restricted by statute	986,565	1,070,365
Total Net position	<u>\$ 1,478,594</u>	<u>\$ 1,458,139</u>

See notes to financial statements.

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2014 and June 30, 2013
(Dollars in Thousands)

	2014	Restated
	<u>Totals</u>	2013
		<u>Totals</u>
OPERATING REVENUES		
Interest income:		
Program loans, net	\$ 218,715	\$ 256,268
Investments, net	22,519	31,302
Decrease in fair value of investments	(308)	(25,492)
Loan commitment fees	668	2,090
Other loan fees	29,316	29,292
Other revenues	<u>(47,401)</u>	<u>39,275</u>
Total operating revenues	<u>223,509</u>	<u>332,735</u>
SALARIES AND GENERAL EXPENSES		
Interest	122,277	171,835
Amortization of bond discount and bond premium	(1,369)	(944)
Mortgage servicing expenses	8,444	9,942
(Reversal) provision for program loan losses	(13,022)	52,196
Salaries and general expenses	41,053	40,199
Other expenses	<u>99,133</u>	<u>112,881</u>
Total salaries and general expenses	<u>256,516</u>	<u>386,109</u>
Operating loss before transfers	(33,007)	(53,374)
Transfers in	<u>53,462</u>	<u>38,624</u>
Increase (decrease) in net position	20,455	(14,750)
Net position at beginning of year, as restated	<u>1,458,139</u>	<u>1,472,889</u>
Net position at end of year, as restated	<u>\$ 1,478,594</u>	<u>\$ 1,458,139</u>

See notes to financial statements.

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and June 30, 2013

(Dollars in Thousands)

	2014	Restated
	<u>Totals</u>	<u>2013</u>
		<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 217,437	\$ 254,311
Payments to suppliers	(20,290)	(21,591)
Payments to employees	(29,935)	(29,758)
Other receipts	540,347	714,741
Net cash provided by operating activities	<u>707,559</u>	<u>917,703</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Due from other government entities	<u>3,560</u>	<u>4,845</u>
Net cash provided by noncapital financing activities	<u>3,560</u>	<u>4,845</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sales of bonds	38,814	133,760
Payment of bond principal	(81,358)	(106,198)
Early bond redemptions	(943,972)	(1,700,310)
Interest paid on debt	(134,771)	(186,098)
Interfund transfers	53,462	38,624
Increase in deferred financing costs	17,728	983
Net cash used for capital and related financing activities	<u>(1,050,097)</u>	<u>(1,819,239)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity and sale of investments	2,809,526	3,368,452
Purchase of investments	(2,488,694)	(3,030,086)
Interest on investments, net	23,921	33,346
Net cash provided by investing activities	<u>344,753</u>	<u>371,712</u>
Net increase (decrease) in cash and cash equivalents	5,775	(524,979)
Cash and cash equivalents at beginning of year	<u>34,732</u>	<u>559,711</u>
Cash and cash equivalents at end of year	<u>\$ 40,507</u>	<u>\$ 34,732</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (33,007)	\$ (53,374)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Interest expense on debt	122,277	171,835
Interest on investments	(22,519)	(31,302)
Changes in fair value of investments	308	25,491
Amortization of bond discount	27	173
Amortization of deferred losses on refundings of debt	4,229	(1,531)
Amortization of bond issuance costs	-	5,149
Amortization of bond premium	(1,658)	(2,105)
Amortization of unearned revenue	(668)	(2,090)
Depreciation	264	284
(Reversal) provision for program loan losses	(13,022)	52,196
Provision for yield reduction payments	3,240	(8,038)
(Reversal) provision for nonmortgage investment excess	(58)	(396)
Effects of changes in operating assets and liabilities:		
Purchase of program loans-net	(77,584)	(248,541)
Collection of principal from program loans, net	696,966	896,896
Interest receivable	(1,278)	(1,957)
Accounts receivable	3,651	9,024
Other assets	91,234	194,225
Compensated absences	(229)	9
Deposits and other liabilities	(12,942)	17,825
Unearned revenue	(51,672)	(106,070)
Net cash provided by operating activities	<u>\$ 707,559</u>	<u>\$ 917,703</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Noncash transfer of program loan to REO	<u>\$ 11,073</u>	<u>\$ 86,662</u>

See notes to financial statements.

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**CALIFORNIA HOUSING FINANCE FUND
NOTES TO FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2014 and 2013**

Note 1 – AUTHORIZING LEGISLATION AND ORGANIZATION

The California Housing Finance Fund (“Fund”) is one of two continuously appropriated funds administered by the California Housing Finance Agency (“Agency”). The Agency was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act (“Act”), as amended, as a public instrumentality, a political subdivision and a component unit of the State of California (“State”), and administers the activities of the Fund and the California Housing Loan Insurance Fund (“Mortgage Insurance Fund”). These funds allow the Agency to carry out its purpose of financing the housing needs of persons and families of low and moderate income within the State. The Agency is authorized to issue its bonds, notes and other obligations to fund loans to qualified borrowers for single family houses and multifamily developments. The Agency has no taxing power and is exempt from federal income taxes and state franchise taxes. Funding of loan programs on an on-going basis is derived principally from bond proceeds and interest earned on loans and investments.

The Agency is governed by a Board of Directors which consists of 13 voting members and three non-voting members. Of the 13 voting members, seven are appointed by the Governor, four are ex-officio and two are appointed by the Legislature. The statutory role of the Board is to: 1) enact the annual financing resolutions that permit the issuance of bonds and 2) enact the Agency’s operating budget and business plan. Subject to the supervision of the Board, the Agency’s day-to-day operational authority statutorily resides with the Agency’s Executive Director.

Effective July 1, 2013, pursuant to the Governor’s Reorganization Plan 2, the Agency was moved from being within the Business, Transportation and Housing Agency to being within the Department of Housing and Community Development. The Department does not have any administrative authority over the California Housing Finance Fund. Pursuant to Health and Safety Code section 51000, expenditures from the California Housing Finance Fund are administered by the Agency and are not subject to the supervision or approval of any other officer or division of state government. Further, pursuant to the Health and Safety Code section 51000.1, no officer or division of state government has the authority to transfer any sums of money from any fund or account of the Agency, except as authorized by the executive director of the Agency or designated trustee pertaining to bonds issued by the Agency.

The Agency may also provide administrative, consulting and technical services in connection with the financing of housing developments; act as a State representative in receiving and allocating federal housing subsidies; and make grants, under certain circumstances, to housing sponsors (providing that grants may not be made with proceeds from the sale of bonds or notes).

The Agency is the administrator of the Home Purchase Assistance Fund, established by Section 51341 of the Health and Safety Code *et seq.* which is a state general obligation bond program, the funds of which are neither generated nor held within the Fund, and therefore, not included in the accompanying financial statements.

The accompanying financial statements are the financial statements of the Fund and do not include the financial position or the results of operations of the Housing Loan Insurance Fund which insures loans owned by the Agency and others to finance the acquisition, new construction or rehabilitation of residential structures in California. As of December 31, 2013, the Housing Loan Insurance Fund had total assets of \$1 million and deficit of \$81 million (not covered by this Independent Auditors’ Report).

The accompanying financial statements are the financial statements of the Fund and do not include the financial position or the results of operations of CalHFA Mortgage Assistance Corporation (“CalHFA MAC”) which is a nonprofit public benefit corporation and organized as an entity separate from CalHFA. As of September 30, 2013, CalHFA MAC had total assets of \$198.6 million and net position of \$26 thousand (not covered by this Independent Auditors’ Report).

As a fund of a component unit of the State, the financial information of the Fund is included in the State’s Comprehensive Annual Financial Report.

Programs and accounts are as follows:

Home Mortgage Revenue Bonds: The Home Mortgage Revenue Bonds provide financing for the Agency’s Home Mortgage Program which purchases eligible mortgage loans, secured by trust deeds on newly constructed or existing single family homes, condominiums, planned unit developments and manufactured housing permanently attached to the land and originated and serviced by qualified lending institutions. All mortgage loans purchased under this program will be insured either by the Federal Housing Administration (“FHA”), the Mortgage Insurance Fund, the Department of Veterans Affairs (“VA”), a private mortgage guaranty insurance policy, or a combination thereof, covering a loss of up to fifty percent (50%), one hundred percent (100%) in the case of a FHA insured loan, of the outstanding principal amount of the mortgage loans.

Housing Program Bonds: The Housing Program Bonds Indenture was created to provide a vehicle for issuing debt to finance either multifamily or single family programs of the Agency. Bonds issued under this indenture are backed by the Agency’s general obligation. As of June 30, 2014, the Agency has one series of bonds issued and outstanding under this indenture. These bonds were

issued to finance deferred payment, simple interest loans originated under certain of the Agency's down payment assistance programs, as well as to finance certain multifamily loans.

Residential Mortgage Revenue Bonds: The Residential Mortgage Revenue Bonds are issued by the Agency pursuant to a national initiative of the United States Treasury to assist state and local housing finance authorities by the Federal Program. The Bonds, issued as escrow bonds pursuant to the Indenture, are to be converted to long-term fixed-rate bonds. The Treasury has agreed, through government-sponsored agencies, to purchase certain mortgage revenue bonds at rates lower than the prevailing market intended to reduce the costs of funds to issuers to the making or financing of mortgage loans.

Multifamily Loan Purchase Bonds: On July 26, 2000, the Agency purchased 278 Department of Housing and Urban Development ("HUD") Section 236 loans with an aggregate unpaid principal balance of approximately \$270 million. The purpose of this transaction was to enhance the ability of the Agency to assist affordable housing sponsors to refinance their projects and extend the period during which the units are offered at affordable rents to very-low-income and lower-income tenants. The Agency expects to provide the financing for many of these transactions.

Multifamily Housing Revenue Bonds III: The Multifamily Housing Revenue Bonds III are fixed or variable rate bonds collateralized by GNMA mortgage-backed securities and/or FHA insured loans and/or uninsured loans. The bonds provide financing for multi-unit rental housing developments which are utilized for occupancy by persons and families of low and moderate income. The loans may provide acquisition, construction (both for new construction and rehabilitation), and permanent financing for developments.

Affordable Multifamily Housing Revenue Bonds: The Affordable Multifamily Housing Revenue Bonds are issued under the Indenture in connection with the New Issue Bond Program of the HFA Initiative pursuant to the Memorandum of Understanding dated October 19, 2009 among Treasury, the Federal Housing Finance Agency, Fannie Mae and Freddie Mac to facilitate financing for various state and local housing finance agencies to serve homebuyers and low and moderate income renter.

Housing Assistance Trust: The Housing Assistance Trust ("HAT") is comprised of Agency investments in special purpose mortgage loans promoting both rental housing and homeownership, remaining investments in mortgage loans from fully redeemed bond indentures, and funds to assist in the development of single and multifamily projects through various low-interest loan and technical assistance programs. Also, included within HAT are funds held in trust representing Earned Surplus and Financial Adjustment Factor ("FAF") Savings from HUD Section 8 projects. Earned Surplus is to be used in lowering the rents for persons and families of low or moderate income in accordance with state law. FAF Savings are to be used in providing decent, safe, and sanitary housing, which is available for very-low income families and persons qualifying in accordance with federal law.

Contract Administration Programs: The Agency administers loan and grant programs for the Rental Housing Construction Program, the School Facilities Fee Assistance Program, the California Homebuyer's Down payment Assistance Program, National Foreclosure Mitigation Counseling Program, Mental Health Services Act Housing Program, and programs offered pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002 and 2006. Funding of these programs was appropriated by the legislature or provided by voter authorized State bond programs to other departments and agencies within the State that have contracted with the Agency for this purpose. All monies transferred in accordance with the agreements and for the purposes of the program are considered assets of the Fund. The Fund had cash transfers in the amount of \$53.5 million and \$38.6 million for fiscal year 2014 and 2013, respectively.

Supplementary Bond Security Account: This account was established exclusively to secure issuances of bonds. This security may be accomplished by creating supplementary reserve accounts to provide for payment of the principal, interest, redemption premiums or sinking fund payments on bonds, or by insuring mortgage loans made with the proceeds of bond issues or to indemnify the Mortgage Insurance Fund for losses.

Emergency Reserve Account: This account was established by the Agency to meet its obligations and liabilities incurred in connection with its housing loan programs. This reserve is maintained at approximately one percent (1%) of the aggregate amount of the Agency's net program loans receivable.

Loan Servicing: The Agency services nearly all multifamily program loans, approximately 46.9% of the Agency's homeownership program loans in first lien position (as of June 30, 2014), and all junior or subordinate lien homeownership program loans and certain other loans for the California State Teachers' Retirement System and Fannie Mae. Loan servicing agreements require that the Agency hold and maintain escrow and reserve accounts, on behalf of borrowers, that are reported as "Deposits and Other Liabilities."

Citigroup Global Markets: The Loan Agreements were made and entered into by and between the Agency and Citibank, N.A., as lender, under the Zenovich-Moscone-Chacon Housing and Home Finance Act. Pursuant to the Loan Agreements, the proceeds of the Agency Loans will be used to retire certain indebtedness of the Agency including to refund and redeem all or a portion of certain Multifamily Rental Housing Bonds of the Agency that were originally issued to finance the Projects, and for other valid purposes of the Agency under the Act.

Operating Account: The Operating Account was established for purposes of depositing funds available to the Agency for payment of operating and administrative expenses of the Agency and financing expenditures not associated with specific bond funds.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting: The Fund is accounted for as an enterprise fund. Accordingly, the accompanying financial statements have been prepared using the accrual method of accounting and on the basis of accounting principles generally accepted in the United States of America (hereinafter referred to as “Generally Accepted Accounting Principles”).

Recently Adopted Accounting Pronouncements: The Agency adopted GASB 65 for the period ending June 30, 2014. In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for period beginning after December 15, 2012, with earlier application encouraged. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting period beginning after December 15, 2013. GASB 69 was determined to have no effect on the Agency. In April 2013, the GASB issued Statement No 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement will enhance comparability of financial statements among governments by requiring consistent reporting by both governments that extend nonexchange financial guarantees and those governments that receive nonexchange financial guarantees, effective for reporting periods beginning after June 15, 2013. GASB 70 was determined to have no effect on the Agency.

New Accounting Pronouncements: In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, effective for fiscal years beginning after June 15, 2014, with earlier applications encouraged. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions, and to improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities. In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. The Agency will apply all applicable Statements, with effective date starting July 1, 2014.

Use of Estimates: The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are used in determining the fair values of the interest rate swaps. The fair values of the swaps are based on factors such as future interest rates and a discount rate. Actual results could differ materially from those estimates.

Cash and Cash Equivalents: The Agency considers cash on hand, cash on deposit with financial institutions and cash held in money market funds to be cash and cash equivalents.

Investments: All investments are reported at fair value as determined by financial services providers or financial publications, except for certain non-participating fixed interest investment contracts which are valued using cost based measures. The net increase (decrease) in the fair value of investments includes both realized and unrealized gains and losses.

Interest Rate Swap Agreements: The Agency enters into interest rate swap agreements with swap counterparties to manage variable interest rate risk exposure resulting from the issuance of variable rate bonds. The interest rate swap agreements provide synthetic fixed rates of interest on the underlying bonds and are accounted for as matched swaps in accordance with settlement accounting. An interest rate swap is considered to be a matched swap if it is linked through designation with an asset or liability that is on the statements of net position, provided that it has the opposite interest characteristics of such Statements of net position item. Under settlement accounting, periodic net cash settlements under the swap agreements are treated as an increase or decrease in interest expense of the related bond liability over the lives of the agreements. While these swap contracts hedge floating rate bonds issued within the HMRB indenture, hedging expenses are a general obligation of the Agency that is often reimbursed with excess revenue transfers from the HMRB indenture. The interest rate swap agreements allow the Agency to manage the interest rate risk associated with variable rate debt.

Program Loans Receivable, net: Loans receivables are carried at their outstanding principal balances, less an allowance for loan losses.

Allowance for Program Loan Losses: The Agency’s policy is to charge expenses for estimated probable losses which are established as an allowance for loan losses. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing loans based on evaluations of collectability and prior loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, delinquencies, and anticipated economic and other conditions that may affect the borrowers’ ability to repay the loans. While management uses the best

information available to evaluate the adequacy of its allowance, future adjustments to the allowance may be necessary if actual experience differs from the factors used in making the evaluations.

Other Real Estate Owned (“REO”): Property acquired by the Agency through foreclosure is recorded at the lower of estimated fair value less estimated selling costs (fair value) or the carrying value of the related loan at the date of foreclosure and is included in “Other Assets” on the accompanying financial statements. At the time the property is acquired, if the fair value is less than the loan amounts outstanding, any difference is charged against the allowance for loan losses. After acquisition, valuations are periodically performed and, if the carrying value of the property exceeds the current fair value, a valuation allowance is established by a charge to operations. Subsequent increases in the fair value may reduce or eliminate the allowance. 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.

Bonds Payable and Notes Payable, net: Bonds Payable and Notes Payable are carried at their outstanding principal balances plus unamortized bond premiums and less unamortized bond discounts and deferred losses on refundings.

Bond Premium and Discount: Premium and discount on bonds are deferred and amortized over the life of the related bond issue using the straight line method of amortization.

Compensated Absences: Agency employees accrue vacation or annual leave in varying amounts for each monthly period worked. Employees may accumulate leave time, subject to certain limitations, and upon retirement, termination, or death may be compensated for certain accumulated amounts at their then current rates of pay. The Agency records an expense for all accumulated leave that the Agency would be required to pay if all employees terminated their employment.

Unearned Revenue: Unearned revenue represents the receipt of certain loan fees from lenders and borrowers, which is generally recognized as revenue over the life of the associated loans. Also included in unearned revenue is the cumulative amount by which pass-through revenues exceed expenses and allowable costs of issuance of certain programs.

Net Position: Net Position is equal to assets plus deferred outflows of resources less the sum of liabilities plus deferred inflows of resources. Net position is classified as net investment in capital assets or restricted net position. Net investment in capital assets represents investments in office equipment and furniture net of depreciation. Restricted net position represents net position balances under the lien of bond indentures that are therefore pledged to bondholders. State statutes further restrict other net position of the Fund solely for purposes of the Agency and provide for a continuing appropriation of such assets for the benefit of bondholders.

Extinguishment of Debt: The Agency accounts for gains and losses associated with debt refundings by deferring such gains or losses and recognizing them as revenues or expenses over the shorter of the term of the bonds extinguished or the term of the refunding bonds. Gains or losses associated with debt redemptions and maturing principal, other than refundings, are recognized as income or expense at the date of the extinguishment.

Operating Revenues and Expenses: The Fund’s primary operating revenue is derived from the investment of bond proceeds in the loan programs and investment securities. The primary expense is interest expense on bonds outstanding. Net interest income is an important measure of performance for the Fund. “Interest income program loans” and “interest income investments-net” are shown as operating revenues in the statements of Revenue, Expenses and Changes in Net Position.

Other Operating Revenues and Expenses: The Agency administers certain Section 8 contracts under the HUD guidelines of New Construction and Substantial Rehabilitation. Included in most contracts is an administrative fee earned by the Agency which totaled \$1.4 million and \$1.7 million for years ended June 30, 2014 and 2013, respectively. The Agency also administers National Foreclosure Mitigation Counseling Program (“FMC”). The HUD and FMC pass-through payments aggregated \$61.1 million and \$66.6 million for the years ended June 30, 2014 and 2013, respectively, and are reported as other operating revenues and expenses within Other Programs and Accounts.

Note 3– PRIOR-PERIOD ADJUSTMENTS

The Agency had a correction of an error related to the HMRB allowance for loan loss for the year ended June 30, 2013. The Agency discovered the HMRB allowance for loan loss was overstated by a total of \$39.5 million - \$16.4 million in fiscal year 2013 and \$23.1 million in fiscal year 2012. The effect of which understated both the total net programs loan receivable and net position for each of the fiscal years. The Agency has restated net position as of July 1, 2012 by \$23.1 million and adjusted the change in net position by \$16.4 million.

Net position, July 1, 2012 as previously stated	\$ 1,449,812
Adjustment to correct overstatement of mortgage receivable allowance	<u>23,077</u>
Net position, July 1, 2012, as restated	<u>\$ 1,472,889</u>
Decrease in Net position, June 30, 2013, as previously stated	\$ (31,167)
Adjustment to correct overstatement of mortgage receivable allowance	<u>16,417</u>
Decrease in Net position, June 30, 2013, as restated	<u>\$ (14,750)</u>

Note 4 – CASH, CASH EQUIVALENTS AND INVESTMENTS

The Fund utilizes a cash and investment pool maintained by the State Treasurer's office. Each program and account's portion of this pool is included in investments on the statements of net position. In addition, other types of investments are separately held by most of the programs and accounts.

Cash and Cash Equivalents: At June 30, 2014 and 2013, all cash and cash equivalents, totaling \$40.5 million and \$34.7 million, respectively, were covered by federal depository insurance or by collateral held by the Agency's agent in the Agency's name. As of June 30, 2014, the total cash balance at Bank of America was \$32.3 million and of that balance, \$4.1 million was identified as float balance and was not collateralized by the bank.

Investments: Investment of funds is restricted by the Act and the various bond resolutions and indentures of the Agency, generally, to certain types of investment securities, including direct obligations of the U.S. Government and its agencies, the State Treasurer's Pooled Money Investment Account, long term investment agreements which are issued by institutions rated within the top two ratings of a nationally recognized rating service, and other financial instruments. Investments of funds are also made in accordance with the Agency's Investment Policy.

The Agency entered into an U.S. Bank National Association Daily Liquid (open-ended) Commercial Paper (Open CP) agreement with U.S. Bank in March, 2013. The Open CP agreements are unsecured promissory notes issued by U.S. Bank National Association. The Open CP is not insured by Federal Deposit Insurance Corporation ("FDIC") or guaranteed by any governmental agency or authority, or by U.S. Bank. As of June 30, 2014 and 2013 the par value and market value of Open CP agreements were \$34.7 million and \$32.0 million, respectively.

The Agency is required to post collateral based on the Agency's current Long Term Debt Ratings assigned by either Standard and Poor's Rating Group or Moody's Investor Service, Inc., as set forth in each International Swap Dealers Association, Inc. ("ISDA") Master Agreement (see Note 7). The total cash and fair market value of investment securities posted as collateral at June 30, 2014 and 2013 was \$56 million and \$61.9 million, respectively.

Investments at June 30, 2014 and 2013 are as follows (dollars in thousands):

	Fair Value June, 30 2014	Fair Value June, 30 2013
U.S. Agency Securities --- GNMA's	\$ 206,050	\$ 250,223
Federal Agency Securities	197,062	239,768
Investment Agreements --- Financial Institutions (at cost)	41,936	61,381
Other Investments:		
Surplus Money Investment Fund --- State of California	1,040,555	1,238,133
US Bank NA Open CP	34,718	32,011
Other Investment Agreements (at cost)	<u>24,289</u>	<u>44,233</u>
Total Investments	<u>\$ 1,544,610</u>	<u>\$ 1,865,749</u>
Current portion		
Noncurrent portion	1,141,498	1,375,758
	<u>403,112</u>	<u>489,991</u>
Total	<u>\$ 1,544,610</u>	<u>\$ 1,865,749</u>

Note 5 – INVESTMENT RISK FACTORS

Investments by type at June 30, 2014 and 2013 consist of the following (dollars in thousands):

	2014	2013
	Totals	Totals
U.S. Agency Securities --- GNMA's	\$ 206,050	\$ 250,223
Federal Agency Securities	197,062	239,768
Investment Agreements --- Financial Institutions (at cost)	66,225	105,614
US Bank NA Open CP	34,718	32,011
Surplus Money Investment Fund --- State of California	1,040,555	1,238,133
Total Investments	<u>\$ 1,544,610</u>	<u>\$ 1,865,749</u>

There are many factors that can affect the value of investments. Some, such as credit risk, custodial credit risk, and concentration of credit risk and interest rate risk, may affect both equity and fixed income securities. Equity and debt securities respond to such factors 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 Agency to invest substantially all of its funds in fixed income securities, which limits the Agency's exposure to most types of risk.

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.

The credit risk profile for fixed income securities at June 30, 2014 and 2013 are as follows (dollars in thousands):

	2014	2013
	Totals	Totals
Fixed income securities:		
U.S. government guaranteed	\$ 403,112	\$ 489,991
Guaranteed interest contracts:		
Rated Aaa/NR	-	6,059
Rated Aa1/AA+	-	10
Rated Aa2/AA-	5,051	6,675
Rated A1+/P1	34,718	32,011
Rated A1/AA+	3,324	6,078
Rated A1/AA-	18,495	32,893
Rated A2/A	33,305	53,899
Rated A3/NR	6,050	-
Total fixed income securities	<u>\$ 504,055</u>	<u>\$ 627,616</u>

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, 2014, the Agency did not have any investments exposed to custodial credit. All investments are held by the State of California or by pledging financial institutions in the name of the Agency.

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 Agency to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Investments issued or guaranteed by the U.S. government and investments in external investment pools, such as the commingled funds managed by the Agency are not considered subject to concentration of credit risk. At June 30, 2014, no investments in any one issuer exceed 5% of the net position, except for securities issued by the U.S. government or its agencies.

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. At June 30, 2014, the Agency does not have any debt investments that are highly sensitive to changes in interest rates.

Effective duration is the approximate change in price of a security resulting from a 100 basis points (1 percentage point) change in the level of interest rates. It is not a measure of time. The guaranteed interest contracts are valued at par and therefore not subject to interest rate risk. The effective duration for U.S. government guaranteed fixed income securities at June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Fixed income securities:		
U.S. government guaranteed	15.70	16.00

Note 6 – PROGRAM LOANS RECEIVABLE

Changes in program loans receivable for the years ended June 30, 2014 and 2013 are as follows (dollars in thousands):

	<u>2014</u>	<u>Restated</u>
	<u>Totals</u>	<u>2013</u>
		<u>Totals</u>
Beginning of year balance	\$ 4,505,952	\$ 5,140,443
Loans purchased/funded	89,158	266,489
Noncash transfers - REO	(11,073)	(86,662)
Amortized principal repayments	(195,023)	(234,687)
Prepayments	(490,870)	(575,547)
Principal Reduction Program	(11,719)	(18,094)
Chargeoffs	(14,568)	(55,365)
Unamortized Mortgage Discount	146	146
Transfer to REO- net of write-down	6,691	66,059
Allowance for loan loss	27,591	3,170
	<u>\$ 3,906,285</u>	<u>\$ 4,505,952</u>
Current portion	\$ 124,730	\$ 154,984
Noncurrent portion	3,781,555	4,350,968
Total	<u>\$ 3,906,285</u>	<u>\$ 4,505,952</u>

Note 7 – ALLOWANCE FOR PROGRAM LOAN LOSSES

Changes in the allowance for program loan losses for the year ended June 30, 2014 and 2013 are as follows (dollars in thousands):

	<u>2014</u>	<u>Restated</u>
	<u>Totals</u>	<u>2013</u>
		<u>Totals</u>
Beginning of year balance	\$ 173,528	\$ 176,697
Provisions for program loan losses	(13,022)	52,196
Chargeoffs	(14,568)	(55,365)
End of year balance	<u>\$ 145,938</u>	<u>\$ 173,528</u>

Note 8 – BONDS AND NOTES PAYABLE AND ASSOCIATED INTEREST RATE SWAPS

The Act empowers the Agency, on behalf of the Fund, to issue both federally taxable and tax exempt bonds and notes. Bonds and notes issued by the Agency are not debts of the State but are special and general obligations of the Agency payable solely from and collateralized by the revenues and other assets pledged under the respective indentures. The Act provides the Agency with the authority to have outstanding bonds or notes, at any one time, in the aggregate principal amount of \$13.15 billion excluding refunding issues and certain taxable securities.

The Agency, on behalf of the Fund, as part of its interest rate risk management program, has entered into interest rate swap agreements with various counterparties wherein the Agency has agreed to pay fixed or variable rates of interest and receive floating rate payments.

Bonds payable and the terms, outstanding notional amounts, and fair value of associated interest rate swaps as of June 30, 2014 are as follows (dollars in thousands):

<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>	<u>Final Maturity Date</u>	<u>Bonds</u>		<u>Total</u>
				<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	
Home Mortgage Revenue Bonds:						
2000 Series J	Tax-Exempt					
2000 Series N	Tax-Exempt	0.070%	2031		\$ 13,475	\$ 13,475
2000 Series V	Taxable	0.440%	2032		10,120	10,120
2000 Series V	Taxable	0.440%	2032		13,475	13,475
2000 Series X-2	Tax-Exempt					
2000 Series Z	Taxable	0.420%	2031		29,715	29,715
2001 Series D	Taxable	0.550%	2022		35,505	35,505
2001 Series G	Taxable	0.490%	2029		28,290	28,290
2001 Series J	Tax-Exempt					
2001 Series K	Taxable	0.480%	2032		37,610	37,610
2001 Series N	Tax-Exempt					
2001 Series O	Taxable	0.510%	2032		35,420	35,420
2001 Series S	Taxable	0.550%	2023		25,070	25,070
2001 Series U	Tax-Exempt	0.070%	2032		18,000	18,000
2001 Series V	Taxable	0.370%	2031		13,600	13,600
2002 Series B	Tax-Exempt					
2002 Series C	Taxable	0.490%	2033		21,210	21,210
2002 Series F	Tax-Exempt					
2002 Series H	Taxable	0.490%	2022		15,875	15,875
2002 Series J	Tax-Exempt	0.070%	2033		36,100	36,100
2002 Series L	Taxable	0.490%	2024		17,940	17,940
2002 Series M	Tax-Exempt	0.060%	2025		18,390	18,390
2002 Series P	Tax-Exempt					
2003 Series H	Tax-Exempt	0.070%	2032		16,650	16,650
2003 Series I	Taxable	0.420%	2033		27,415	27,415
2003 Series K	Tax-Exempt	0.060%	2033		25,005	25,005
2003 Series L	Taxable	0.420%	2034		20,850	20,850
2003 Series M	Tax-Exempt	0.070%	2034		51,665	51,665
2003 Series N	Taxable	0.450%	2034		20,660	20,660
2004 Series A	Tax-Exempt					
2004 Series E	Tax-Exempt	0.060%	2035		53,495	53,495
2004 Series F	Taxable	0.430%	2035		33,675	33,675
2004 Series G	Tax-Exempt					

Swaps						
<u>Type</u>	<u>Fixed Rate Paid By Agency</u>	<u>Floating Rate Received By Agency</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
Fixed payer	4.9000%	LIBOR @ 65%	5/25/00	8/1/30	\$ 17,775	\$ (3,846)
Fixed payer	4.5275%	LIBOR @ 65%	10/5/00	8/1/15	7,670	(190)
Fixed payer	7.0960%	6 mo LIBOR	10/5/00	8/1/14	2,075	(12)
Fixed payer	4.5100%	LIBOR @ 65%	12/13/00	8/1/31	20,540	(3,926)
Fixed payer	6.8430%	3 mo LIBOR	12/13/00	8/1/16	8,565	(494)
Fixed payer	6.2150%	3 mo LIBOR+.26%	1/25/01	8/1/19	22,250	(2,489)
Fixed payer	6.0100%	3 mo LIBOR+.20%	4/5/01	2/1/16	8,965	(499)
Fixed payer	4.1430%	LIBOR @ 65%	5/31/01	8/1/24	23,460	(2,031)
Fixed payer	3.9910%	LIBOR @ 65%	7/26/01	8/1/18	3,650	(302)
Fixed payer	6.3600%	3 mo LIBOR+.27%	7/26/01	8/1/20	26,020	(3,323)
Fixed payer	5.5300%	3 mo LIBOR+.31%	10/10/01	8/1/18	14,315	(1,027)
Fixed payer	4.1300%	SIFMA less .15%	12/6/01	8/1/32	31,440	(3,939)
Fixed payer	3.8880%	LIBOR @ 65%	4/18/02	8/1/27	31,535	(4,976)
Fixed payer	3.9940%	LIBOR @ 65%	6/6/02	2/1/24	25,125	(3,178)
Fixed payer	3.8630%	LIBOR @ 65%	8/8/02	8/1/32	42,265	(4,158)
Fixed payer	3.7280%	LIBOR @ 65%	10/17/02	8/1/22	35,755	(3,162)
Fixed payer	3.1480%	LIBOR @ 65%	12/12/02	8/1/22	45,800	(3,621)
Fixed payer	3.0875%	LIBOR @ 60%+.26%	8/1/04	8/1/30	19,450	(1,287)
Fixed payer	3.6100%	LIBOR @ 60%+.26%	2/1/05	2/1/34	38,205	(3,980)

Bonds						
<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>	<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
2004 Series G	Tax-Exempt					
2004 Series I	Tax-Exempt					
2005 Series A	Tax-Exempt	0.060%	2035		72,440	72,440
2005 Series B	Tax-Exempt					
2005 Series B	Tax-Exempt	0.060%	2035		71,780	71,780
2005 Series D	Tax-Exempt	0.070%	2038		37,125	37,125
2005 Series F	Tax-Exempt	0.060%	2037		27,570	27,570
2005 Series F	Tax-Exempt	0.060%	2038		58,945	58,945
2005 Series H	Tax-Exempt					
2006 Series C	Tax-Exempt	0.060%	2037		10,385	10,385
2006 Series C	Tax-Exempt	0.060%	2037		71,120	71,120
2006 Series D	Tax-Exempt	4.250% - 4.400%	2017	19,500		19,500
2006 Series E	Tax-Exempt	4.600% - 5.000%	2026	34,600		34,600
2006 Series F	Tax-Exempt					
2006 Series F	Tax-Exempt	0.050%	2041		35,310	35,310
2006 Series G	Tax-Exempt	3.700% - 3.875%	2016	9,470		9,470
2006 Series H	Tax-Exempt	5.750%	2030	9,850		9,850
2006 Series I	Tax-Exempt	4.600% - 4.875%	2041	53,105		53,105
2006 Series J	Tax-Exempt	4.125% - 4.150%	2016	5,605		5,605
2006 Series K	Tax-Exempt	4.550% - 5.500%	2042	107,380		107,380
2006 Series L	Tax-Exempt	4.100% - 4.150%	2016	7,080		7,080
2006 Series M	Tax-Exempt	4.625% - 5.000%	2042	84,775		84,775
2007 Series A	Taxable	5.720%	2032	84,120		84,120
2007 Series B	Taxable	0.420%	2042		40,000	40,000
2007 Series C	Taxable	0.420%	2042		20,000	20,000
2007 Series D	Tax-Exempt	4.200% - 4.400%	2018	27,065		27,065
2007 Series E	Tax-Exempt	4.700% - 5.000%	2042	88,810		88,810
2007 Series F	Tax-Exempt	4.550% - 4.700%	2017	19,570		19,570
2007 Series G	Tax-Exempt	4.950% - 5.500%	2042	90,870		90,870
2007 Series H	Tax-Exempt					
2007 Series H	Tax-Exempt	0.050%	2042		41,930	41,930
2007 Series I	Tax-Exempt	4.200% - 4.350%	2017	7,580		7,580
2007 Series J	Tax-Exempt	5.750%	2047	9,655		9,655
2007 Series K	Tax-Exempt	0.050%	2037		4,710	4,710
2007 Series K	Tax-Exempt	0.050%	2038		25,000	25,000
2007 Series M	Taxable	5.835%	2032	74,455		74,455
2007 Series N	Taxable	0.420%	2043		60,000	60,000
2008 Series A	Tax-Exempt	3.900% - 4.500%	2020	26,015		26,015
2008 Series B	Tax-Exempt	4.800% - 5.000%	2028	11,710		11,710
2008 Series C	Tax-Exempt					
2008 Series C	Tax-Exempt	0.050%	2041		3,310	3,310
2008 Series C	Tax-Exempt	0.050%	2041		7,760	7,760
2008 Series D	Tax-Exempt	0.050%	2043		1,680	1,680
2008 Series D	Tax-Exempt	0.050%	2043		2,595	2,595
2008 Series D	Tax-Exempt	0.050%	2043		1,355	1,355
2008 Series D	Tax-Exempt	0.050%	2043		3,865	3,865
2008 Series D	Tax-Exempt	0.050%	2031		8,445	8,445
2008 Series D	Tax-Exempt	0.050%	2031		9,940	9,940
2008 Series D	Tax-Exempt	0.050%	2043		4,210	4,210
2008 Series E	Tax-Exempt					
2008 Series F	Tax-Exempt	0.050%	2032		12,415	12,415
2008 Series G	Taxable	6.000%	2025	50,000		50,000
2008 Series H	Taxable	4.950%	2020	60,275		60,275
2008 Series I	Taxable					

Swaps

<u>Type</u>	<u>Fixed Rate Paid By Agency</u>	<u>Floating Rate Received By Agency</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
Fixed payer	4.0821%	LIBOR @ 60%+.26%	8/1/04	2/1/35	1,645	(5)
Fixed payer	3.5600%	LIBOR @ 60%+.26%	8/4/04	2/1/33	11,980	(1,199)
Fixed payer	3.8040%	LIBOR @ 60%+.26%	4/5/05	8/1/35	72,440	(12,184)
Fixed payer	3.0490%	LIBOR @ 60%+.26%	7/1/05	2/1/16	12,010	(261)
Fixed payer	3.7260%	LIBOR @ 60%+.26%	7/1/05	2/1/35	2,430	(124)
Fixed payer	3.1580%	LIBOR @ 60%+.26%	5/19/05	2/1/36	35,130	(526)
Fixed payer	3.3860%	LIBOR @ 60%+.26%	7/28/05	2/1/38	32,135	(1,030)
Fixed payer	3.8570%	LIBOR @ 62%+.25%	12/15/05	2/1/36	24,860	(915)
Fixed payer	4.0590%	LIBOR @ 62%+.25%	4/19/06	2/1/37	56,835	(3,102)
Fixed payer	4.2550%	LIBOR @ 62%+.25%	7/27/06	8/1/40	36,000	(1,584)
Fixed payer	4.1360%	LIBOR @ 62%+.25%	7/27/06	2/1/41	60,000	(4,348)
Fixed payer	4.0480%	LIBOR @ 62%+.25%	8/8/07	2/1/31	50,000	(3,928)
Fixed payer	4.2360%	LIBOR @ 62%+.25%	8/8/07	2/1/38	50,000	(5,008)
Fixed payer	3.9870%	LIBOR @ 63%+.24%	11/7/07	8/1/32	25,000	(1,424)
Fixed payer	4.0400%	LIBOR @ 63%+.24%	11/7/07	2/1/38	25,000	(1,391)
Fixed payer	4.8000%	LIBOR @ 65%	4/6/00	2/1/23	2,225	(546)
Fixed payer	4.1430%	LIBOR @ 65%	5/31/01	8/1/24	9,715	(1,890)
Fixed payer	3.9940%	LIBOR @ 65%	6/6/02	2/1/24	7,005	(1,354)
Fixed payer	3.8630%	LIBOR @ 65%	8/8/02	8/1/32	7,760	(1,768)
Fixed payer	4.9000%	LIBOR @ 65%	5/25/00	8/1/30	1,680	(607)
Fixed payer	4.1430%	LIBOR @ 65%	5/31/01	8/1/24	2,595	(428)
Fixed payer	3.9910%	LIBOR @ 65%	7/26/01	8/1/18	1,355	(166)
Fixed payer	4.1300%	SIFMA less .15%	12/6/01	8/1/32	3,865	(823)
Fixed payer	4.8500%	LIBOR @ 65%	11/18/08	2/1/17	11,275	(448)
Fixed payer	4.8000%	LIBOR @ 65%	4/6/00	2/1/23	8,070	(911)
Fixed payer	4.8000%	LIBOR @ 65%	11/18/00	2/1/17	4,210	(464)
Fixed payer	4.6600%	LIBOR @ 65%	11/18/08	2/1/16	4,255	(154)
Fixed payer	3.8700%	LIBOR @ 65%	11/18/08	8/1/17	12,415	(590)
Fixed payer	6.1950%	LIBOR	8/1/02	8/1/14	505	(3)

Bonds						
<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>	<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
2008 Series I	Taxable					
2008 Series J	Tax-Exempt	4.850% - 5.125%	2018	21,355		21,355
2008 Series K	Tax-Exempt	5.300% - 5.550%	2033	81,720		81,720
2008 Series L	Tax-Exempt	5.200% - 5.550%	2038	99,705		99,705
Housing Program Bonds:						
2006 Series A	Tax-Exempt	4.750% - 4.950%	2036	40,390		40,390
Residential Mortgage Revenue Bonds:						
2009 Series A-5	Tax-Exempt	3.160%	2041	327,060		327,060
2009 Series A-6	Tax-Exempt	3.270%	2030	69,950		69,950
2010 Series A	Tax-Exempt	2.000% - 4.625%	2027	17,420		17,420
2011 Series A	Tax-Exempt	1.750% - 4.750%	2028	47,850		47,850
2013 Series A	Taxable	2.900%	2042	79,631		79,631
2013 Series B	Taxable	2.900%	2042	29,641		29,641
Multifamily Loan Purchase Bonds:						
2000 Series A	Taxable	Variable	2017		3,759	3,759
Multifamily Housing Revenue Bonds III:						
1997 Series A	Tax-Exempt	5.950% - 6.000%	2038	52,275		52,275
1998 Series A	Tax-Exempt	5.400% - 5.500%	2038	23,610		23,610
1998 Series B	Tax-Exempt	5.400% - 5.500%	2039	57,860		57,860
1998 Series C	Tax-Exempt	5.200% - 5.300%	2022	3,470		3,470
1999 Series A	Tax-Exempt	5.200% - 5.375%	2036	26,930		26,930
2000 Series B	Tax-Exempt					
2000 Series D	Tax-Exempt					
2001 Series D	Tax-Exempt	0.051%	2021		520	520
2001 Series E	Tax-Exempt	0.063%	2036		30,295	30,295
2001 Series F	Tax-Exempt	0.052%	2032		10,710	10,710
2001 Series G	Tax-Exempt	0.130%	2025		2,885	2,885
2001 Series G	Tax-Exempt	0.130%	2036		9,895	9,895
2001 Series G	Tax-Exempt	0.130%	2036		7,730	7,730
2002 Series A	Tax-Exempt					
2002 Series A	Tax-Exempt					
2002 Series B	Tax-Exempt					
2002 Series C	Tax-Exempt					
2002 Series C	Tax-Exempt					
2002 Series D	Tax-Exempt	0.051%	2033		3,795	3,795
2002 Series E	Tax-Exempt	0.063%	2037		2,915	2,915
2002 Series E	Tax-Exempt	0.063%	2037		11,795	11,795
2003 Series C	Tax-Exempt	0.384%	2038		25,915	25,915
2004 Series A	Tax-Exempt					
2004 Series B	Tax-Exempt	0.884%	2036		1,610	1,610
2004 Series B	Tax-Exempt	0.884%	2036		5,530	5,530
2004 Series B	Tax-Exempt	0.884%	2036		4,880	4,880
2004 Series B	Tax-Exempt	0.884%	2036		11,720	11,720
2004 Series B	Tax-Exempt	0.884%	2036		1,520	1,520
2004 Series C	Tax-Exempt	0.302%	2037		5	5
2004 Series C	Tax-Exempt	0.302%	2037		6,630	6,630
2004 Series D	Tax-Exempt	0.302%	2039		41,330	41,330
2005 Series A	Tax-Exempt					
2005 Series B	Tax-Exempt					
2005 Series B	Tax-Exempt					

Swaps						
<u>Type</u>	<u>Fixed Rate Paid By Agency</u>	<u>Floating Rate Received By Agency</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
Fixed payer	7.1100%	LIBOR	11/18/08	8/1/22	27,025	(5,858)
Fixed payer	4.5850%	LIBOR @ 64%	7/12/00	2/1/31	1,015	(157)
Fixed payer	4.3950%	LIBOR @ 64%	11/18/08	2/1/31	11,890	(2,583)
Fixed payer	4.4520%	SIFMA less .20%	6/28/01	8/1/22	1,895	(267)
Fixed payer	4.7120%	SIFMA less .15%	6/28/01	2/1/36	42,775	(9,987)
Fixed payer	4.0290%	SIFMA less .20%	2/1/02	2/1/32	12,100	(1,674)
Fixed payer	4.2050%	SIFMA less .15%	2/1/02	8/1/36	2,900	(445)
Fixed payer	4.2050%	SIFMA less .15%	2/1/02	8/1/36	35,175	(6,438)
Fixed payer	4.5950%	SIFMA less .15%	2/1/04	2/1/34	8,430	(1,877)
Fixed payer	4.5000%	SIFMA less .15%	8/1/02	8/1/32	14,775	(2,850)
Fixed payer	4.8900%	SIFMA less .15%	2/2/04	2/1/37	10,375	(2,788)
Fixed payer	4.0370%	SIFMA less .20%	2/1/03	2/1/35	21,080	(3,463)
Fixed payer	4.4050%	SIFMA less .15%	2/1/04	2/1/37	12,465	(2,748)
Fixed payer	4.6380%	SIFMA less .15%	8/1/05	8/1/37	14,605	(3,500)
Fixed payer	4.0850%	SIFMA less .20%	2/3/03	2/1/35	10,460	(1,923)
Fixed payer	4.1510%	SIFMA less .15%	2/3/03	2/1/35	13,845	(2,591)
Fixed payer	4.5710%	SIFMA less .15%	11/1/04	8/1/37	37,120	(9,264)
Fixed payer	3.0590%	LIBOR @ 60%+.21%	8/1/04	8/1/34	17,230	(1,656)
Fixed payer	3.6920%	LIBOR @ 60%+.26%	8/1/06	8/1/36	11,340	(1,376)
Fixed payer	3.3300%	LIBOR @ 60%+.26%	8/1/04	8/1/34	4,740	(388)
Fixed payer	4.9783%	SIFMA less .15%	8/1/06	2/1/39	11,755	(2,166)
Fixed payer	4.5390%	SIFMA less .15%	8/1/04	8/1/34	2,245	(331)
Fixed payer	3.4350%	LIBOR @ 60%+.21%	2/1/05	8/1/25	6,750	(743)
Fixed payer	3.5640%	SIFMA less .20%	7/1/05	8/1/35	2,105	(282)
Fixed payer	3.9540%	SIFMA less .15%	6/15/05	8/1/35	2,410	(303)
Fixed payer	4.0790%	SIFMA less .15%	2/1/07	2/1/37	22,215	(3,145)

Bonds						
<u>Bond Issue</u>	<u>Type of Bond</u>	<u>Interest Rate Range</u>	<u>Final Maturity Date</u>	<u>Outstanding Fixed</u>	<u>Outstanding Variable</u>	<u>Total</u>
2005 Series B	Tax-Exempt					
2005 Series C	Tax-Exempt	4.000% - 4.900%	2036	7,835		7,835
2005 Series D	Tax-Exempt	0.060%	2038		15,805	15,805
2005 Series E	Tax-Exempt	4.450% - 5.125%	2038	18,655		18,655
2006 Series A	Tax-Exempt					
2006 Series A	Tax-Exempt					
2006 Series A	Tax-Exempt					
2007 Series B	Tax-Exempt					
2007 Series B	Tax-Exempt					
2007 Series C	Tax-Exempt	0.051%	2042		5,000	5,000
2007 Series C	Tax-Exempt	0.051%	2040		4,535	4,535
2008 Series A	Tax-Exempt	0.051%	2040		7,415	7,415
2008 Series B	Tax-Exempt	0.063%	2036		16,890	16,890
2008 Series B	Tax-Exempt	0.063%	2038		9,230	9,230
2008 Series C	Tax-Exempt	0.071%	2038		5,290	5,290
2008 Series C	Tax-Exempt	0.071%	2036		12,625	12,625
2008 Series C	Tax-Exempt	0.708%	2038		740	740
2014 Series A	Tax-Exempt	0.850% - 4.800%	2049	38,915		38,915
Affordable Multifamily Housing Revenue Bonds:						
2009 Series A-21	Tax-Exempt	2.320%	2046	53,920		53,920
2009 Series A-22	Tax-Exempt	2.320%	2039	35,180		35,180
				2,014,862	1,512,069	3,526,931
Unamortized discount						(215)
Unamortized premium						6,036
						\$ 3,532,752

Swaps						
<u>Type</u>	<u>Fixed Rate Paid By Agency</u>	<u>Floating Rate Received By Agency</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
Fixed payer	3.9570%	SIFMA less .15%	8/1/07	2/1/38	3,630	(476)
Fixed payer	3.7010%	LIBOR @ 60%+.26%	2/1/06	2/1/38	27,420	(4,368)
Fixed payer	4.042% * HR	97% SIFMA & HR	6/15/06	8/1/27	5,720	(704)
Fixed payer	4.381% * HR	97% SIFMA & HR	6/15/06	8/1/39	8,595	(1,257)
Fixed payer	4.492% * HR	97% SIFMA & HR	6/15/06	2/1/41	3,925	(611)
Fixed payer	3.9370%	LIBOR @ 64%+.25%	7/12/07	2/1/22	1,910	(189)
Fixed payer	4.2220%	LIBOR @ 64%+.25%	8/1/09	2/1/40	5,585	(1,010)
Fixed payer	3.7280%	LIBOR @ 63%+.30%	2/1/08	8/1/42	5,620	(631)
Fixed payer	3.9190%	LIBOR @ 63%+.30%	11/1/09	8/1/40	13,260	(2,128)
Fixed payer	3.2950%	LIBOR @ 61%+.24%	11/1/09	8/1/40	9,755	(1,496)
Fixed payer	3.3850%	SIFMA less .15%	8/1/03	8/1/36	20,285	(2,086)
Fixed payer	4.2950%	SIFMA less .15%	8/1/05	2/1/38	25,820	(2,947)
Fixed payer	3.8830%	LIBOR @ 60%+.26%	12/1/04	8/1/38	8,085	(1,670)
Fixed payer	3.9680%	LIBOR @ 60%+.26%	7/1/05	2/1/36	12,625	(2,518)
Fixed payer	4.0600%	LIBOR @ 60%+.26%	2/1/06	8/1/38	8,395	(1,887)

\$	1,516,605	\$	(186,402)
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Note Payable: The Agency entered into a loan agreement with Citibank N.A. on March 1, 2010. The Agency received funds for special bond redemptions in exchange for a total note payable of \$95.1 million. The loan is collateralized by multifamily loan receivables. The outstanding maturity dates for the multifamily loan receivables range from September 1, 2015 to January 1, 2046 and the interest rates range from 5.25% to 9.00%. The Agency collects and remits the mortgage payments less servicing fees to Citibank on 27 multifamily loans. The Citibank loans note payable balance was \$63.6 million and \$81.1 million as of June 30, 2014 and 2013, respectively, as included in Notes Payable in the combined statements of net position. The table below provides a summary of the note payment requirements for the next five years and in five year increments thereafter (dollars in thousands).

Fiscal Year				
Ending June 30	Principal	Interest	Total	
2015	\$ 2,253	\$ 3,342	\$ 5,595	
2016	2,339	3,210	5,549	
2017	2,388	3,093	5,481	
2018	2,529	2,962	5,491	
2019	2,685	2,823	5,508	
2020-2024	15,262	11,759	27,021	
2025-2029	16,302	7,512	23,814	
2030-2034	13,003	3,392	16,395	
2035-2039	4,058	1,096	5,154	
2040-2044	2,017	468	2,485	
2045-2046	759	33	792	
Total	\$ 63,595	\$ 39,690	\$ 103,285	

Conduit Debt Obligations: Beginning in 2009, the Agency has issued conduit housing revenue debt obligations to provide financial assistance for the acquisition, construction, and development of multifamily rental housing. They are limited obligations of the Agency, payable solely from the revenues and other funds and money pledged and assigned under the applicable indenture, series indenture, master pledge and assignment, or funding loan agreement. For the year ended June 30, 2014, the Agency elected to only disclose the conduit debt obligations in the notes to the financial statements. For the year ended June 30, 2013, the Agency adjusted the statement of net position by decreasing “Cash and cash equivalents” by \$0.3 million, “Current portion-program loans receivable, net allowance” by \$0.1 million, “Interest Receivable: Program loans, net” by \$24 thousand, “Program loans receivable, net of allowance” by \$320.0 million, “Current liabilities: Bonds payable” by \$19.4 million, “Interest payable” by \$23 thousand, and “Noncurrent liabilities: Bonds payable” by \$300.9 million. Furthermore for the year ended June 30, 2013, the Agency adjusted the statements of cash flows by decreasing “Proceeds from sales of bonds” by \$2.8 million, “Payment of bond principal” by \$0.6 million, and “Early bond redemptions” by \$23.5 million.

The Agency had 31 series of conduit debt obligations aggregating \$341.0 million as of June 30, 2014 and 27 series of conduit debt obligations aggregating \$320.4 million as of June 30, 2013. For the years ended June 30, 2014 and 2013, all the authorized conduit debt obligations were issued. For the years ended June 30, 2014 and 2013, the Agency issued \$39.2 million and \$2.5 million in conduit debt obligations, respectively.

The Agency may collect amounts from borrowers for application processing, issuance fees, administration fees, special issuer fees, unearned revenue-prepaid administration fees, and California Debt Limit Allocation Committee (CDLAC) performance fees. If the conduit debt obligations are issued, the CDLAC performance fees are returned. For the year ended June 30, 2014, the Agency collected \$13 thousand in issuance fees, \$2.6 million in administration fees, \$0.2 million in special issuer fees, and \$0.4 million in unearned revenue-prepaid administration fees. For the year ended June 30, 2013, the Agency collected \$0.2 million in issuance fees, \$1.9 million in administration fees, \$0.3 million in special issuer fees, and \$0.3 million in unearned revenue-prepaid administration fees. The collected amounts are used to pay the Agency’s operating expenses.

Reconciliation of Bonds Payable: Changes in bonds payable for the years ended June 30, 2014 and 2013 are as follows (dollars in thousands):

	2014	Restated
	<u>Totals</u>	<u>Totals</u>
Beginning of year balance	\$ 4,498,536	\$ 6,167,877
New bonds issued	38,915	133,760
Scheduled maturities	(63,893)	(99,328)
Redemptions	(943,972)	(1,700,310)
Amortized discount	27	173
Amortized premium	(1,657)	(2,105)
Amortized deferred loss	-	988
Additions to deferred loss	-	(2,519)
Reclassified deferred loss to deferred outflow	4,898	-
Additions to discount	(102)	-
End of year balance	<u>\$ 3,532,752</u>	<u>\$ 4,498,536</u>
Current portion	\$ 67,904	\$ 86,548
Noncurrent portion	<u>3,464,848</u>	<u>4,411,988</u>
Total	<u>\$ 3,532,752</u>	<u>\$ 4,498,536</u>

Variable Rate Debt and Debt Service Requirements: The Agency's 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 Inter-Bank Offered Rate ("LIBOR") and resets periodically. The interest calculations shown in the table below are based on the variable rate in effect at June 30, 2014, and may not be indicative of the actual interest expense that will be incurred by the Fund. As rates vary, variable rate bond interest payments and net swap payments will vary. The table below provides a summary of debt service requirements and net swap payments for the next five years and in five year increments thereafter (dollars in thousands).

Fiscal Year	Fixed/Variable		Variable		Interest Rate	Total
	Unswapped		Swapped			
Ending June 30	Principal	Interest	Principal	Interest	Swaps, Net	
2015	\$ 60,460	\$91,049	\$ 7,440	\$ 930	\$ 59,235	\$ 219,114
2016	110,810	87,887	7,555	998	54,277	261,527
2017	100,365	84,064	8,105	993	49,760	243,287
2018	91,784	80,041	16,140	964	45,877	234,806
2019	83,160	76,435	16,685	909	42,208	219,397
2020-2024	511,670	332,847	98,285	3,687	166,938	1,113,427
2025-2029	551,950	230,872	130,550	2,587	118,379	1,034,338
2030-2034	624,350	133,212	264,000	1,211	67,388	1,090,161
2035-2039	357,570	70,784	178,415	281	19,022	626,072
2040-2044	254,222	22,341	38,595	39	930	316,127
2045-2049	14,025	1,684				15,709
2050	795	19				814
Total	<u>\$ 2,761,161</u>	<u>\$ 1,211,235</u>	<u>\$ 765,770</u>	<u>\$ 12,599</u>	<u>\$ 624,014</u>	<u>\$ 5,374,779</u>

As of June 30, 2014, the difference between the gross bonds payable and the net bonds payable was \$5.8 million. This represented the aggregate of the unamortized bond premium and bond discount.

Objective of the Interest Rate Swaps: In order to protect against rising rates, the Agency primarily entered into swaps to establish synthetic fixed rates for a like amount of the Agency's variable rate bond obligations. The majority of the Agency's interest rate swap transactions are structured for the Agency to pay a fixed interest rate while receiving a variable interest rate (fixed payer swaps) and exceptions are listed under Basis Risk Associated with Interest Rate Swaps. Synthetic fixed rates provide the Agency with a significantly lower fixed cost of funds compared to issuing fixed-rate bonds; however, the increased risks related to the synthetic fixed rates have the effect of increasing costs to the Agency.

Terms, Fair Value and Credit Risk: The terms and fair values of the outstanding fixed payer swaps as of June 30, 2014 are summarized in the table at the beginning of Note 8. The terms and fair values of the outstanding basis swaps are summarized in the table under Basis Risk.

The fair value of the swaps is reported as “Derivative swap asset” within “Other assets” or as “Derivative swap liability” within “Other liabilities” in the statements of net position. The accumulated decrease or increase in the fair value of the effective swaps is reported as “Accumulated decrease in fair value of hedging derivatives” within “Deferred outflow of resources” or “Accumulated increase in fair value of hedging derivatives” within “Deferred inflow of resources” in the statements of net position. Alternatively, the gain or loss on the fair value of the ineffective swaps is reported as “Investment swap revenue” within “Other revenues” in the statements of revenues, expenses and changes in net position.

The Agency did not pay or receive any cash when swap transactions were initiated except for in-substance assignments. For the year ended June 30, 2014, 29 swaps with associated outstanding bonds were considered investment derivatives because they no longer met the criteria for effectiveness. Accordingly, the accumulated changes in fair value that were reported as deferred outflow of resources of \$52.5 million as of June 30, 2013, along with the decrease in the fair value of the swaps for the year ended June 30, 2014 of \$2.9 million are reported as “Investment swap revenue” within “Other revenues” for the year ended June 30, 2014. For the year ended June 30, 2013, 13 swaps with associated outstanding bonds were considered investment derivatives because they no longer met the criteria for effectiveness. Accordingly, the accumulated changes in fair value that were reported as deferred outflow of resources of \$13.6 million as of June 30, 2012, along with the decrease in the fair value of the swaps for the year ended June 30, 2013 of \$4.4 million are reported as “Investment swap revenue” within “Other revenues” for the year ended June 30, 2013. The following table summarizes the swap fair value activity in the statements of net position as of June 30, 2014 and 2013 and the statements of revenues, expenses, and changes in net position for the years ended June 30, 2014 and 2013 (dollars in thousands):

	2014	2013
Statements of Net Position:		
Derivative swap asset	\$ 215	\$ 137
Accumulated decrease in fair value of hedging derivatives	25,042	126,717
Derivative swap liability	186,402	217,718
Statements of Revenues, Expenses, and Changes in Net Position:		
Investment swap revenue	\$ (70,280)	\$ (6,124)

Except as discussed under rollover risk, the Agency’s swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated “bonds payable” category.

As of June 30, 2014, the Agency executed interest rate swap transactions with 11 swap counterparties. All of the Agency’s interest rate swap agreements require the Agency to post collateral if its general obligation credit ratings, as issued by Moody’s and Standard and Poor’s fall below a certain level and if the fair value of the swaps breach a certain threshold. The collateral can be posted in several forms: cash, mortgage-backed securities, or treasuries. If the Agency does not post collateral, the interest rate swap can be terminated by the counterparty. The cash collateral and securities collateral are reported as “Current assets: Other Assets” and “Noncurrent assets: Investments,” respectively, in the statements of net position. As of June 30, 2014, the Agency posted cash and fair value of mortgage-backed securities as collateral with swap counterparties in the amounts of \$13.3 million and \$42.7 million, respectively. As of June 30, 2013, the Agency posted cash and fair value of mortgage-backed securities as collateral in the amounts of \$3.1 million and \$58.7 million, respectively.

Because interest rates are generally lower than the rates in effect at inception of the swap agreements, the Agency’s fixed payer swap agreements had an aggregate negative fair value of \$186.4 million as of June 30, 2014 and \$217.7 million as of June 30, 2013. Fair values are as reported by the Agency’s dealer counterparties and are estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

As of June 30, 2014, the Agency’s swap portfolio had an aggregate asset position of \$0.2 million. This represents the maximum loss that would be reported at the reporting date if all counterparties failed to perform as contracted. However, this maximum exposure is eliminated by the applicable counterparty swap liabilities included in the \$186.4 million total. Therefore, the Agency has no net exposure to credit risk.

The following table shows the number of fixed payer swaps and outstanding notional amounts by the counterparties' respective credit ratings as of June 30, 2014 (dollars in thousands).

<u>Moody's</u>	<u>Standard & Poors</u>	<u>Outstanding Notional Amount</u>	<u>Number of Swap Transactions</u>
Aa1	AA-	\$ 25,000	1
Aa2	AAA	191,610	7
Aa3	A+	834,065	48
A2	A+	188,320	12
A2	A	12,100	1
Baa1	A-	173,140	5
Baa2	A-	82,615	4
Baa2	BBB	9,755	1
		<u>\$ 1,516,605</u>	<u>79</u>

Interest Rate Risk: The Agency is exposed to interest rate risk on its fixed payer swaps. As the LIBOR or the SIFMA swap index decreases, the Agency's net payments on the swaps increase.

Basis Risk: All of the Agency's interest rate swaps contain an element of basis risk, the risk that the floating rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because floating rates paid by swap counterparties are based on indices, which consist of market-wide averages, while interest paid on the Agency's variable rate bonds is specific to individual bond issues.

Historically, the Agency's variable rate tax-exempt bonds trade at a slight discount to the SIFMA index. For those swaps associated with tax-exempt bonds for which the Agency receives a variable rate payment based on a percentage of LIBOR, the Agency is exposed to basis risk should the relationship between SIFMA and LIBOR converge.

Multiple swap formulas have been used by the Agency. As of June 30, 2014, the formulas for the swap portfolio utilized the SIFMA, the 1 month LIBOR, the 3 month LIBOR, and the 6 month LIBOR rates. As of June 30, 2014, rates for the SIFMA, the 1 month LIBOR, the 3 month LIBOR, and the 6 month LIBOR were 0.06%, 0.16%, 0.23%, and 0.33% respectively. The swap formulas will continue to be monitored for its effectiveness in case the Agency chooses to enter into any future interest rate swaps. In addition, the Agency holds 8 basis swaps as a means to change the variable rate formula received for \$167.6 million of swap notional amount. These basis swaps changed the variable rate formula received from counterparties from 65% of LIBOR to those described in the following table as of June 30, 2014 (dollars in thousands):

<u>Bond Issue</u>	<u>Variable Rate Paid By Agency</u>	<u>Floating Rate Received By Agency */**</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Outstanding Notional/Applicable Amount</u>	<u>Fair Value</u>
Home Mortgage Revenue Bonds:						
2000 Series C	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	2/1/17	\$ 15,485	\$ 9
2000 Series J	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/30	19,455	27
2000 Series U	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/15	7,670	1
2000 Series X-2	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/31	20,540	27
2001 Series N	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/18	5,005	9
2002 Series B	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/27	31,535	32
2002 Series F	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	2/1/24	32,130	58
2002 Series M	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/22	35,755	52
					<u>\$ 167,575</u>	<u>\$ 215</u>

* The notional amount and the amortization of these swaps mirror the initial 65% of LIBOR swaps, basically overlaying the swaps so that the effective rate received from the counterparties are the rates shown in the table above.

**The variable interest rate received by the counterparties is dependent on the LIBOR interest rate at the time of settlement. The rate shown in the table is the effective rate at June 30, 2014.

Termination Risk: Counterparties to the Agency's interest rate swap agreements have ordinary termination rights that require settlement payments by the Agency or the counterparty based on the fair value of the swap at the date of termination.

Rollover Risk: The Agency is exposed to rollover risk on interest rate swaps that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these swaps terminate, the Agency will be re-exposed to the risks being hedged by the swaps. The fixed payer interest rate swaps' termination dates and associated debts' maturities are listed in the previous bonds payable and interest rate swap table.

Over Hedged Bonds: All notional amounts (or "applicable amounts") of the fixed payer swaps match the principal amounts of the associated debt with the following exceptions as of June 30, 2014 (dollars in thousands):

<u>Bond Issue</u>	<u>Bonds Outstanding</u>	<u>Swap Notional Amount</u>	<u>Unmatched Swap</u>	<u>Fair Value</u>
Home Mortgage Revenue Bonds				
2000 Series J *		\$ 17,775	\$ 17,775	\$ (3,820)
2000 Series X2 *		20,540	20,540	(3,899)
2001 Series J		23,460	23,460	(2,031)
2001 Series N *		3,650	3,650	(293)
2001 Series U	\$ 18,000	31,440	13,440	(1,684)
2002 Series B *		31,535	31,535	(4,944)
2002 Series F *		25,125	25,125	(3,120)
2002 Series J	36,100	42,265	6,165	(607)
2002 Series M *	18,390	35,755	17,365	(1,510)
2002 Series P		45,800	45,800	(3,621)
2004 Series A		19,450	19,450	(1,287)
2004 Series G		38,205	38,205	(3,980)
2004 Series G		1,645	1,645	(5)
2004 Series I		11,980	11,980	(1,199)
2005 Series B		12,010	12,010	(261)
2005 Series H		24,860	24,860	(915)
2006 Series F		36,000	36,000	(1,584)
2006 Series F	35,310	60,000	24,690	(1,789)
2007 Series H	41,930	50,000	8,070	(808)
2007 Series H		50,000	50,000	(3,928)
2007 Series K	4,710	25,000	20,290	(1,156)
2008 Series C		2,225	2,225	(546)
2008 Series C		9,715	9,715	(1,890)
2008 Series C	3,310	7,005	3,695	(714)
2008 Series D	8,445	11,275	2,830	(112)
2008 Series E		4,255	4,255	(154)
2008 Series I		505	505	(3)
2008 Series I		27,025	27,025	(5,858)
Multifamily Housing Revenue Bonds III				
2000 Series B		1,015	1,015	(157)
2000 Series D		11,890	11,890	(2,583)
2001 Series D	520	1,895	1,375	(193)
2001 Series E	30,295	42,775	12,480	(2,914)
2001 Series F	10,710	12,100	1,390	(192)
2001 Series G	2,885	2,900	15	(2)
2001 Series G	9,895	35,175	25,280	(4,627)
2001 Series G	7,730	8,430	700	(156)
2002 Series A		14,775	14,775	(2,850)
2002 Series A		10,375	10,375	(2,788)
2002 Series B		21,080	21,080	(3,463)
2002 Series C		12,465	12,465	(2,748)
2002 Series C		14,605	14,605	(3,501)
2002 Series D	3,795	10,460	6,665	(1,225)
2002 Series E	2,915	13,845	10,930	(2,046)
2002 Series E	11,795	37,120	25,325	(6,321)
2004 Series A		17,230	17,230	(1,656)
2004 Series B	1,610	11,340	9,730	(1,181)
2004 Series B	1,520	2,245	725	(107)
2004 Series B	11,720	11,755	35	(6)
2004 Series C	6,630	6,750	120	(13)
2005 Series A		2,105	2,105	(282)
2005 Series B		2,410	2,410	(303)
2005 Series B		22,215	22,215	(3,145)
2005 Series B		3,630	3,630	(476)
2005 Series D	15,805	27,420	11,615	(1,850)

<u>Bond Issue</u>	<u>Bonds Outstanding</u>	<u>Swap Notional Amount</u>	<u>Unmatched Swap</u>	<u>Fair Value</u>
Multifamily Housing Revenue Bonds III (continued)				
2006 Series A		5,720	5,720	(704)
2006 Series A		8,595	8,595	(1,257)
2006 Series A		3,925	3,925	(611)
2007 Series B		5,585	5,585	(1,011)
2007 Series B		1,910	1,910	(189)
2007 Series C	4,535	13,260	8,725	(1,400)
2007 Series C	5,000	5,620	620	(70)
2008 Series A	7,415	9,755	2,340	(359)
2008 Series B	16,890	20,285	3,395	(349)
2008 Series B	9,230	25,820	16,590	(1,894)
2008 Series C	5,290	8,085	2,795	(577)
2008 Series C	740	8,395	7,655	(1,720)
Total	<u>\$ 333,120</u>	<u>\$ 1,143,460</u>	<u>\$ 810,340</u>	<u>\$ (106,644)</u>

*Includes Basis Swap.

Note 9 – NONMORTGAGE INVESTMENT AND MORTGAGE YIELD

In accordance with Federal law, the Agency is required to rebate to the Internal Revenue Service (“IRS”) the excess of the amount actually earned on all nonmortgage investments (derived from investing the bond proceeds) over the amount that would have been earned had those investments borne a rate equal to the yield on the bond issue, plus any income attributable to such excess. As of June 30, 2014 and 2013, the Fund had liabilities to the IRS totaling \$1.1 million and \$1.2 million, respectively, and reported in the statements of net position as “Due to IRS” within “Due to other government entities.” For the years ended June 30, 2014 and 2013, the net effects of changes in the liability account have been recorded as increases in “Interest income: Investments” in the statements of revenues, expenses and changes in net position.

Additionally, the Agency has identified all the bond series that were issued as variable rate plans of finance and subject to review and monitoring of mortgage yield excess. As of June 30, 2014 and 2013, the Fund had liabilities to the IRS totaling \$13.0 million and \$9.8 million, respectively, and reported in the statements of net position as “Due to IRS” within “Due to other government entities.” For the years ended June 30, 2014 and 2013, the net effects of changes in the liability account have been recorded as a decrease and an increase, respectively, in “Interest income: Program loans” in the statements of revenues, expenses and changes in net position. The Agency will continue to monitor the status of mortgage yield compliance to mitigate further liability.

Note 10 – PENSION PLAN AND OTHER EMPLOYEE BENEFITS

The Fund contributes to the Public Employees’ Retirement Fund (“PERF”) as part of the State of California, the primary government. The PERF is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employment Retirement System (“CalPERS”). CalPERS provides retirement, death, disability and post retirement health care benefits to members as established by state statute. CalPERS issues a publicly available Comprehensive Annual Financial Report (“CAFR”) that includes financial statements and required supplementary information for the Public Employees’ Retirement Fund. A copy of that report may be obtained from CalPERS Fiscal Services Division, P.O. Box 942703, Sacramento, CA 95229-2703 or via the internet at www.calpers.ca.gov.

For the CalPERS fiscal year ended June 30, 2014 the employer contribution rates were 21.203% - 21.355% for the period from July 2013 to June 2014. The employer contribution rates were 20.503% - 20.457% for July 2012 to June 2013.

The Fund’s contributions to the PERF for the years ended June 30, 2014 and 2013 were \$7.2 million and \$8 million, respectively, equal to the required contributions for each fiscal year.

Required contributions are determined by actuarial valuation using the individual entry age normal actuarial cost method. The most recent actuarial valuation available is as of June 30, 2013 which actuarial economic assumptions included (a) 7.5% investment rate of return compounded annually (net of administrative expenses and investment expenses), (b) individual employee’s future pay growth of 2.75% inflation component, .25% per annum productivity component, and an annual merit increase based on the member’s length of service and (c) overall payroll growth factor of 3.00% annually (2.75% inflation component and .25% per annum productivity component). The non-economic assumptions are based upon the most recent CalPERS Experience Study (covering the period June 30, 1997 through June 30, 2007) that was completed and adopted by the CalPERS Board in April 2010.

The most recent actuarial valuation of the PERF indicated that there was an unfunded actuarial accrued liability. The amount of the underfunded liability applicable to each agency or department cannot be determined. For trend information, which presents CalPERS progress in accumulating sufficient assets to pay benefits when due, please see the June 30, 2013 CalPERS CAFR.

The Other Postemployment Benefits (“OPEB”) is a cost-sharing multiple-employer defined benefit healthcare plan administered by CalPERS. The State of California is required to include the information in its financial reports. State Controller’s Office sets the employer contribution rate based on the annual required contribution (“ARC”) of the employers, an amount actuarially determined in accordance with the parameters of GASB Statement 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 thirty years. The Agency’s estimated unfunded OPEB liabilities were \$21.5 million and \$17.9 million for the year ended June 30, 2014 and June 30, 2013. As of June 30, 2014, the allocated contribution of OPEB from the Fund was \$1.9 million, compared to \$2.5 million for the year ended June 30, 2013. CalPERS issues a publicly available CAFR that includes financial statements and required supplementary information for the OPEB.

Note 11 – COMMITMENTS

As of June 30, 2014, the Agency had no outstanding commitments and conditionally approved loan reservation to fund Homeownership Program loans and had outstanding commitments to fund Multifamily Program loans totaling \$5.2 million. As of June 30, 2014, the Agency had proceeds available from bonds issued to fund \$0.9 million of Homeownership Program loans and \$14.5 million of Multifamily Program loans.

Note 12 – LEASES

The Agency has three office locations in California and has entered into three separate lease agreements for office space. The Base Rent Schedules are as follows (dollar in thousands):

Fiscal years ended June 30	500 Capitol Mall Tower, LLC (Sacramento Office) Lease ends 7/31/23	Harsch Investment Properties, LLC (West Sacramento Office) Lease ends 5/31/16	Slauson Investors, LLC (Culver City Office) Lease ends 2/28/19	Total
2014	\$ 2,280	\$ 291	\$ 122	\$ 2,693
2015	2,325	302	235	2,862
2016	2,372	268	242	2,882
2017	2,419		249	2,668
2018	2,468		257	2,725
2019-2023	13,099		154	13,253
2024	228			228
Total	\$ 25,191	\$ 861	\$ 1,259	\$ 27,311

Note 13 – ARRANGEMENTS WITH THE MORTGAGE INSURANCE FUND

All operating and administrative expenses of the Agency are initially paid from the Fund including certain operating and administrative expenses in support of mortgage guarantee insurance programs which are reported in the Mortgage Insurance Fund. Monthly, the Fund charges the Mortgage Insurance Fund for these expenses and is reimbursed from the share of premiums from policies still in force and the remaining amount is used to pay outstanding claims of the Mortgage Insurance Fund.

The Agency Board of Directors approved Resolution 03-19 on March 20, 2003 authorizing the Agency to utilize the resources of the fund to support the mortgage guaranty insurance programs of the Agency in the following two ways: 1) the Executive Director of the Agency is authorized to create one or more supplementary reserve accounts within the Supplementary Bond Security Account (“SBSA”) of the Fund to indemnify the Mortgage Insurance Fund for losses incurred or to pay claims against the Mortgage Loan Insurance Fund in connection with loans financed by the Agency, and 2) the Executive Director of the Agency may establish an inter-fund credit agreement by which the Mortgage Insurance Fund may borrow such sums from the Fund as may be required to maintain the claims paying rating of any credit rating service.

Subsequently, the Agency Executive Director established an inter-fund credit agreement in the amount of \$10 million in which the Mortgage Insurance Fund may borrow from the Fund as needed for the purpose of paying claims arising out of policies of mortgage guarantee insurance and costs and expenses related to the payment of such claims. This inter-fund credit agreement expired on May 1, 2013.

Resolution 03-19 authorized the Executive Director of the Agency to create one or more supplementary reserve accounts within the SBSA of the California Housing Finance Fund to indemnify the Mortgage Insurance Fund for losses incurred or to pay claims. The amendment places a limitation on the indemnity obligation to an aggregate amount not to exceed \$135 million. In August 2011, the cap was reached and the aggregate total of \$135 million in gap claim payments was paid from May 2008 to August 2011. As of June 30, 2014, the allowance for loan loss reserve established under the HMRB indenture decreased \$30.2 million from \$69.6 million to \$39.4 million.

Effective March 1, 2003, the Mortgage Insurance Fund entered into a reinsurance treaty and administrative services agreement with Genworth Mortgage Insurance Corporation (“Genworth”). This agreement cedes to Genworth a 75% quota share of the insurance risk for most loans insured by the Mortgage Insurance Fund and provides for certain administrative services to be performed by Genworth. Prior to February 2011, Genworth was paying the full amount of the loss (100%) to the insured and was billing the Mortgage Insurance Fund for its portion of the loss (25%) each month. Effective February 1, 2011, Genworth is paying for their portion of the loss (75%) directly to the insured and the Mortgage Insurance Fund is paying for its portion of the loss (25%) directly to the insured. As of June 30, 2014, there was no cash or investments remaining in the Mortgage Insurance Fund to pay outstanding claims. The California Housing Finance Fund has written off foreclosed loans insured by the Housing Loan Insurance Fund. As of June 30, 2014, the reserve amount established under the HMRB indenture was \$39.4 million.

Note 14 – LITIGATION

Certain lawsuits and claims arising in the ordinary course of business have been filed or are pending against the Agency. Based upon information available to the Agency, its review of such lawsuits and claims and consultation with counsel, the Agency believes the liability relating to these actions, if any, would not have a material adverse effect on the Fund’s financial statements.

Note 15 – RELATED PARTY TRANSACTIONS

CalHFA MAC entered into an administrative agreement with CalHFA for support services, which include an allocation of CalHFA staff to provide program oversight, administrative and legal support, and direct reimbursement for goods and services of outside vendors. Due to its status as a state governmental agency, CalHFA enjoys the benefit of discounts for goods and services with strategic business partners. The administrative agreement enables CalHFA MAC to leverage these discounts by providing for CalHFA to purchase goods and services during program implementation and ongoing operations. CalHFA MAC reimburses CalHFA for these items at the actual cost expended. CalHFA MAC had liabilities to CalHFA of \$177 thousand and \$93 thousand for the fiscal year ended June 30, 2014 and June 30, 2013, respectively. These amounts were comprised of accounts payable and accrued expenses resulting from unbilled vendor invoices for materials and services. Additionally, actual cash reimbursements paid to CalHFA totaled \$0.6 million and \$1.1 million for the fiscal year ended June 30, 2014 and June 30, 2013, respectively.

CalHFA MAC also leases office space from the CalHFA under an operation lease with a term of four years and five months that expires December 31, 2017.

Note 16 – SUBSEQUENT EVENTS

As of October 13, 2014, there were no subsequent events.

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CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF NET POSITION
WITH ADDITIONAL COMBINING INFORMATION
June 30, 2014

(Dollars in Thousands)

	HOMEOWNERSHIP PROGRAMS	MULTIFAMILY RENTAL HOUSING PROGRAMS	OTHER PROGRAMS AND ACCOUNTS	COMBINED TOTALS
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 6,316	\$ 22	\$ 34,169	\$ 40,507
Investments	356,951	62,903	721,644	1,141,498
Current portion - program loans receivable	70,360	31,667	22,703	124,730
Interest receivable - Program loans	11,351	5,408	15,469	32,228
Interest receivable - Investments	1,980	450	629	3,059
Accounts receivable	7,947	-	4,496	12,443
Due (to) from other funds	(6,999)	-	6,999	-
Other assets	51	461	13,357	13,869
Total current assets	<u>447,957</u>	<u>100,911</u>	<u>819,466</u>	<u>1,368,334</u>
Noncurrent assets:				
Investments	275,592	68,856	58,664	403,112
Program loans receivable	2,471,918	765,285	544,352	3,781,555
Deferred financing costs	-	-	-	-
Other assets	16,617	-	892	17,509
Total Noncurrent assets	<u>2,764,127</u>	<u>834,141</u>	<u>603,908</u>	<u>4,202,176</u>
Total Assets	<u>3,212,084</u>	<u>935,052</u>	<u>1,423,374</u>	<u>5,570,510</u>
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated decrease in fair value of hedging derivatives	-	21,965	3,077	25,042
Deferred loss on refunding	-	668	-	668
Total Deferred outflows of resources	<u>-</u>	<u>22,633</u>	<u>3,077</u>	<u>25,710</u>
LIABILITIES				
Current liabilities:				
Bonds payable	49,704	18,200	-	67,904
Notes payable	-	-	2,253	2,253
Interest payable	28,011	13,134	17,025	58,170
Due (from) to other government entities	(112)	-	1,020	908
Compensated absences	-	-	4,034	4,034
Deposits and other liabilities	3,451	287	231,515	235,253
Total current liabilities	<u>81,054</u>	<u>31,621</u>	<u>255,847</u>	<u>368,522</u>
Noncurrent liabilities:				
Bonds payable	2,833,580	631,268	-	3,464,848
Notes payable	-	-	61,342	61,342
Due to other government entities	3,013	11,123	21,485	35,621
Other liabilities	-	86,923	99,479	186,402
Unearned revenues	-	-	891	891
Total noncurrent liabilities	<u>2,836,593</u>	<u>729,314</u>	<u>183,197</u>	<u>3,749,104</u>
Total Liabilities	<u>2,917,647</u>	<u>760,935</u>	<u>439,044</u>	<u>4,117,626</u>
DEFERRED INFLOWS OF RESOURCES				
Accumulated increase in fair value of hedging derivatives	-	-	-	-
NET POSITION				
Net investment in capital assets	-	-	842	842
Restricted by indenture	294,437	196,750	-	491,187
Restricted by statute	-	-	986,565	986,565
Total Net position	<u>\$ 294,437</u>	<u>\$ 196,750</u>	<u>\$ 987,407</u>	<u>\$ 1,478,594</u>

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
WITH ADDITIONAL COMBINING INFORMATION

Year Ended June 30, 2014

(Dollars in Thousands)

	HOMEOWNERSHIP PROGRAMS	MULTIFAMILY RENTAL HOUSING PROGRAMS	OTHER PROGRAMS AND ACCOUNTS	COMBINED TOTALS
OPERATING REVENUES				
Interest income:				
Program loans and loan agreements -- net	\$ 151,623	\$ 46,199	\$ 20,893	\$ 218,715
Interest income - Investments -- net	14,457	3,651	4,411	22,519
Increase (decrease) in fair value of investments	2,010	(569)	(1,749)	(308)
Loan commitment fees	-	-	668	668
Other loan fees	44	6,513	22,759	29,316
Other revenues	631	(45,016)	(3,016)	(47,401)
Total Operating revenues	<u>168,765</u>	<u>10,778</u>	<u>43,966</u>	<u>223,509</u>
SALARIES AND GENERAL EXPENSES				
Interest	81,760	25,549	14,968	122,277
Amortization of bond discount and bond premium	(1,567)	198	-	(1,369)
Mortgage servicing fees	8,440	2	2	8,444
(Reversal) provision for estimated loan losses	(18,069)	3,540	1,507	(13,022)
Salaries and general expenses	-	-	41,053	41,053
Other expenses	33,757	10,776	54,600	99,133
Total salaries and general expenses	<u>104,321</u>	<u>40,065</u>	<u>112,130</u>	<u>256,516</u>
Operating income (loss) income before transfers	64,444	(29,287)	(68,164)	(33,007)
Transfers in	-	-	53,462	53,462
Transfers intrafund	2,406	66,812	(69,218)	-
Increase (decrease) in net position	<u>66,850</u>	<u>37,525</u>	<u>(83,920)</u>	<u>20,455</u>
Net position at beginning of year, as restated	<u>227,587</u>	<u>159,225</u>	<u>1,071,327</u>	<u>1,458,139</u>
Net position at end of year, as restated	<u>\$ 294,437</u>	<u>\$ 196,750</u>	<u>\$ 987,407</u>	<u>\$ 1,478,594</u>

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF CASH FLOWS
WITH ADDITIONAL COMBINING INFORMATION
Year Ended June 30, 2014
(Dollars in Thousands)

	HOMEOWNERSHIP PROGRAMS	MULTIFAMILY RENTAL HOUSING PROGRAMS	OTHER PROGRAMS AND ACCOUNTS	COMBINED TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 154,375	\$ 46,395	\$ 16,667	\$ 217,437
Payments to suppliers	(8,946)	(141)	(11,203)	(20,290)
Payments to employees	-	-	(29,935)	(29,935)
Other receipts (payments)	527,306	55,509	(42,468)	540,347
Net cash provided by (used for) operating activities	672,735	101,763	(66,939)	707,559
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intrafund transfers	2,406	66,812	(69,218)	-
Changes in due from other government entities	(26)	-	3,586	3,560
Net cash provided by (used for) noncapital financing activities	2,380	66,812	(65,632)	3,560
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sales of bonds	-	38,814	-	38,814
Payment of bond principal	(37,840)	(26,054)	(17,464)	(81,358)
Early bond redemptions	(795,017)	(148,955)	-	(943,972)
Interest paid on debt	(87,595)	(26,854)	(20,322)	(134,771)
Interfund transfers	-	-	53,462	53,462
Increase in deferred financing costs	14,903	2,822	3	17,728
Net cash (used for) provided by capital and related financing activities	(905,549)	(160,227)	15,679	(1,050,097)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturity and sale of investments	1,851,650	381,235	576,641	2,809,526
Purchase of investments	(1,640,170)	(393,787)	(454,737)	(2,488,694)
Interest on investments	15,509	3,753	4,659	23,921
Net cash provided by (used for) investing activities	226,989	(8,799)	126,563	344,753
Net (decrease) increase in cash and cash equivalents	(3,445)	(451)	9,671	5,775
Cash and cash equivalents at beginning of year	9,761	473	24,498	34,732
Cash and cash equivalents at end of year	\$ 6,316	\$ 22	\$ 34,169	\$ 40,507
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Operating income (loss)	\$ 64,444	\$ (29,287)	\$ (68,164)	\$ (33,007)
Adjustments to reconcile operating (loss) income to net cash provided by (used for) operating activities:				
Interest expense on debt	81,760	25,549	14,968	122,277
Interest on investments	(14,457)	(3,651)	(4,411)	(22,519)
Changes in fair value of investments	(2,010)	569	1,749	308
Amortization of bond discount	27	-	-	27
Amortization of deferred losses	2,797	1,432	-	4,229
Amortization of bond premium	(1,658)	-	-	(1,658)
Amortization of unearned revenue	-	-	(668)	(668)
Depreciation	-	-	264	264
(Reversal) provision for estimated loan losses	(18,069)	3,540	1,507	(13,022)
Provision for yield reduction payments	830	2,410	-	3,240
Provision (Reversal) for nonmortgage investment excess	37	(95)	-	(58)
Effect of changes in operating assets and liabilities:				
(Purchase) sale of program loans-net	(2,863)	6,463	(81,184)	(77,584)
Collection of principal from program loans - net	559,783	61,439	75,744	696,966
Interest receivable	2,752	196	(4,226)	(1,278)
Accounts receivable	4,064	-	(413)	3,651
Due (from) to other funds	(1,946)	-	1,946	-
Increase in other assets and deferred outflow	9	36,957	54,268	91,234
Compensated absences	-	-	(229)	(229)
Deposits and other liabilities	(1,268)	(147)	(11,527)	(12,942)
Unearned revenue	(1,497)	(3,612)	(46,563)	(51,672)
Net cash provided by (used for) operating activities	\$ 672,735	\$ 101,763	\$ (66,939)	\$ 707,559
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Noncash transfer of program loan to REO	\$ 11,073	\$ -	\$ -	\$ 11,073

**CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF NET POSITION
HOMEOWNERSHIP PROGRAMS**

June 30, 2014

(Dollars in Thousands)

	HOME MORTGAGE REVENUE BONDS	SINGLE FAMILY HOUSING PROGRAM BONDS	RESIDENTIAL MORTGAGE REVENUE BONDS
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,027	\$ 10	\$ 277
Investments	314,476	1,947	37,259
Current portion - program loans receivable	59,615	-	8,689
Interest receivable - Program loans	9,943	116	1,110
Interest receivable - Investments	1,376	-	582
Accounts receivable	7,258	-	591
Due (to) from other funds	(7,666)	662	(882)
Other assets	33	-	18
Total current assets	<u>391,062</u>	<u>2,735</u>	<u>47,644</u>
Noncurrent assets:			
Investments	79,557	-	189,257
Program loans receivable	2,126,443	33,790	282,760
Deferred financing costs	-	-	-
Other assets	14,744	-	1,873
Total Noncurrent assets	<u>2,220,744</u>	<u>33,790</u>	<u>473,890</u>
Total Assets	<u>2,611,806</u>	<u>36,525</u>	<u>521,534</u>
DEFERRED OUTFLOWS OF RESOURCES			
Accumulated decrease in fair value of hedging derivatives	-	-	-
Deferred loss on refunding	-	-	-
Total Deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Current liabilities:			
Bonds payable	37,569	-	12,135
Notes payable	-	-	-
Interest payable	24,116	824	3,071
Due from other government entities	(112)	-	-
Deposits and other liabilities	3,342	1	102
Total current liabilities	<u>64,915</u>	<u>825</u>	<u>15,308</u>
Noncurrent liabilities:			
Bonds payable	2,303,723	40,390	489,467
Notes payable	-	-	-
Due to other government entities	3,013	-	-
Other liabilities	-	-	-
Unearned revenues	-	-	-
Total noncurrent liabilities	<u>2,306,736</u>	<u>40,390</u>	<u>489,467</u>
Total Liabilities	<u>2,371,651</u>	<u>41,215</u>	<u>504,775</u>
DEFERRED INFLOWS OF RESOURCES			
Accumulated increase in fair value of hedging derivatives	-	-	-
NET POSITION			
Net investment in capital assets	-	-	-
Restricted by indenture	240,155	(4,690)	16,759
Restricted by statute	-	-	-
Total Net position	<u>\$ 240,155</u>	<u>\$ (4,690)</u>	<u>\$ 16,759</u>

RESIDENTIAL MORTGAGE REVENUE BONDS OVERCOLLATERALIZATION	TOTAL HOMEOWNERSHIP PROGRAMS
\$ 2	\$ 6,316
3,269	356,951
2,056	70,360
182	11,351
22	1,980
98	7,947
887	(6,999)
-	51
<u>6,516</u>	<u>447,957</u>
6,778	275,592
28,925	2,471,918
-	-
-	16,617
<u>35,703</u>	<u>2,764,127</u>
42,219	3,212,084
-	-
-	-
-	-
-	49,704
-	-
-	28,011
-	(112)
6	3,451
<u>6</u>	<u>81,054</u>
-	2,833,580
-	-
-	3,013
-	-
-	-
-	2,836,593
6	2,917,647
-	-
-	-
42,213	294,437
-	-
<u>\$ 42,213</u>	<u>\$ 294,437</u>

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
HOMEOWNERSHIP PROGRAM
Year Ended June 30, 2014

(Dollars in Thousands)

	HOME MORTGAGE REVENUE BONDS	SINGLE FAMILY HOUSING PROGRAM BONDS	RESIDENTIAL MORTGAGE REVENUE BONDS
OPERATING REVENUES			
Interest income:			
Program loans and loan agreements -- net	\$ 131,694	\$ 1,595	\$ 15,934
Interest income - Investments -- net	6,084	5	8,110
Increase (decrease) in fair value of investments	370	-	1,643
Loan commitment fees	-	-	-
Other loan fees	7	-	2
Other revenues	589	-	41
Total Operating revenues	<u>138,744</u>	<u>1,600</u>	<u>25,730</u>
SALARIES AND GENERAL EXPENSES			
Interest	62,044	2,060	17,656
Amortization of bond discount and bond premium	(1,567)	-	-
Mortgage servicing fees	7,361	-	1,009
(Reversal) provision for estimated loan losses	(22,479)	536	3,894
Salaries and general expenses	-	-	-
Other expenses	26,077	478	7,280
Total salaries and general expenses	<u>71,436</u>	<u>3,074</u>	<u>29,839</u>
Operating income (loss) before transfers	67,308	(1,474)	(4,109)
Transfers in	-	-	-
Transfers intrafund	(22,321)	24,725	12,592
Increase (decrease) in net position	44,987	23,251	8,483
Net position at beginning of year, as restated	<u>195,168</u>	<u>(27,941)</u>	<u>8,276</u>
Net position at end of year, as restated	<u>\$ 240,155</u>	<u>\$ (4,690)</u>	<u>\$ 16,759</u>

RESIDENTIAL MORTGAGE REVENUE BONDS OVERCOLLATERALIZATION	TOTAL HOMEOWNERSHIP PROGRAMS
\$ 2,400	\$ 151,623
258	14,457
(3)	2,010
-	-
35	44
1	631
2,691	168,765
-	81,760
-	(1,567)
70	8,440
(20)	(18,069)
-	-
(78)	33,757
(28)	104,321
2,719	64,444
-	-
(12,590)	2,406
(9,871)	66,850
52,084	227,587
\$ 42,213	\$ 294,437

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENTS OF CASH FLOWS -
HOMEOWNERSHIP PROGRAMS
Year Ended June 30, 2014

(Dollars in Thousands)

	HOME MORTGAGE REVENUE BONDS	SINGLE FAMILY HOUSING PROGRAM BONDS	RESIDENTIAL MORTGAGE REVENUE BONDS
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 134,017	\$ 1,738	\$ 16,154
Payments to suppliers	(7,820)	(6)	(1,048)
Payments to employees	-	-	-
Other receipts (payments)	467,161	3,176	51,276
Net cash provided by operating activities	<u>593,358</u>	<u>4,908</u>	<u>66,382</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intrafund transfers	(22,321)	24,725	12,592
Changes in due from other government entities	(26)	-	-
Net cash (used for) provided by provided by noncapital financing activities	<u>(22,347)</u>	<u>24,725</u>	<u>12,592</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from sales of bonds	-	-	-
Payment of bond principal	(24,770)	-	(13,070)
Early bond redemptions	(656,575)	(29,335)	(109,107)
Interest paid on debt	(67,069)	(2,115)	(18,411)
Interfund transfers	-	-	-
Increase in deferred financing costs	13,369	415	1,119
Net cash (used for) provided by capital and related financing activities	<u>(735,045)</u>	<u>(31,035)</u>	<u>(139,469)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity and sale of investments	1,487,837	34,804	315,767
Purchase of investments	(1,333,791)	(33,440)	(263,842)
Interest on investments	6,989	5	8,253
Net cash provided by (used for) investing activities	<u>161,035</u>	<u>1,369</u>	<u>60,178</u>
Net decrease in cash and cash equivalents	(2,999)	(33)	(317)
Cash and cash equivalents at beginning of year	9,026	43	594
Cash and cash equivalents at end of year	<u>\$ 6,027</u>	<u>\$ 10</u>	<u>\$ 277</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 67,308	\$ (1,474)	\$ (4,109)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Interest expense on debt	62,045	2,060	17,655
Interest on investments	(6,084)	(5)	(8,110)
Changes in fair value of investments	(370)	-	(1,643)
Amortization of bond discount	27	-	-
Amortization of deferred losses	594	-	2,203
Amortization of bond premium	(1,658)	-	-
Amortization of unearned revenue	-	-	-
Provision for estimated loan losses	(22,479)	536	3,894
Provision for yield reduction payments	830	-	-
Provision for nonmortgage investment excess	37	-	-
Effect of changes in operating assets and liabilities:			
(Purchase) sale of program loans-net	(3,141)	-	324
Collection of principal from program loans - net	493,856	3,960	56,287
Interest receivable	2,322	143	221
Accounts receivable	4,627	-	(589)
Due (from) to other funds	(1,948)	(280)	284
Decrease (increase) in other assets and deferred outflow	8	-	1
Compensated absences	-	-	-
Deposits and other liabilities	(1,198)	(32)	(36)
Unearned revenue	(1,418)	-	-
Net cash provided by (used for) operating activities	<u>\$ 593,358</u>	<u>\$ 4,908</u>	<u>\$ 66,382</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Noncash transfer of program loan to REO	<u>\$ 10,560</u>	<u>\$ -</u>	<u>\$ 466</u>

RESIDENTIAL MORTGAGE REVENUE BONDS OVERCOLLATERALIZATION		TOTAL HOMEOWNERSHIP PROGRAMS	
\$	2,466	\$	154,375
	(72)		(8,946)
	-		-
	5,693		527,306
	8,087		672,735
	(12,590)		2,406
	-		(26)
	(12,590)		2,380
	-		-
	-		(37,840)
	-		(795,017)
	-		(87,595)
	-		-
	-		14,903
	-		(905,549)
	13,242		1,851,650
	(9,097)		(1,640,170)
	262		15,509
	4,407		226,989
	(96)		(3,445)
	98		9,761
\$	2	\$	6,316
\$	2,719	\$	64,444
	-		81,760
	(258)		(14,457)
	3		(2,010)
	-		27
	-		2,797
	-		(1,658)
	-		-
	(20)		(18,069)
	-		830
	-		37
	(46)		(2,863)
	5,680		559,783
	66		2,752
	26		4,064
	(2)		(1,946)
	-		9
	-		-
	(2)		(1,268)
	(79)		(1,497)
\$	8,087	\$	672,735
\$	47	\$	11,073

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF NET POSITION
MULTIFAMILY RENTAL HOUSING PROGRAMS
June 30, 2014

(Dollars in Thousands)

	MULTIFAMILY LOAN PURCHASE BONDS	MULTIFAMILY HOUSING REVENUE BONDS II	MULTIFAMILY HOUSING REVENUE BONDS III	MULTIFAMILY HOUSING PROGRAM BONDS
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ -	\$ 22	\$ -
Investments	343	-	38,616	1,356
Current portion - program loans receivable	2,500	-	26,732	1,563
Interest receivable - Program loans	-	-	3,277	1,667
Interest receivable - Investments	-	-	327	-
Accounts receivable	-	-	-	-
Due from other funds	-	-	-	-
Other assets	-	-	292	-
Total current assets	<u>2,843</u>	<u>-</u>	<u>69,266</u>	<u>4,586</u>
Noncurrent assets:				
Investments	-	-	31,150	-
Program loans receivable	933	-	636,765	20,501
Deferred financing costs	-	-	-	-
Other assets	-	-	-	-
Total Noncurrent assets	<u>933</u>	<u>-</u>	<u>667,915</u>	<u>20,501</u>
Total Assets	<u>3,776</u>	<u>-</u>	<u>737,181</u>	<u>25,087</u>
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated decrease in fair value of hedging derivatives	-	-	21,965	-
Deferred loss on refunding	-	-	668	-
Total Deferred outflows of resources	<u>-</u>	<u>-</u>	<u>22,633</u>	<u>-</u>
LIABILITIES				
Current liabilities:				
Bonds payable	-	-	16,460	-
Notes payable	-	-	-	-
Interest payable	20	-	12,389	-
Deposits and other liabilities	-	-	285	-
Total current liabilities	<u>20</u>	<u>-</u>	<u>29,134</u>	<u>-</u>
Noncurrent liabilities:				
Bonds payable	3,759	-	470,199	-
Notes payable	-	-	-	-
Due to other government entities	-	-	11,123	-
Other liabilities	-	-	86,923	-
Unearned revenues	-	-	-	-
Total noncurrent liabilities	<u>3,759</u>	<u>-</u>	<u>568,245</u>	<u>-</u>
Total Liabilities	<u>3,779</u>	<u>-</u>	<u>597,379</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Accumulated increase in fair value of hedging derivatives	-	-	-	-
NET POSITION				
Net investment in capital assets	-	-	-	-
Restricted by indenture	(3)	-	162,435	25,087
Restricted by statute	-	-	-	-
Total Net position	<u>\$ (3)</u>	<u>\$ -</u>	<u>\$ 162,435</u>	<u>\$ 25,087</u>

AFFORDABLE MULTIFAMILY HOUSING REVENUE BONDS	MULTIFAMILY RESIDENTIAL MORTGAGE REVENUE BONDS	TOTAL MULTIFAMILY RENTAL HOUSING PROGRAMS
\$ -	\$ -	\$ 22
6,751	15,837	62,903
1,010	(138)	31,667
230	234	5,408
121	2	450
-	-	-
-	-	-
48	121	461
<u>8,160</u>	<u>16,056</u>	<u>100,911</u>
37,706	-	68,856
52,618	54,468	765,285
-	-	-
-	-	-
<u>90,324</u>	<u>54,468</u>	<u>834,141</u>
98,484	70,524	935,052
-	-	21,965
-	-	668
-	-	<u>22,633</u>
1,740	-	18,200
-	-	-
344	381	13,134
1	1	287
<u>2,085</u>	<u>382</u>	<u>31,621</u>
87,360	69,950	631,268
-	-	-
-	-	11,123
-	-	86,923
-	-	-
<u>87,360</u>	<u>69,950</u>	<u>729,314</u>
89,445	70,332	760,935
-	-	-
-	-	-
9,039	192	196,750
-	-	-
<u>\$ 9,039</u>	<u>\$ 192</u>	<u>\$ 196,750</u>

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MULTIFAMILY PROGRAM
Year Ended June 30, 2014

(Dollars in Thousands)

	MULTIFAMILY LOAN PURCHASE BONDS	MULTIFAMILY HOUSING REVENUE BONDS II	MULTIFAMILY HOUSING REVENUE BONDS III	MULTIFAMILY HOUSING PROGRAM BONDS	F
OPERATING REVENUES					
Interest income:					
Program loans and loan agreements -- net	\$ 369	\$ -	\$ 38,016	\$ 1,453	
Interest income - Investments -- net	-	-	2,176	3	
Decrease in fair value of investments	-	-	(493)	-	
Loan commitment fees	-	-	-	-	
Other loan fees	-	-	5,106	1,407	
Other revenues	-	-	(45,016)	-	
Total Operating revenues	<u>369</u>	<u>-</u>	<u>(211)</u>	<u>2,863</u>	
SALARIES AND GENERAL EXPENSES					
Interest	368	-	20,809	-	
Amortization of bond discount and bond premium	-	-	198	-	
Mortgage servicing fees	-	-	2	-	
Provision (reversal) for estimated loan losses	-	-	2,876	(78)	
Salaries and general expenses	-	-	-	-	
Other expenses	1	-	8,209	-	
Total salaries and general expenses	<u>369</u>	<u>-</u>	<u>32,094</u>	<u>(78)</u>	
Operating (loss) income before transfers	-	-	(32,305)	2,941	
Transfers in	-	-	-	-	
Transfers intrafund	-	(1)	74,806	(7,990)	
(Decrease) increase in net position	-	(1)	42,501	(5,049)	
Net position at beginning of year, as restated	<u>(3)</u>	<u>1</u>	<u>119,934</u>	<u>30,136</u>	
Net position at end of year, as restated	<u>\$ (3)</u>	<u>\$ -</u>	<u>\$ 162,435</u>	<u>\$ 25,087</u>	

AFFORDABLE MULTIFAMILY HOUSING REVENUE BONDS	MULTIFAMILY RESIDENTIAL MORTGAGE REVENUE BONDS	TOTAL MULTIFAMILY RENTAL HOUSING PROGRAMS
\$ 2,968	\$ 3,393	\$ 46,199
1,465	7	3,651
(76)	-	(569)
-	-	-
-	-	6,513
-	-	(45,016)
<u>4,357</u>	<u>3,400</u>	<u>10,778</u>
2,085	2,287	25,549
-	-	198
-	-	2
(18)	760	3,540
-	-	-
1,644	922	10,776
<u>3,711</u>	<u>3,969</u>	<u>40,065</u>
646	(569)	(29,287)
-	-	-
-	(3)	66,812
646	(572)	37,525
<u>8,393</u>	<u>764</u>	<u>159,225</u>
<u>\$ 9,039</u>	<u>\$ 192</u>	<u>\$ 196,750</u>

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENTS OF CASH FLOWS -
MULTIFAMILY RENTAL HOUSING PROGRAMS
Year Ended June 30, 2014
(Dollars in Thousands)

	MULTIFAMILY LOAN PURCHASE BONDS	MULTIFAMILY HOUSING REVENUE BONDS II	MULTIFAMILY HOUSING REVENUE BONDS III	MULTIFAMILY HOUSING PROGRAM BONDS
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 369	\$ -	\$ 38,271	\$ 1,312
Payments to suppliers	(1)	-	(131)	-
Other receipts (payments)	5,212	-	33,145	5,915
Net cash provided by (used for) operating activities	<u>5,580</u>	<u>-</u>	<u>71,285</u>	<u>7,227</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intrafund transfers	-	(1)	74,806	(7,990)
Net cash (used for) provided by provided by noncapital financing activities	<u>-</u>	<u>(1)</u>	<u>74,806</u>	<u>(7,990)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sales of bonds	-	-	38,814	-
Payment of bond principal	(5,329)	-	(19,075)	-
Early bond redemptions	-	-	(148,955)	-
Interest paid on debt	(397)	-	(22,078)	-
Increase in deferred financing costs	-	-	2,502	-
Net cash (used for) provided by capital and related financing activities	<u>(5,726)</u>	<u>-</u>	<u>(148,792)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturity and sale of investments	6,333	-	344,280	7,992
Purchase of investments	(6,187)	-	(344,295)	(7,241)
Interest on investments	-	1	2,275	3
Net cash provided by (used for) investing activities	<u>146</u>	<u>1</u>	<u>2,260</u>	<u>754</u>
Net (decrease) increase in cash and cash equivalents	-	-	(441)	(9)
Cash and cash equivalents at beginning of year	-	-	463	9
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES:				
Operating (loss) income	\$ -	\$ -	\$ (32,305)	\$ 2,941
Adjustments to reconcile operating (loss) income to net cash provided by (used for) operating activities:				
Interest expense on debt	368	-	20,809	-
Interest on investments	-	-	(2,176)	(3)
Changes in fair value of investments	-	-	493	-
Amortization of bond discount	-	-	-	-
Amortization of deferred losses	-	-	993	-
Provision (reversal) for estimated loan losses	-	-	2,876	(78)
Provision for yield reduction payments	-	-	2,410	-
Provision for nonmortgage investment excess	-	-	(95)	-
Effect of changes in operating assets and liabilities:				
Sale (purchase) of program loans-net	-	-	6,463	-
Collection of principal from program loans - net	5,212	-	38,244	4,507
Interest receivable	-	-	255	(140)
Increase (decrease) in other assets and deferred outflow	-	-	37,077	-
Deposits and other liabilities	-	-	(147)	-
Unearned revenue	-	-	(3,612)	-
Net cash provided by (used for) operating activities	<u>\$ 5,580</u>	<u>\$ -</u>	<u>\$ 71,285</u>	<u>\$ 7,227</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Noncash transfer of program loan to REO	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

AFFORDABLE MULTIFAMILY HOUSING REVENUE BONDS	MULTIFAMILY RESIDENTIAL MORTGAGE REVENUE BONDS	TOTAL MULTIFAMILY RENTAL HOUSING PROGRAMS
\$ 2,972	\$ 3,471	\$ 46,395
(4)	(5)	(141)
(234)	11,471	55,509
<u>2,734</u>	<u>14,937</u>	<u>101,763</u>
-	(3)	66,812
<u>-</u>	<u>(3)</u>	<u>66,812</u>
-	-	38,814
(1,650)	-	(26,054)
-	-	(148,955)
(2,091)	(2,288)	(26,854)
146	174	2,822
<u>(3,595)</u>	<u>(2,114)</u>	<u>(160,227)</u>
15,275	7,355	381,235
(15,881)	(20,183)	(393,787)
1,467	7	3,753
<u>861</u>	<u>(12,821)</u>	<u>(8,799)</u>
-	(1)	(451)
-	1	473
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22</u>
\$ 646	\$ (569)	\$ (29,287)
2,086	2,286	25,549
(1,465)	(7)	(3,651)
76	-	569
-	-	-
439	-	1,432
(18)	760	3,540
-	-	2,410
-	-	(95)
-	-	6,463
965	12,511	61,439
4	77	196
1	(121)	36,957
-	-	(147)
-	-	(3,612)
<u>\$ 2,734</u>	<u>\$ 14,937</u>	<u>\$ 101,763</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF NET POSITION
OTHER PROGRAMS AND ACCOUNTS**

June 30, 2014

(Dollars in Thousands)

	HOUSING ASSISTANCE TRUST	CONTRACT ADMINISTRATION PROGRAMS	SUPPLEMENTAL BOND SECURITY ACCOUNT	EMERGENCY RESERVE ACCOUNT
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 5,371	\$ 1,126	\$ -	\$ -
Investments	121,853	325,059	15,681	32,165
Current portion - program loans receivable	18,229	2,238	-	-
Interest receivable - Program loans	1,570	13,565	-	-
Interest receivable - Investments	296	173	9	18
Accounts receivable	792	-	-	98
Due from (to) other funds	315	1,876	10,376	-
Other assets	13,328	-	-	-
Total current assets	<u>161,754</u>	<u>344,037</u>	<u>26,066</u>	<u>32,281</u>
Noncurrent assets:				
Investments	58,664	-	-	-
Program loans receivable	151,779	331,289	-	-
Deferred financing costs	-	-	-	-
Other assets	50	-	-	-
Total Noncurrent assets	<u>210,493</u>	<u>331,289</u>	<u>-</u>	<u>-</u>
Total Assets	<u>372,247</u>	<u>675,326</u>	<u>26,066</u>	<u>32,281</u>
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated decrease in fair value of hedging derivatives	3,077	-	-	-
Deferred loss on refunding	-	-	-	-
Total Deferred outflows of resources	<u>3,077</u>	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES				
Current liabilities:				
Bonds payable	-	-	-	-
Notes payable	-	-	-	-
Interest payable	16,680	-	-	-
Due to other government entities	-	685	-	-
Compensated absences	-	-	-	-
Deposits and other liabilities	3	2,363	-	-
Total current liabilities	<u>16,683</u>	<u>3,048</u>	<u>-</u>	<u>-</u>
Noncurrent liabilities:				
Bonds payable	-	-	-	-
Notes payable	-	-	-	-
Due to other government entities	-	-	-	-
Other liabilities	99,479	-	-	-
Unearned revenues	-	-	-	-
Total noncurrent liabilities	<u>99,479</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>116,162</u>	<u>3,048</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Accumulated increase in fair value of hedging derivatives	-	-	-	-
NET POSITION				
Net investment in capital assets	-	-	-	-
Restricted by indenture	-	-	-	-
Restricted by statute	259,162	672,278	26,066	32,281
Total Net position	<u>\$ 259,162</u>	<u>\$ 672,278</u>	<u>\$ 26,066</u>	<u>\$ 32,281</u>

LOAN SERVICING	LOAN WAREHOUSING	CITIGROUP GLOBAL MARKETS	OPERATING ACCOUNT	TOTAL OTHER PROGRAMS AND ACCOUNTS
\$ 23,146	\$ -	\$ 26	\$ 4,500	\$ 34,169
208,806	-	-	18,080	721,644
-	-	2,236	-	22,703
-	-	334	-	15,469
121	-	-	12	629
3,132	-	-	474	4,496
(6,507)	-	-	939	6,999
-	-	-	29	13,357
<u>228,698</u>	<u>-</u>	<u>2,596</u>	<u>24,034</u>	<u>819,466</u>
-	-	-	-	58,664
-	-	61,284	-	544,352
-	-	-	-	-
-	-	-	842	892
<u>-</u>	<u>-</u>	<u>61,284</u>	<u>842</u>	<u>603,908</u>
<u>228,698</u>	<u>-</u>	<u>63,880</u>	<u>24,876</u>	<u>1,423,374</u>
-	-	-	-	3,077
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	3,077
-	-	-	-	-
-	-	2,253	-	2,253
-	-	345	-	17,025
-	-	-	335	1,020
-	-	-	4,034	4,034
<u>222,763</u>	<u>-</u>	<u>-</u>	<u>6,386</u>	<u>231,515</u>
<u>222,763</u>	<u>-</u>	<u>2,598</u>	<u>10,755</u>	<u>255,847</u>
-	-	-	-	-
-	-	61,342	-	61,342
-	-	-	21,485	21,485
-	-	-	-	99,479
-	-	-	891	891
<u>-</u>	<u>-</u>	<u>61,342</u>	<u>22,376</u>	<u>183,197</u>
<u>222,763</u>	<u>-</u>	<u>63,940</u>	<u>33,131</u>	<u>439,044</u>
-	-	-	-	-
-	-	-	842	842
-	-	-	-	-
<u>5,935</u>	<u>-</u>	<u>(60)</u>	<u>(9,097)</u>	<u>986,565</u>
<u>\$ 5,935</u>	<u>\$ -</u>	<u>\$ (60)</u>	<u>\$ (8,255)</u>	<u>\$ 987,407</u>

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
OTHER PROGRAMS AND ACCOUNTS
Year Ended June 30, 2014

(Dollars in Thousands)

	HOUSING ASSISTANCE TRUST	CONTRACT ADMINISTRATION PROGRAMS	SUPPLEMENTAL BOND SECURITY ACCOUNT	EMERGENCY RESERVE ACCOUNT
OPERATING REVENUES				
Interest income:				
Program loans and loan agreements -- net	\$ 12,832	\$ 8,061	\$ -	\$ -
Interest income - Investments -- net	3,506	716	61	75
(Decrease) increase in fair value of investments	(1,749)	-	-	-
Loan commitment fees	-	-	-	-
Other loan fees	5,829	-	-	-
Other revenues	(65,018)	1,436	-	-
Total Operating revenues	<u>(44,600)</u>	<u>10,213</u>	<u>61</u>	<u>75</u>
SALARIES AND GENERAL EXPENSES				
Interest	14,968	-	-	-
Mortgage servicing fees	2	-	-	-
(Reversal) provision for estimated loan losses	(3,594)	5,156	-	-
Salaries and general expenses	-	-	-	-
Other expenses	236	12,123	-	-
Total salaries and general expenses	<u>11,612</u>	<u>17,279</u>	<u>-</u>	<u>-</u>
Operating (loss) income before transfers	(56,212)	(7,066)	61	75
Transfers in	-	53,462	-	-
Transfers intrafund	(81,676)	(320)	-	-
(Decrease) increase in net assets	<u>(137,888)</u>	<u>46,076</u>	<u>61</u>	<u>75</u>
Net position at beginning of year, as restated	<u>397,050</u>	<u>626,202</u>	<u>26,005</u>	<u>32,206</u>
Net position at end of year, as restated	<u>\$ 259,162</u>	<u>\$ 672,278</u>	<u>\$ 26,066</u>	<u>\$ 32,281</u>

	LOAN SERVICING	LOAN WAREHOUSING	CITIGROUP GLOBAL MARKETS	OPERATING ACCOUNT	TOTAL OTHER PROGRAMS AND ACCOUNTS
\$	-	\$ -	\$ -	\$ -	\$ 20,893
	2	-	-	51	4,411
	-	-	-	-	(1,749)
	-	-	-	668	668
	4,465	-	-	12,465	22,759
	60,140	-	-	426	(3,016)
	<u>64,607</u>	<u>-</u>	<u>-</u>	<u>13,610</u>	<u>43,966</u>
	-	-	-	-	14,968
	-	-	-	-	2
	-	-	(55)	-	1,507
	-	-	-	41,053	41,053
	60,757	-	-	(18,516)	54,600
	<u>60,757</u>	<u>-</u>	<u>(55)</u>	<u>22,537</u>	<u>112,130</u>
	3,850	-	55	(8,927)	(68,164)
	-	-	-	-	53,462
	(4,000)	-	-	16,778	(69,218)
	(150)	-	55	7,851	(83,920)
	<u>6,085</u>	<u>-</u>	<u>(115)</u>	<u>(16,106)</u>	<u>1,071,327</u>
\$	<u>5,935</u>	<u>\$ -</u>	<u>\$ (60)</u>	<u>\$ (8,255)</u>	<u>\$ 987,407</u>

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENTS OF CASH FLOWS -
OTHER PROGRAMS AND ACCOUNTS
Year Ended June 30, 2014
(Dollars in Thousands)

	HOUSING ASSISTANCE TRUST	CONTRACT ADMINISTRATION PROGRAMS	SUPPLEMENTAL BOND SECURITY ACCOUNT	EMERGENCY RESERVE ACCOUNT
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 12,475	\$ 4,140	\$ -	\$ -
Payments to suppliers	(3)	-	-	-
Payments to employees	-	-	-	-
Other (payments) receipts	(45,872)	(31,431)	2,363	11
Net cash (used for) provided by operating activities	<u>(33,400)</u>	<u>(27,291)</u>	<u>2,363</u>	<u>11</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intrafund transfers	(81,676)	(320)	-	-
Due from (to) other government entities	-	-	-	-
Net cash (used for) provided by noncapital financing activities	<u>(81,676)</u>	<u>(320)</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Payment of bond principal	-	-	-	-
Interest paid on debt	(20,230)	-	-	-
Interfund transfers	-	53,462	-	-
Increase in deferred financing costs	-	-	-	-
Net cash (used for) provided by capital and related financing activities	<u>(20,230)</u>	<u>53,462</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturity and sale of investments	322,995	108,236	8	3,914
Purchase of investments	(186,045)	(134,874)	(2,433)	(4,003)
Interest on investments - net	3,723	727	61	77
Net cash (used for) provided by investing activities	<u>140,673</u>	<u>(25,911)</u>	<u>(2,364)</u>	<u>(12)</u>
Net increase (decrease) in cash and cash equivalents	5,367	(60)	(1)	(1)
Cash and cash equivalents at beginning of year	4	1,186	1	1
Cash and cash equivalents at end of year	<u>\$ 5,371</u>	<u>\$ 1,126</u>	<u>\$ -</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES:				
Operating (loss) income	\$ (56,212)	\$ (7,066)	\$ 61	\$ 75
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Interest expense on debt	14,968	-	-	-
Interest on investments	(3,506)	(716)	(62)	(75)
Changes in fair value of investments	1,749	-	-	-
Amortization of bond premium	-	-	-	-
Amortization of deferred revenue	-	-	-	-
Depreciation	-	-	-	-
(Reversal) provision for estimated loan losses	(3,594)	5,156	-	-
Provision for nonmortgage investment excess	-	-	-	-
Effect of changes in operating assets and liabilities:				
(Purchase) sale of program loans-net	(31,750)	(49,434)	-	-
Collection of principal from program loans - net	27,601	30,710	-	-
Interest receivable	(357)	(3,920)	-	-
Accounts receivable	(114)	-	-	11
Due (from) to other funds	(8,863)	(1,597)	2,364	-
Increase (Decrease) in other assets and deferred outflow	54,395	-	-	-
Compensated absences	-	-	-	-
Deposits and other liab	-	(424)	-	-
Unearned revenue	(27,717)	-	-	-
Net cash provided by (used for) operating activities	<u>\$ (33,400)</u>	<u>\$ (27,291)</u>	<u>\$ 2,363</u>	<u>\$ 11</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Noncash transfer of program loan to REO	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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LOAN SERVICING	LOAN WAREHOUSING	CITIGROUP GLOBAL MARKETS	OPERATING ACCOUNT	TOTAL OTHER PROGRAMS AND ACCOUNTS
\$ -	\$ -	\$ 52	\$ -	\$ 16,667
-	-	-	(11,200)	(11,203)
-	-	-	(29,935)	(29,935)
(11,942)	-	17,432	26,971	(42,468)
<u>(11,942)</u>	<u>-</u>	<u>17,484</u>	<u>(14,164)</u>	<u>(66,939)</u>
(4,000)	-	-	16,778	(69,218)
-	-	-	3,586	3,586
<u>(4,000)</u>	<u>-</u>	<u>-</u>	<u>20,364</u>	<u>(65,632)</u>
-	-	(17,464)	-	(17,464)
-	-	(92)	-	(20,322)
-	-	-	-	53,462
-	-	-	3	3
<u>-</u>	<u>-</u>	<u>(17,556)</u>	<u>3</u>	<u>15,679</u>
103,007	-	-	38,481	576,641
(86,746)	-	-	(40,636)	(454,737)
20	-	-	51	4,659
<u>16,281</u>	<u>-</u>	<u>-</u>	<u>(2,104)</u>	<u>126,563</u>
339	-	(72)	4,099	9,671
22,807	-	98	401	24,498
<u>\$ 23,146</u>	<u>\$ -</u>	<u>\$ 26</u>	<u>\$ 4,500</u>	<u>\$ 34,169</u>
\$ 3,850	\$ -	\$ 55	\$ (8,927)	\$ (68,164)
-	-	-	-	14,968
(2)	-	-	(50)	(4,411)
-	-	-	-	1,749
-	-	-	-	-
-	-	-	(668)	(668)
-	-	-	264	264
-	-	(55)	-	1,507
-	-	-	-	-
-	-	-	-	(81,184)
-	-	17,433	-	75,744
-	-	51	-	(4,226)
(409)	-	-	99	(413)
760	-	-	9,282	1,946
-	-	-	(127)	54,268
-	-	-	(229)	(229)
(16,141)	-	-	5,038	(11,527)
-	-	-	(18,846)	(46,563)
<u>\$ (11,942)</u>	<u>\$ -</u>	<u>\$ 17,484</u>	<u>\$ (14,164)</u>	<u>\$ (66,939)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CALIFORNIA HOUSING FINANCE FUND
(A Component Unit of the State of California)

SINGLE AUDIT REPORT
June 30, 2014

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
California Housing Finance Fund
Sacramento, California

We have audited, in accordance with the 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, the financial statements of the California Housing Finance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency), a component unit of the State of California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated October 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2014-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Fund's Response to Findings

The Fund's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**CliftonLarsonAllen LLP**

Bellevue, Washington
October 13, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM,
ON INTERNAL CONTROL OVER COMPLIANCE, AND ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
California Housing Finance Fund
Sacramento, California

Report on Compliance for Each Major Federal Program

We have audited California Housing Finance Fund's (the Fund) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Fund's major federal programs for the year ended June 30, 2014. The Fund's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Fund's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Fund's compliance.

Opinion on Each Major Federal Program

In our opinion, the Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-002. Our opinion on each major federal program is not modified with respect to this matter.

The Fund's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Fund's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Fund's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-002, that we consider to be a significant deficiency.

The Fund's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Fund's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Fund as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements. We issued our report thereon dated October 13, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Bellevue, Washington
October 13, 2014

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development		
Section 8 Housing Assistance Payment Program	14.195	\$ 59,724,481
U.S. Department of Treasury		
National Foreclosure Mitigation Counseling	21.000	<u>1,436,074</u>
Total Federal Expenditures		<u>\$ 61,160,555</u>

See accompanying note to the schedule.

CALIFORNIA HOUSING FINANCE FUND
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2014

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the California Housing Finance Fund (the Fund), and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Therefore, some of the amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies or other entities, if any, are included in the schedule.

CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

I. Summary of Independent Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- | | | | | |
|---|---------------|-----|---------------|---------------|
| • Material weakness(es) identified? | <u> X </u> | Yes | <u> </u> | No |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | <u> </u> | Yes | <u> X </u> | None reported |
| • Noncompliance material to financial statements noted? | <u> </u> | Yes | <u> X </u> | No |

Federal Awards

Internal control over major programs:

- | | | | | |
|---|---------------|-----|---------------|---------------|
| • Material weakness(es) identified? | <u> </u> | Yes | <u> X </u> | No |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | <u> X </u> | Yes | <u> </u> | None reported |

Type of auditors' report issued on compliance for major programs: Unmodified

- | | | | | |
|--|--------------|-----|---------------|----|
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | <u> X </u> | Yes | <u> </u> | No |
|--|--------------|-----|---------------|----|

Identification of Major Programs

Name of Federal Program	CFDA Number	Expenditures
Section 8 Project-Based Cluster	14.195	\$ 59,724,781
Dollar threshold used to distinguish type A programs		\$ 1,834,817
Auditee qualified as low-risk auditee?	<u> X </u>	<u> </u> Yes <u> </u> No

**CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

II. Financial Statement Findings

Finding 2014-001 – Material Adjustments

Condition

During FY 2014, management revised their methodology for allowance for loan loss of the single family mortgage receivables and determined that the allowance account was overstated by \$39,494,450 which is the estimated amount of claims payable owed to the Housing Finance Fund from the Housing Loan Insurance Fund. The Agency's staff discovered the error during the process of switching the allowance for loan loss methodology to a loan-by-loan analysis of the single family mortgage receivables and identifying the variance between the old and new allowance calculation.

Criteria

Management did not have an adequate system of internal controls for reviewing and monitoring the allowance for loan loss of the single family receivables.

Cause

The estimated amount of claims payable owed to the Housing Finance Fund from the Housing Loan Insurance Fund was inadvertently added to the allowance for loan loss accrual. However, the amount of claims payable was related to REO properties and short sales that had already been written-off.

Effect

The allowance for loan loss account was materially overstated. The cumulative effect to the ending net position of the Housing Finance Fund for FY 2013 and FY 2012 was an understatement of net position in the amount of \$39,494,450 and \$23,076,874, respectively.

Recommendation

We recommend that management enhance its processes for reviewing, monitoring and accounting for the allowance for loan loss account of the single family mortgage receivables.

Management's Response

Management will implement a more stringent process for reviewing, monitoring and accounting for the allowance for loan loss each quarter. Meetings will be held quarterly with CalHFA's Risk Management Unit to review the factors and assumptions to be used in the current allowance methodology and calculation.

CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

III. Federal Award Findings and Questioned Costs

Finding 2014-002: U.S. Department of Housing and Urban Development, Section 8 Project-Based Cluster, CFDA # 14.195, Subrecipient Monitoring, Other Noncompliance, Significant Deficiency

Condition/Context

6 out of 18 project files tested did not have the Management and Occupancy Review (MOR) results sent within 30 days of the completed onsite visit.

Criteria

U.S. Department of Housing and Urban Development's (HUD) Management and Occupancy Review Handbook, 4350.1 REV-1, Section 6-9 states that findings noted in the Management and Occupancy Review Report must be followed up by the officer assigned to the Project within 30 calendar days.

Cause

The individuals responsible for sending MOR results encountered unforeseen circumstances during the 30 day timeframe, such as being sick and travel issues, which contributed to the delay of MOR results.

Effect

The Fund has not complied with subrecipient monitoring procedures established by the U.S. Department of Housing and Urban Development.

Questioned Costs

None

Recommendation

We recommend that Management ensure MOR results are communicated in a timely fashion to the projects, as required by their internal controls and HUD requirements.

Management's Response

Management is in the process of cross-training staff from the compliance team to assist the MOR Specialist and is implementing a tickler system that notifies the MOR Specialist and management on the 20th calendar day in order to meet the 30 calendar day deadline.

CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

Finding 2013-01, 2012-01: U.S. Department of Housing and Urban Development, Section 8 Project-Based Cluster, CFDA # 14.195, Cash Management

Condition/Context

13 of the 18 federal draws tested for Housing Assistance Payments paid out to Projects between July 1, 2012 – June 30, 2013 were disbursed more than three business days after the receipt of the funds. The time frame ranged from seven to ten days.

All 15 federal draws tested for Housing Assistance Payments paid out to Projects between July 1, 2011 – June 30, 2012, were disbursed more than three business days after the receipt of the funds. The time frame ranged from seven to eleven days.

Status

This finding was corrected in FY 2014.

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Management
California Housing Finance Fund
Sacramento, California

In planning and performing our audit of the financial statements of California Housing Finance Fund (the Fund), which is administered by the California Housing and Finance Agency (the Agency), a component unit of the State of California, as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

However, during our audit we became aware several matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. Our comments and suggestions regarding those matters are summarized below.

INFORMATION TECHNOLOGY

As part of the audit, CLA's information technology auditors obtained an understanding of the information technology controls around the core financial accounting system and other systems that have an effect on the financial statements. The following observation was noted during the review:

Change Management

There are 8 user accounts with administrative access to the Multifamily Loan Accounting System development SQL server that also have access to the production SQL server. In addition, during our testing over the change management process, we determined that two of the five changes we sampled did not follow the formalized process, which requires documented testing and approvals. Additionally, the Change Management Policy had not been formally approved by management.

This issue could result in misrepresentation of financial data. Inadequate change management controls to financial applications could lead to unauthorized changes being implemented into financial systems.

We recommend that segregation of duties be established between development activities and the production environment to prevent unauthorized changes from being made by personnel. We also recommend that the Agency obtain documentation of the formal approval of the Change Management Policy, and enforce the policy for all changes to production servers.

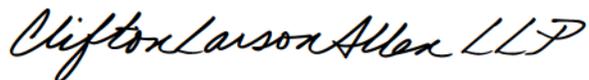
REPLACEMENT RESERVE

One of the six properties tested did not deposit the correct monthly amount into the replacement reserve account. We recommend that the Agency's staff review replacement reserve deposits to ensure the correct amount is deposited each month.

Management
California Housing Finance Fund
Page 2

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Agency personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Bellevue, Washington
October 13, 2014

MEMORANDUM**To:** Audit Committee**Date:** November 5, 2014

Lori Hamahashi, Comptroller

From: CALIFORNIA HOUSING FINANCE AGENCY**Subject:** Housing Finance Fund – Responses to CliftonLarsonAllen Management Letter
RecommendationsInformation Technology*Change Management*

Recommendation #1: We recommend that segregation of duties be established between development activities and the production environment to prevent unauthorized changes from being made by personnel. We also recommend that the Agency obtain documentation of the formal approval of the Change Management Policy, and enforce the policy for all changes to production servers.

Response: CalHFA IT has a formal documented change management process which includes segregation of duties between programmers. The Agency is in the process of hiring an additional programmer, which will make it feasible to reinstitute our more formal process which will help prevent unauthorized changes from being made by personnel while still ensuring we are responsive to the business needs and that all changes are thoroughly tested and approved before migration to production.

This year we will also obtain documentation of the formal approval of the Change Management Policy, and enforce the policy for all changes to production servers.

Section 8 Housing Assistance Program*Replacement Reserve*

Recommendation #2: We recommend that the Agency's staff review replacement reserve deposits to ensure the correct amount is deposited each month.

Response: CalHFA Asset Management staff are reviewing a monthly replacement reserve report produced by CalHFA Accounting to ensure the correct amount is being deposited each month. Requests to increase/decrease replacement reserve deposits will now be processed using Microsoft SharePoint Workflow which will help ensure each request submitted has been processed.

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CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To the Board of Directors
California Housing Finance Agency
Sacramento, California

We have performed the procedures enumerated below, which were agreed to by the California Housing Finance Agency (the Agency) solely to assist you with respect to the disbursement of Proposition 1C Funds by the Agency in accordance with the requirements of the California Homebuyer's Down Payment Assistance Program for the year ended June 30, 2014. The Agency's management is responsible for the disbursement of the Proposition 1C Funds. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures

Our procedures were as follows:

1. Obtain and read the California Homebuyer's Down Payment Assistance Program (CHDAP) guidelines.
2. Obtain the CHDAP Commitment/Disbursement schedules for the fiscal year ending June 30, 2014. Haphazardly select a sample of 25 loans for testing.
3. Read the eligibility requirements for CHDAP loans, program announcements and commitments.
4. For each selected CHDAP loan, determine if the amount of funds committed/disbursed was used for the specified purpose, as specified in the approved loan application. Determine if the borrower qualifies based on income level and sales price, or other criteria that may be established by CHDAP as provided in the eligibility requirements obtained in Step 3.
5. For each selected CHDAP loan, determine that the proper loan agreement/lien was recorded against the property by agreeing the recorded loan/lien with the amount listed in the disbursement schedule.

Results

We did not identify any exceptions with respect to the disbursement of Proposition 1C Funds in accordance with the California Homebuyer's Down Payment Assistance Program.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the disbursement of the Proposition 1C Funds in accordance with the California Homebuyer's Down Payment Assistance Program. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the California Housing Finance Agency and is not intended to be and should not be used by anyone other than these specified party.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
August 4, 2014

FANNIE MAE
Herndon, Virginia

REPORT OF AGREED-UPON PROCEDURES

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**Independent Accountants' Report on
Applying Agreed Upon Procedures**

Fannie Mae
Herndon, Virginia

We have performed the procedures enumerated below, which were agreed to by Fannie Mae and the California Housing Finance Agency (CalHFA), solely to assist Fannie Mae in determining compliance and the propriety of financial reporting of CalHFA. CalHFA management is responsible for the propriety of accounting and compliance with Fannie Mae requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Quality of Certification Practices and Procedures
Procedures

1. Obtain a list of loans on hand and haphazardly select a loan sample that:
 - a. Contains 150 loans certified since the previous review.
 - i. If less than 150 loans were delivered to Fannie Mae since the previous review, sample all of the loans delivered.
 - b. Represents all loan products certified since the last review (performed by Fannie Mae or the independent auditor), with an emphasis on ARMs, or loan types that the Document Custodian has previously demonstrated difficulty in certifying.
2. Complete a re-certification of all loans in the sample following the certification guidelines established in Fannie Mae's Requirements for Document Custodians, while taking into account previously granted waivers that are documented in existing Letters of Instruction or Exhibit A to the Custodial Agreement.
 - a. Document any issues discovered for inclusion in the Findings Report.
 - b. Obtain copies of all loan documents containing issues for submission with the Findings Report.
 - c. Communicate issues to the document custodian for remediation upon discovery. Do not withhold the issues identified until the findings report is published.
3. Based on the procedures performed above, document the identified errors in the final report. The report should:
 - a) Identify each error discovered
 - b) Establish error rates for:
 - i. Data errors;
 - ii. Document errors; and,
 - iii. Combined errors

- c) Include copies of documents as attachments containing evidence of all issues discovered during testing of the loan sample.

Results

We did not identify any errors in our review of the Document Custodian's activities. CalHFA did not have any new loans delivered to Fannie Mae during the period and was previously granted a waiver since no more loans have been issued.

The summary of procedures and associated findings are as set forth below:

	Total	Adjustable	Fixed	MBS	Cash
Loans Requested	150	0	150	0	0
Loans Released/Transferred Out	0	0	0	0	0
Loans Reviewed	150	0	150	0	0
Standard Document Errors	0	0	0	0	0
<i>Standard Document Error Rate</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>
Standard Data Errors	0	0	0	0	0
<i>Standard Data Error Rates</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>
<i>Combined Document + Data Errors</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Combined Error Rate</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>

General Custodian Data

Procedures

1. Obtain a list of Fannie Mae loans on hand as of December 31, 2013 and document the number of Fannie Mae loans on-hand.
2. Request and review executed Form 2001 (Annual Statement of Eligibility for Document Custodians) for any existing waivers granted to the:
 - a. Document Custodian
 - b. Lender (related to certification)
3. Review data regarding previous audits and verify if there are any:
 - a. Previous findings
 - i. If previous findings exist, validate that they have been resolved and include a status update in the report to Fannie Mae.
 - b. Outstanding issues
 - i. If outstanding issues exist, validate that they have been resolved and include a status update in the report to Fannie Mae.

Results

CalHFA currently has 2,952 loans on hand. We obtained 150 loan files and reviewed the executed Form 2001 for any existing waivers granted to the document custodian without exception. There were no previous findings or outstanding issues noted.

General Compliance**Procedures**

1. Request copies of executed Custodial Agreement (Form 2003) between the custodian and each of its Fannie Mae Lender customers as listed in the executed Form 2001.
2. If variances are noted, determine that all variances are documented in the form of a Letter of Instruction (which represents a variance granted to lender) or Exhibit A (which represents a variance granted to the Custodian) to the Custodial Agreement.
3. Determine through staff interviews and observations that the document custodian employs well-trained and knowledgeable staff that is familiar with pool certification procedures and Fannie Mae document control methods.

Results

We obtained and reviewed the executed Custodial Agreement (Form 2003) between CalHFA and Fannie Mae without exception. There were no variances noted, but an Exhibit A (Waivers and Variances) was still included in the custodial agreement. Based on staff interviews and observations, staff appears trained and knowledgeable and are familiar with pool certification procedures and Fannie Mae document control methods.

Regulation**Procedures**

If the custodian is a regulated entity, perform the following:

1. Ask the Custodian to provide evidence of their regulator(s); a custodian must be regulated by:
 - a. Federal Deposit Insurance Corp. (FDIC)
 - b. Board of Governors of the Federal Reserve System
 - c. Office of the Comptroller of the Currency (OCC)
 - d. Office of Thrift Supervision (OTS)
 - e. National Credit Union Administration (NCUA)
2. Identify/name the regulated institution (i.e. name of parent, subsidiary, etc.).
3. Identify the regulated institution's relationship to the Custodian.
4. Determine and document if the custodian is subject to periodic review by the primary regulator.
 - a. If yes, request the frequency and date of the last review.

Results

CalHFA is not a regulated custodian, under the terms of the waiver, granted by Fannie Mae.

Reporting and Organizational Structure**Procedures**

1. Obtain an organization chart. Based on the organizational chart and interviews with management:
 - a. Determine that the document custodian operates as a physically separate department from departments that perform mortgage origination, selling and servicing functions.
 - b. Determine that duties are completely segregated between lending and custodian activities.
 - c. Determine that the document custodian maintains separate personnel, files and operations.
2. Determine if this is a lender, or an affiliate of a lender, acting as custodian for Fannie Mae documents.

Results

We obtained the most recent organizational chart for CalHFA. Employees responsible for Fannie Mae documents are part of the MRS department, which does not perform mortgage origination, selling, or servicing. The lending activities and custodian activities are completely segregated. CalHFA maintains separate personnel, files, and operations relating to Fannie Mae documents. CalHFA is a lender acting as a document custodian for Fannie Mae documents.

Financial Ratings**Procedures**

If the custodian is a regulated entity, perform the following:

1. Request evidence of the regulated institution's most recent:
 - a. IDC Ranking and date;
 - b. KROLL Rating and date; and/or,
 - c. Alternate financial rating and date
2. Determine through observation that the document custodian was able to produce rating evidence upon request.
3. Determine that the rating provided by the Custodian meets Fannie Mae's requirements as specified in the Requirements for Document Custodians.
4. Determine that the Custodian has a procedure in place to monitor their financial ratings for compliance.

Results

CalHFA is not a regulated custodian and does not have a ranking or rating under the terms of the waiver granted by Fannie Mae.

Trust Powers**Procedures**

If the custodian is a regulated entity, perform the following:

1. If the Custodian is self-affiliated, obtain evidence of their Trust Powers.
2. Determine if there are custodial officers who are authorized to act for the institution in a trust capacity.

Results

CalHFA has obtained a waiver for the requirements related to Trust powers and has adhered to the terms and conditions of the Trust Power waiver imposed by Fannie Mae.

Insurance Coverage**Procedures**

1. Read the Custodian's E&O policy to assure that it meets Fannie Mae's requirements, as specified in the Requirements for Document Custodians, and notate:
 - a. Amount of Policy
 - b. Amount of Deductible
 - c. Deductible as percentage of face
 - d. Policy expiration date

2. Read the Custodian's Financial Institution Bond coverage to assure that it meets Fannie Mae's requirements, as specified in the Requirements for Document Custodians, and notate:
 - a. Amount of Bond Coverage
 - b. Amount of Deductible
 - c. Deductible as percentage of face
 - d. Policy expiration date
3. Read the Custodian's documentation that demonstrates that the Custodian verified that the insurance carrier is rated by one of the following:
 - a. A.M. Best Company, with a rating of 'B' or better
 - b. Standard and Poor's Inc., with a rating of 'BBB' or better

Results

CalHFA obtained a waiver for the requirements related to insurance coverage.

Physical Facilities

Procedures

1. Obtain, observe and review the documentation that indicates that the facilities for storage of the custodial documents and files are fire-resistant storage facilities that provide at least two hours of fire protection.
2. Observe that the location and layout of the vault facility effectively limits access to the area.
3. Determine through observation that the custodian is able to account for the control of the keys, or have access to, all external vault exits.
4. Read the procedures for granting access to vault facilities to assure that access is granted to personnel on an as-needed basis to determine that personnel not working directly in custodian functions should not have access to the vault.
5. Observe the location in which documents are stored, while awaiting filing, to assure that it is secure.
6. Read and observe the vault's primary access control.
7. Read and observe that the vault has secondary access control.
8. Read and observe that there are controls in place to prevent unauthorized access by non-custodial employees to custodial facilities and systems.

Results

We observed the storage facilities for the custodial documents and noted that they are fire-resistant. The cabinets are FireKing, equipped with two hour fire protection.

We observed the location and layout of the vault facility. The facility is located on the 4th floor, which requires an access badge to enter. Within the 4th floor, the file room requires a special access badge maintained by only two authorized employees.

The document custodian is able to account for the control of keys. The primary key is kept by the Accounting Manager in a locked desk drawer on the 9th floor. The secondary key is kept with Business Services on the 4th floor. There are only two employees who have access to the vault facilities. The primary access person is an accountant. If he is unavailable, the backup person, a seasonal clerk, is responsible.

In order to obtain the vault key, they must sign the log-out sheet kept by the primary key holder. Once they are finished with the key, they return it and report the time returned key holder in the log.

We observed the location in which the documents are stored and determined it is secure.

The vault's primary access controls include the primary key holder keeping a locked key in her office, with only two staff having access to the Fannie Mae cabinets.

The secondary access controls include a second key held by the Business Services Manager. This key is also only available to two staff members. Based on our observations, controls appear to be in place to prevent unauthorized access by non-custodial employees to custodial facilities and systems.

Written Procedures for Certification and Custody

Procedures

1. Read the following written procedures to assure that they meet Fannie Mae's requirements, as specified in the Requirements for Document Custodians:
 - a. Receipt of documents
 - b. Registration into the document tracking system
 - c. Certification of all required data elements
 - d. Verification of all required documents
 - e. Process for certification and custody of Fannie Mae cash loans, if applicable
 - f. Process for certification and custody of Fannie Mae LTSC Class I and/or Class IV loans, if applicable
 - g. Bailee letter processing, if applicable
 - h. Satisfaction of prior creditor interests in Fannie Mae loans, if applicable
 - i. Process for handling missing/incorrect documents and/or data errors found during the document-to-data review (including communication, tracking, and follow-up until certification or removal)
 - j. Document release practices (including execution of Form 2009)
 - k. Document reinstatement
 - l. Servicing transfers (in and out)
 - m. Details regarding how vault access is controlled and secured
 - n. Process for moving documents within vault/file room as loans are sold to investors
 - o. Process for granting/removing/periodic review (at least annually) of unauthorized access to the document tracking system
 - p. Notification to Fannie Mae when users of the Doc Cert application cease to be authorized users.
 - q. Certification that Fannie Mae is the controller (eNote custodians only)
 - r. Follow-up and receipt of original Form 3269 Balloon Loan Modifications and verification that the document is endorsed in blank (RDC Section 8.5)
 - s. Process for monthly quality controls
2. Interview and observe, through staff, to verify that employees have access to and follow written procedures

Results

We obtained and reviewed written procedures for the items identified in the procedures and determined that they meet Fannie Mae requirements. Based on staff interviews and observations, employees are knowledgeable of the written procedures and follow them accordingly.

Practices – Certification

Procedures

Determine if there are any new loans during the year. If so, perform the following:

1. Sit with certification staff to review certification practices. Assure that these practices meet Fannie Mae's requirements and the custodian's documented procedures.
2. Verify and document the certification method used by the document custodian.
 - a. If certification is performed on an "As Submitted" basis:
 - i. Request evidence to show that certification is performed against Form 2005 data obtained from the DocCert application.
 - ii. Request evidence to show that all Fannie Mae-required fixed and adjustable rate certification fields are included in the data comparison.
 - b. If pre-submission certification (meaning that certification is performed prior to submission of loan data to Fannie Mae) is performed using lender data:
 - i. Request evidence to show that data used in pre-submission certification is compared to Form 2005 data obtained from the DocCert application prior to pool certification. This comparison may be an automated comparison (for cash loans, pre-submission data from Loan Delivery should be used). Any exceptions should have been noted and communicated to the lender for resolution prior to transmission of a certification status to Fannie Mae.
 - ii. Request evidence to show that all the Fannie Mae-required data fields are included in the data certification process and in the data comparison, if applicable.
 - iii. Request evidence that demonstrates how the document custodian ensures that all pre-certified loans are in their possession at the time of pool certification.
 - iv. Request evidence that demonstrates how the document custodian ensures that all loans identified as Fannie Mae deliveries are not allocated to any other investor.
3. Request evidence to show that the document custodian validates MBS Corrections in the DocCert application.
4. Request evidence to show that the document custodian has ongoing feedback and communication regarding outstanding items with its lender customers.
5. Verify that all notes are endorsed in blank from the lender. If the document custodian executes, verify presence of a power of attorney allowing them to perform this function.
6. If facsimile signatures are used on blank endorsements:
 - a. Obtain and review the Corporate Resolution recognizing the use of such signatures.
7. If the document custodian certifies and holds Fannie Mae cash loans, review the documentation that supports that:
 - a. The Custodian sends a cash certification status to the lender; and,
 - b. The Custodian maintains records of these notifications.
8. If the Custodian certifies and holds loans delivered as Long Term Standby Commitment (LTSC) Class I and/or Class IV, review the documentation that supports that:
 - a. Communicates certification status to the lender; and,
 - b. Identifies LTSC Class I and/or Class IV loans in their tracking system with Fannie Mae as the investor after loans are funded.
9. Read the Custodian's practices and policies to assure that all practices and procedures comply with Fannie Mae requirements and any updates are promptly incorporated.
10. If the document custodian certified eNotes, verify that the document custodian's certification practice includes validation that Fannie Mae is the controller for all eNotes.

11. Read the Custodian's procedure and tracking process to assure that the document custodian has a process in place to ensure receipt of the original Form 3269 (Balloon Loan Modification Agreement, endorsed to blank) when certification was based on a certified true copy of this document.

Results

These procedures were not applicable as there were no new loans certified.

Practices – Custody

Procedures

1. Ask the custodian to provide an overview and walk-through of the system they use to track the physical location of all Fannie Mae documents and files. Determine if the system has sufficient controls in place or document any gaps.
2. Determine if the document custodian is able to identify Fannie Mae loans by a physical location and/or through use of a document tracking system.
3. Determine that appropriate access controls are in place to protect the document tracking system from unauthorized viewing and updating.
4. Haphazardly select 10 loans and request that the document custodian locate and retrieve the loans successfully and timely. This is in addition to the loan sample.

Results

CalHFA maintains physical copies of all Fannie Mae documents and files in file cabinets on the 4th floor. This location does not change and files are not moved. The system has sufficient controls in place in accordance with the guidelines.

CalHFA is able to identify Fannie Mae loans by a specific physical location on the 4th floor, as well as through the use of their document tracking system. There are appropriate access controls in place to prevent unauthorized personnel from accessing the document tracking system.

There are only 2 employees who have access to the document tracking system, and the same two employees are the only ones who have access to the room the Fannie Mae loans are physically held. We selected 10 loans from the Active Loan listing and observed as the Accountant located each note from the file cabinets successfully and timely.

Practices – Funding

Procedures

1. If indicated in the executed Form 2001 that bailee letters are delivered to the document custodian, request evidence that shows that the custodian has a process in place to withhold certification until Fannie Mae has validated and approved the wiring instructions.
2. Inquire if the document custodian issues trust receipts. If yes, obtain evidence that loans are removed from the trust receipts prior to certification.
3. Inquire if loans are self-funded prior to sale to Fannie Mae. If yes, obtain evidence that shows release of interest prior to certification.
4. Inquire if loans are funded through a warehouse line prior to sale to Fannie Mae. If yes, obtain evidence that either bailee letters are submitted to Fannie Mae or release of interest prior to certification.

5. Inquire if loans are funded through a FHLB prior to sale to Fannie Mae. If yes, obtain evidence of release of interest prior to certification.
6. Inquire if loans are funded through a funding facility prior to sale to Fannie Mae.
 - a. If yes, determine the name of the facility and verify that funding agreements between the facility and document custodian are on file.
7. Determine if the lender has entered into any inter-creditor (tri-party) agreements.
 - a. If yes, determine with whom and verify that copies of the agreements are on file.
8. Inquire if the document custodian has knowledge of, or operational involvement in, satisfying prior creditor interest of Fannie Mae loans. If yes, verify that:
 - a. The document custodian has a process in place to ensure that the loans are released prior to funding.
 - b. The process is documented in a procedure.
 - c. The procedure is testable.

Results

These procedures were not applicable as there were no new loans funded.

Practices – Releases

Procedures

1. Observe the custody staff to conduct a review of document release practices.
2. Determine that the document custodian receives a Form 2009 (Request for Release of Documents) or equivalent prior to document release. Further verify that the form:
 - a. Contains all the required data elements.
 - b. Is maintained in either hard copy or electronic format.
 - i. If electronic, verify that the Form can be printed in a suitable format upon request.
3. Haphazardly select one loan and request evidence to show that releases are processed only when the Form is signed and dated by authorized personnel.
4. Haphazardly select one loan and request evidence to show that the document custodian includes either Form 2009 or a loan manifest with the release package.

Results

We observed the document custodian staff review of the document release practices and noted that they follow the written procedures provided by Fannie Mae.

The document custodian receives a Request for Release of Documents from the Loan Servicing department prior to the release of documents. The electronic listing contains all necessary elements to accurately release the requested notes. The electronic form is available to be printed in a suitable format upon request.

We observed the FNMA Release Forms folder, which includes all necessary information that is completed and approved before the requested notes are released.

The document custodian maintains a loan manifest that is completed, reviewed, and approved each time documents are released.

Practices – Transfers**Procedures**

Determine if there were any loan transfers during the year. If so, perform the following:

1. Inquire if the document custodian processes incoming servicing transfers. If yes, document the following:
 - a. Evidence of the recertification completion date(s).
 - b. Evidence of a reconciliation of documents to a loan trial balance.
 - c. Evidence that the custodian completes the recertification of loans within the 6-month period required by Fannie Mae.
 - d. Evidence of tracking system's ability to indicate whether pools have been recertified following an incoming transfer.

Results

These procedures were not applicable as there were no incoming loan servicing transfers during the period.

Practices – Monthly QC**Procedures**

1. Verify through observation that the document custodian has a monthly QC process in place.
2. Request evidence that for each monthly QC over the past 12 months, the following documents have been retained:
 - a. Loan sample list (including product type and certifier)
 - b. Findings Report
 - c. Evidence that the Findings Report was reviewed by document custody management staff
 - d. Remediation evidence for all issues identified
3. Verify that the document custodian's documented procedures for the monthly QC include details on how to determine the loan sample size. Verification should include the method used for the regular monthly QC sample and the method(s) used when additional sampling is required (added) if:
 - a. The previous three months QC identified systemic errors or errors related to an individual certifier.
 - b. The overall error rate exceeds 3% for three consecutive months.
4. Provide a summary of the method(s) used to determine sample size.
5. Verify that the monthly QCs for the previous 12 months meet the sample size requirements outlined in the document custodian's documented procedures.

Results

We obtained and reviewed the monthly QC procedures put in place by the Document Custodian. Since CalHFA has not had any new loans since 2007, they are exempt from performing the monthly loan testing. We obtained and reviewed documentation of this exemption.

Disaster Recovery**Procedures**

1. Request evidence of the existence of the custodian's (or affiliated entity's) written business continuity/disaster recovery plan.
2. Ensure through review that the plan:
 - a. Identifies critical functions and resources.

- b. Covers procedures and responsibility assignments, including a "Call Tree" to identify whom to call during an emergency and in what order.
 - c. Includes provisions for off-site retention of critical systems and data file resources.
 - d. Outlines a plan for the existing documents in the vault in the event of fire, water damage or any other disaster such that there is a need to move documents to a back-up facility or restore the documents.
 - e. Includes alternate processing facilities, and network and telecommunication capabilities.
 - f. Covers restoration of facilities and backup and recovery of data processing systems.
3. Request evidence to show that the business continuity/disaster recovery plan is tested at least annually and note the date of the last test.

Results

We obtained and reviewed CalHFA's written Business Continuity Plan and Disaster Recovery plan.

We ensured the plan included all required information identified in the procedure above. We obtained confirmation that CalHFA is in compliance with all FNMA Security Reporting requirements and noted their most recent plan was submitted in March 2014. We verified that the disaster recovery plan is tested annually, noting the date of the last test was September, 27, 2013.

* * *

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on compliance and financial reporting of the California Housing Finance Agency. Accordingly, we did not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of California Housing Finance Agency and Fannie Mae and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Bellevue, Washington
July 17, 2014