BOARD OF DIRECTORS

California Housing Finance Agency
Board of Directors

Audit Committee

Monday, November 7, 2016

Department of Consumer Affairs (“DCA”)
1747 North Market Blvd.
Hearing Room (HQ-2-#186)
Sacramento, California
(916) 574-7307

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, 2016, Single Audit of Federal Funds, Proposition 1C and Fannie Mae Agreed-Upon Procedures including a discussion with the auditor from CliftonLarsonAllen LLP. (Nancy Jones/Lori Hamahashi)

4. Review and discussion of the Audited Financial Statements for the California Housing Loan Insurance Fund for the year ended December 31, 2015 including a discussion with the auditor from CliftonLarsonAllen, LLP. (Nancy Jones/Lori Hamahashi)

5. Public testimony.

6. Adjournment.

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California Housing

Finance Fund Results June 30, 2016

Insurance Fund Results December 31, 2015

Financial Statement Audits
November 7, 2016

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Audit Team

• Nancy Jones	Principal
• Mandy Heagy	Principal
• Liz Richardson	Staff
• Lindsey Laraia	Staff
• Karen Ingle	Staff

- Transition for future:

Mandy Heagy	Principal

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Agenda

- Audit Approach
- Audit Results
- Single Audit
- Required Communications
- Future Pronouncements/Issues

Audit Approach

- CliftonLarsonAllen Professionals with Reliance on Specialists
- Integrated Teams
  - Auditors
  - IT Specialist
- Approach – Risk-Based, Assessment of internal controls and substantive testing
- Communication – Frequent, including formal status meetings, and informal communications

Audit Results Finance Fund

- **Auditors' Opinion on Financial Statements – Unmodified**
- **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 - Unmodified**

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Audit Results (cont.)

- **There were no audit adjustment in the current year.**
- **There were no passed adjustments**
- **There were no internal control deficiencies reported at the financial statement level**

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Single Audit

- **Single Audit Reports Issued**
  - Report on Compliance for Each Major Federal Program, Report on Internal Control Over Compliance, and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance– Unmodified – Two findings

Major Program

Section 8 Project Based Cluster

Single Audit (cont.)

- **Findings and Questioned Costs**
  - Two Compliance Findings Related to:
    - ◊ Other Noncompliance and Significant Deficiency – 2 of 10 projects monitored by the Fund did not deposit the required deposit to the Residual Receipt account within 90 days of their fiscal year end.
    - ◊ Other Noncompliance and Significant Deficiency – 1 of 17 projects monitored by the Fund did not make the required monthly deposits to the replacement reserve account.

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Required Communications

- **Auditor's Responsibility Under Generally Accepted Auditing Standards (GAAS):**
  - The financial statements are the responsibility of management. Our audit was performed for the purpose of forming an opinion as to whether the financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP).

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Required Communications (cont.)

- **Qualitative Aspects of Accounting Practices:**
  - Management is responsible for the selection and use of appropriate accounting policies. Significant accounting policies are disclosed in the Summary of Significant Accounting Policies in Note 1 of the financial statements.
  - Three new accounting pronouncements were adopted in the current year:
    - ◊ GASB's 72 (Fair Value Measurement and Application) – Additional disclosure related to investments
    - ◊ GASB's 73 (Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68) – No effect.
    - ◊ GASB 76 (The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments) – No effect.

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Required Communications (cont.)

- The preparation of the financial statements requires that certain estimates and judgments be made by management. These judgments and estimates include:
  - ◊ Allowance for loan losses
  - ◊ Fair value of investments and other assets
  - ◊ Evaluation of Derivative Instrument effectiveness
  - ◊ Fair Value of Derivative Instruments
  - ◊ Net pension liability and related deferred outflows/inflows
- We concluded that management has a reasonable basis for significant judgments and estimates that impact the financial statements.

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Required Communications (cont.)

- **Difficulties Encountered in Performing the Audit:**
  - We encountered no significant difficulties in performing the audit.
- **Corrected Misstatements:**
  - There were no corrected misstatements.
- **Uncorrected Misstatements:**
  - There were no uncorrected misstatements.
- **Representations from Management:**
  - The representation letter was signed by management and is attached to the Communication.

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Required Communications (cont.)

- **Management Consultations with Other Accountants:**
  - There were no consultations with other accountants
- **Disagreements with Management:**
  - There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters.
- **Significant Findings or Issues:**
  - There were no other findings or issues not already discussed
- **Other Information in Documents Containing Financial Statements:**
  - Required Supplementary Information
  - Single Audit
  - Combining Schedules

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Future pronouncements/Issues

- GASB 74 – Financial Reporting for Postemployment Benefit Plans other than Pension Plans – This statement relates to the OPEB plans themselves
- GASB 75 – Accounting and Financial Reporting for Postemployment Benefits other than Pensions – This will have a significant effect similar to the implementation of GASB 68
- GASB 79 (Certain External Investment Pools and Pool Participants) – Will not have an effect
- GASB 80 – Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14 – Will not have an effect
- GASB 81 – Irrevocable Split-Interest Agreements – Will not have an effect
- GASB 82 – Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73. – Will not have an effect

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Insurance Fund

- **Auditors' Opinion on Financial Statements – Emphasis Paragraphs:**
  - **Going Concern**
  - **Restatement to implement GASB 68 and GASB 71**
- **There were no audit adjustments in the current year.**
- **There were no passed adjustments.**
- **There were no internal control deficiencies reported at the financial statement level.**
- **Financial statements were delayed due to late information for the pension.**

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Insurance Fund Management Letter

- Recommendation for management to develop and document a plan for the continued operation of the Insurance Fund
  - Reinsurance Treaty expires December 31, 2018

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Open Discussions / Questions

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Board of Directors
California Housing Finance Fund
Sacramento, California

We have audited 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, 2016, and have issued our report thereon dated October 26, 2016. 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 accounting and financial reporting of financial instruments by adopting Governmental Accounting Standards (GASB Statement) No. 72, *Fair Value Measurement and Application*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The Fund changed accounting policies related to the accounting of pensions by adopting GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68.*

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:

- 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 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

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

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 26, 2016.

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.

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 the Uniform Guidance, the method of preparing it has not changed from 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 26, 2016.

With respect to 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 26, 2016.

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 the California Housing Finance Fund and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
October 26, 2016

State of California

CalHFA California Housing Finance Agency

Save Our Water

October 26, 2016

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, 2016 and 2015, and the related statement of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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

We confirm, to the best of our knowledge and belief, as of October 26, 2016, the following representations made to you during your audit of the financial statements as of and for the year ended June 30, 2016

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 18, 2016, 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.

- 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.

- 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.

- We believe that the effects of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions- and amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date- an amendment of GASB Statement No. 68,* have been properly reflected in the financial statements.

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 include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures, jointly governed organizations, and other related organizations.

- The financial statements properly classify all funds and activities.

- All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

- Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

- 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, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

- 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, including infrastructure and intangible 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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) and related notes in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. 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 the Uniform Guidance compliance audit, and included in the SEFA expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, 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 federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards 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 for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards 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 federal awards (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 including when applicable, those set forth in the *OMB 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 federal awarding agencies 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's Uniform Guidance (2 CFR part 200, subpart E) and OMB Circular A-87, *Cost Principles State, Local, and Tribal Governments*, and OMB Circular A-102 *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.

- There are no known instances of noncompliance with direct and material compliance requirements that occurred 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 period covered by the auditors' report.

- 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 monitored subrecipients, as necessary, to determine that they have expended subawards in compliance with federal statutes, regulations, and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.

- We have issued management decisions for audit findings that relate to federal awards made to subrecipients and such management decisions have been issued within six months of acceptance of the audit report by the Federal Audit Clearinghouse. Additionally, we have followed-up ensuring that the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient.

- We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- 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 the Uniform Guidance, 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 ensured the reporting package does not contain protected personally identifiable information.
- We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.
- We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.
- 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, 2016 and 2015, 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.

Board of Directors
California Housing Finance Fund

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, 2016 and 2015, 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, 2016 and 2015, the changes in its financial position, or its cash flows for the years 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.

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 4-15, Schedule of the Fund's Proportionate Share of the Net Pension Liability on page 54, and the Schedule of Fund Contribution on page 55 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.

Board of Directors
California Housing Finance Fund

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
October 26, 2016

CALIFORNIA HOUSING FINANCE FUND
Management Discussion and Analysis
of Financial Position and Results of Operations
As of and for the fiscal years ended June 2016 and 2015

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 one state general obligation bond fund. 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, for budgetary reporting purposes only, the Agency was moved from being within the Business, Transportation and Housing Agency to being within the Department of Housing and Community Development (HCD). HCD 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.

Historically, the Homeownership Programs provided 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. More recently, however, Homeownership Programs has achieved success by participating in the To Be Announced ("TBA") Market Rate Program. 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"). The HAT provides a source of funding for low or very low income multifamily developments and other special purpose loans. 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, certain Federal Programs (i.e. Section 8 Housing Assistance Program, Section 811 Supportive Housing for Person with Disabilities and National Foreclosure Mitigation Counseling Program) and HOME Tenant-Based Rental Assistance Program, a program administered in collaboration with the Department of Housing and Community Development. 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 2016-2015

- Operating income before transfers was $77.3 million for FY 2016 compared to $88.3 million for FY 2015. The operating income for FY 2016 decreased by $11 million when compared to FY 2015. See Condensed Schedule of Revenues, Expenses and Changes in Net Position on page 8.

- 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 49.4% federally guaranteed loans and 50.6% conventional loans. The overall delinquency ratio of the Fund's single family loan portfolio continues to improve. It was 6.6% or 814 delinquent loans as of June 30, 2016. By comparison, the delinquency ratio for the Agency's single family portfolio was 7.3% or 1,037 loans as of June 30, 2015. Overall, the total number of delinquent loans declined by 21.5% or 223 loans.

- Overall, net total allowance for loan loss reserve decrease by $11.8 million in FY 2016. The decrease is primarily due to the $12.7 million decrease in Homeownership Programs in FY 2016. The decrease was primarily due to a fewer number of delinquencies and foreclosures being estimated for the active loan portfolio.

- Overall, total program loans receivable decreased by $315.3 million. Decreases in program loans receivable for the homeownership loan portfolio were primarily due to 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.

- Under Homeownership Programs, the loans written-off during FY 2016 was $5 million for foreclosed properties and short sales, $1.7 million and $3.3 million, respectively. The remaining foreclosed properties were written down by $792 thousand to reflect anticipated losses, net of anticipated insurance payment, upon sale of the foreclosed properties.

- In July 2015, the Agency exited the Temporary Credit and Liquidity Program under the HFA initiative program which was providing replacement credit and facilities for existing variable rate demand bond debt for the Agency. The standby credit and liquidity facilities were replaced with letters of credit from four banks. This action has saved money for the Fund as lower costs are associated with letters of credit.

- In FY 2016, the Agency issued bonds totaling $299.3 million under the Home Mortgage Revenue Bonds and Multifamily Special/Limited Obligation Bonds indentures. The Agency continues to actively manage and reduce the Fund's interest expense and exposures within its debt portfolio redeeming $580.4 million of bonds during FY 2016.

- During FY 2016, a total of $3.7 million was transferred out of Other Programs and Accounts. The majority of the total, $3.2 million, was transferred out of the Mental Health Services Act (MHSA) Program and returned to various counties as no further MHSA loans or Capitalized Operating Subsidy Reserves (COSR) will be approved under the program.

Condensed Financial Information:

Condensed Schedule of Assets, Liabilities, and Net Position

The following table presents a condensed Schedule of Assets, Liabilities, and Net Position for the Fund as of June 30, 2016 and 2015 and the change from the prior year (dollars in thousands):

Condensed Statement of Net Position

	2016	2015	Change
Assets			
Cash and investments	$ 1,551,519	$ 1,468,746	$ 82,773
Program loans receivable-net	3,107,849	3,423,104	(315,255)
Other	76,826	96,106	(19,280)
Total Assets	4,736,194	4,987,956	(251,762)
Deferred Outflows of Resources	37,995	28,302	9,693
Liabilities			
Bonds payable-net	2,583,952	2,914,626	(330,674)
Notes payable	34,987	54,580	(19,593)
Other	554,786	521,195	33,591
Total Liabilities	3,173,725	3,490,401	(316,676)
Deferred Inflows of Resources	9,164	8,230	934
Net Position			
Net investment in capital assets	587	754	(167)
Restricted net position	1,590,713	1,516,873	73,840
Total Net Position	$ 1,591,300	$ 1,517,627	$ 73,673

Assets

Of the Fund's assets, 98.4% is cash and investments and program loans receivable. The Fund does not have a significant investment in capital assets, holding only $587 thousand in furniture and equipment.

Total assets decreased by $251.8 million during FY 2016. The Fund's cash and investments were $1.55 billion as of June 30, 2016, an increase of $82.8 million from June 30, 2015. The cash and investments balance increase is primarily due to the loan repayments, loan prepayments and issuance of 2016 HMRB Series A Refunding Bonds in Homeownership Programs on June 30, 2016 less debt service and early redemption activities.

Of the Fund's assets, 32.8% is in the form of cash and investments at fiscal year end. Approximately $1.19 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 FY 2016 increased by $115.3 million for primarily as a result of the activities previously mentioned above.

The composition of cash and investments as of June 30, 2016 and 2015 and the changes from the prior year are shown in the table below (dollars in thousands):

Cash and Investments

	2016	2015	Change
Investment agreements	$ 39,567	$ 43,599	$ (4,032)
SMIF	1,192,972	1,077,656	115,316
Open Commercial Paper	17,819	18,163	(344)
Securities	247,183	288,083	(40,900)
Cash	53,978	41,245	12,733
Total Cash and Investments	$ 1,551,519	$ 1,468,746	$ 82,773

Program loans receivable decreased by $315.3 million during FY 2016. This decrease is primarily due to loan prepayments along with loan write-offs of $5.6 million (first and subordinate loans) and REO loan write-downs of $1.5 million in fiscal year 2016. Loan prepayments decreased by $46.8 million in FY 2016 as $344.1 million was received compared to $390.9 million in FY 2015. REO properties were $5.1 million during FY 2016 compared to $12.3 million in FY 2015, a decrease of $7.2 million.

Other Assets decreased by $19.3 million during FY 2016 when compared to FY 2015. The decrease is primarily due to the decrease in cash collateral held by counterparties.

Liabilities

The Fund's liabilities were $3.17 billion as of June 30, 2016, a decrease of $316.7 million from June 30, 2015. Of the Fund's liabilities, 81.4% is in the form of bond indebtedness. The Fund's net bonds payable at June 30, 2016 decreased by $330.7 million from the prior year due to the $48.2 million of scheduled principal payments, $580.4 million in bond redemptions less $299.3 million of new 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, 2016 and 2015.

All of the bonds issued by the Agency are reported within the Fund (with the exception of conduit bond obligations) as liabilities along with the related assets in the accompanying financial statements.

Conduit bond obligations are not reported within the Fund. 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 6 – Bonds and Notes Payable and Associated Interest Rate Swaps.

The Agency issues both tax-exempt and federally taxable bonds. In FY 2016, federally taxable bonds outstanding increased by $105.1 million to $1.04 billion as of June 30, 2016 represent 40.5% of all bonds outstanding, while tax-exempt bonds outstanding decreased by $434.4 million to $1.54 billion as of June 30, 2016 represent 59.5% of all bonds outstanding. During FY 2016, the Agency issued $236.4 million in taxable fixed rate bonds and $62.9 million in tax-exempt fixed rate bonds.

Shown below are the amounts of variable and fixed rate indebtedness, by tax status, as of June 30, 2016 and 2015 and the changes from the prior year (dollars in thousands):

Bonds Payable

	2016	2015	Change
Tax-Exempt Bonds			
*Variable Rate	$ 539,770	$ 756,060	$ (216,290)
Fixed Rate	996,190	1,214,305	(218,115)
Total Tax-Exempt Bonds	1,535,960	1,970,365	(434,405)
Federally Taxable Bonds			
*Variable Rate	385,175	430,926	(45,751)
Fixed Rate	659,561	508,675	150,886
Total Federally Taxable Bonds	1,044,736	939,601	105,135
Total Bonds Outstanding	$ 2,580,696	$ 2,909,966	$ (329,270)

* Certain variable rate bonds have been swapped to a fixed rate (see Note 6 – Bonds and Notes Payable and Associated Interest Rate Swaps).

All other liabilities increased by $33.6 million during fiscal year 2016. The increase primarily due to the $24.5 million increase in deposits –impound account, $14.5 million increase in derivative swap liability and a decrease of $8.5 million in interest payable. As of June 30, 2016 and June 30, 2015, the fair values of interest rate swaps included in other liabilities were in a negative position of $177.1 million and $162.6 million, respectively.

Net Position

The Fund's net position is either restricted pursuant to trust agreements with bondholders and the Agency's enabling legislation or is classified as net investment in capital assets. As of June 30, 2016, the total net position of the Fund is $1.59 billion, an increase of $73.7 million from fiscal year 2015.

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

The following table presents condensed schedule of revenues, expenses, and changes in net position for the Fund for the fiscal years ended June 30, 2016 and June 30, 2015 and the changes from the prior year (dollars in thousands):

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

	2016	2015	Change
Operating Revenues:			
Interest income program loans – net	$ 171,278	$ 194,987	$ (23,709)
Interest income investments – net	14,247	17,302	(3,055)
Increase (decrease) in fair value of investments	7,768	(5,357)	13,125
Realized gain on sale of securities	39,549	9,471	30,078
Other loan fees	31,070	44,552	(13,482)
Other revenues	21,117	37,699	(16,582)
Total Operating Revenues	285,029	298,654	(13,625)
Operating Expenses:			
Interest	72,288	89,960	(17,672)
Mortgage servicing fees	6,008	7,312	(1,304)
Salaries & general expenses	40,117	39,546	571
Other expenses	89,278	73,543	15,735
Total Operating Expenses	207,691	210,361	(2,670)
Operating Income before transfers	77,338	88,293	(10,955)
Transfers out	(3,665)	(432)	(3,233)
Increase(decrease) in net position	$ 73,673	$ 87,861	$ (14,188)

Operating Revenues

Total operating revenues of the Fund was $285 million for FY 2016 compared to $298.7 million for FY 2015, a decrease of $13.6 million or 4.6%. The decrease is primarily due to a decrease in interest income program loans-net, other loan fees and other revenues and an increase in the fair value of investments and gain on sale of mortgage-backed securities as illustrated below:

- Interest income on program loans - net decreased by $23.7 million or 12.2% as related program loans receivable decreased by $315.3 million or 9.2% in FY 2016.
- Other loan fees decreased by $13.5 million primarily due to a decrease in prepayment penalty fees and an increase in late fees and re-reservation fees for Homeownership Programs.
- Other revenues decreased by $16.6 million primarily due to a decrease in fair value of investment swaps, lower negative position of investment swap revenue and increase in CalPLUS program-related fees.
- From FY 2015 to FY 2016, the fair value of the investments increased $13.2 million.
- Gain on sale of securities increased by $30 million due to the gain on sale of mortgage-backed securities related to the TBA Market Rate Program loan product – CalPLUS.

Operating Expenses

Total operating expenses of the Fund were $207.7 million for FY 2016 compared to $210.4 million during FY 2015, a decrease of $2.7 million or 1.3%. The decrease is primarily due to a decrease in bond interest expense and increase in other expenses as illustrated below:

- Bond interest expense decreased by $17.7 million or 19.6% as bonds payable decreased by $329.3 million or 11.3% bond interest and swap expense in FY 2016. Bond interest and swap expenses represent 34.8% of the Fund's total operating expenses. The decrease in bond interest and swap expenses are attributed to continued bond redemption activity.

- Other expenses increased by $15.7 million primarily due to an increase in service release fees associated with the CalPLUS loan product, operating subsidy expenses under Contract Administration Programs and decrease in allowance for loan loss and liquidity fees.

- Salaries and general expenses for FY 2016 was $40.1 million compared to $39.5 million for FY 2015.

Operating Income before Transfers

Operating income before transfers for fiscal year 2016 was $77.3 million compared to $88.3 million for fiscal year 2015.

Summary of Financial Results 2015-2014

- Operating income before transfers was $88.3 million for fiscal year 2015 compared to an operating loss of $33 million for fiscal year 2014. The operating results for fiscal year 2015 improved by $121.3 million, when compared to fiscal year 2014.

- Other revenues were $37.7 million for fiscal year 2015 compared to negative $47.4 million in fiscal year 2014. The increase was primarily due to the increase in the fair value of the investment swaps for fiscal year 2015.

- 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 47.9% federally guaranteed loans and 52.1% conventional loans. The overall delinquency ratio of the Fund's single family loan portfolio improved to 7.3% or 1,037 delinquent loans as of June 30, 2015. By comparison, the delinquency ratio for the Agency's single family portfolio was 9.7% or 1,564 loans as of June 30, 2014. Overall, the total number of delinquent loans declined by 33.7% or 527 loans.

- Under the HMRB indenture, there was a total of $3.8 million in loans written-off during fiscal year 2015 due to the sale of foreclosed properties (net of insurance payment received) and on short sales (net of insurance payment received), of $1.6 million and $2.2 million, respectively. The remaining HMRB foreclosed properties were written down by $1.1 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 $13.5 million changing from $39.4 million in fiscal year 2014 to $25.9 million in fiscal year 2015.

- In April 2015, the Agency issued bonds totaling $174.2 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 $736.1 million of bonds during fiscal year 2015. There were no economic refundings made during the year.

- The Fund had $84.8 million in new loans receivable during fiscal year 2015. Of the $84.8 million, $57.7 million of new loans receivable were in Contract Administration Programs. Total program loans receivable decreased by $483.2 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 2015, $496 thousand was transferred into the Fund by the Department of Housing and Community Development (HCD) and $928 thousand of unused Mental Health Services Act (MHSA) funds was transferred out to various counties.

- Conduit debt obligations previously reported in the Agency's financial statements were removed since FY 2014 -see Note 7 - Bonds and Notes Payable and Associated Interest Rate Swaps.

- During the year, the Agency implemented Government Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions,* and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* As a result of the implementation, the Fund's beginning net position for the year was reduced by $48.8 million - see Note 3 and Note 10 - Pension Plan.

Condensed Financial Information:

Condensed Schedule of Assets, Liabilities, and Net Position

The following table presents a condensed Schedule of Assets, Liabilities, and Net Position for the Fund as of June 30, 2015 and 2014 and the change from the prior year (dollars in thousands):

Condensed Statement of Net Position

	2015	2014	Change
Assets			
Cash and investments	$ 1,468,746	$ 1,585,117	$ (116,371)
Program loans receivable-net	3,423,104	3,906,285	(483,181)
Other	96,106	79,108	16,998
Total Assets	4,987,956	5,570,510	(582,554)
Deferred Outflows of Resources	28,302	25,710	2,592
Liabilities			
Bonds payable-net	2,914,626	3,532,752	(618,126)
Notes payable	54,580	63,595	(9,015)
Other	521,195	521,279	(84)
Total Liabilities	3,490,401	4,117,626	(627,225)
Deferred Inflows of Resources	8,230	-	8,230
Net Position			
Net investment in capital assets	754	842	(88)
Restricted net position	1,516,873	1,477,752	39,121
Total Net Position	$ 1,517,627	$ 1,478,594	$ 39,033

Assets

Of the Fund's assets, 98.1% 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 $582.6 million during fiscal year 2015. The Fund's cash and investments were $1.47 billion as of June 30, 2015, a decrease of $116.4 million from June 30, 2014. The cash and investments balance decrease is primarily due to the bond redemption activity in Homeownership and Multifamily Programs.

Of the Fund's assets, 29.4% is in the form of cash and investments at fiscal year end. Of the Fund's investment balance, 3.1% is in investment agreements. The amount of funds invested in investment agreements during the 2015 fiscal year decreased by $22.6 million. Additionally, $1.08 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 2015 increased by $37.1 million.

The composition of cash and investments as of June 30, 2015 and 2014 and the changes from the prior year are shown in the table below (dollars in thousands):

Cash and Investments

	2015	2014	Change
Investment agreements	$ 43,599	$ 66,225	$ (22,626)
SMIF	1,077,656	1,040,555	37,101
Open Commercial Paper	18,163	34,718	(16,555)
Securities	288,083	403,112	(115,029)
Cash	41,245	40,507	738
Total Cash and Investments	$ 1,468,746	$ 1,585,117	$ (116,371)

Program loans receivable decreased by $483.2 million during fiscal year 2015 compared to fiscal year 2014. This decrease is primarily due to loan prepayments along with loan write-offs of $7.6 million and REO loan write-downs of $1.8 million in fiscal year 2015. Loan prepayments decreased to $390.9 million during fiscal year 2015 compared to 490.9 million received in fiscal year 2014. REO properties decreased by $1.1 million to $12.3 million during fiscal year 2015 compared to $13.4 million in fiscal year 2014.

As of June 30, 2015 and June 30, 2014, the fair values of interest rate swaps were in the negative position of $162.6 million and $186.4 million, respectively.

Other Assets increased by $17 million during fiscal year 2015 when compared to fiscal year 2014. The increase is primarily due to the increase in cash collateral held by counterparties.

Liabilities

The Fund's liabilities were $3.49 billion as of June 30, 2015, a decrease of $627.2 million from June 30, 2014. Of the Fund's liabilities, 83.5% is in the form of bond indebtedness. The Fund's net bonds payable at June 30, 2015 decreased by $618.1 million from the prior year mainly due to the $64.1 million of scheduled principal payments, $736.1 million in bond redemptions, and offset by the $174.2 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, 2015 and 2014.

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 7 – Bonds and Notes Payable and Associated Interest Rate Swaps).

The Agency issues both tax-exempt and federally taxable bonds. During the 2015 fiscal year, federally taxable bonds outstanding increased by $51.3 million and as of June 30, 2015 represent 32.3% of all bonds outstanding, while tax-exempt bonds outstanding decreased by $668.3 million and as of June 30, 2015 represent 67.7% 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 2015, the Agency issued $174.2 million in taxable fixed rate bonds.

Shown below are the amounts of variable and fixed rate indebtedness, by tax status, as of June 30, 2015 and 2014 and the changes from the prior year (dollars in thousands):

Bonds Payable

	2015	2014	Change
Tax-Exempt Bonds			
*Variable Rate	$ 756,060	$ 1,001,880	$ (245,820)
Fixed Rate	1,214,305	1,636,740	(422,435)
Total Tax-Exempt Bonds	1,970,365	2,638,620	(668,255)
Federally Taxable Bonds			
*Variable Rate	430,926	510,189	(79,263)
Fixed Rate	508,675	378,122	130,553
Total Federally Taxable Bonds	939,601	888,311	51,290
Total Bonds Outstanding	$ 2,909,966	$ 3,526,931	$ (616,965)

* Certain variable rate bonds have been swapped to a fixed rate (see Note 7 – Bonds and Notes Payable and Associated Interest Rate Swaps).

Although all other liabilities decreased by $84 thousand during fiscal year 2015, pension liability increased by $43.7 million due to the adoption of GASB 68, offset by the decrease in interest payable, derivative swap liability, and deposits and other liabilities by $10 million, $23.8 million, and $8 million, respectively.

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 $39.0 million primarily as a result of operating income of $88.3 million for fiscal year 2015 offset by the negative $48.8 million cumulative effect adjustment to the beginning net position from the adoption of GASB 68.

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, 2015 and June 30, 2014 and the changes from the prior year (dollars in thousands):

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

	2015	2014	Change
Operating Revenues:			
Interest income program loans – net	$ 194,987	$ 218,715	$ (23,728)
Interest income investments – net	17,302	22,519	(5,217)
Decrease in fair value of investments	(5,357)	(729)	(4,628)
Gain on sale of securities	9,471	421	9,050
Other loan fees	44,552	29,984	14,568
Other revenues	37,699	(47,401)	85,100
Total Operating Revenues	298,654	223,509	75,145
Operating Expenses:			
Interest	89,960	122,277	(32,317)
Mortgage servicing fees	7,312	8,444	(1,132)
Salaries & general expenses	39,546	41,053	(1,507)
Other expenses	73,543	84,742	(11,199)
Total Operating Expenses	210,361	256,516	(46,155)
Operating Loss before transfers	88,293	(33,007)	121,300
Transfers (out) in	(432)	53,462	(53,894)
Increase(decrease) in net position	$ 87,861	$ 20,455	$ 67,406

Operating Revenues

Total operating revenues of the Fund were $298.7 million during fiscal year 2015 compared to $223.5 million during fiscal year 2014, an increase of $75.2 million or 33.6%.

Interest income on program loans was $195.0 million during fiscal year 2015 compared to $218.7 million during fiscal year 2014, a decrease of $23.7 million. The decrease in interest income on program loans - net 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 $483.2 million or 12.4% at June 30, 2015 compared to June 30, 2014.

Interest income from investments decreased 23.2% to $17.3 million in fiscal year 2015 from $22.5 million in fiscal year 2014. The decrease is primarily due to the decrease in interest income from Investment Agreements. Investment Agreements decreased $22.6 million from $66.2 million at June 30, 2014 to $43.6 million as of June 30, 2015, while SMIF increased $37.1 million from $1.04 billion to $1.08 billion.

The total changes in fair value of investments was $4.1 million in fiscal year 2015, a net increase of $4.4 million from fiscal year 2014, which had a negative fair value of investments of $0.3 million. The slight increase in the Treasury rates during fiscal year 2015 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 2015 was $9.5 million compared to $0.4 million for the fiscal year ended 2014.

Other loan fees increased $14.6 million to $44.6 million in fiscal year 2015 compared to $30.0 million for fiscal year 2014.

Other revenues increased by $85.1 million to $37.7 million during fiscal year 2015 compared to negative $47.4 million in fiscal year 2014. The increase was primarily due to results of the effectiveness testing for derivative instruments for FY 2014. A large amount of ineffective swap fair values were recognized as other revenues which caused a large variance between FY 2015 and FY 2014. The change in fair value of the derivatives for FY 2015 was positive $22.4 million compared to negative $70.3 million for FY 2014.

Operating Expenses

Total operating expenses of the Fund were $210.4 million during fiscal year 2015 compared to $256.5 million during fiscal year 2014, a decrease of $46.1 million or 18.0%. 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, 2015 decreased by $617.0 million from June 30, 2014 and bond interest and swap expense, which represents 42.8% of the Fund's total operating expenses, decreased by $32.3 million or 26.4% compared to fiscal year 2014. The decrease in bond interest and swap expense is attributed to continued bond redemption activity.

Salaries and general expenses slightly decreased from $41.1 million during fiscal year 2014 to $39.5 million during fiscal year 2015 (as shown in the condensed statements of revenues, expenses and changes in net position).

Operating Income before Transfers

Operating income before transfers for fiscal year 2015 was $88.3 million compared to an operating loss of $33 million for fiscal year 2014. The $121.3 million increase in operating income 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 few years, however, the losses have been significantly lower as California home sale prices increased in FY 2014, FY 2015 and continued to increase in FY 2016. The upward trend in single family home prices has had a positive impact on the Agency's profitability.

- Success of the lending programs – One of the Agency's Single Family Lending programs, CalPLUS, had enormous success in FY 2016. CalPLUS is a competitive loan product with down payment assistance. The Agency exceeded its FY 2016 Single Family business plan goals by approximately $278 million or 27%. 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; while 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 has primarily three credit ratings that materially impact its financial results: i) CalHFA's issuer credit rating (S&P A/Moody's A2); ii) Home Mortgage Revenue Bonds (S&P AA-/Moody's A2): and iii) Multifamily Housing Revenue Bonds III (S&P AA+/Moody's A1) . During FY 2016, CalHFA's issuer credit rating improved from A- to A with S&P, and improved from A3 to A2 with Moody's. The Home Mortgage Revenue Bonds rating also improved from A- to AA- with S&P, and improved from A3 to A2 with Moody's in FY 2016. A continued 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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Sacramento, CA 95814
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CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF NET POSITION
June 30, 2016 and June 30, 2015
(Dollars in Thousands)

	2016 Totals	2015 Totals
ASSETS		
Current assets:		
Cash and cash equivalents	$ 53,978	$ 41,245
Investments	1,250,358	1,139,418
Current portion - program loans receivable, net of allowance	163,299	131,059
Interest receivable:		
Program loans, net	36,884	34,005
Investments	2,688	2,446
Accounts receivable	10,481	9,641
Other assets	18,506	34,316
Total current assets	1,536,194	1,392,130
Noncurrent assets:		
Investments	247,183	288,083
Program loans receivable, net of allowance	2,944,550	3,292,045
Other assets	8,267	15,698
Total noncurrent assets	3,200,000	3,595,826
Total assets	4,736,194	4,987,956
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging derivatives	27,441	23,544
Deferred loss on refunding	343	447
Employer contribution	10,211	4,311
Total Deferred outflows of resources	37,995	28,302
LIABILITIES		
Current liabilities:		
Bonds payable	54,592	53,733
Notes payable	1,371	2,048
Interest payable	39,690	48,180
Due to other government entities, net	566	510
Compensated absences	3,473	3,811
Deposits and other liabilities	251,098	227,251
Total current liabilities	350,790	335,533
Noncurrent liabilities:		
Bonds payable	2,529,360	2,860,893
Notes payable	33,616	52,532
Due to other government entities, net	81,871	77,947
Other liabilities	177,054	162,591
Unearned revenues	1,034	905
Total noncurrent liabilities	2,822,935	3,154,868
Total liabilities	3,173,725	3,490,401
Commitments and contingencies (see notes 11 and 13)		
DEFERRED INFLOWS OF RESOURCES		
Unamortized pension net difference	9,164	8,230
Total deferred inflows of resources	9,164	8,230
NET POSITION		
Net investment in capital assets	587	754
Restricted by indenture	531,130	531,976
Restricted by statute	1,059,583	984,897
Total net position	$ 1,591,300	$ 1,517,627

See notes to financial statements.

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2016 and June 30, 2015
(Dollars in Thousands)

	2016 Totals	2015 Totals
OPERATING REVENUES		
Interest income:		
Program loans, net	$ 171,278	$ 194,987
Investments, net	14,247	17,302
Increase in fair value of investments	7,768	(5,357)
Realized gain on sale of securities	39,549	9,471
Loan commitment fees	885	459
Other loan fees	30,185	44,093
Other revenues	21,117	37,699
Total operating revenues	285,029	298,654
SALARIES AND GENERAL EXPENSES		
Interest	72,288	89,960
Amortization of bond discount and bond premium	(1,300)	(941)
Mortgage servicing expenses	6,008	7,312
(Reversal) provision for program loan losses	(12,069)	(22,113)
Salaries and general expenses	40,117	39,546
Other expenses	102,647	96,597
Total salaries and general expenses	207,691	210,361
Operating income before transfers	77,338	88,293
Transfers out	(3,665)	(432)
Increase in net position	73,673	87,861
Net position at beginning of year	1,517,627	1,478,594
Cumulative effect of adoption of GASB 68 & 71	-	(48,828)
Net position at beginning of year, as restated	1,517,627	1,429,766
Net position at end of year	$ 1,591,300	$ 1,517,627

See Note 3 at notes to financial statements.

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and June 30, 2015
(Dollars in Thousands)

	2016 Totals	2015 Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 168,400	$ 193,211
Payments to suppliers	(17,777)	(18,581)
Payments to employees	(28,582)	(21,247)
Other receipts	325,440	440,394
Net cash provided by operating activities	447,481	593,777
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Due from (to) other government entities	7,275	(5,812)
Net cash provided by (used for) noncapital financing activities	7,275	(5,812)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sales of bonds	299,270	174,180
Payment of bond & note principal	(67,758)	(64,077)
Early bond redemptions	(580,374)	(736,083)
Interest paid on debt	(80,779)	(99,950)
Interfund transfers	(3,665)	(432)
Net cash used for capital and related financing activities	(433,306)	(726,362)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity and sale of investments	2,920,585	2,213,254
Purchase of investments	(2,943,307)	(2,092,033)
Interest on investments, net	14,005	17,914
Net cash (used for) provided by investing activities	(8,717)	139,135
Net increase in cash and cash equivalents	12,733	738
Cash and cash equivalents at beginning of year	41,245	40,507
Cash and cash equivalents at end of year	$ 53,978	$ 41,245
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Operating income	$ 77,338	$ 88,293
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest expense on debt	72,288	89,960
Interest on investments	(14,247)	(17,302)
Increase in fair value of investments	(7,768)	5,357
Realized gain on sale of securities	(39,549)	(9,471)
Amortization of bond discount	40	27
Amortization of deferred losses on refundings of debt	104	221
Amortization of bond premium	(1,444)	(1,189)
Loan commitment fees	(885)	(459)
Depreciation	232	243
(Reversal) provision for program loan losses	(12,069)	(22,113)
(Reversal) provision for yield reduction payments	(3,383)	(4,024)
Provision (reversal) for nonmortgage investment excess	88	(782)
Effects of changes in operating assets and liabilities:		
Purchase of program loans, net	(171,840)	(79,258)
Collection of principal from program loans, net	506,318	585,701
Interest receivable	(2,879)	(1,777)
Accounts receivable	(764)	3,376
Other assets	5,980	(19,635)
Compensated absences	(338)	(223)
Pension liablity	934	8,172
Deposits and other liabilities	23,847	(8,002)
Unearned revenue	15,478	(23,338)
Net cash provided by operating activities	$ 447,481	$ 593,777
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Noncash transfer of program loan to REO	$ 7,401	$ 2,237

See notes to financial statements.

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CALIFORNIA HOUSING FINANCE FUND
NOTES TO FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2016 and 2015

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 from bond proceeds and interest earned on loans and investments and by participating in the To Be Announced ("TBA") Market Rate Program. As part of the program, the Agency has agreed to sell on a mandatory delivery basis certain specified Agency mortgage pass-through securities, the repayment of which is guaranteed in full as to principal and interest by Federal National Mortgage Association ("Fannie Mae") or Government National Mortgage Association ("GNMA").

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, for budgetary reporting purposes only, the Agency was moved from being within the Business, Transportation and Housing Agency to being within HCD. HCD 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, 2015, the Housing Loan Insurance Fund had total assets of $632 thousand and deficit of $53.9 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, 2015, CalHFA MAC had total assets of $239.2 million and zero balance of net position (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 provided 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 are 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 the general obligation of the Agency. As of June 30, 2016, all the bonds series under this indenture have been fully redeemed. 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 were 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, were converted to long-term fixed-rate bonds. The Treasury 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 were 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 renters.

Special Obligation Multifamily Housing Revenue Bonds and Multifamily Housing Revenue Bonds: The Special Obligation Multifamily Housing Revenue Bonds and Multifamily Housing Revenue Bonds are secured by FHA risk-share insured mortgage loans. The bonds provide financing for the acquisition and rehabilitation of multifamily affordable residential rental development.

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 California Homebuyer's Down payment Assistance Program, Mental Health Services Act Housing Program, HOME Tenant-Based Rental Assistance 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 net cash transfers out of $3.7 million and $432 thousand for fiscal year 2016 and 2015, 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.

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 54.6% of the Agency's homeownership program loans in first lien position (as of June 30, 2016), 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 under "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.

Federal Programs: The Agency administers loan and grant programs for HUD Section 8 Housing Assistance Payments, HUD Section 811 Supportive Housing for Persons with Disabilities and HUD National Foreclosure Mitigation Counseling.

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 economic resources measurement focus and accrual basis of accounting as required by accounting principles generally accepted in the United States of America (hereinafter referred to as "Generally Accepted Accounting Principles", GAAP).

Recently Adopted Accounting Pronouncements: In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application,* effective for financial statements for periods beginning after June 15, 2015. The requirements of GASB 72 will enhance comparability of financials statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The Agency adopted GASB No. 72 for the fiscal year ended June 30, 2016.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, was issued in June 2015 with effective date for financial statements for fiscal years beginning after June 15, 2015. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local government for making decisions and assessing accountability. The Agency adopted GASB No. 73 for the fiscal year ended June 30, 2016.

In June 2015, GASB also issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of GAAP. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The Agency adopted GASB 76 for the fiscal year ended June 30, 2016.

In December 2015, GASB also issued Statement No. 79, *Certain External Investment Pools and Pool Participants*, effective for reporting periods beginning after December 15, 2015. This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investment at amortized cost for financial reporting purposes. The Agency plans adopted GASB 79 for the fiscal year ended June 30, 2016.

New Accounting Pronouncements: In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* effective for financial statements for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pension (other postemployment benefits or OPEB). This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and GASB No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.*

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). The Agency plans to adopt GASB 75 for the periods beginning July 1, 2017.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*, effective for reporting periods beginning after June 15, 2016. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The Agency believes that GASB 80 will have no effect on the financial statements of the Fund.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for periods beginning after December 15, 2015. The objective of this Statement is to improve accounting and financial reporting for irrecvocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Agency believes that GASB 81 will have no effect on the financial statement of the Fund.

In March 2016, GASB also issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for reporting periods beginning after June 15, 2016. This statement address the issues regarding (1) the presentation of payroll-related measures, (2) the selection of assumptions and treatment of deviations, and (3) the classification of payments made by employers. The Agency plans to adopt GASB 82 for the periods beginning July 1, 2016.

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: Investment of funds is restricted by the California Code section 16430 – 16431, Agency's Investment Policy, and various bond resolutions and indentures of the Agency.

GASB No. 72, *Fair Value Measurement and Application* (Statement No. 72), revises and establishes new financial reporting requirements for governments related to fair value measurements. The Agency was already in compliance with the Statement's requirement that investments be measured at fair value.

Investment securities, other than certain non-participating fixed interest investment contracts, are stated at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between two market participants at the measurement date. Purchase and sale transactions are recorded on the trade date.

Any monies determined to be in excess of the Funds' immediate needs are swept into the Surplus Money Investment Fund (SMIF), managed by the California State Treasurer for investment. All earnings derived from investments of SMIF are apportioned to the contributing funds as provided in the code. The value of each participating dollar equals the fair value divided by the amortized cost of the SMIF. The funds of the SMIF are invested by the Pooled Money Investment Board. The SMIF is not rated.

Income from Investments: Income from investments is recognized when earned and includes interest, dividends, other income, and market appreciation (realized and unrealized).

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 receivable 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.

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.

Deferred Outflow and Deferred Inflow of Resources: Deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period, and deferred inflow of resources is an acquisition of net assets by the government that is applicable to future reporting period. The Fund's deferred outflow of resources include accumulated decrease in fair value of hedging derivatives, deferred loss on refunding, employer contribution difference for pensions, difference between expected and actual experience for pensions and net difference between projected and actual earnings on investments for pensions. Accumulated increase in fair value of hedging derivatives, net difference between projected and actual earnings on investments for pensions, and change in assumptions for pensions are reported under the Fund's deferred inflow of resources.

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 and HUD Section 811 programs –Supportive Housing for Persons with Disabilities Programs. Included in most contracts is an administrative fee earned by the Agency which totaled $1.9 million and $1.3 million for years ended June 30, 2016 and 2015, respectively. The Agency also administers National Foreclosure Mitigation Counseling Program ("FMC"). The HUD and FMC pass-through payments aggregated $60.2 million and $59.6 million for the years ended June 30, 2016 and 2015, respectively, and are reported as other operating revenues and expenses within Other Programs and Accounts.

Pensions: As part of the State, the primary government, the Fund contributes to the Miscellaneous Plan (the "Plan") and it is administered by the California Public Employees' Retirement System ("CalPERS"). The Plan is included in the Public Employees' Retirement Fund A ("PERF A"). PERF is comprised of and reported as PERF A, PERF B, and PERF C for accounting purposes. PERF A is comprised of agent multiple-employer plans, which include State and most public agencies rate plans. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

a. Cash and Cash Equivalents

The Fund utilizes a cash and investment pool maintained by the State Treasurer's Office (STO). The Agency is allowed to withdraw funds from the investment pool, at any time, given that the Agency follows the standard claim schedule process. 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, 2016 and 2015, all cash and cash equivalents, totaling $54.0 million and $41.2 million, respectively, were covered by federal depository insurance or by collateral held by the Agency's agent in the Agency's name.

b. Investments

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, 2016 and 2015 the par value and market value of Open CP agreements were $17.8 million and $18.2 million, respectively.

The Agency's investment measured at amortized cost includes guaranteed investment contracts, SMIF and Open CP, totaling $1.25 billion and $1.14 billion for the fiscal year ended June 30, 2016, and June 30, 2015, 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 6 - Bonds and Notes Payable and Associated Interest Rate Swaps). The total cash and fair market value of investment securities posted as collateral at June 30, 2016 and 2015 was $32.8 million and $51.1 million, respectively.

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Agency has the ability to access.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair market value measurement.

Investments with Fair Value Measurement at June 30, 2016 and 2015 are as follows (dollars in thousands):

		Fair Value Measurements Using						
		6/30/16				6/30/15		
	6/30/16	Level 1	Level 2	Level 3	6/30/15	Level 1	Level 2	Level 3
Investment by fair value level								
U.S. Agency Securities --- GNMA's	$ 117,308	-	$ 117,308	-	$ 153,382	-	$ 153,382	-
Federal Agency Securities	129,875	-	129,875	-	134,701	-	134,701	-
Total Investments by fair value level	$ 247,183	-	$ 247,183	-	$ 288,083	-	$ 288,083	-

The Agency measures and records its investments using fair value measurement guidelines established by general accepted accounting principles. As of June 30, 2016, all the securities were using quoted price from similar asset in active markets through Interactive Data Corp (IDC) and are classified in Level 2.

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 including mortgage backed securities and rated investment agreements at June 30, 2016 and 2015 are as follows (dollars in thousands):

	2016 Totals	2015 Totals
Fixed income securities:		
U.S. government guaranteed	$ 247,183	$ 288,083
Guaranteed interest contracts:		
Rated Aa1/AA-	17,819	-
Rated Aa2/AA+	799	-
Rated Aa2/A+	2,486	2,996
Rated A1+/P1	-	18,163
Rated A1/AA+	-	2,461
Rated A1/AA-	16,519	13,946
Rated A2/A	19,763	22,168
Rated A3/NR	-	2,028
Total fixed income securities	$ 304,569	$ 349,845

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, 2016, 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, 2016, 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, 2016, 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, 2016 and 2015 are as follows:

	2016	2015
Fixed income securities:		
U.S. government guaranteed	15.37	15.82

Note 4 – PROGRAM LOANS RECEIVABLE

Changes in program loans receivable for the years ended June 30, 2016 and 2015 are as follows (dollars in thousands):

	2016 Totals	2015 Totals
Beginning of year balance	$ 3,423,104	$ 3,906,285
Loans purchased/funded	175,121	84,796
Noncash transfers - REO	(7,401)	(2,237)
Amortized principal repayments	(154,839)	(192,526)
Prepayments	(344,078)	(390,939)
Principal Reduction Program	(3,431)	(5,670)
Chargeoffs	241	(6,603)
Unamortized Mortgage Discount	150	132
Transfer to REO- net of write-down	7,154	1,150
Allowance for loan loss	11,828	28,716
	$ 3,107,849	$ 3,423,104
Current portion	$ 163,299	$ 131,059
Noncurrent portion	2,944,550	3,292,045
Total	$ 3,107,849	$ 3,423,104

Note 5 – ALLOWANCE FOR PROGRAM LOAN LOSSES

Changes in the allowance for program loan losses for the year ended June 30, 2016 and 2015 are as follows (dollars in thousands):

	2016 Totals	2015 Totals
Beginning of year balance	$ 117,222	$ 145,938
Provisions for program loan losses	(12,069)	(22,113)
Chargeoffs	241	(6,603)
End of year balance	$ 105,394	$ 117,222

Note 6 – 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, 2016 are as follows (dollars in thousands):

	Bonds					
Bond Issue	Type of Bond	Interest Rate Range	Final Maturity Date	Outstanding Fixed	Outstanding Variable	Total
Home Mortgage Revenue Bonds:						
2000 Series J	Tax-Exempt		N/A		$ -	$ -
2000 Series N	Tax-Exempt	0.290%	2031		8,385	8,385
2000 Series X-2	Tax-Exempt		N/A		-	-
2000 Series Z	Taxable	0.810%	2031		28,950	28,950
2001 Series D	Taxable	0.890%	2022		35,505	35,505
2001 Series G	Taxable	0.830%	2029		28,290	28,290
2001 Series J	Tax-Exempt		N/A		-	-
2001 Series K	Taxable	0.870%	2032		37,610	37,610
2001 Series N	Tax-Exempt		N/A		-	-
2001 Series O	Taxable	0.900%	2032		35,420	35,420
2001 Series S	Taxable	0.940%	2023		6,230	6,230
2001 Series U	Tax-Exempt		N/A		-	-
2002 Series B	Tax-Exempt		N/A		-	-
2002 Series F	Tax-Exempt		N/A		-	-
2002 Series H	Taxable	0.880%	2022		11,205	11,205
2002 Series J	Tax-Exempt	0.280%	2033		15,975	15,975
2002 Series M	Tax-Exempt		N/A		-	-
2002 Series P	Tax-Exempt		N/A		-	-
2003 Series I	Taxable	0.810%	2033		27,415	27,415
2003 Series M	Tax-Exempt	0.280%	2034		28,745	28,745
2003 Series N	Taxable	0.840%	2034		20,660	20,660
2004 Series A	Tax-Exempt		N/A		-	-
2004 Series E	Tax-Exempt	0.280%	2035		26,140	26,140
2004 Series F	Taxable	0.820%	2035		33,675	33,675
2004 Series G	Tax-Exempt		N/A		-	-
2004 Series I	Tax-Exempt		N/A		-	-
2005 Series A	Tax-Exempt	0.270%	2035		49,335	49,335
2005 Series B	Tax-Exempt	0.290%	2035		51,020	51,020
2005 Series F	Tax-Exempt	0.280%	2038		48,710	48,710
2006 Series C	Tax-Exempt	0.290%	2037		56,205	56,205
2006 Series D	Tax-Exempt	4.350% - 4.400%	2017	$ 7,550		7,550
2006 Series E	Tax-Exempt	4.875% - 5.050%	2026	34,600		34,600
2006 Series F	Tax-Exempt		N/A		-	-

Swaps

Type	**Fixed Rate Paid By Agency**	**Floating Rate Received By Agency**	**Effective Date**	**Termination Date**	**Outstanding Notional/Applicable Amount**	**Fair Value**
Fixed payer	4.9000%	LIBOR @ 65%	5/25/00	8/1/30	$ 17,765	$ (3,340)
Fixed payer	4.5100%	LIBOR @ 65%	12/13/00	8/1/31	19,710	(3,687)
Fixed payer	6.8430%	3 mo LIBOR	12/13/00	8/1/16	640	(3)
Fixed payer	6.2150%	3 mo LIBOR+.26%	1/25/01	8/1/19	12,605	(1,029)
Fixed payer	6.0100%	3 mo LIBOR+.20%	4/5/01	2/1/16	1,320	(6)
Fixed payer	4.1430%	LIBOR @ 65%	5/31/01	8/1/24	14,695	(814)
Fixed payer	3.9910%	LIBOR @ 65%	7/26/01	8/1/18	2,715	(130)
Fixed payer	6.3600%	3 mo LIBOR+.27%	7/26/01	8/1/20	16,265	(2,009)
Fixed payer	5.5300%	3 mo LIBOR+.31%	10/10/01	8/1/18	5,935	(199)
Fixed payer	4.1300%	SIFMA less .15%	12/6/01	8/1/32	23,385	(3,701)
Fixed payer	3.8880%	LIBOR @ 65%	4/18/02	8/1/27	28,460	(5,213)
Fixed payer	3.9940%	LIBOR @ 65%	6/6/02	2/1/24	22,025	(2,272)
Fixed payer	3.8630%	LIBOR @ 65%	8/8/02	8/1/32	27,980	(2,991)
Fixed payer	3.7280%	LIBOR @ 65%	10/17/02	8/1/22	24,165	(1,879)
Fixed payer	3.1480%	LIBOR @ 65%	12/12/02	8/1/22	34,400	(2,560)
Fixed payer	3.0875%	LIBOR @ 60%+.26%	8/1/04	8/1/30	12,865	(1,095)
Fixed payer	3.6100%	LIBOR @ 60%+.26%	2/1/05	2/1/34	28,930	(3,846)
Fixed payer	3.5600%	LIBOR @ 60%+.26%	8/4/04	2/1/33	8,895	(1,143)
Fixed payer	3.8040%	LIBOR @ 60%+.26%	4/5/05	8/1/35	49,335	(9,238)
Fixed payer	4.2550%	LIBOR @ 62%+.25%	7/27/06	8/1/40	16,000	(51)

Bond Issue	Type of Bond	Interest Rate Range	Final Maturity Date	Outstanding Fixed	Outstanding Variable	Total
	Bonds					
2006 Series F	Tax-Exempt	0.270%	2041		20,490	20,490
2006 Series I	Tax-Exempt	4.700% - 4.875%	2041	49,025		49,025
2006 Series K	Tax-Exempt	4.625% - 4.750%	2042	77,080		77,080
2006 Series M	Tax-Exempt	4.625% - 4.700%	2036	70,560		70,560
2007 Series A	Taxable	5.720%	2032	75,530		75,530
2007 Series B	Taxable	0.810%	2042		40,000	40,000
2007 Series C	Taxable	0.810%	2042		20,000	20,000
2007 Series D	Tax-Exempt	4.400%	2018	3,310		3,310
2007 Series E	Tax-Exempt	4.700% - 5.000%	2042	78,780		78,780
2007 Series F	Tax-Exempt	4.700%	2017	6,905		6,905
2007 Series G	Tax-Exempt	4.950% - 5.500%	2042	71,495		71,495
2007 Series H	Tax-Exempt		N/A		-	-
2007 Series H	Tax-Exempt	0.270%	2042		27,480	27,480
2007 Series I	Tax-Exempt	4.250% - 4.350%	2017	3,965		3,965
2007 Series K	Tax-Exempt		N/A		-	-
2007 Series K	Tax-Exempt	0.280%	2038		24,265	24,265
2007 Series M	Taxable	5.835%	2032	68,660		68,660
2007 Series N	Taxable	0.810%	2043		60,000	60,000
2008 Series A	Tax-Exempt	4.250% - 4.500%	2020	15,195		15,195
2008 Series B	Tax-Exempt	4.800% - 5.000%	2028	10,320		10,320
2008 Series C	Tax-Exempt		N/A		-	-
2008 Series C	Tax-Exempt		N/A		-	-
2008 Series C	Tax-Exempt		N/A		-	-
2008 Series C	Tax-Exempt		N/A		-	-
2008 Series D	Tax-Exempt		N/A		-	-
2008 Series D	Tax-Exempt	0.180%	2043		2,290	2,290
2008 Series D	Tax-Exempt	0.180%	2043		1,355	1,355
2008 Series D	Tax-Exempt	0.180%	2043		3,865	3,865
2008 Series D	Tax-Exempt	0.180%	2043		3,015	3,015
2008 Series D	Tax-Exempt		N/A		-	-
2008 Series D	Tax-Exempt		N/A		-	-
2008 Series F	Tax-Exempt		N/A		-	-
2008 Series H	Taxable	4.950%	2020	41,100		41,100
2008 Series I	Taxable		N/A		-	-
2008 Series K	Tax-Exempt	5.300% - 5.550%	2033	60,775		60,775
2008 Series L	Tax-Exempt	5.450% - 5.550%	2038	52,020		52,020
2016 Series A	Taxable	1.000% - 3.848%	2036	236,350		236,350
Residential Mortgage Revenue Bonds:						
2009 Series A-5	Tax-Exempt	3.160%	2041	202,755		202,755
2009 Series A-6 (MF)	Tax-Exempt	3.270%	2030	49,410		49,410
2010 Series A	Tax-Exempt	2.700% - 4.625%	2027	10,810		10,810
2011 Series A	Tax-Exempt	2.450% - 4.750%	2028	23,100		23,100
2013 Series A	Taxable	2.900%	2042	42,834		42,834
2013 Series B	Taxable	2.900%	2042	20,907		20,907
Multifamily Loan Purchase Bonds:						
2000 Series A	Taxable	Variable	2017		215	215
Multifamily Housing Revenue Bonds III:						
2000 Series B	Tax-Exempt		N/A		-	-
2000 Series D	Tax-Exempt		N/A		-	-
2001 Series D	Tax-Exempt		N/A		-	-
2001 Series E	Tax-Exempt	0.281%	2036		27,195	27,195

Swaps

Type	Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
Fixed payer	4.1360%	LIBOR @ 62%+.25%	7/27/06	2/1/41	60,000	(184)
Fixed payer	4.0480%	LIBOR @ 62%+.25%	8/8/07	2/1/31	38,800	(791)
Fixed payer	4.2360%	LIBOR @ 62%+.25%	8/8/07	2/1/38	50,000	(1,980)
Fixed payer	3.9870%	LIBOR @ 63%+.24%	11/7/07	8/1/32	25,000	(537)
Fixed payer	4.8000%	LIBOR @ 65%	4/6/00	2/1/23	2,225	(542)
Fixed payer	4.1430%	LIBOR @ 65%	5/31/01	8/1/24	9,710	(1,958)
Fixed payer	3.9940%	LIBOR @ 65%	6/6/02	2/1/24	7,005	(1,471)
Fixed payer	3.8630%	LIBOR @ 65%	8/8/02	8/1/32	7,760	(2,508)
Fixed payer	4.9000%	LIBOR @ 65%	5/25/00	8/1/30	1,680	(786)
Fixed payer	4.1430%	LIBOR @ 65%	5/31/01	8/1/24	2,595	(358)
Fixed payer	3.9910%	LIBOR @ 65%	7/26/01	8/1/18	1,355	(94)
Fixed payer	4.1300%	SIFMA less .15%	12/6/01	8/1/32	3,865	(1,456)
Fixed payer	4.8500%	LIBOR @ 65%	11/18/08	2/1/17	4,210	(111)
Fixed payer	4.8000%	LIBOR @ 65%	4/6/00	2/1/23	5,170	(480)
Fixed payer	4.8500%	LIBOR @ 65%	11/18/08	2/1/17	245	(1)
Fixed payer	3.8700%	LIBOR @ 65%	11/18/08	8/1/17	4,165	(60)
Fixed payer	7.1100%	LIBOR	11/18/08	8/1/22	20,695	(4,071)
Fixed payer	4.5850%	LIBOR @ 64%	7/12/00	2/1/31	765	(134)
Fixed payer	4.3950%	LIBOR @ 64%	11/16/00	2/1/31	10,575	(2,896)
Fixed payer	4.4520%	SIFMA less .20%	6/28/01	8/1/22	1,540	(195)
Fixed payer	4.7120%	SIFMA less .15%	6/28/01	2/1/36	39,980	(13,190)

Bond Issue	Type of Bond	Interest Rate Range	Final Maturity Date	Outstanding Fixed	Outstanding Variable	Total
			Bonds			
2001 Series F	Tax-Exempt	0.276%	2032		9,320	9,320
2001 Series G	Tax-Exempt	0.280%	2025		2,490	2,490
2001 Series G	Tax-Exempt	0.280%	2036		9,115	9,115
2001 Series G	Tax-Exempt	0.280%	2036		7,215	7,215
2002 Series A	Tax-Exempt		N/A		-	-
2002 Series A	Tax-Exempt		N/A		-	-
2002 Series B	Tax-Exempt		N/A		-	-
2002 Series C	Tax-Exempt		N/A		-	-
2002 Series C	Tax-Exempt		N/A		-	-
2002 Series D	Tax-Exempt	0.276%	2033		3,515	3,515
2002 Series E	Tax-Exempt	0.280%	2037		2,855	2,855
2002 Series E	Tax-Exempt	0.280%	2037		11,335	11,335
2003 Series C	Tax-Exempt	1.098%	2038		23,705	23,705
2004 Series A	Tax-Exempt		N/A		-	-
2004 Series B	Tax-Exempt		N/A		-	-
2004 Series B	Tax-Exempt		N/A		-	-
2004 Series B	Tax-Exempt		N/A		-	-
2004 Series B	Tax-Exempt		N/A		-	-
2004 Series C	Tax-Exempt	1.002%	2025		4,000	4,000
2005 Series A	Tax-Exempt		N/A		-	-
2005 Series B	Tax-Exempt		N/A		-	-
2005 Series B	Tax-Exempt		N/A		-	-
2005 Series B	Tax-Exempt		N/A		-	-
2005 Series D	Tax-Exempt	0.280%	2038		14,885	14,885
2006 Series A	Tax-Exempt		N/A		-	-
2006 Series A	Tax-Exempt		N/A		-	-
2006 Series A	Tax-Exempt		N/A		-	-
2007 Series B	Tax-Exempt		N/A		-	-
2007 Series B	Tax-Exempt		N/A		-	-
2007 Series C	Tax-Exempt	0.280%	2042		4,770	4,770
2007 Series C	Tax-Exempt	0.280%	2040		4,295	4,295
2008 Series A	Tax-Exempt	0.268%	2040		7,115	7,115
2008 Series B	Tax-Exempt	0.281%	2036		14,555	14,555
2008 Series B	Tax-Exempt	0.275%	2038		8,525	8,525
2008 Series C	Tax-Exempt	0.282%	2038		5,105	5,105
2008 Series C	Tax-Exempt	0.282%	2036		11,760	11,760
2008 Series C	Tax-Exempt	0.282%	2038		740	740
2014 Series A	Tax-Exempt	4.800%	2049	24,965		24,965
2015 Series A	Taxable	2.379% - 4.050%	2030	174,180		174,180
Affordable Multifamily Housing Revenue Bonds:						
2009 Series A-21	Tax-Exempt	2.320%	2046	46,980		46,980
2009 Series A-22	Tax-Exempt	2.320%	2039	33,670		33,670
Special Obligation Multifamily Housing Revenue Bonds (Virginia Terrace):						
2015 Issue A	Tax-Exempt	0.970% - 4.170%	2057	5,245		5,245
Special Obligation Multifamily Housing Revenue Bonds (Ocean View Senior):						
2015 Issue B	Tax-Exempt	1.120% - 4.170%	2058	18,075		18,075

Swaps

Type	Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
Fixed payer	4.0290%	SIFMA less .20%	2/1/02	2/1/32	10,610	(2,195)
Fixed payer	4.2050%	SIFMA less .15%	2/1/02	8/1/36	2,505	(439)
Fixed payer	4.2050%	SIFMA less .15%	2/1/02	8/1/36	32,525	(9,054)
Fixed payer	4.5950%	SIFMA less .15%	2/1/04	2/1/34	7,855	(2,574)
Fixed payer	4.5000%	SIFMA less .15%	8/1/02	8/1/32	13,360	(3,506)
Fixed payer	4.8900%	SIFMA less .15%	2/2/04	2/1/37	9,820	(4,038)
Fixed payer	4.0370%	SIFMA less .20%	2/1/03	2/1/35	19,050	(4,669)
Fixed payer	4.4050%	SIFMA less .15%	2/1/04	2/1/37	11,815	(4,300)
Fixed payer	4.6380%	SIFMA less .15%	8/1/05	8/1/37	13,795	(5,040)
Fixed payer	4.0850%	SIFMA less .20%	2/3/03	2/1/35	9,835	(2,944)
Fixed payer	4.1510%	SIFMA less .15%	2/3/03	2/1/35	13,125	(3,966)
Fixed payer	4.5710%	SIFMA less .15%	11/1/04	8/1/37	35,665	(15,115)
Fixed payer	3.0590%	LIBOR @ 60%+.21%	8/1/04	8/1/34	15,270	(2,230)
Fixed payer	3.6920%	LIBOR @ 60%+.26%	8/1/06	8/1/36	10,790	(1,425)
Fixed payer	3.3300%	LIBOR @ 60%+.26%	8/1/04	8/1/34	4,470	(338)
Fixed payer	4.9783%	SIFMA less .15%	8/1/06	2/1/39	10,360	(1,880)
Fixed payer	4.5390%	SIFMA less .15%	8/1/04	8/1/34	2,145	(237)
Fixed payer	3.4350%	LIBOR @ 60%+.21%	2/1/05	8/1/25	5,840	(728)
Fixed payer	3.5640%	SIFMA less .20%	7/1/05	8/1/35	1,990	(527)
Fixed payer	3.9540%	SIFMA less .15%	6/15/05	8/1/35	2,285	(321)
Fixed payer	4.0790%	SIFMA less .15%	2/1/07	2/1/37	20,590	(3,289)
Fixed payer	3.9570%	SIFMA less .15%	8/1/07	2/1/38	3,450	(623)
Fixed payer	3.7010%	LIBOR @ 60%+.26%	2/1/06	2/1/38	25,240	(5,669)
Fixed payer	4.042% * HR	97% SIFMA & HR	6/15/06	8/1/27	4,665	(637)
Fixed payer	4.381% * HR	97% SIFMA & HR	6/15/06	8/1/39	8,205	(1,212)
Fixed payer	4.492% * HR	97% SIFMA & HR	6/15/06	2/1/41	3,755	(686)
Fixed payer	3.9370%	LIBOR @ 64%+.25%	7/12/07	2/1/22	1,475	(125)
Fixed payer	4.2220%	LIBOR @ 64%+.25%	8/1/09	2/1/40	5,230	(1,148)
Fixed payer	3.7280%	LIBOR @ 63%+.30%	2/1/08	8/1/42	4,955	(687)
Fixed payer	3.9190%	LIBOR @ 63%+.30%	11/1/09	8/1/40	12,755	(2,619)
Fixed payer	3.2950%	LIBOR @ 61%+.24%	11/1/09	8/1/40	9,375	(2,640)
Fixed payer	3.3850%	SIFMA less .15%	8/1/03	8/1/36	17,760	(3,023)
Fixed payer	4.2950%	SIFMA less .15%	8/1/05	2/1/38	24,540	(1,749)
Fixed payer	3.8830%	LIBOR @ 60%+.26%	12/1/04	8/1/38	7,705	(2,377)
Fixed payer	3.9680%	LIBOR @ 60%+.26%	7/1/05	2/1/36	11,760	(3,403)
Fixed payer	4.0600%	LIBOR @ 60%+.26%	2/1/06	8/1/38	8,000	(2,632)

Bond Issue	Type of Bond	Interest Rate Range	Final Maturity Date	Outstanding Fixed	Outstanding Variable	Total
			Bonds			
Multifamily Housing Revenue Bonds (Maplewood):						
2016 Issue A	Tax-Exempt	0.700% - 3.250%	2035	8,600		8,600
Multifamily Housing Revenue Bonds (Woodglen Vista):						
2016 Issue B	Tax-Exempt	0.700% - 3.800%	2053	31,000		31,000
				1,655,751	924,945	2,580,696
Unamortized discount						(148)
Unamortized premium						3,404
Total Bonds						$ 2,583,952

Swaps						
Type	Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
					$ 1,068,000	$ (177,054)

Bonds payable and the terms, outstanding notional amounts and fair value of associated interest rate swaps as of June 30, 2015 are as follows (dollars in thousands):

	Bonds					
Bond Issue	**Type of Bond**	**Interest Rate Range**	**Final Maturity Date**	**Outstanding Fixed**	**Outstanding Variable**	**Total**
Home Mortgage Revenue Bonds:						
2000 Series J	Tax-Exempt		N/A		$ -	$ -
2000 Series N	Tax-Exempt	0.060%	2031		10,400	10,400
2000 Series V	Taxable	0.560%	2032		10,120	10,120
2000 Series V	Taxable	0.560%	2032		20	20
2000 Series X-2	Tax-Exempt		N/A		-	-
2000 Series Z	Taxable	0.450%	2031		29,715	29,715
2001 Series D	Taxable	0.530%	2022		35,505	35,505
2001 Series G	Taxable	0.470%	2029		28,290	28,290
2001 Series J	Tax-Exempt		N/A		-	-
2001 Series K	Taxable	0.510%	2032		37,610	37,610
2001 Series N	Tax-Exempt		N/A		-	-
2001 Series O	Taxable	0.540%	2032		35,420	35,420
2001 Series S	Taxable	0.560%	2023		25,070	25,070
2001 Series U	Tax-Exempt		N/A		-	-
2001 Series V	Taxable	0.400%	2031		13,210	13,210
2002 Series B	Tax-Exempt		N/A		-	-
2002 Series F	Tax-Exempt		N/A		-	-
2002 Series H	Taxable	0.520%	2022		13,195	13,195
2002 Series J	Tax-Exempt	0.060%	2033		25,605	25,605
2002 Series M	Tax-Exempt		N/A		-	-
2002 Series P	Tax-Exempt		N/A		-	-
2003 Series H	Tax-Exempt	0.060%	2032		8,730	8,730
2003 Series I	Taxable	0.450%	2033		27,415	27,415
2003 Series M	Tax-Exempt	0.060%	2034		38,580	38,580
2003 Series N	Taxable	0.480%	2034		20,660	20,660
2004 Series A	Tax-Exempt		N/A		-	-
2004 Series E	Tax-Exempt	0.050%	2035		40,690	40,690
2004 Series F	Taxable	0.460%	2035		33,675	33,675
2004 Series G	Tax-Exempt		N/A		-	-
2004 Series I	Tax-Exempt		N/A		-	-
2005 Series A	Tax-Exempt	0.050%	2035		61,380	61,380
2005 Series B	Tax-Exempt		N/A		-	-
2005 Series B	Tax-Exempt	0.060%	2035		59,490	59,490
2005 Series F	Tax-Exempt	0.050%	2038		73,980	73,980
2005 Series H	Tax-Exempt		N/A		-	-
2006 Series C	Tax-Exempt	0.050%	2037		68,100	68,100
2006 Series D	Tax-Exempt	4.350% - 4.400%	2017	$ 10,920		10,920
2006 Series E	Tax-Exempt	4.875% - 5.050%	2026	34,600		34,600
2006 Series F	Tax-Exempt		N/A		-	-
2006 Series F	Tax-Exempt	0.060%	2041		26,090	26,090
2006 Series H	Tax-Exempt	5.750%	2030	6,030		6,030
2006 Series I	Tax-Exempt	4.700% - 4.875%	2041	53,105		53,105
2006 Series K	Tax-Exempt	4.625% - 5.500%	2042	97,070		97,070
2006 Series L	Tax-Exempt	4.150%	2016	1,450		1,450
2006 Series M	Tax-Exempt	4.625% - 4.750%	2042	80,570		80,570
2007 Series A	Taxable	5.720%	2032	79,840		79,840
2007 Series B	Taxable	0.450%	2042		40,000	40,000
2007 Series C	Taxable	0.450%	2042		20,000	20,000

Swaps

Type	Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
Fixed payer	4.9000%	LIBOR @ 65%	5/25/00	8/1/30	$ 17,765	$ (3,414)
Fixed payer	4.5275%	LIBOR @ 65%	10/5/00	8/1/15	2,320	(9)
Fixed payer	4.5100%	LIBOR @ 65%	12/13/00	8/1/31	20,025	(3,555)
Fixed payer	6.8430%	3 mo LIBOR	12/13/00	8/1/16	4,385	(123)
Fixed payer	6.2150%	3 mo LIBOR+.26%	1/25/01	8/1/19	17,145	(1,599)
Fixed payer	6.0100%	3 mo LIBOR+.20%	4/5/01	2/1/16	5,155	(148)
Fixed payer	4.1430%	LIBOR @ 65%	5/31/01	8/1/24	20,320	(1,316)
Fixed payer	3.9910%	LIBOR @ 65%	7/26/01	8/1/18	2,895	(194)
Fixed payer	6.3600%	3 mo LIBOR+.27%	7/26/01	8/1/20	20,990	(2,269)
Fixed payer	5.5300%	3 mo LIBOR+.31%	10/10/01	8/1/18	10,115	(513)
Fixed payer	4.1300%	SIFMA less .15%	12/6/01	8/1/32	27,025	(3,586)
Fixed payer	3.8880%	LIBOR @ 65%	4/18/02	8/1/27	30,100	(4,627)
Fixed payer	3.9940%	LIBOR @ 65%	6/6/02	2/1/24	23,590	(2,589)
Fixed payer	3.8630%	LIBOR @ 65%	8/8/02	8/1/32	34,425	(3,258)
Fixed payer	3.7280%	LIBOR @ 65%	10/17/02	8/1/22	30,120	(2,326)
Fixed payer	3.1480%	LIBOR @ 65%	12/12/02	8/1/22	40,955	(2,829)
Fixed payer	3.0875%	LIBOR @ 60%+.26%	8/1/04	8/1/30	15,865	(1,050)
Fixed payer	3.6100%	LIBOR @ 60%+.26%	2/1/05	2/1/34	33,475	(3,505)
Fixed payer	3.5600%	LIBOR @ 60%+.26%	8/4/04	2/1/33	10,400	(1,053)
Fixed payer	3.8040%	LIBOR @ 60%+.26%	4/5/05	8/1/35	61,380	(9,868)
Fixed payer	3.0490%	LIBOR @ 60%+.26%	7/1/05	2/1/16	5,945	(52)
Fixed payer	3.7260%	LIBOR @ 60%+.26%	7/1/05	2/1/35	2,430	(47)
Fixed payer	3.8570%	LIBOR @ 62%+.25%	12/15/05	2/1/36	12,430	(250)
Fixed payer	4.0590%	LIBOR @ 62%+.25%	4/19/06	2/1/37	51,970	(1,135)
Fixed payer	4.2550%	LIBOR @ 62%+.25%	7/27/06	8/1/40	24,000	(675)
Fixed payer	4.1360%	LIBOR @ 62%+.25%	7/27/06	2/1/41	60,000	(2,342)

Bond Issue	Type of Bond	Interest Rate Range	Final Maturity Date	Outstanding Fixed	Outstanding Variable	Total
			Bonds			
2007 Series D	Tax-Exempt	4.300% - 4.400%	2018	16,050		16,050
2007 Series E	Tax-Exempt	4.700% - 5.000%	2042	84,645		84,645
2007 Series F	Tax-Exempt	4.630% - 4.700%	2017	13,420		13,420
2007 Series G	Tax-Exempt	4.950% - 5.500%	2042	80,670		80,670
2007 Series H	Tax-Exempt		N/A		-	-
2007 Series H	Tax-Exempt	0.060%	2042		34,975	34,975
2007 Series I	Tax-Exempt	4.250% - 4.350%	2017	5,205		5,205
2007 Series J	Tax-Exempt	5.750%	2047	4,580		4,580
2007 Series K	Tax-Exempt	0.060%	2037		2,555	2,555
2007 Series K	Tax-Exempt	0.060%	2038		25,000	25,000
2007 Series M	Taxable	5.835%	2032	71,560		71,560
2007 Series N	Taxable	0.450%	2043		60,000	60,000
2008 Series A	Tax-Exempt	4.000% - 4.500%	2020	20,450		20,450
2008 Series B	Tax-Exempt	4.800% - 5.000%	2028	11,710		11,710
2008 Series C	Tax-Exempt		N/A		-	-
2008 Series C	Tax-Exempt		N/A		-	-
2008 Series C	Tax-Exempt		N/A		-	-
2008 Series C	Tax-Exempt		N/A		-	-
2008 Series D	Tax-Exempt	0.060%	2043		1,680	1,680
2008 Series D	Tax-Exempt	0.060%	2043		2,595	2,595
2008 Series D	Tax-Exempt	0.060%	2043		1,355	1,355
2008 Series D	Tax-Exempt	0.060%	2043		3,865	3,865
2008 Series D	Tax-Exempt	0.060%	2031		3,645	3,645
2008 Series D	Tax-Exempt	0.060%	2031		5,850	5,850
2008 Series D	Tax-Exempt	0.060%	2043		4,210	4,210
2008 Series E	Tax-Exempt		N/A		-	-
2008 Series F	Tax-Exempt	0.060%	2032		11,925	11,925
2008 Series G	Taxable	6.000%	2025	50,000		50,000
2008 Series H	Taxable	4.950%	2020	50,695		50,695
2008 Series I	Taxable		N/A		-	-
2008 Series K	Tax-Exempt	5.300% - 5.550%	2033	79,700		79,700
2008 Series L	Tax-Exempt	5.200% - 5.550%	2038	74,040		74,040
Housing Program Bonds:						
2006 Series A	Tax-Exempt	4.850% - 4.950%	2036	34,900		34,900
Residential Mortgage Revenue Bonds:						
2009 Series A-5	Tax-Exempt	3.160%	2041	260,535		260,535
2009 Series A-6 (MF)	Tax-Exempt	3.270%	2030	49,410		49,410
2010 Series A	Tax-Exempt	2.350% - 4.625%	2027	13,645		13,645
2011 Series A	Tax-Exempt	2.050% - 4.750%	2028	33,370		33,370
2013 Series A	Taxable	2.900%	2042	57,593		57,593
2013 Series B	Taxable	2.900%	2042	24,807		24,807
Multifamily Loan Purchase Bonds:						
2000 Series A	Taxable	Variable	2017		1,021	1,021
Multifamily Housing Revenue Bonds III:						
2000 Series B	Tax-Exempt		N/A		-	-
2000 Series D	Tax-Exempt		N/A		-	-
2001 Series D	Tax-Exempt	0.124%	2021		465	465
2001 Series E	Tax-Exempt	0.052%	2036		29,265	29,265

Swaps

Type	Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
Fixed payer	4.0480%	LIBOR @ 62%+.25%	8/8/07	2/1/31	50,000	(2,323)
Fixed payer	4.2360%	LIBOR @ 62%+.25%	8/8/07	2/1/38	50,000	(3,557)
Fixed payer	3.9870%	LIBOR @ 63%+.24%	11/7/07	8/1/32	25,000	(1,277)
Fixed payer	4.0400%	LIBOR @ 63%+.24%	11/7/07	2/1/38	25,000	(530)
Fixed payer	4.8000%	LIBOR @ 65%	4/6/00	2/1/23	2,225	(508)
Fixed payer	4.1430%	LIBOR @ 65%	5/31/01	8/1/24	9,710	(1,775)
Fixed payer	3.9940%	LIBOR @ 65%	6/6/02	2/1/24	7,005	(1,293)
Fixed payer	3.8630%	LIBOR @ 65%	8/8/02	8/1/32	7,760	(1,877)
Fixed payer	4.9000%	LIBOR @ 65%	5/25/00	8/1/30	1,680	(628)
Fixed payer	4.1430%	LIBOR @ 65%	5/31/01	8/1/24	2,595	(375)
Fixed payer	3.9910%	LIBOR @ 65%	7/26/01	8/1/18	1,355	(129)
Fixed payer	4.1300%	SIFMA less .15%	12/6/01	8/1/32	3,865	(1,016)
Fixed payer	4.8500%	LIBOR @ 65%	11/18/08	2/1/17	5,660	(97)
Fixed payer	4.8000%	LIBOR @ 65%	4/6/00	2/1/23	6,560	(647)
Fixed payer	4.8500%	LIBOR @ 65%	11/18/00	2/1/17	4,210	(289)
Fixed payer	4.6600%	LIBOR @ 65%	11/18/08	2/1/16	2,030	(30)
Fixed payer	3.8700%	LIBOR @ 65%	11/18/08	8/1/17	8,150	(253)
Fixed payer	7.1100%	LIBOR	11/18/08	8/1/22	23,815	(4,677)
Fixed payer	4.5850%	LIBOR @ 64%	7/12/00	2/1/31	895	(133)
Fixed payer	4.3950%	LIBOR @ 64%	11/16/00	2/1/31	11,205	(2,488)
Fixed payer	4.4520%	SIFMA less .20%	6/28/01	8/1/22	1,720	(225)
Fixed payer	4.7120%	SIFMA less .15%	6/28/01	2/1/36	41,420	(10,692)

Bond Issue	Type of Bond	Interest Rate Range	Final Maturity Date	Bonds Outstanding Fixed	Outstanding Variable	Total
2001 Series F	Tax-Exempt	0.054%	2032		10,025	10,025
2001 Series G	Tax-Exempt	0.061%	2025		2,695	2,695
2001 Series G	Tax-Exempt	0.061%	2036		9,500	9,500
2001 Series G	Tax-Exempt	0.061%	2036		7,480	7,480
2002 Series A	Tax-Exempt		N/A		-	-
2002 Series A	Tax-Exempt		N/A		-	-
2002 Series B	Tax-Exempt		N/A		-	-
2002 Series C	Tax-Exempt		N/A		-	-
2002 Series C	Tax-Exempt		N/A		-	-
2002 Series D	Tax-Exempt	0.054%	2033		3,655	3,655
2002 Series E	Tax-Exempt	0.057%	2037		2,885	2,885
2002 Series E	Tax-Exempt	0.057%	2037		11,580	11,580
2003 Series C	Tax-Exempt	0.442%	2038		24,765	24,765
2004 Series A	Tax-Exempt		N/A		-	-
2004 Series B	Tax-Exempt	0.850%	2036		1,570	1,570
2004 Series B	Tax-Exempt	0.850%	2036		3,375	3,375
2004 Series B	Tax-Exempt	0.850%	2036		4,760	4,760
2004 Series B	Tax-Exempt	0.850%	2036		10,805	10,805
2004 Series B	Tax-Exempt	0.850%	2036		1,505	1,505
2004 Series C	Tax-Exempt	0.356%	2025		6,190	6,190
2004 Series D	Tax-Exempt	0.356%	2039		40,240	40,240
2005 Series A	Tax-Exempt		N/A		-	-
2005 Series B	Tax-Exempt		N/A		-	-
2005 Series B	Tax-Exempt		N/A		-	-
2005 Series B	Tax-Exempt		N/A		-	-
2005 Series C	Tax-Exempt	4.100% - 4.900%	2036	7,640		7,640
2005 Series D	Tax-Exempt	0.054%	2038		15,355	15,355
2005 Series E	Tax-Exempt	4.550% - 5.125%	2038	17,985		17,985
2006 Series A	Tax-Exempt		N/A		-	-
2006 Series A	Tax-Exempt		N/A		-	-
2006 Series A	Tax-Exempt		N/A		-	-
2007 Series B	Tax-Exempt		N/A		-	-
2007 Series B	Tax-Exempt		N/A		-	-
2007 Series C	Tax-Exempt	0.089%	2042		4,840	4,840
2007 Series C	Tax-Exempt	0.089%	2040		4,435	4,435
2008 Series A	Tax-Exempt	0.048%	2040		7,265	7,265
2008 Series B	Tax-Exempt	0.052%	2036		15,735	15,735
2008 Series B	Tax-Exempt	0.052%	2038		8,870	8,870
2008 Series C	Tax-Exempt	0.052%	2038		5,210	5,210
2008 Series C	Tax-Exempt	0.052%	2036		12,150	12,150
2008 Series C	Tax-Exempt	0.708%	2038		740	740
2014 Series A	Tax-Exempt	0.850% - 4.800%	2049	38,915		38,915
2015 Series A	Taxable	2.379% - 4.050%	2030	174,180		174,180
Affordable Multifamily Housing Revenue Bonds:						
2009 Series A-21	Tax-Exempt	0.000% - 2.320%	2046	49,250		49,250
2009 Series A-22	Tax-Exempt	0.000% - 2.320%	2039	34,440		34,440
				1,722,980	1,186,986	2,909,966
Unamortized discount						(187)
Unamortized premium						4,847
Total Bonds						$ 2,914,626

Swaps

Type	Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
Fixed payer	4.0290%	SIFMA less .20%	2/1/02	2/1/32	11,370	(1,731)
Fixed payer	4.2050%	SIFMA less .15%	2/1/02	8/1/36	2,710	(421)
Fixed payer	4.2050%	SIFMA less .15%	2/1/02	8/1/36	33,875	(7,092)
Fixed payer	4.5950%	SIFMA less .15%	2/1/04	2/1/34	8,150	(2,030)
Fixed payer	4.5000%	SIFMA less .15%	8/1/02	8/1/32	14,095	(2,936)
Fixed payer	4.8900%	SIFMA less .15%	2/2/04	2/1/37	10,105	(3,077)
Fixed payer	4.0370%	SIFMA less .20%	2/1/03	2/1/35	20,080	(3,736)
Fixed payer	4.4050%	SIFMA less .15%	2/1/04	2/1/37	12,150	(3,154)
Fixed payer	4.6380%	SIFMA less .15%	8/1/05	8/1/37	14,210	(3,901)
Fixed payer	4.0850%	SIFMA less .20%	2/3/03	2/1/35	10,155	(2,183)
Fixed payer	4.1510%	SIFMA less .15%	2/3/03	2/1/35	13,495	(2,982)
Fixed payer	4.5710%	SIFMA less .15%	11/1/04	8/1/37	36,415	(10,780)
Fixed payer	3.0590%	LIBOR @ 60%+.21%	8/1/04	8/1/34	16,270	(1,638)
Fixed payer	3.6920%	LIBOR @ 60%+.26%	8/1/06	8/1/36	11,070	(1,257)
Fixed payer	3.3300%	LIBOR @ 60%+.26%	8/1/04	8/1/34	4,610	(333)
Fixed payer	4.9783%	SIFMA less .15%	8/1/06	2/1/39	11,095	(1,614)
Fixed payer	4.5390%	SIFMA less .15%	8/1/04	8/1/34	2,195	(226)
Fixed payer	3.4350%	LIBOR @ 60%+.21%	2/1/05	8/1/25	6,310	(666)
Fixed payer	3.5640%	SIFMA less .20%	7/1/05	8/1/35	2,050	(352)
Fixed payer	3.9540%	SIFMA less .15%	6/15/05	8/1/35	2,350	(214)
Fixed payer	4.0790%	SIFMA less .15%	2/1/07	2/1/37	21,425	(2,319)
Fixed payer	3.9570%	SIFMA less .15%	8/1/07	2/1/38	3,540	(360)
Fixed payer	3.7010%	LIBOR @ 60%+.26%	2/1/06	2/1/38	26,360	(4,417)
Fixed payer	4.042% * HR	97% SIFMA & HR	6/15/06	8/1/27	5,205	(639)
Fixed payer	4.381% * HR	97% SIFMA & HR	6/15/06	8/1/39	8,405	(908)
Fixed payer	4.492% * HR	97% SIFMA & HR	6/15/06	2/1/41	3,845	(469)
Fixed payer	3.9370%	LIBOR @ 64%+.25%	7/12/07	2/1/22	1,700	(146)
Fixed payer	4.2220%	LIBOR @ 64%+.25%	8/1/09	2/1/40	5,410	(982)
Fixed payer	3.7280%	LIBOR @ 63%+.30%	2/1/08	8/1/42	5,210	(596)
Fixed payer	3.9190%	LIBOR @ 63%+.30%	11/1/09	8/1/40	13,020	(2,131)
Fixed payer	3.2950%	LIBOR @ 61%+.24%	11/1/09	8/1/40	9,570	(1,756)
Fixed payer	3.3850%	SIFMA less .15%	8/1/03	8/1/36	19,045	(2,311)
Fixed payer	4.2950%	SIFMA less .15%	8/1/05	2/1/38	25,195	(1,783)
Fixed payer	3.8830%	LIBOR @ 60%+.26%	12/1/04	8/1/38	7,895	(1,758)
Fixed payer	3.9680%	LIBOR @ 60%+.26%	7/1/05	2/1/36	12,150	(2,578)
Fixed payer	4.0600%	LIBOR @ 60%+.26%	2/1/06	8/1/38	8,200	(1,964)
					$ 1,296,020	$ (162,591)

Notes Payable: The Agency entered into loan agreements with Citibank N.A. on March 1, 2010. The Agency received funds for special bond redemptions in exchange for total notes payable of $95.1 million. The notes are collateralized by multifamily loan receivables. The outstanding maturity dates for the loan receivables range from April 1, 2022 to January 1, 2046 and the interest rates range from 5.25% to 7.25%. The Agency collects and remits the mortgage payments less servicing fees to Citibank on 17 multifamily loans. Changes in notes payable for the years ended June 30, 2016 and 2015 are as follows (dollars in thousands):

	2016 Totals	2015 Totals
Beginning of year balance	$ 54,580	$ 63,595
Principal payments	(19,593)	(9,015)
End of year balance	$ 34,987	$ 54,580
Current portion	$ 1,371	$ 2,048
Noncurrent portion	33,616	52,532
Total	$ 34,987	$ 54,580

The table below provides a summary of 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
2017	$ 1,371	$ 1,721	$ 3,092
2018	1,445	1,653	3,098
2019	1,531	1,581	3,112
2020	1,622	1,509	3,131
2021	1,718	1,420	3,138
2022-2026	9,798	5,781	15,579
2027-2031	8,458	3,458	11,916
2032-2036	5,278	1,552	6,830
2037-2041	1,734	753	2,487
2042-2046	2,032	252	2,284
Total	$ 34,987	$ 19,680	$ 54,667

Conduit Debt Obligations: Beginning in 2009, the Agency 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.

The Agency had 47 series of conduit debt obligations aggregating $591.6 million as of June 30, 2016 and 35 series of conduit debt obligations aggregating $372.4 million as of June 30, 2015. For the years ended June 30, 2016 and 2015, all the authorized conduit debt obligations were issued. For the years ended June 30, 2016 and 2015, the Agency initially issued $192.8 million and $30.1 million in conduit debt obligations, respectively. The aggregate balances as of June 30, 2016 and 2015 include draws from previously issued conduits offset by maturities and redemptions.

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, 2016, the Agency collected $381 thousand in issuance fees, $2.3 million in administration fees, $68 thousand in special issuer fees and $469 thousand in unearned revenue-prepaid administration fees. For the year ended June 30, 2015, the Agency collected $2.3 million in administration fees, $220 thousand in special issuer fees and $406 thousand 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, 2016 and 2015 are as follows (dollars in thousands):

	2016 Totals	2015 Totals
Beginning of year balance	$ 2,914,626	$ 3,532,752
New bonds issued	299,270	174,180
Scheduled maturities	(48,166)	(55,061)
Redemptions	(580,374)	(736,083)
Amortized discount	40	27
Amortized premium	(1,444)	(1,189)
End of year balance	$ 2,583,952	$ 2,914,626
Current portion	$ 54,592	$ 53,733
Noncurrent portion	2,529,360	2,860,893
Total	$ 2,583,952	$ 2,914,626

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, 2016, 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 Unswapped		Variable Swapped		Interest Rate	
Ending June 30	Principal	Interest	Principal	Interest	Swaps, Net	Total
2017	$ 54,590	$65,695		$ 1,162	$ 39,586	$ 161,033
2018	76,950	66,886	$ 8,430	1,289	35,818	189,373
2019	60,440	64,583	9,375	1,246	32,644	168,288
2020	60,635	62,726	9,795	1,200	29,726	164,082
2021	71,130	60,257	10,440	1,152	27,162	170,141
2022-2026	545,185	253,918	50,855	4,933	62,274	917,165
2027-2031	563,640	156,784	61,245	3,781	63,248	848,698
2032-2036	521,910	66,293	70,980	2,124	30,755	692,062
2037-2041	186,510	31,074	51,040	777	5,132	274,533
2042-2046	124,186	9,839	15,620	113	49	149,807
2047-2051	11,930	4,441				16,371
2052-2056	2,595	2,869				5,464
2057-2058	13,215	276				13,491
Total	$ 2,292,916	$ 845,641	$ 287,780	$ 17,777	$ 326,394	$ 3,770,508

As of June 30, 2016, the difference between the gross bonds payable and the net bonds payable was $3.3 million. This represented the aggregate of the unamortized bond premium and bond discount.

Letter of Credit Agreements: The Temporary Credit and Liquidity Program expired December 2015. In order to replace the liquidity provided by this program, the Agency entered into letter of credit agreements in November 2014, May 2015 and July 2015. For the years ended June 30, 2016 and 2015, the Agency had immediately reimbursed the full amount of all the draws on the agreements.

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, 2016 are summarized in the table at the beginning of this note. 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 years ended June 30, 2016 and 2015, no additional swaps were considered investment derivatives because they no longer met the criteria for effectiveness. The following table summarizes the swap fair value activity in the statements of net position as of June 30, 2016 and 2015 and the statements of revenues, expenses and changes in net position for the years ended June 30, 2016 and 2015 (dollars in thousands):

	2016	2015
Statements of Net Position:		
Derivative swap asset	$ 241	$ 299
Accumulated decrease in fair value of hedging derivatives	27,441	23,544
Derivative swap liability	177,054	162,591
Statements of Revenues, Expenses and Changes in Net Position:		
Investment swap revenue	$ (10,625)	$ 22,397

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, 2016, the Agency has interest rate swap agreements with 10 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 treasury securities. 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, 2016, the Agency posted cash and fair value of mortgage-backed securities as collateral with swap counterparties in the amounts of $18.0 million and $14.8 million, respectively. As of June 30, 2016, the Agency determined that an additional $1.1 million in collateral postings were required. Appropriate cash collateral amounts were sent to the applicable counterparties on the following business day. As of June 30, 2015, the Agency posted cash and fair value of mortgage-backed securities as collateral in the amounts of $33.9 million and $17.2 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 $177.1 million as of June 30, 2016 and $162.6 million as of June 30, 2015. 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. The swaps are classified in Level 2 of the fair value hierarchy. Level 2 is described in the Cash, Cash Equivalents and Investments note.

As of June 30, 2016, the Agency's swap portfolio had an aggregate asset position of $241 thousand. 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 $177.1 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, 2016 (dollars in thousands).

Moody's	Standard & Poors	Outstanding Notional Amount	Number of Swap Transactions
Aa2	AA-	$ 162,460	5
Aa3	A+	233,720	11
Aa3	AA-	399,295	32
A1	A+	10,610	1
A1	A	28,930	1
A3	BBB+	38,800	1
Baa1	A-	31,080	2
Baa1	BBB+	50,100	4
Baa2	BBB+	103,630	9
Baa3	BBB	9,375	1
		$ 1,068,000	67

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, 2016, the formulas for the swap portfolio utilized the SIFMA, the 1 month LIBOR and the 3 month LIBOR rates. As of June 30, 2016, rates for the SIFMA, the 1 month LIBOR and the 3 month LIBOR were 0.41%, 0.47% and 0.65%, 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 7 basis swaps as a means to change the variable rate formula received for $129.3 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, 2016 (dollars in thousands):

Bond Issue	Variable Rate Paid By Agency	Floating Rate Received By Agency */**	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
Home Mortgage Revenue Bonds:						
2000 Series C	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	2/1/17	$ 4,455	$ 1
2000 Series J	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/30	19,445	39
2000 Series X-2	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/31	19,710	34
2001 Series N	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/18	4,070	5
2002 Series B	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/27	28,460	59
2002 Series F	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	2/1/24	29,030	63
2002 Series M	LIBOR @ 65%	LIBOR @ 85%-0.019%	2/1/04	8/1/22	24,165	40
					$ 129,335	$ 241

* 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, 2016.

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, 2016 (dollars in thousands):

Bond Issue	Bonds Outstanding	Swap Notional Amount	Unmatched Swap	Fair Value
Home Mortgage Revenue Bonds				
2000 Series J *		$ 17,765	$ 17,765	$ (3,301)
2000 Series X2 *		19,710	19,710	(3,653)
2001 Series J		14,695	14,695	(814)
2001 Series N *		2,715	2,715	(126)
2001 Series U		23,385	23,385	(3,701)
2002 Series B *		28,460	28,460	(5,154)
2002 Series F *		22,025	22,025	(2,208)
2002 Series J		27,980	27,980	(2,991)
2002 Series M *		24,165	24,165	(1,839)
2002 Series P		34,400	34,400	(2,560)
2004 Series A		12,865	12,865	(1,095)
2004 Series G		28,930	28,930	(3,846)
2004 Series I		8,895	8,895	(1,143)
2006 Series F		16,000	16,000	(51)
2006 Series F	$ 20,490	60,000	39,510	(121)
2007 Series H		38,800	38,800	(791)
2007 Series H	27,480	50,000	22,520	(892)
2007 Series K		25,000	25,000	(537)
2008 Series C		2,225	2,225	(542)
2008 Series C		9,710	9,710	(1,958)
2008 Series C		7,005	7,005	(1,471)
2008 Series C		7,760	7,760	(2,508)
2008 Series D		5,170	5,170	(480)
2008 Series D		1,680	1,680	(786)
2008 Series D	2,290	2,595	305	(42)
2008 Series D	3,015	4,455	1,440	(36)
2008 Series F		4,165	4,165	(61)
2008 Series I		20,695	20,695	(4,071)
Multifamily Housing Revenue Bonds III				
2000 Series B		765	765	(134)
2000 Series D		10,575	10,575	(2,896)
2001 Series D		1,540	1,540	(195)
2001 Series E	27,195	39,980	12,785	(4,218)
2001 Series F	9,320	10,610	1,290	(267)
2001 Series G	11,605	35,030	23,425	(6,349)
2001 Series G	7,215	7,855	640	(210)
2002 Series A		13,360	13,360	(3,506)
2002 Series A		9,820	9,820	(4,038)
2002 Series B		19,050	19,050	(4,669)
2002 Series C		13,795	13,795	(5,040)
2002 Series C		11,815	11,815	(4,300)
2002 Series D	3,515	9,835	6,320	(1,892)
2002 Series E	2,855	13,125	10,270	(3,103)
2002 Series E	11,335	35,665	24,330	(10,311)
2004 Series A		15,270	15,270	(2,230)
2004 Series B		10,790	10,790	(1,425)
2004 Series B		4,470	4,470	(338)
2004 Series B		2,145	2,145	(236)
2004 Series B		10,360	10,360	(1,880)
2004 Series C	4,000	5,840	1,840	(229)
2005 Series A		1,990	1,990	(527)
2005 Series B		2,285	2,285	(321)
2005 Series B		20,590	20,590	(3,289)
2005 Series B		3,450	3,450	(623)
2005 Series D	14,885	25,240	10,355	(2,326)
2006 Series A		4,665	4,665	(637)
2006 Series A		8,205	8,205	(1,212)
2006 Series A		3,755	3,755	(686)
2007 Series B		5,230	5,230	(1,148)
2007 Series B		1,475	1,475	(125)
2007 Series C	4,770	4,955	185	(26)

Bond Issue	Bonds Outstanding	Swap Notional Amount	Unmatched Swap	Fair Value
Multifamily Housing Revenue Bonds III (continued)				
2007 Series C	4,295	12,755	8,460	(1,737)
2008 Series A	7,115	9,375	2,260	(636)
2008 Series B	8,525	24,540	16,015	(1,141)
2008 Series B	14,555	17,760	3,205	(546)
2008 Series C	5,105	7,705	2,600	(817)
2008 Series C	740	8,000	7,260	(2,397)
Total	$ 190,305	$ 964,920	$ 774,615	$ (122,438)

*Includes Basis Swap.

Note 7 – 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, 2016 and 2015, the Fund had liabilities to the IRS totaling $441 thousand and $353 thousand, 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, 2016 and 2015, the net effects of changes in the liability have been recorded as a decrease and increase, respectively, 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, 2016 and 2015, the Fund had liabilities to the IRS totaling $5.6 million and $9.0 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, 2016 and 2015, the net effects of changes in the liability have been recorded as increases 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 8 – EXTINGUISHMENT OF DEBT

For the year ended June 30, 2016, the Agency issued Home Mortgage Revenue Bonds 2016 Series A on June 30, 2016 and the proceeds were used to refund prior Home Mortgage Revenue Bonds series in a subsequent period as described in Note 16 – Subsequent Events.

For the year ended June 30, 2015, the Agency issued Multifamily Housing Revenue Bonds 2015 Series A on April 24, 2015 and the proceeds were used to refund prior Multifamily Housing Revenue Bonds III series on April 24, 2015 and August 1, 2015. No gains or losses were incurred from the debt refundings. The refundings will decrease the debt service cash flow for Multifamily Rental Housing Programs by $38.3 million. The refundings also provided an estimated economic gain of $25.5 million.

Note 9 – PENSION PLAN

Plan Description, Benefits Provided and Employees Covered: As part of the State, the primary government, the Fund contributes to the Miscellaneous Plan (the "Plan") and it is administered by the California Public Employees' Retirement System ("CalPERS"). The Plan is included in the Public Employees' Retirement Fund A ("PERF A"). PERF is comprised of and reported as PERF A, PERF B and PERF C for accounting purposes. PERF A is comprised of agent multiple-employer plans, which include State and most public agencies rate plans. The Plan is a defined benefit pension plan. A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions and membership information are listed in the June 30, 2014 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained via the internet at www.calpers.ca.gov under Forms and Publications.

GASB 68 Accounting Valuation Reports: The State requested CalPERS GASB 68 Accounting Valuation Reports for the Plan. Copies of these reports may be obtained from the State Controller's Office, Division of Accounting and Reporting.

Contributions: Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers must be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015 (the current measurement date), the employees' contribution rates ranged from 3% to 11% of annual payroll and the employer's contribution rates were 23.51% and 24.20% of annual payroll. For the measurement period ended June 30, 2014 (the previous measurement date), the average active employees' contribution rate was 6.53% of annual payroll and the employer's contribution rate was 21.14% of annual payroll. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution. Contributions to the Plan for the years ended June 30, 2016 and 2015 were $4.5 million and $4.3 million, respectively.

Pension Liabilities, Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions: As of June 30, 2016 and 2015, the Fund reported a liability of $47.1 million and $43.7 million, respectively in the Due to other government entities section of the financial statement, for its proportionate share of the State's net pension liability. The net pension liabilities were measured as of June 30, 2015 and 2014 and were based on the Fund's pensionable compensation as a percentage of the State's total pensionable compensation. As of June 30, 2015 and 2014, the Fund's proportionate share was 0.167% and 0.173%, respectively.

For the years ended June 30, 2016 and 2015, the Fund recognized pension expense of $2.9 million and $3.1 million, respectively. As of June 30, 2016 and 2015, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions for the following sources (dollars in thousands):

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual experience	$ 861	$ -	$ -	$ -
Differences between projected and actual earnings on pension plan investments	4,855	5,884	-	8,148
Differences between Fund contributions and proportionate share of contributions	-	53	-	82
Changes in proportion	-	1,443	-	-
Changes of assumptions	-	1,784	-	-
Fund contributions subsequent to the measurement date	4,495	-	4,311	-
	$ 10,211	$ 9,164	$ 4,311	$ 8,230

As of June 30, 2016, the $4.5 million reported as deferred outflows of resources related to pensions resulting from Fund contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows (dollars in thousands):

Fiscal year ending June 30:	
2017	$ (1,593)
2018	(1,587)
2019	(1,482)
2020	1,214

Actuarial Assumptions: For the measurement period ended June 30, 2015, the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2015 total pension liability was based on the following actuarial assumptions:

Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.65%
Post retirement benefit increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

For the measurement period ended June 30, 2014, the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2014 and 2013 total pension liabilities were based on the following actuarial assumptions:

Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.50%, net of pension plan investment and administrative expenses; includes inflation
Post retirement benefit increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies

For the measurement periods ended June 30, 2015 and 2014, the mortality tables were based on CalPERS' specific data. The tables include 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study that can be obtained via the internet at www.calpers.ca.gov under Forms and Publications.

All other actuarial assumptions used in the June 30, 2014 and 2013 valuations were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increases, mortality and retirement rates. The Experience Study report can be obtained via the internet at www.calpers.ca.gov under Forms and Publications.

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

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

For the measurement period ended June 30, 2015, the rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocations were adopted by CalPERS effective July 1, 2014. For the measurement period ended June 30, 2015, the following table reflects long-term expected real rate of returns by asset class:

Asset Class	Target Allocation	Real Return Years 1-10[1]	Real Return Years 11+[2]
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19	0.99	2.43
Private Equity	10	6.83	6.95
Real Estate	10	4.50	5.13
Inflation Sensitive	6	0.45	3.36
Infrastructure and Forestland	2	4.50	5.09
Liquidity	2	(0.55)	(1.05)
	100%		

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

For the measurement period ended June 30, 2014, the rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The geometric rates of return are net of administrative expenses. For the measurement period ended June 30, 2014, the following table reflects long-term expected real rate of returns by asset class:

Asset Class	Target Allocation	Real Return Years 1-10[1]	Real Return Years 11+[2]
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19	0.99	2.43
Private Equity	12	6.83	6.95
Real Estate	11	4.50	5.13
Inflation Sensitive	6	0.45	3.36
Infrastructure and Forestland	3	4.50	5.09
Liquidity	2	(0.55)	(1.05)
	100%		

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

Discount Rate: The discount rates used to measure the total pension liability for the measurement periods ended June 30, 2015 and 2014 were 7.65% and 7.50%, respectively. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the discount rates used for the current and previous measurement periods were adequate and the use of the municipal bond rate calculation was not necessary. The current and previous long term expected discount rates used in the current and previous measurement periods were applied to all plans in the Public Employees' Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained via the internet at www.calpers.ca.gov under the GASB 68 section.

For the measurement period ended June 30, 2014, according to paragraph 68 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability.

Sensitivity of the Fund's Proportionate Share of the Net Pension Liability to Changes in Discount Rate: The following presents the Fund's proportionate share of the net pension liability as of the June 30, 2015 measurement date, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate (dollars in thousands):

	Discount Rate – 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Fund's net pension liability	$ 66,557	$ 47,125	$ 30,821

The following presents the Fund's proportionate share of the net pension liability as of the June 30, 2014 measurement date, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate (dollars in thousands):

	Discount Rate – 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Fund's net pension liability	$ 63,546	$ 43,722	$ 27,043

Pension Plan Fiduciary Net Position: As of June 30, 2015 and 2014, the Plan's fiduciary net position was $68.1 billion and $68.4 billion, respectively. Detailed information about PERF A's fiduciary net position is available via the internet at www.calpers.ca.gov under Forms and Publications.

Payable to the Pension Plan: As of June 30, 2016 and 2015, the Fund did not report any payables related to pension contributions.

Note 10 – OTHER POSTEMPLOYEMENT BENEFITS

The Other Postemployment Benefits ("OPEB") is a single-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 GAAP. 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 Net OPEB Obligation (NOO) was $28.7 million and $24.9 million for the years ended June 30, 2016 and June 30, 2015, respectively, and was included in the Due to other government entities section of the financial statement. The allocated contribution of OPEB from the Fund was $2.1 million each for both years ended June 30, 2016 and June 30, 2015. CalPERS issues a publicly available Comprehensive Annual Financial Report ("CAFR") that includes financial statements and required supplementary information for the OPEB.

Note 11 – COMMITMENTS

As of June 30, 2016, the Agency had no outstanding commitments to fund Homeownership Program loans and had outstanding commitments to fund Multifamily Program loans totaling $30.6 million. As of June 30, 2016, the Agency had no proceeds available from bonds issued to Homeownership Program loans and no proceeds available from bonds issued for Multifamily Program loans.

Note 12 – LEASES

The Agency had three office locations in California and entered into three separate lease agreements for office space. The lease for the West Sacramento office ended on May 31, 2016 and the Agency did not renew the lease as staff has been consolidated into the Sacramento Office. 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
2016	2,372	268	242	2,882
2017	2,419	-	249	2,668
2018	2,468	-	257	2,725
2019	2,517	-	154	2,671
2020-24	10,810	-	-	10,810
Total	$ 20,586	$ 268	$ 902	$ 21,756

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 premiums of policies still in force and the remaining amount is used to pay outstanding claims of the Mortgage Insurance Fund.

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, 2016, 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, 2016, the reserve amount established under the Homeownership Programs indenture was $19.8 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 $124 thousand and $112 thousand for the fiscal year ended June 30, 2016 and June 30, 2015, 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 were $689 thousand and $580 thousand for fiscal years ended June 30, 2016 and June 30, 2015, 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

In June 2014, MortgageFlex System, Inc. brought suit against CalHFA asserting claims for breach of contract and declaratory relief, and CalHFA filed a counter-suit against MortgageFlex asserting claims for breach of contract, breach of good faith and fair dealing, and declaratory relief. On July 11, 2016, CalHFA and MortgageFlex engaged in mediation which resulted in a settlement agreement on July 13, 2016. In the settlement agreement both parties mutually agreed that CalHFA pay MortgageFlex $1.7 million and both parties expressly release and discharge the other party. The settlement agreement was executed on July 17, 2016.

In June 2016, the Agency was approved for $100 million in financing availability from the Federal Home Loan Bank of San Francisco ("FHLBSF") to support loan originations for low to moderate income homebuyers in California. The Board of Directors approved the use of the secured credit facility on July 13, 2016 under Resolution No. 16-13. The Agency will be the first housing associate to borrow from the FHLBSF. As a housing associate of the FHLBSF, the Agency will have access to a variety of low-cost funding solutions it can use to achieve its affordable housing initiatives.

On June 27, 2016, Senate Bill No. 837 was approved by the Governor. This bill discontinues various housing finance assistance programs including California Homebuyer's Downpayment Assistance Program and the Homebuyer Down Payment Assistance Program of 2002. This bill modifies the program to instead provide home purchase assistance to low- and moderate-income homebuyers to qualify for the purchase of owner-occupied homes. This bill also authorized the Agency, pursuant to specified objectives, to create its own home purchase assistance programs, home purchase assistance products, or both, on terms and conditions as the Agency deems prudent. On and after July 1, 2016, the bill would transfer any obligated amounts from the funds for the programs discontinued by the bill, and any loan receivables, interest, or other amount accruing to the Agency pursuant to those programs to the Home Purchase Assistance Fund, which is a state general obligation bond program.

On August 1, 2016 and August 3, 2016, the Agency used $236.4 million of the Home Mortgage Revenue Bonds 2016 Series A bond proceeds to refund a like amount of prior Home Mortgage Revenue Bonds. The debt refundings resulted in a $1.4 million deferred gain. The refundings will decrease the debt service cash flow for the Homeownership Programs by an estimated $21.4 million. In addition, the refundings provided an estimated economic gain of $15.7 million.

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CALIFORNIA HOUSING FINANCE AGENCY
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE FUND'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Miscellaneous Plan
Last 2 Measurement Periods Ended June 30
(Dollar amounts in thousands)

	2015	2014
Fund's proportion of the net pension liability	0.167%	0.173%
Fund's proportionate share of the net pension liability	$ 47,125	$ 43,722
Fund's covered-employee payroll	$ 17,756	$ 17,256
Fund's proportionate share of the net pension liability as a percentage of its covered-employee payroll	265.41%	253.38%
Plan fiduciary net position as a percentage of the total pension liability	70.68%	73.05%

SCHEDULE OF FUND CONTRIBUTIONS
Miscellaneous Plan
Last 2 Measurement Periods Ended June 30
(Dollar amounts in thousands)

	2015	2014
Contractually required contribution	$ 4,311	$ 3,627
Contribution in relation to the contractually required contribution	(4,311)	(3,627)
Contribution deficiency (excess)	-	-
Fund's covered-employee payroll	$ 17,756	$ 17,256
Contributions as a percentage of covered-employee payroll	24.28%	21.02%

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were derived from the June 30, 2013 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2013 Funding Valuation Report.
Asset Valuation Method	Actuarial Value of Assets. For details, see June 30, 2013 Funding Valuation Report.
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50 Net Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

CALIFORNIA HOUSING FINANCE FUND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1 – PENSION SCHEDULES

Changes in Assumptions: Amounts reported in the measurement periods ended June 30, 2015 and 2014 reflect a discount rate of 7.65% and 7.50%, respectively.

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF NET POSITION
WITH ADDITIONAL COMBINING INFORMATION
June 30, 2016
(Dollars in Thousands)

	HOMEOWNERSHIP PROGRAMS	MULTIFAMILY RENTAL HOUSING PROGRAMS	OTHER PROGRAMS AND ACCOUNTS	COMBINED TOTALS
ASSETS				
Current assets:				
Cash and cash equivalents	$ 5,436	$ 2,098	$ 46,444	$ 53,978
Investments	471,696	38,548	740,114	1,250,358
Current portion - program loans receivable, net allowance	57,191	86,562	19,546	163,299
Interest receivable - program loans, net	6,828	3,595	26,461	36,884
Interest receivable - investments	1,346	257	1,085	2,688
Accounts receivable	5,823	8	4,650	10,481
Due (to) from other funds	(2,916)	-	2,916	-
Other assets	40	410	18,056	18,506
Total current assets	545,444	131,478	859,272	1,536,194
Noncurrent assets:				
Investments	167,254	63,933	15,996	247,183
Program loans receivable, net of allowance	1,667,328	657,971	619,251	2,944,550
Other assets	7,615	-	652	8,267
Total noncurrent assets	1,842,197	721,904	635,899	3,200,000
Total assets	2,387,641	853,382	1,495,171	4,736,194
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated decrease in fair value of hedging derivatives	-	25,985	1,456	27,441
Deferred loss on refunding	-	343	-	343
Employer contribution	-	-	10,211	10,211
Total deferred outflows of resources	-	26,328	11,667	37,995
LIABILITIES				
Current liabilities:				
Bonds payable	46,562	8,030	-	54,592
Notes payable	-	-	1,371	1,371
Interest payable	18,985	10,938	9,767	39,690
Due (from) to other government entities, net	(54)	-	620	566
Compensated absences	-	-	3,473	3,473
Deposits and other liabilities	1,538	367	249,193	251,098
Total current liabilities	67,031	19,335	264,424	350,790
Noncurrent liabilities:				
Bonds payable	1,972,642	556,718	-	2,529,360
Notes payable	-	-	33,616	33,616
Due to other government entities, net	1,892	4,143	75,836	81,871
Other liablities	-	114,460	62,594	177,054
Unearned revenues	-	-	1,034	1,034
Total noncurrent liabilities	1,974,534	675,321	173,080	2,822,935
Total liabilities	2,041,565	694,656	437,504	3,173,725
DEFERRED INFLOWS OF RESOURCES				
Unamortized pension net difference	-	-	9,164	9,164
Total deferred inflows of Resources	-	-	9,164	9,164
NET POSITION				
Net investment in capital assets	-	-	587	587
Restricted by indenture	346,076	185,054	-	531,130
Restricted by statute	-	-	1,059,583	1,059,583
Total net position	$ 346,076	$ 185,054	$ 1,060,170	$ 1,591,300

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
WITH ADDITIONAL COMBINING INFORMATION
Year Ended June 30, 2016
(Dollars in Thousands)

	HOMEOWNERSHIP PROGRAMS	MULTIFAMILY RENTAL HOUSING PROGRAMS	OTHER PROGRAMS AND ACCOUNTS	COMBINED TOTALS
OPERATING REVENUES				
Interest income:				
Program loans, net	$ 100,392	$ 48,178	$ 22,708	$ 171,278
Interest income, net	8,805	2,509	2,933	14,247
Increase in fair value of investments	896	6,291	581	7,768
Realized gain on sale of securities	-	-	39,549	39,549
Loan commitment fees	-	-	885	885
Other loan fees	17	5,960	24,208	30,185
Other revenues	259	(36,411)	57,269	21,117
Total operating revenues	110,369	26,527	148,133	285,029
SALARIES AND GENERAL EXPENSES				
Interest	55,725	16,484	79	72,288
Amortization of bond discount and bond premium	(1,411)	111	-	(1,300)
Mortgage servicing fees	6,007	-	1	6,008
(Reversal) provision for program loan losses	(11,244)	(2,549)	1,724	(12,069)
Salaries and general expenses	-	-	40,117	40,117
Other expenses	10,605	4,771	87,271	102,647
Total salaries and general expenses	59,682	18,817	129,192	207,691
Operating income before transfers	50,687	7,710	18,941	77,338
Transfers out	-	-	(3,665)	(3,665)
Transfers intrafund	(29,648)	(29,595)	59,243	-
Increase (decrease) in net position	21,039	(21,885)	74,519	73,673
Net position at beginning of year	325,037	206,939	985,651	1,517,627
Net position at end of year	$ 346,076	$ 185,054	$ 1,060,170	$ 1,591,300

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF CASH FLOWS
WITH ADDITIONAL COMBINING INFORMATION
Year Ended June 30, 2016
(Dollars in Thousands)

	HOMEOWNERSHIP PROGRAMS	MULTIFAMILY RENTAL HOUSING PROGRAMS	OTHER PROGRAMS AND ACCOUNTS	COMBINED TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 103,548	$ 49,808	$ 15,044	$ 168,400
Payments to suppliers	(6,374)	(83)	(11,320)	(17,777)
Payments to employees	-	-	(28,582)	(28,582)
Other receipts (payments)	396,794	540	(71,894)	325,440
Net cash provided by (used for) operating activities	493,968	50,265	(96,752)	447,481
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intrafund transfers	(29,648)	(29,595)	59,243	-
Changes in due from (to) other government entities	67	-	7,208	7,275
Net cash (used for) provided by noncapital financing activities	(29,581)	(29,595)	66,451	7,275
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sales of bonds	236,350	62,920	-	299,270
Payment of bond & note principal	(36,835)	(11,330)	(19,593)	(67,758)
Early bond redemptions	(475,419)	(104,955)	-	(580,374)
Interest paid on debt	(60,617)	(16,011)	(4,151)	(80,779)
Interfund transfers	-	-	(3,665)	(3,665)
Net cash (used for) provided by capital and related financing activities	(336,521)	(69,376)	(27,409)	(433,306)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturity and sale of investments	823,713	510,855	1,586,017	2,920,585
Purchase of investments	(963,382)	(462,600)	(1,517,325)	(2,943,307)
Interest on investments, net	9,015	2,541	2,449	14,005
Net cash (used for) provided by investing activities	(130,654)	50,796	71,141	(8,717)
Net (decrease) increase in cash and cash equivalents	(2,788)	2,090	13,431	12,733
Cash and cash equivalents at beginning of year	8,224	8	33,013	41,245
Cash and cash equivalents at end of year	$ 5,436	$ 2,098	$ 46,444	$ 53,978
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Operating income	$ 50,687	$ 7,710	$ 18,941	$ 77,338
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Interest expense on debt	55,725	16,484	79	72,288
Interest on investments	(8,805)	(2,509)	(2,933)	(14,247)
Increase in fair value of investments	(896)	(6,291)	(581)	(7,768)
Realized gain on sale of securities	-	-	(39,549)	(39,549)
Amortization of bond discount	33	7	-	40
Amortization of deferred losses on refundings of debt	-	104	-	104
Amortization of bond premium	(1,444)	-	-	(1,444)
Loan commitment fees	-	-	(885)	(885)
Depreciation	-	-	232	232
(Reversal) provision for estimated loan losses	(11,244)	(2,549)	1,724	(12,069)
(Reversal) provision for yield reduction payments	(100)	(3,283)	-	(3,383)
Provision (reversal) for nonmortgage investment excess	86	2	-	88
Effect of changes in operating assets and liabilities:				
Sale (purchase) of program loans, net	114,859	(41,550)	(245,149)	(171,840)
Collection of principal from program loans, net	297,014	58,556	150,748	506,318
Interest receivable	3,156	1,630	(7,665)	(2,879)
Accounts receivable	(137)	(8)	(619)	(764)
Due (from) to other funds	(4,836)	-	4,836	-
Other assets	35	(3,501)	9,446	5,980
Compensated absences	-	-	(338)	(338)
Pension liablity	-	-	934	934
Deposits and other liabilities	(165)	(19)	24,031	23,847
Unearned revenue	-	25,482	(10,004)	15,478
Net cash provided by (used for) operating activities	$ 493,968	$ 50,265	$ (96,752)	$ 447,481
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Noncash transfer of program loan to REO	$ 7,401	$ -	$ -	$ 7,401

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF NET POSITION
HOMEOWNERSHIP PROGRAMS
June 30, 2016
(Dollars in Thousands)

	HOME MORTGAGE REVENUE BONDS	SINGLE FAMILY HOUSING PROGRAM BONDS	RESIDENTIAL MORTGAGE REVENUE BONDS
ASSETS			
Current assets:			
Cash and cash equivalents	$ 4,820	$ -	$ 615
Investments	446,976	-	21,610
Current portion - program loans receivable, net of allowance	48,138	-	6,981
Interest receivable - program loans, net	6,001	-	690
Interest receivable - investments	1,000	-	326
Accounts receivable	5,314	-	476
Due (to) from other funds	(3,056)	-	134
Other assets	24	-	16
Total current assets	509,217	-	30,848
Noncurrent assets:			
Investments	53,886	-	107,362
Program loans receivable, net of allowance	1,447,264	-	197,228
Other assets	7,072	-	543
Total noncurrent assets	1,508,222	-	305,133
Total assets	2,017,439	-	335,981
DEFERRED OUTFLOWS OF RESOURCES			
Accumulated decrease in fair value of hedging derivatives	-	-	-
Deferred loss on refunding	-	-	-
Total deferred outflows of resources	-	-	-
LIABILITIES			
Current liabilities:			
Bonds payable	38,077	-	8,485
Notess payable	-	-	-
Interest payable	17,168	-	1,817
Due from other government entities, net	(54)	-	-
Compensated absences	-	-	-
Deposits and other liabilities	1,475	-	55
Total current liabilities	56,666	-	10,357
Noncurrent liabilities:			
Bonds payable	1,680,722	-	291,920
Notes payable	-	-	-
Due to other government entities, net	1,892	-	-
Other liablities	-	-	-
Unearned revenues	-	-	-
Total noncurrent liabilities	1,682,614	-	291,920
Total liabilities	1,739,280	-	302,277
DEFERRED INFLOWS OF RESOURCES			
Unamortized pension net difference	-	-	-
Total deferred inflows of Resources	-	-	-
NET POSITION			
Net investment in capital assets	-	-	-
Restricted by indenture	278,159	-	33,704
Restricted by statute	-	-	-
Total net position	$ 278,159	$ -	$ 33,704

RESIDENTIAL MORTGAGE REVENUE BONDS OVERCOLLATERALIZATION	TOTAL HOMEOWNERSHIP PROGRAMS
$ 1	$ 5,436
3,110	471,696
2,072	57,191
137	6,828
20	1,346
33	5,823
6	(2,916)
-	40
5,379	545,444
6,006	167,254
22,836	1,667,328
-	7,615
28,842	1,842,197
34,221	2,387,641
-	-
-	-
-	-
-	46,562
-	-
-	18,985
-	(54)
-	-
8	1,538
8	67,031
-	1,972,642
-	-
-	1,892
-	-
-	-
-	1,974,534
8	2,041,565
-	-
-	-
-	-
34,213	346,076
-	-
$ 34,213	$ 346,076

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
HOMEOWNERSHIP PROGRAM
Year Ended June 30, 2016
(Dollars in Thousands)

	HOME MORTGAGE REVENUE BONDS	SINGLE FAMILY HOUSING PROGRAM BONDS	RESIDENTIAL MORTGAGE REVENUE BONDS
OPERATING REVENUES			
Interest income:			
Program loans, net	$ 88,564	$ -	$ 9,922
Interest income, net	3,849	5	4,729
Increase in fair value of investments	641	-	155
Realized gain on sale of securities	-	-	-
Loan commitment fees	-	-	-
Other loan fees	15	-	2
Other revenues	217	-	42
Total operating revenues	93,286	5	14,850
SALARIES AND GENERAL EXPENSES			
Interest	44,762	143	10,820
Amortization of bond discount and bond premium	(1,411)	-	-
Mortgage servicing fees	5,290	-	663
(Reversal) provision for program loan losses	(10,282)	-	(911)
Salaries and general expenses	-	-	-
Other expenses	8,806	-	1,799
Total salaries and general expenses	47,165	143	12,371
Operating income (loss) before transfers	46,121	(138)	2,479
Transfers intrafund	(29,693)	45	5,615
Increase (decrease) in net position	16,428	(93)	8,094
Net position at beginning of year	261,731	93	25,610
Net position at end of year	$ 278,159	$ -	$ 33,704

RESIDENTIAL MORTGAGE REVENUE BONDS OVERCOLLATERALIZATION	TOTAL HOMEOWNERSHIP PROGRAMS
$ 1,906	$ 100,392
222	8,805
100	896
-	-
-	-
-	17
-	259
2,228	110,369
-	55,725
-	(1,411)
54	6,007
(51)	(11,244)
-	-
-	10,605
3	59,682
2,225	50,687
(5,615)	(29,648)
(3,390)	21,039
37,603	325,037
$ 34,213	$ 346,076

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENTS OF CASH FLOWS - HOMEOWNERSHIP PROGRAMS
Year Ended June 30, 2016
(Dollars in Thousands)

	HOME MORTGAGE REVENUE BONDS	SINGLE FAMILY HOUSING PROGRAM BONDS	RESIDENTIAL MORTGAGE REVENUE BONDS
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 91,166	$ 261	$ 10,180
Payments to suppliers	(5,625)	(1)	(693)
Payments to employees	-	-	-
Other receipts (payments)	320,757	31,916	40,902
Net cash provided by operating activities	406,298	32,176	50,389
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intrafund transfers	(29,693)	45	5,615
Changes in due from other government entities	67	-	-
Net cash (used for) provided by provided by noncapital financing activities	(29,626)	45	5,615
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from sales of bonds	236,350	-	-
Payment of bond & note principal	(27,545)	-	(9,290)
Early bond redemptions	(360,265)	(34,900)	(80,254)
Interest paid on debt	(48,380)	(859)	(11,378)
Interfund transfers	-	-	-
Net cash (used for) provided by capital and related financing activities	(199,840)	(35,759)	(100,922)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity and sale of investments	576,242	39,519	200,728
Purchase of investments	(759,389)	(35,998)	(161,060)
Interest on investments, net	3,953	8	4,832
Net cash (used for) provided by investing activities	(179,194)	3,529	44,500
Net (decrease) increase in cash and cash equivalents	(2,362)	(9)	(418)
Cash and cash equivalents at beginning of year	7,182	9	1,033
Cash and cash equivalents at end of year	$ 4,820	$ -	$ 615
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:			
Operating income (loss)	$ 46,121	$ (138)	$ 2,479
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Interest expense on debt	44,762	143	10,820
Interest on investments	(3,849)	(6)	(4,728)
Increase in fair value of investments	(641)	-	(156)
Realized gain on sale of securities	-	-	-
Amortization of bond discount	33	-	-
Amortization of deferred losses on refundings of debt	-	-	-
Amortization of bond premium	(1,444)	-	-
Loan commitment fees	-	-	-
(Reversal) provision for estimated loan losses	(10,282)	-	(911)
(Reversal) provision for yield reduction payments	(100)	-	-
Provision (reversal) for nonmortgage investment excess	86	-	-
Effect of changes in operating assets and liabilities:			
(Purchase) sale of program loans, net	(4,620)	120,077	(598)
Collection of principal from program loans, net	339,521	(88,735)	43,006
Interest receivable	2,602	261	258
Accounts receivable	(309)	-	173
Due (from) to other funds	(5,488)	574	83
Other assets	34	-	1
Compensated absences	-	-	-
Deposits and other liabilities	(128)	-	(38)
Unearned revenue	-	-	-
Net cash provided by (used for) operating activities	$ 406,298	$ 32,176	$ 50,389
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Noncash transfer of program loan to REO	$ 6,524	$ -	$ 877

RESIDENTIAL MORTGAGE REVENUE BONDS OVERCOLLATERALIZATION	TOTAL HOMEOWNERSHIP PROGRAMS
$ 1,941	$ 103,548
(55)	(6,374)
-	-
3,219	396,794
5,105	493,968
(5,615)	(29,648)
-	67
(5,615)	(29,581)
-	236,350
-	(36,835)
-	(475,419)
-	(60,617)
-	-
-	(336,521)
7,224	823,713
(6,935)	(963,382)
222	9,015
511	(130,654)
1	(2,788)
-	8,224
$ 1	$ 5,436
$ 2,225	$ 50,687
-	55,725
(222)	(8,805)
(99)	(896)
-	-
-	33
-	-
-	(1,444)
-	-
(51)	(11,244)
-	(100)
-	86
-	114,859
3,222	297,014
35	3,156
(1)	(137)
(5)	(4,836)
-	35
-	-
1	(165)
-	-
$ 5,105	$ 493,968
$ -	$ 7,401

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF NET POSITION
MULTIFAMILY RENTAL HOUSING PROGRAMS
June 30, 2016
(Dollars in Thousands)

	MULTIFAMILY LOAN PURCHASE BONDS	MULTIFAMILY HOUSING REVENUE BONDS III	MULTIFAMILY HOUSING PROGRAM BONDS	AFFORDABLE MULTIFAMILY HOUSING REVENUE BONDS
ASSETS				
Current assets:				
Cash and cash equivalents	$ -	$ 7	$ -	$ -
Investments	35	30,707	-	4,548
Current portion - program loans receivable, net of allowance	181	21,727	-	1,129
Interest receivable - program loans, net	-	2,944	-	221
Interest receivable - investments	-	138	-	116
Accounts receivable	-	8	-	-
Due from other funds	-	-	-	-
Other assets	-	272	-	46
Total current assets	216	55,803	-	6,060
Noncurrent assets:				
Investments	-	23,936	-	39,997
Program loans receivable, net of allowance	-	558,232	-	50,463
Other assets	-	-	-	-
Total noncurrent assets	-	582,168	-	90,460
Total assets	216	637,971	-	96,520
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated decrease in fair value of hedging derivatives	-	25,985	-	-
Deferred loss on refunding	-	343	-	-
Total deferred outflows of resources	-	26,328	-	-
LIABILITIES				
Current liabilities:				
Bonds payable	-	7,220	-	810
Notes payable	-	-	-	-
Interest payable	4	9,933	-	312
Due to (from) other government entities, net	-	-	-	-
Compensated absences	-	-	-	-
Deposits and other liabilities	-	365	-	1
Total current liabilities	4	17,518	-	1,123
Noncurrent liabilities:				
Bonds payable	215	364,333	-	79,840
Notes payable	-	-	-	-
Due to other government entities, net	-	4,143	-	-
Other liablities	-	114,460	-	-
Unearned revenues	-	-	-	-
Total noncurrent liabilities	215	482,936	-	79,840
Total liabilities	219	500,454	-	80,963
DEFERRED INFLOWS OF RESOURCES				
Unamortized pension net difference	-	-	-	-
Total deferred inflows of resources	-	-	-	-
NET POSITION				
Net investment in capital assets	-	-	-	-
Restricted by indenture	(3)	163,845	-	15,557
Restricted by statute	-	-	-	-
Total net position	$ (3)	$ 163,845	$ -	$ 15,557

MULTIFAMILY RESIDENTIAL MORTGAGE REVENUE BONDS	MULTIFAMILY SPECIAL/LIMITED OBLIGATION BONDS	TOTAL MULTIFAMILY RENTAL HOUSING PROGRAMS
$ -	$ 2,091	$ 2,098
3,258	-	38,548
604	62,921	86,562
209	221	3,595
3	-	257
-	-	8
-	-	-
20	72	410
4,094	65,305	131,478
-	-	63,933
49,276	-	657,971
-	-	-
49,276	-	721,904
53,370	65,305	853,382
-	-	25,985
-	-	343
-	-	26,328
-	-	8,030
-	-	-
269	420	10,938
-	-	-
-	-	-
1	-	367
270	420	19,335
49,410	62,920	556,718
-	-	-
-	-	4,143
-	-	114,460
-	-	-
49,410	62,920	675,321
49,680	63,340	694,656
-	-	-
-	-	-
-	-	-
3,690	1,965	185,054
-	-	-
$ 3,690	$ 1,965	$ 185,054

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MULTIFAMILY PROGRAM
Year Ended June 30, 2016
(Dollars in Thousands)

	MULTIFAMILY LOAN PURCHASE BONDS	MULTIFAMILY HOUSING REVENUE BONDS III	MULTIFAMILY HOUSING PROGRAM BONDS	AFFORDABLE MULTIFAMILY HOUSING REVENUE BONDS
OPERATING REVENUES				
Interest income:				
Program loans, net	$ 26	$ 41,421	$ 86	$ 2,855
Interest income, net	-	1,092	1	1,407
Increase in fair value of investments	-	2,486	-	3,805
Realized gain on sale of securities	-	-	-	-
Loan commitment fees	-	-	-	-
Other loan fees	-	5,960	-	-
Other revenues	-	(36,411)	-	-
Total operating revenues	26	14,548	87	8,067
SALARIES AND GENERAL EXPENSES				
Interest	26	12,168	-	1,911
Amortization of bond discount and bond premium	-	111	-	-
Mortgage servicing fees	-	-	-	-
(Reversal) provision for program loan losses	-	(2,185)	(364)	-
Salaries and general expenses	-	-	-	-
Other expenses	-	2,513	-	1,019
Total salaries and general expenses	26	12,607	(364)	2,930
Operating income (loss) before transfers	-	1,941	451	5,137
Transfers intrafund	-	(7,731)	(23,899)	-
(Decrease) increase in net position	-	(5,790)	(23,448)	5,137
Net position at beginning of year	(3)	169,635	23,448	10,420
Net position at end of year	$ (3)	$ 163,845	$ -	$ 15,557

MULITIFAMILY RESIDENTIAL MORTGAGE REVENUE BONDS	MULITIFAMILY SPECIAL/LIMITED OBLIGATION BONDS	TOTAL MULTIFAMILY RENTAL HOUSING PROGRAMS
$ 2,505	$ 1,285	$ 48,178
9	-	2,509
-	-	6,291
-	-	-
-	-	-
-	-	5,960
-	-	(36,411)
2,514	1,285	26,527
1,616	763	16,484
-	-	111
-	-	-
-	-	(2,549)
-	-	-
647	592	4,771
2,263	1,355	18,817
251	(70)	7,710
-	2,035	(29,595)
251	1,965	(21,885)
3,439	-	206,939
$ 3,690	$ 1,965	$ 185,054

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENTS OF CASH FLOWS -
MULTIFAMILY RENTAL HOUSING PROGRAMS
Year Ended June 30, 2016
(Dollars in Thousands)

	MULTIFAMILY LOAN PURCHASE BONDS	MULTIFAMILY HOUSING REVENUE BONDS III	MULTIFAMILY HOUSING PROGRAM BONDS	AFFORDABLE MULTIFAMILY HOUSING REVENUE BONDS
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 26	$ 41,612	$ 1,739	$ 2,860
Payments to suppliers	-	(68)	-	(4)
Other receipts (payments)	737	43,285	20,104	64
Net cash provided by (used for) operating activities	763	84,829	21,843	2,920
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intrafund transfers	-	(7,732)	(23,898)	-
Net cash (used for) provided by provided by noncapital financing activities	-	(7,732)	(23,898)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sales of bonds	-	-	-	-
Payment of bond & note principal	(806)	(9,755)	-	(769)
Early bond redemptions	-	(102,685)	-	(2,270)
Interbond transfers	-	-	-	-
Interest paid on debt	(30)	(12,098)	-	(1,923)
Interfund transfers	-	-	-	-
Net cash (used for) provided by capital and related financing activities	(836)	(124,538)	-	(4,962)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturity and sale of investments	1,004	291,369	2,327	14,545
Purchase of investments	(931)	(245,051)	(274)	(13,912)
Interest on investments, net	-	1,122	2	1,409
Net cash provided by (used for) investing activities	73	47,440	2,055	2,042
Net (decrease) increase in cash and cash equivalents	-	(1)	-	-
Cash and cash equivalents at beginning of year	-	8	-	-
Cash and cash equivalents at end of year	$ -	$ 7	$ -	$ -
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Operating income (loss)	$ -	$ 1,941	$ 451	$ 5,137
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Interest expense on debt	26	12,168	-	1,911
Interest on investments	-	(1,092)	(1)	(1,407)
Increase in fair value of investments	-	(2,487)	-	(3,804)
Realized gain on sale of securities	-	-	-	-
Amortization of bond discount	-	7	-	-
Amortization of deferred losses on refundings of debt	-	104	-	-
Amortization of bond premium	-	-	-	-
Loan commitment fees	-	-	-	-
Depreciation	-	-	-	-
(Reversal) provision for estimated loan losses	-	(2,185)	(364)	-
(Reversal) provision for yield reduction payments	-	(3,283)	-	-
Provision for nonmortgage investment excess	-	2	-	-
Effect of changes in operating assets and liabilities:				
Sale (purchase) of program loans, net	-	1,367	20,003	-
Collection of principal from program loans, net	737	56,062	101	1,077
Interest receivable	-	191	1,653	5
Other assets	-	(3,421)	-	1
Deposits and other liabilities	-	(19)	-	-
Unearned revenue	-	25,482	-	-
Net cash provided by (used for) operating activities	$ 763	$ 84,829	$ 21,843	$ 2,920
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Noncash transfer of program loan to REO	$ -	$ -	$ -	$ -

MULITIFAMILY RESIDENTIAL MORTGAGE REVENUE BONDS	MULITIFAMILY SPECIAL/LIMITED OBLIGATION BONDS	TOTAL MULTIFAMILY RENTAL HOUSING PROGRAMS
$ 2,507	$ 1,064	$ 49,808
(4)	(7)	(83)
(73)	(63,577)	540
2,430	(62,520)	50,265
-	2,035	(29,595)
-	2,035	(29,595)
-	62,920	62,920
-	-	(11,330)
-	-	(104,955)
-	-	-
(1,616)	(344)	(16,011)
-	-	-
(1,616)	62,576	(69,376)
5,885	195,725	510,855
(6,707)	(195,725)	(462,600)
8	-	2,541
(814)	-	50,796
-	2,091	2,090
-	-	8
$ -	$ 2,091	$ 2,098
$ 251	$ (70)	7,710
1,616	763	16,484
(9)	-	(2,509)
-	-	(6,291)
-	-	-
-	-	7
-	-	104
-	-	-
-	-	-
-	-	-
-	-	(2,549)
-	-	(3,283)
-	-	2
		-
-	(62,920)	(41,550)
579	-	58,556
2	(221)	1,630
(9)	(72)	(3,501)
-	-	(19)
-	-	25,482
$ 2,430	$ (62,520)	$ 50,265
$ -	$ -	$ -

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF NET POSITION
OTHER PROGRAMS AND ACCOUNTS
June 30, 2016
(Dollars in Thousands)

	HOUSING ASSISTANCE TRUST	CONTRACT ADMINISTRATION PROGRAMS	SUPPLEMENTAL BOND SECURITY ACCOUNT	EMERGENCY RESERVE ACCOUNT
ASSETS				
Current assets:				
Cash and cash equivalents	$ 17,328	$ 4,514	$ -	$ -
Investments	212,930	227,431	19,757	32,288
Current portion - program loans receivable, net of allowance	18,220	-	-	-
Interest receivable - program loans, net	3,402	22,932	-	-
Interest receivable - investments	357	317	26	37
Accounts receivable	1,974	194	-	158
Due from (to) other funds	(326)	2,050	6,369	-
Other assets	18,018	-	-	-
Total current assets	271,903	257,438	26,152	32,483
Noncurrent assets:				
Investments	15,996	-	-	-
Program loans receivable, net of allowance	187,311	398,395	-	-
Other assets	65	-	-	-
Total noncurrent assets	203,372	398,395	-	-
Total assets	475,275	655,833	26,152	32,483
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated decrease in fair value of hedging derivatives	1,456	-	-	-
Deferred gain (loss) on refunding	-	-	-	-
Employer contribution	-	-	-	-
Total deferred outflows of resources	1,456	-	-	-
LIABILITIES				
Current liabilities:				
Bonds payable	-	-	-	-
Notes payable	-	-	-	-
Interest payable	9,657	-	-	-
Due to other government entities, net	-	330	-	-
Compensated absences	-	-	-	-
Deposits and other liabilities	4,485	9	-	-
Total current liabilities	14,142	339	-	-
Noncurrent liabilities:				
Bonds payable	-	-	-	-
Notes payable	-	-	-	-
Due to other government entities, net	-	-	-	-
Other liablities	62,594	-	-	-
Unearned revenues	-	-	-	-
Total noncurrent liabilities	62,594	-	-	-
Total liabilities	76,736	339	-	-
DEFERRED INFLOWS OF RESOURCES				
Unamortized pension net difference	-	-	-	-
Total deferred inflows of resources	-	-	-	-
NET POSITION				
Net investment in capital assets	-	-	-	-
Restricted by indenture	-	-	-	-
Restricted by statute	399,995	655,494	26,152	32,483
Total net position	$ 399,995	$ 655,494	$ 26,152	$ 32,483

LOAN SERVICING	CITIGROUP GLOBAL MARKETS	FEDERAL PROGRAMS	OPERATING ACCOUNT	TOTAL OTHER PROGRAMS AND ACCOUNTS
$ 24,407	$ 80	$ 1	$ 114	$ 46,444
225,441	-	1,209	21,058	740,114
-	1,326	-	-	19,546
-	127	-	-	26,461
309	-	2	37	1,085
1,697	-	-	627	4,650
(6,284)	-	-	1,107	2,916
-	-	-	38	18,056
245,570	1,533	1,212	22,981	859,272
-	-	-	-	15,996
-	33,545	-	-	619,251
-	-	-	587	652
-	33,545	-	587	635,899
245,570	35,078	1,212	23,568	1,495,171
-	-	-	-	1,456
-	-	-	-	-
-	-	-	10,211	10,211
-	-	-	10,211	11,667
-	-	-	-	-
-	1,371	-	-	1,371
-	110	-	-	9,767
-	-	-	290	620
-	-	-	3,473	3,473
239,938	-	1,212	3,549	249,193
239,938	1,481	1,212	7,312	264,424
-	-	-	-	-
-	33,616	-	-	33,616
-	-	-	75,836	75,836
-	-	-	-	62,594
-	-	-	1,034	1,034
-	33,616	-	76,870	173,080
239,938	35,097	1,212	84,182	437,504
-	-	-	9,164	9,164
-	-	-	9,164	9,164
-	-	-	587	587
-	-	-	-	-
5,632	(19)	-	(60,154)	1,059,583
$ 5,632	$ (19)	$ -	$ (59,567)	$ 1,060,170

CALIFORNIA HOUSING FINANCE FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
OTHER PROGRAMS AND ACCOUNTS
Year Ended June 30, 2016
(Dollars in Thousands)

	HOUSING ASSISTANCE TRUST	CONTRACT ADMINISTRATION PROGRAMS	SUPPLEMENTAL BOND SECURITY ACCOUNT	EMERGENCY RESERVE ACCOUNT
OPERATING REVENUES				
Interest income:				
Program loans, net	$ 12,715	$ 9,993	$ -	$ -
Interest income, net	1,544	1,061	110	120
Increase in fair value of investments	581	-	-	-
Realized gain on sale of securities	39,549	-	-	-
Loan commitment fees	-	-	-	-
Other loan fees	6,441	1,119	-	-
Other revenues	(5,670)	868	-	-
Total operating revenues	55,160	13,041	110	120
SALARIES AND GENERAL EXPENSES				
Interest	79	-	-	-
Mortgage servicing fees	1	-	-	-
(Reversal) provision for program loan losses	(946)	2,867	-	-
Salaries and general expenses	-	-	-	-
Other expenses	11,007	11,157	91	-
Total salaries and general expenses	10,141	14,024	91	-
Operating income (loss) before transfers	45,019 -	(983)	19	120 -
Transfers out	(496)	(3,169)	-	-
Transfers intrafund	34,928	16	-	-
Increase (decrease) in net assets	79,451	(4,136)	19	120
Net position at beginning of year	320,544	659,630	26,133	32,363
Net position at end of year	$ 399,995	$ 655,494	$ 26,152	$ 32,483

LOAN SERVICING	CITIGROUP GLOBAL MARKETS	FEDERAL PROGRAMS	OPERATING ACCOUNT	TOTAL OTHER PROGRAMS AND ACCOUNTS
$ -	$ -	$ -	$ -	$ 22,708
-	-	-	98	2,933
-	-	-	-	581
-	-	-	-	39,549
-	-	-	885	885
3,802	-	-	12,846	24,208
283	-	60,184	1,604	57,269
4,085	-	60,184	15,433	148,133
-	-	-	-	79
-	-	-	-	1
-	(197)	-	-	1,724
-	-	-	40,117	40,117
486	-	60,184	4,346	87,271
486	(197)	60,184	44,463	129,192
3,599	197	-	(29,030)	18,941
-	-	-	-	(3,665)
(4,500)	55	-	28,744	59,243
(901)	252	-	(286)	74,519
6,533	(271)	-	(59,281)	985,651
$ 5,632	$ (19)	$ -	$ (59,567)	$ 1,060,170

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL STATEMENTS OF CASH FLOWS - OTHER PROGRAMS AND ACCOUNTS
Year Ended June 30, 2016
(Dollars in Thousands)

	HOUSING ASSISTANCE TRUST	CONTRACT ADMINISTRATION PROGRAMS	SUPPLEMENTAL BOND SECURITY ACCOUNT	EMERGENCY RESERVE ACCOUNT
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 10,760	$ 4,159	$ -	$ -
Payments to suppliers	(77)	(18)	-	-
Payments to employees	-	-	-	-
Other (payments) receipts	(81,541)	(48,901)	2,188	(60)
Net cash (used for) provided by operating activities	(70,858)	(44,760)	2,188	(60)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intrafund transfers	34,929	16	-	-
Due from (to) other government entities	-	-	-	-
Net cash provided by (used for) noncapital financing activities	34,929	16	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Payment of bond & note principal	-	-	-	-
Early bond redemptions	-	-	-	-
Interest paid on debt	(3,963)	-	-	-
Interfund transfers	(496)	(3,169)	-	-
Net cash (used for) provided by capital and related financing activities	(4,459)	(3,169)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturity and sale of investments	1,358,425	86,766	91	9,713
Purchase of investments	(1,309,708)	(37,386)	(2,375)	(9,759)
Interest on investments, net	1,402	939	95	105
Net cash provided by (used for) investing activities	50,119	50,319	(2,189)	59
Net increase (decrease) in cash and cash equivalents	9,731	2,406	(1)	(1)
Cash and cash equivalents at beginning of year	7,597	2,108	1	1
Cash and cash equivalents at end of year	$ 17,328	$ 4,514	$ -	$ -
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	$ 45,019	$ (983)	$ 19	$ 120
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Interest expense on debt	79	-	-	-
Interest on investments	(1,545)	(1,061)	(109)	(120)
Increase in fair value of investments	(581)	-	-	-
Realized gain on sale of securities	(39,549)	-	-	-
Amortization of bond discount	-	-	-	-
Amortization of deferred losses on refunding of debt	-	-	-	-
Amortization of bond premium	-	-	-	-
Loan commitment fees	-	-	-	-
Depreciation	-	-	-	-
(Reversal) provision for estimated loan losses	(946)	2,867	-	-
Provision for yield reduction payments	-	-	-	-
Provision for nonmortgage investment excess	-	-	-	-
Effect of changes in operating assets and liabilities:				
(Purchase) sale of program loans, net	(198,083)	(64,708)	-	-
Collection of principal from program loans, net	124,139	24,667	-	-
Interest receivable	(1,955)	(5,834)	-	-
Accounts receivable	(1,722)	(5)	-	(60)
Due to (from) ther funds	630	287	2,278	-
Other assets	15,419	-	-	-
Compensated absences	-	-	-	-
Pension liability	-	-	-	-
Deposits and other liabilities	(744)	10	-	-
Unearned revenue	(11,019)	-	-	-
Net cash (used for) provided by operating activities	$ (70,858)	$ (44,760)	$ 2,188	$ (60)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Noncash transfer of program loan to REO	$ -	$ -	$ -	$ -

LOAN SERVICING	CITIGROUP GLOBAL MARKETS	FEDERAL PROGRAMS	OPERATING ACCOUNT	TOTAL OTHER PROGRAMS AND ACCOUNTS
$ -	$ 125	$ -	$ -	$ 15,044
-	-	-	(11,225)	(11,320)
-	-	-	(28,582)	(28,582)
29,074	19,583	(2,403)	10,166	(71,894)
29,074	19,708	(2,403)	(29,641)	(96,752)
(4,500)	55	-	28,743	59,243
-	-	-	7,208	7,208
(4,500)	55	-	35,951	66,451
-	(19,593)	-	-	(19,593)
-	-	-	-	-
-	(188)	-	-	(4,151)
-	-	-	-	(3,665)
-	(19,781)	-	-	(27,409)
85,109	-	4,858	41,055	1,586,017
(108,044)	-	(2,458)	(47,595)	(1,517,325)
(166)	-	2	72	2,449
(23,101)	-	2,402	(6,468)	71,141
1,473	(18)	(1)	(158)	13,431
22,934	98	2	272	33,013
$ 24,407	$ 80	$ 1	$ 114	$ 46,444
$ 3,599	$ 197	$ -	$ (29,030)	$ 18,941
-	-	-	-	79
-	-	-	(98)	(2,933)
-	-	-	-	(581)
-	-	-	-	(39,549)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	(885)	(885)
-	-	-	232	232
-	(197)	-	-	1,724
-	-	-	-	-
-	-	-	-	-
-	17,642	-	-	(245,149)
-	1,942	-	-	150,748
-	124	-	-	(7,665)
1,390	-	-	(222)	(619)
(710)	-	-	2,351	4,836
-	-	-	(5,973)	9,446
-	-	-	(338)	(338)
-	-	-	934	934
24,795	-	(2,403)	2,373	24,031
-	-	-	1,015	(10,004)
$ 29,074	$ 19,708	$ (2,403)	$ (29,641)	$ (96,752)
$ -	$ -	$ -	$ -	$ -

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

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2016

CALIFORNIA HOUSING FINANCE FUND
(A Component Unit of the State of California)
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YEAR ENDED JUNE 30, 2016

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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 administrated 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, 2016, 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 26, 2016.

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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
California Housing Finance Fund

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*.

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

CliftonLarsonAllen LLP

Bellevue, Washington
October 26, 2016

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
California Housing Finance Fund
Sacramento, California

Report on Compliance for Each Major Federal Program

We have audited the California Housing Finance Fund's (the Fund), which is administered by the California Housing Finance Agency (the Agency), a component unit of the State of California, compliance with the types of compliance requirements described in the *OMB 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002. Our opinion on each major federal program is not modified with respect to these matters.

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

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 the Uniform Guidance, 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 certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002 that we consider to be significant deficiencies.

Board of Directors
California Housing Finance Fund

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

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 results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Fund as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements. We issued our report thereon dated October 26, 2016, which contained unmodified opinions 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 the Uniform Guidance 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
October 26, 2016

CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Housing and Urban Development				
Section 8 Housing Assistance Payment Program	14.195	-	$ -	$ 59,068,499
Section 811 Project Rental Assistance Demonstration Program	14.326	-	-	473,071
U.S. Department of Treasury				
National Foreclosure Mitigation Counseling	21.000	-	-	642,215
Total Expenditures of Federal Awards			$ -	$ 60,183,785

See accompanying Note to the Schedule.

CALIFORNIA HOUSING FINANCE FUND
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

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) under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of 2 CFP Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Fund, it is not intended to and does not present the financial position, changes in net assets, or cash flow of the Fund.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Fund has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 SUB-RECIPIENTS

The Fund provided no federal awards to sub-recipients during the fiscal year ended June 30, 2016.

See accompanying Schedule.

CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Section I – Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
   - Material weakness(es) identified? ______ yes __x__ no
   - Significant deficiency(ies) identified? ______ yes __x__ none reported
3. Noncompliance material to financial statements noted? ______ yes __x__ no

Federal Awards

1. Internal control over major federal programs:
   - Material weakness(es) identified? ______ yes __x__ no
   - Significant deficiency(ies) identified? __x__ yes ______ none reported
2. Type of auditors' report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? __x__ yes ______ no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
14.195	Section 8 Project Based Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $ 1,805,514

Auditee qualified as low-risk auditee? ______ yes __x__ no

CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

2016 – 001

Federal agency:	U.S. Department of Housing and Urban Development
Federal program title:	Section 8 Housing Assistance Payment Program
CFDA Number:	14.195
Award Period:	2016
Type of Finding:	Significant Deficiency in Internal Control over Compliance

Condition/Context: 2 of 10 Fund monitored projects tested did not deposit the required amount within 90 days of the fiscal year end.

Criteria or specific requirement: As the contract administrator, the Fund is responsible for monitoring each project's compliance with HUD regulations. Non-profit owners and owners of limited distribution projects, Section 202 projects, and Section 811 projects shall establish a residual receipts account and make deposits into the account in accordance with HUD requirements (within 90 days after the close of the fiscal year). (HUD Audit Guide, Chapter 3 HUD Multifamily Housing Programs (2000.04 Rev-2 Chg-7)).

Questioned costs: Not determined

Cause: Auditors can only finalize the audits with each project if the owner reviews and approves the audited financial statements. For the two projects with the audit finding, the owners were unavailable due to either failing health or death of an immediate family member. This delayed the submission of the audited financial statements of both projects; therefore the residual receipts payment exceeded the 90 day timeframe.

Effect: The Fund did not properly monitor the project and the project is not in compliance with HUD requirements.

Repeat Finding: No.

Recommendation: We recommend that CalHFA staff actively monitor residual receipt deposit requirements to ensure each project is in compliance.

Views of responsible officials and planned corrective actions:

> **Explanation of disagreement with audit finding:** There is no disagreement with the audit finding.

CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Actions planned in response to finding: Management will implement an email notification to owners on the requirement to submit the audited financial statement and residual receipt within 90 days of the project's fiscal year end starting with the 2016 audits. The Asset Manager will send monthly notifications 60 days prior to the close of the fiscal year and up to 90 days after the fiscal year. The 90 day submission requirement is noted in the published Audited Financial Statement Handbook used by the project's CPA. Language will be included in the audited financial review letter on the 90 day submission timeframe as an additional reminder to both the project and CPA.

Responsible party: Janet Louie, Asset Management

Planned completion date for corrective action plan: November 1, 2016

Plan to monitor completion of corrective action plan: Asset Management Chief will review a tracking log, completed by the Asset Manager, which will capture dates of the email notifications. The Asset Manager will inform the Asset Management Chief of any projects not in compliance two weeks prior to the 90 day submission timeframe and follow-up with those projects.

2016 – 002

Federal agency:	U.S. Department of Housing and Urban Development
Federal program title:	Section 8 Housing Assistance Payment Program
CFDA Number:	14.195
Award Period:	2016
Type of Finding:	Significant Deficiency in Internal Control over Compliance

Condition/Context: 1 of 17 Fund monitored projects tested did not make the required monthly deposits to the replacement reserve account.

Criteria or specific requirement: As the contract administrator, the Fund is responsible for monitoring each project's compliance with HUD regulations. An amount as required by HUD or the State Agency for 24 CFR part 883 projects, as applicable, shall be deposited monthly into the reserve fund in accordance with the Regulatory Agreement or HAP contract (24 CFR sections 880.601, 880.602, 881.601, and 883.701).

Questioned costs: Not determined

Cause: The Replacement Reserve deposit was suspended per the owner's request due to the high cost in maintaining the property. The Replacement Reserve was not reinstated at end of the suspension period. The project's reserve balance was and continues to be over the recommended amount of $1,000 per unit; it currently stands at $8,588 per unit.

Effect: The Fund did not properly monitor the project and the project is not in compliance with HUD requirements.

Repeat Finding: No.

Recommendation: We recommend that CalHFA staff actively monitor replacement reserve deposit requirements to ensure each project is in compliance.

Views of responsible officials and planned corrective actions:

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Actions planned in response to finding: Management has automated the replacement reserve process to track the request, approval, and treatment of suspended reserves. The Multifamily Servicing system will store any pending replacement reserve amount changes and the system will update the monthly impound amount when the effective date is reached. Asset Managers will review a monthly replacement reserve report to verify that the amount concurs with the most recent approved amount to be deposited in the replacement reserve account.

Responsible party: Janet Louie, Asset Management

Planned completion date for corrective action plan: September 1, 2016

Plan to monitor completion of corrective action plan: Asset Managers review a monthly replacement reserve report to verify that the amount concurs with the most recent approved amount to be deposited in the replacement reserve account. Any discrepancy will be brought to the attention of the Asset Management Chief to address the issue and make any necessary changes.

CALIFORNIA HOUSING FINANCE FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Section IV – Prior Year Findings

Finding 2015-001:	Section 8 Housing Assistance Payment Program, CFDA #14.195
Federal Agency:	U.S. Department of Housing and Urban Development
Compliance Requirement:	Subrecipient Monitoring
Type of Finding:	Noncompliance, Significant Deficiency

During this year's testing of the Section 8 Project-Based Cluster program, no instances of noncompliance with subrecipient monitoring was noted.

CALIFORNIA HOUSING FINANCE AGENCY
PROPOSITION 1C FUNDS
Sacramento, California

AGREED UPON PROCEDURES REPORT
June 30, 2016

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.CLAconnect.com

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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 administration of Proposition 1C Funds by the Agency in accordance with the requirements of the California Homebuyer's Down Payment Assistance Program for the three months ended September 30, 2015. The Agency's management is responsible for the administration 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. Read the eligibility requirements for CHDAP loans, program announcements and commitments.
3. Obtain the CHDAP Commitment/Disbursement schedules for the three months ended September 30, 2015. Haphazardly select a sample of 25 loans for testing.
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 administration 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 administration 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 the specified party.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
August 5, 2016

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FANNIE MAE

REPORT OF AGREED-UPON PROCEDURES

YEAR ENDED DECEMBER 31, 2015

FANNIE MAE
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YEAR ENDED DECEMBER 31, 2015

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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
Standard Document Error Rate	*0%*	*0%*	*0%*	*0%*	*0%*
Standard Data Errors	0	0	0	0	0
Standard Data Error Rates	*0%*	*0%*	*0%*	*0%*	*0%*
Combined Document + Data Errors	0	0	0	0	0
Combined Error Rate	*0%*	*0%*	*0%*	*0%*	*0%*

General Custodian Data

Procedures
1. Obtain a list of Fannie Mae loans on hand as of December 31, 2015 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. Verify that the Document Custodian has appropriate controls in place to ensure compliance with all actives waivers (Document Custodian and/or Lender).
   a. Request evidence of waiver compliance controls for the review period and determine if non-compliance was identified through control execution.
   b. Include the identified instances of non-compliance in the final report to be submitted to Fannie Mae. The report should:
      i. Identify each instance of non-compliance with waivers discovered
      ii. Include copies of documents as attachments containing evidence of all instances of non-compliance with waivers discovered during evaluation of the controls.
4. Review Document Custodian's process for tracking outstanding issues identified, including: regulatory reviews, compliance reviews, self-reported operational incidents, internal audit reviews, or SLA's.
5. 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.
6. Request evidence to show that the Document Custodian has performed a reconciliation with their servicer(s) of all loans certified before October 1, 2015.

Results
CalHFA currently has 2,482 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. There have been no new loans certified since 2006.

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. Based on staff interviews and observations, staff appears trained and knowledgeable and is 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 from CalHFA. Employees responsible for Fannie Mae documents are part of the Mortgage Reconciliation System (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.

<u>Financial Ratings</u>

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.

<u>Trust Powers</u>

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.

<u>Insurance Coverage</u>

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.
   a. Are these procedures in place for terminating the access of employees who no longer need access?
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. The Senior Administrative Analyst reviews the authorized staff list monthly and makes any chances as necessary.

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.

We watched as an unauthorized staff person attempted to access the custodial facilities. The unauthorized key card was unable to open the storage facility area. There are only two individuals with access to the 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
   t. Recertification of documents
   u. Other
2. Interview and observe, through staff, to verify that employees have access to and follow written procedures

Results

We obtained the Fannie Mae manual 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 retrieved and uploaded the Fannie Mae loan number to its tracking system.
4. Request evidence that the document custodian tracks all loans with the applicable MIN or paper assignment.
5. Request evidence to show that the document custodian validates MBS Corrections in the DocCert application.
6. Request evidence to show that the document custodian has ongoing feedback and communication regarding outstanding items with its lender customers.
7. Verify that all notes are endorsed in blank from the lender.
8. If facsimile signatures are used on blank endorsements:
   a. Obtain and review the Corporate Resolution recognizing the use of such signatures.
9. 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.
10. 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.
11. 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.
12. 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.
13. 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 indentify 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 where 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. No exceptions noted.

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.
5. Request evidence to show that the Document Custodian is tracking documents that have been released for non-liquidation purposes (e.g., not paid in full, repurchased or liquidated as a result of foreclosure, short sale, or Mortgage Release) for more than 90 days.

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

We observed one document release package and noted that the document custodian maintains a loan manifest that is completed, reviewed, and approved each time documents are released.

There were no documents released for non-liquidation purposes.

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.
2. Inquire if the Document Custodian has any servicing transfer recertifications that remain open, including any for servicing transfers with effective dates prior to the review period.
   a. If yes, what were the initial due dates? Have the due dates passed?
   b. Does the Document Custodian have evidence of an extension approved for any expired due dates? Obtain evidence.
   c. For each outstanding servicing transfer recertification not granted an extension, please document the following:
      i. Log number and effective date of transfer.
      ii. Transferor servicer and transferee servicer.
      iii. Original Document Custodian and new Document Custodian.
      iv. Outstanding issues.
3. Verify that document recertification procedures exist:
   a. Review the written procedures to assure that they meet Fannie Mae's requirements as specified in the *Requirements for Documents Custodians*, section 11.2.
4. Through staff interviews and observation, verify that employees have access to and follow written servicing transfer recertification procedures.

Results

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

Practices – Monthly Quality Control

Procedures

1. Verify through observation that the document custodian has a monthly quality control (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.
   g. Outlines a plan in the event the Mortgage Electronic Recordation System (MERS) becomes inoperable.
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 Technology Recovery plan.

We ensured the plan included all required information identified in the procedure above. We obtained confirmation that CalHFA is in compliance with FNMA Security Reporting requirements and noted their most recent plan was submitted in October 2015. We verified that the disaster recovery plan is tested annually, noting the date of the last test was November 4, 2015.

* * *

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
May 9, 2016

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California Housing

Finance Fund Results June 30, 2016

Insurance Fund Results December 31, 2015

Financial Statement Audits
November 7, 2016

CliftonLarsonAllen

Audit Team

• Nancy Jones	Principal
• Mandy Heagy	Principal
• Liz Richardson	Staff
• Lindsey Laraia	Staff
• Karen Ingle	Staff

- Transition for future:

Mandy Heagy	Principal

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Agenda

- Audit Approach
- Audit Results
- Single Audit
- Required Communications
- Future Pronouncements/Issues

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Audit Approach

- CliftonLarsonAllen Professionals with Reliance on Specialists
- Integrated Teams
  - Auditors
  - IT Specialist
- Approach – Risk-Based, Assessment of internal controls and substantive testing
- Communication – Frequent, including formal status meetings, and informal communications

Audit Results Finance Fund

- **Auditors' Opinion on Financial Statements – Unmodified**
- **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 - Unmodified**

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Audit Results (cont.)

- There were no audit adjustment in the current year.
- There were no passed adjustments
- There were no internal control deficiencies reported at the financial statement level

Single Audit

- **Single Audit Reports Issued**
  - Report on Compliance for Each Major Federal Program, Report on Internal Control Over Compliance, and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance– Unmodified – Two findings

Major Program

Section 8 Project Based Cluster

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Single Audit (cont.)

- **Findings and Questioned Costs**
  - Two Compliance Findings Related to:
    - ◊ Other Noncompliance and Significant Deficiency – 2 of 10 projects monitored by the Fund did not deposit the required deposit to the Residual Receipt account within 90 days of their fiscal year end.
    - ◊ Other Noncompliance and Significant Deficiency – 1 of 17 projects monitored by the Fund did not make the required monthly deposits to the replacement reserve account.

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Required Communications

- **Auditor's Responsibility Under Generally Accepted Auditing Standards (GAAS):**
  - The financial statements are the responsibility of management. Our audit was performed for the purpose of forming an opinion as to whether the financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP).

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Required Communications (cont.)

- **Qualitative Aspects of Accounting Practices:**
  - Management is responsible for the selection and use of appropriate accounting policies. Significant accounting policies are disclosed in the Summary of Significant Accounting Policies in Note 1 of the financial statements.
  - Three new accounting pronouncements were adopted in the current year:
    - ◊ GASB's 72 (Fair Value Measurement and Application) – Additional disclosure related to investments
    - ◊ GASB's 73 (Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68) – No effect.
    - ◊ GASB 76 (The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments) – No effect.

Required Communications (cont.)

- The preparation of the financial statements requires that certain estimates and judgments be made by management. These judgments and estimates include:
  - ◊ Allowance for loan losses
  - ◊ Fair value of investments and other assets
  - ◊ Evaluation of Derivative Instrument effectiveness
  - ◊ Fair Value of Derivative Instruments
  - ◊ Net pension liability and related deferred outflows/inflows
- We concluded that management has a reasonable basis for significant judgments and estimates that impact the financial statements.

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Required Communications (cont.)

- **Difficulties Encountered in Performing the Audit:**
  - We encountered no significant difficulties in performing the audit.
- **Corrected Misstatements:**
  - There were no corrected misstatements.
- **Uncorrected Misstatements:**
  - There were no uncorrected misstatements.
- **Representations from Management:**
  - The representation letter was signed by management and is attached to the Communication.

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Required Communications (cont.)

- **Management Consultations with Other Accountants:**
  - There were no consultations with other accountants
- **Disagreements with Management:**
  - There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters.
- **Significant Findings or Issues:**
  - There were no other findings or issues not already discussed
- **Other Information in Documents Containing Financial Statements:**
  - Required Supplementary Information
  - Single Audit
  - Combining Schedules

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Future pronouncements/Issues

- GASB 74 – Financial Reporting for Postemployment Benefit Plans other than Pension Plans – This statement relates to the OPEB plans themselves
- GASB 75 – Accounting and Financial Reporting for Postemployment Benefits other than Pensions – This will have a significant effect similar to the implementation of GASB 68
- GASB 79 (Certain External Investment Pools and Pool Participants) – Will not have an effect
- GASB 80 – Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14 – Will not have an effect
- GASB 81 – Irrevocable Split-Interest Agreements – Will not have an effect
- GASB 82 – Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73. – Will not have an effect

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Insurance Fund

- Auditors' Opinion on Financial Statements – Emphasis Paragraphs:
  - Going Concern
  - Restatement to implement GASB 68 and GASB 71
- There were no audit adjustments in the current year.
- There were no passed adjustments.
- There were no internal control deficiencies reported at the financial statement level.
- Financial statements were delayed due to late information for the pension.

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Insurance Fund Management Letter

- Recommendation for management to develop and document a plan for the continued operation of the Insurance Fund
  - Reinsurance Treaty expires December 31, 2018

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Open Discussions / Questions

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Audit Committee
California Housing Loan Insurance Fund
Sacramento, California

We have audited the financial statements of the California Housing Loan Insurance Fund (the Fund) as of and for the year ended December 31, 2015, and have issued our report thereon dated October 26, 2016. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Fund are described in Note 2 to the financial statements.

As described in Note 2, the Fund changed accounting policies related to the accounting and financial reporting for pensions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment to GASB Statement No. 68*, in the year ended December 31, 2015 by recognizing its net pension liability related to its pension plan. The data used to calculate the Fund's pension liability was measured at June 30, 2014. Under GASB 68, a liability should be recognized for the employer's proportionate share of the collective net pension liability, measured as of a date no earlier than the end of the employer's prior fiscal year.

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:

- Management evaluates the reserves for unpaid losses and loss adjustment expense on a quarterly basis based on changes in nature and volume of insurance portfolio, historical analysis of delinquent loans and anticipated economic conditions that may affect the borrower's ability to pay. Management of the Fund has provided us with details regarding the process used in formulating these estimates.

- Computations performed by management, including management assumptions of future paid losses, future expenses necessary to run-off existing business and future renewal premium, were relied upon to establish the premium deficiency reserve.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

- The disclosure of a Going Concern in Note 2 to the financial statements. Management of the Fund has concluded that there is substantial doubt as to the Fund's ability to continue to fully meet its designated purpose of paying claims and expenses. The financial statements of the Fund were prepared using generally accepted accounting principles that are applicable to a going concern, and no adjustments have been recorded related to this uncertainty. Claims will continue to be paid from the proceeds of premiums on a first-in, first-out basis.

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

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

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 26, 2016.

Management consultations with other independent accountants

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

Significant issues discussed with management prior to engagement

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

The entity's ability to continue as a going concern

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

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

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

Emphasis-of-matter

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

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

Other information in documents containing audited financial statements

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

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 Loan Insurance Fund and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
October 26, 2016

State of California

Cal HFA California Housing Finance Agency

Save Our Water

October 26, 2016

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

This representation letter is provided in connection with your audits of the financial statements of California Housing Loan Insurance Fund, which comprise the respective statements of net position as of December 31, 2015 and 2014, and the respective statements of revenues, expenses, and changes in net position, and statement of cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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

We confirm, to the best of our knowledge and belief, as of October 26 , 2016, the following representations made to you during your audit of the financial statements as of and for the year ended December 31, 2015.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 31, 2016, 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.

- Significant assumptions used by us in making accounting estimates are reasonable.

- Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.

- 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.

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- 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.

- The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

- Regarding the entity's ability to continue as a going concern for a reasonable period of time:

    - Our plans to operate and monitor the Fund are intended to mitigate the adverse effects of conditions or events that indicate there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. We have ceased insuring new mortgages, and have entered into a reinsurance agreement with Genworth to mitigate our losses on existing insured mortgages. Although the economy has improved and claims for foreclosures have decreased, the amount of premiums received is still decreasing. We will continue to pay claims in the order they are received as premiums are received.

    - We believe the likelihood those plans can be effectively implemented is probable.

    - Note 2 to the financial statements discloses all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including principal conditions and events and management's plans.

- We have no intention of terminating our participation in the Public Employees Retirement Fund, administered by CalPERS as part of the State of California as the primary government or taking any other action that could result in an effective termination or reportable event for the plan. We are not aware of any occurrences that could result in the termination of our pension plan to which we contribute. We have based our estimation of the pension liability on the CalPERS actuarial information rolled forwarded to June 30, 2015, as allocated by the State Controller's Office. More current information, as required under GASB 68, is not available as of the date the financial statements were prepared. However, we believe any difference in the pension liability will not be material as there was only one employee allocated to the Fund, which is the same number as last year, during the period for which there is no updated measurement or valuation. However, as a result of Senate Bill 837, the position of Director of Mortgage Insurance is longer a requirement in the Fund beginning July 1, 2016. After that date, no pension-related items will be recorded within the Fund.

- We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefits (OPEB) liabilities and costs for financial accounting purposes are appropriate in the circumstances.

- We agree with the findings of management in evaluating the unpaid claim liabilities and analysis of reinsurance program 75% quota share, and have adequately considered the qualifications of management in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to management with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have affected the independence or objectivity of management.

- The reserves for unpaid losses and loss adjustment expense, including amounts for incurred but not reported claims, net of the quota share agreement and net of salvage and subrogation recoverable, has been determined using appropriate historical and expected frequency and loss severity, estimated ultimate costs of settling the claims (including the effects of inflation and other societal and economic factors), using past experience and are the most appropriate under the circumstances. The Fund's reinsurance agreement provides for a recovery of a proportionate level of claim expenses from the reinsurer. The Fund remains liable to its policyholders if the reinsurer is unable to satisfy their obligations under the reinsurance agreement. Management has assessed that financial strength of Genworth and does not believe that the Fund is exposed to any significant credit or counterparty risk.

- The Fund entered into a reinsurance treaty and administrative services agreement with Genworth (formally known as General Electric Mortgage Insurance Corporation) effective March 1, 2003. This agreement ceded to Genworth 75% quota share of the insurance risk for 82% of loans insured by the Fund at December 31, 2015. The remaining 18% of loans insured by the Fund do not have reinsurance coverage from Genworth as of December 31, 2015.

- The reinsurer must assume significant insurance risk under the reinsured portions of the underlying contract; and it is reasonably possible that the reinsurer realize a significant loss. Both of these conditions were met as of December 31, 2015. The reinsurance agreement with Genworth provides 75% loss coverage (which represents significant insurance risk) and it is reasonably possible that Genworth will realize a significant loss, as such probability is greater than remove (meeting the FASB ASC 944 standard for reasonable possibility). In addition, the amounts and disclosures used in the financial statements and underlying accounting records related to the reinsurance contract with Genworth are adequate.

- With respect to the Fund's reserves for claim and claim judgment expenses:

    - For the year ended December 31, 2015, we have processed claims received by the Fund in a manner and timing consistent with prior years.

    - We have considered all information that, in our judgment, is necessary to adequately estimate the claim and claim adjustment expense reserves at the statement of net position date, including, among other things:

        - Anticipated and historical claims experienced of the Fund

        - Expected impact of inflation and other economic or social factors on future payments of losses incurred at the statement of net position date

        - Federal Housing Finance Agency Housing Price Index

        - Lines and geographical locations of the business written and assumed by the Fund

        - The Fund's underwriting and claims policies and procedures

        - The timeliness and reliability of reports from reinsurer

    - Estimates of claim recoveries, exclusive of reinsurance recoveries

  - The Fund has considered and properly disclosed in the financial statements all the information with respect to the claim and claim adjustment expense reserves and related claim recoveries, which in our judgement, is necessary to adequately identify and understand the nature of reserving estimates and underlying coverage issues, including the potential volatility, complexity, and uncertainty of such estimates and the possibility that the ultimate liability may vary significantly from the recorded reserve and related recovery amounts.

  - The reserve for unpaid claims and claim adjustment expenses for the Fund at December 31, 2015 is management's best estimate and makes a reasonable provision for all reported and unreported claims incurred as of December 31, 2015 based upon the consideration of all information available at the date those financial statements were prepared, including actuarial indications and other factors.

- Unearned premiums are fairly stated at December 31, 2015 and the calculations of such are consistent with those of the preceding year. Business expired and reinsurance ceded has been excluded from premiums in force and unearned.

- The premium deficiency reserve has been determined using appropriate historical data, estimated future losses and expenses and related premium revenue on the unexpired business. Management believes this reserve is adequate based on extensive in-house analysis.

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.

  - All communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

  - All communications from regulatory agencies concerning noncompliance with the provisions of laws, regulations, contracts, and grant agreements.

- All transactions have been recorded in the accounting records and are reflected in the financial statements.

- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others when the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
- We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations and provisions of contracts and grant agreements, or abuse whose effects should be considered when preparing financial statements.
- 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.
- We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to California Housing Loan Insurance Fund, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- The entity has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

- We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position 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.

Signature: ______________________ Title: Executive Director

Signature: ______________________ Title: Comptroller

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California Housing Loan Insurance Fund

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INDEPENDENT AUDITORS' REPORT

Board of Directors
California Housing Loan Insurance Fund
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the California Housing Loan Insurance 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 years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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.

Emphasis of a Matter

During fiscal year ended December 31, 2015, the Fund adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68*. As a result of the implementation of these standards, the Fund reported a restatement for the change in accounting principle (see Note 8). Our auditors' opinion was not modified with respect to the restatement.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the of the Fund as of December 31, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Fund will continue as a going concern. As discussed in Note 2 to the financial statements, the Fund is experiencing difficulty in generating sufficient cash flow to meet its obligations and sustain its operations. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to 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 3-12, the Schedule of the Fund's Proportionate Share of the Net Pension Liability on page 30 and the Schedule of Fund Contributions on page 31 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
October 26, 2016

CALIFORNIA HOUSING LOAN INSURANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2015 AND 2014

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 Loan Insurance Fund (the "Fund"), the California Housing Finance Fund ("CHFF") and one state general obligation bond fund. 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 Housing Finance Fund are available on the Agency's website - www.calhfa.ca.gov.

The following Management Discussion and Analysis applies only to the activities of the Fund and should be read in conjunction with the Fund's financial statements and the notes to the financial statements. The Agency is entirely self-funded and does not draw upon the general taxing authority of the State. The Agency was authorized to use the Fund's assets as at-risk capital in support of mortgage insurance programs which finance the acquisition, new construction, or rehabilitation of residential structures in California. The Fund insures loans made by the Agency; loans made by lenders for securitization by the Federal National Mortgage Association ("FNMA"), and Federal Home Loan Mortgage Corporation ("FHLMC"); and loans made by localities, nonprofit agencies, and the California State Teachers' Retirement System. In conducting business, the Agency is authorized to reinsure any risk undertaken by the Fund.

While the Fund is subject to the same statutory requirements as private mortgage insurance companies with respect to the maintenance of policyholders' surplus, the Fund is exempt from regulatory control by the State Department of Insurance. The Fund is currently unrated.

Underwriting, acquisition, and issuance expenses are charged directly to the Fund as well as loss and loss adjustment expenses. Certain administrative and operating expenses, including office space, business services and supplies, legal services, accounting services, information technology support, and human resource support services, are provided by the Agency and indirectly charged to the Fund. The basic financial statements of the Fund include the statement of net position, statement of revenue, expenses and changes in net position and statement of cash flows.

FINANCIAL RESULTS 2015 – 2014

- The Fund had operating income of $14.5 million for 2015. Net operating results of the Fund increased by approximately $1.7 million in 2015 when compared to the operating income of $12.8 million in 2014. The Fund has a net deficit balance of $53.9 million at December 31, 2015, compared to a net deficit balance of $68.2 million at December 31, 2014.

CALIFORNIA HOUSING LOAN INSURANCE FUND

- The Fund's reserve for loan losses decreased by $4.8 million to $2.4 million in 2015 as a result of the Fund's decreased number of delinquencies outstanding and continued improvement to the California housing market during 2015. The Agency continues to monitor delinquencies closely and is proactive in its attempts to mitigate losses.

- The Fund's premium deficiency reserve decreased by $10.6 million to $3.9 million in 2015. In 2014, the premium deficiency reserve decreased by $4.2 million to $14.5 million. The significant decline in the reserve is a result of the change in factors used to determine the premium deficiency reserve as explained in Note 2.

- Insurance in force decreased by $244.5 million, or 27%, to $668.9 million as of December 31, 2015, compared to $913.4 million as of December 31, 2014. The decline is primarily due to the 2005 expiring book of business that exited reinsurance during 2015. The Fund ceased committing to insure new loans in September 2009.

- The number and amount of insured delinquencies declined from 426 or $111.4 million in 2014 to 205 or $49.8 million in 2015. Gross insurance claim payments were $13.5 million and $21.5 million in 2015 and 2014, respectively, before reinsurance.

- The Fund continued the reinsurance treaty and administrative services agreement with Genworth Financial ("Genworth"), previously known as GE Mortgage Insurance Corporation ("GEMICO"). This insurance treaty cedes to Genworth a 75% quota share of the insurance risk and 64.5% of the premium collected for most loans insured by the Fund. The treaty was amended for loans insured on or after May 1, 2008 to 67% of premium collected and amended again on April 1, 2009 to 69% of premium collected on loans insured on or after that date.

- Each month, the Fund continues to receive its share of premiums from policies still in force and uses the monthly premiums received along with any other available funds to pay the Fund's claims on a "first-in, first-out" basis in the order in which the claims are received after paying the monthly operating expenses of the Fund (see Note 2). The Fund continues to remain dependent upon the ability of the Fund's reinsurer to pay its share of the claims. (see Note 6).

- Moody's Investor Services ("Moody's") rating of Genworth Mortgage Insurance Corporation remained at "Ba1" during the year.

- In 2015, the Fund applied Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pension* and GASB No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The pension expenses and liabilities of the Fund were only calculated and recorded as of June 30, 2015. As a result of the implementation, the Fund's beginning net position for the year was reduced by $264 thousand. See Note 3 – Changes in Accounting Principles and Note 8 – Pension Plan.

CALIFORNIA HOUSING LOAN INSURANCE FUND

2015 COMPARED TO 2014

CONDENSED STATEMENTS OF NET POSITION

The following table presents condensed statements of net position for the Fund as of December 31, 2015 and 2014, and the change from year to year (dollars in thousands):

	2015	2014 *	Change
ASSETS			
Cash, cash equivalents, and investments	$ 42	$ 37	$ 5
Other assets	590	705	(115)
Total assets	$ 632	$ 742	$ (110)
DEFERRED OUTFLOWS OF RESOURCES			
Employer contribution	$ 41	$ -	$ 41
LIABILITIES			
Reserves for unpaid losses and loss adjustment expenses	$ 2,390	$ 7,167	$ (4,777)
Premium deficiency reserve	3,913	14,479	(10,566)
Unearned premiums	5	11	(6)
Accounts payable and other liabilities	48,256	47,288	968
Total liabilities	$ 54,564	$ 68,945	$ (14,381)
DEFERRED INFLOWS OF RESOURCES			
Unamortized pension net difference	$ 55	$ -	$ 55
NET POSITION			
Net investment in capital assets	$ 6	$ 10	$ (4)
Unrestricted	(53,952)	(68,213)	14,261
Total net position	$ (53,946)	$ (68,203)	$ 14,257

*Amounts in 2014 have not been adjusted for the effects of the adoption of GASB 68 and 71.

Assets - Total assets of the Fund were $632 thousand as of December 31, 2015, a decrease of $110 thousand or 15% from December 31, 2014. Of the Fund's assets, 7% are represented by cash and investments. The Fund does not have a significant investment in capital assets.

Cash, cash equivalents, and investments were $42 thousand as of December 31, 2015, an increase of $5 thousand from December 31, 2014. The Agency invests the Fund's cash in the State's Surplus Money Investment Fund ("SMIF"). SMIF provides the Fund a variable rate of return and complete liquidity. Cash invested in SMIF is deposited within the State's Centralized Treasury System and managed by the State Treasurer.

Other assets were $590 thousand as of December 31, 2015, a decrease of $115 thousand or 16% from December 31, 2014. The accounts receivable from Genworth for premiums is lower in 2015 due to the declining number of active policies. During 2015, the number of active policies declined by 916 or 26.6%.

CALIFORNIA HOUSING LOAN INSURANCE FUND

Deferred outflow of resources was $41 thousand as of December 31, 2015, which includes the fund's pension contribution after the measurement date of June 30, 2015, and unamortized difference between projected and actual earnings on pension plan investments after adopting GASB 68 and GASB 71 in 2015.

Liabilities - The Fund's liabilities were $54.6 million as of December 31, 2015, a decrease of $14.4 million or 21% from December 31, 2014.

The reserve for unpaid losses and loss adjustment expenses was $2.4 million as of December 31, 2015, a decrease of $4.8 million from December 31, 2014. The premium deficiency reserve decreased $10.6 million to $3.9 million in 2015. As of December 31, 2015, 205 insured loans with balances aggregating $49.8 million were reported as delinquent by the lender. As of December 31, 2014, 426 insured loans with balances aggregating $111.4 million were reported as delinquent by the lender.

Unearned premiums were $5 thousand as of December 31, 2015, a decrease of $6 thousand from December 31, 2014.

Accounts payable and other liabilities were $48.3 million as of December 31, 2015, an increase of $968 thousand from December 31, 2014. Genworth is paying their 75% share of the claim payment and the Fund is paying 25% share of the claim payment. Since the Fund's cash is temporarily depleted each month, a claims payable is set up for the Fund's share of the claim payments that have not yet been paid.

The fund's pension liability, included in the other liabilities, was $244 thousand as of December 31, 2015. The fund adopted GASB 68 and GASB 71 in 2015, and did not report any pension liability in prior years.

Deferred inflow of resources was $55 thousand as of December 31, 2015, which includes the unamortized net difference between projected and actual earnings on investments from prior years and unamortized change in proportion of pension liability, due to the adoption of GASB 68 and GASB 71 in 2015.

Net Position - The Fund's net position is classified as unrestricted or net investment in capital assets. Total net position of the Fund was increased by $14.3 million as a result of this current year's operations.

CALIFORNIA HOUSING LOAN INSURANCE FUND

CONDENSED STATEMENTS OF REVENUES AND EXPENSES

The following table presents condensed statements of revenues and expenses for the Fund for the years ended December 31, 2015 and 2014, and the change from year to year (dollars in thousands):

	2015	2014 *	Change
OPERATING REVENUES:			
Premiums earned	$ 5,661	$ 7,349	$ (1,688)
Expired book revenue - reinsurer	2,043	1,347	696
Other revenues	7	7	0
Total operating revenues	7,711	8,703	(992)
OPERATING EXPENSES:			
Loss and loss adjustment expenses	241	(4,825)	5,066
Premium deficiency reserve expenses	(10,566)	(4,240)	(6,326)
Salaries and general expenses	3,507	5,007	(1,500)
Other expenses	8	(27)	35
Total operating expenses	(6,810)	(4,085)	(2,725)
OPERATING INCOME	$ 14,521	$ 12,788	$ 1,733

*Amounts in 2014 have not been adjusted for the effects of the adoption of GASB 68 and 71.

Operating Revenues - Operating revenues were $7.7 million during 2015 compared to $8.7 million during 2014, a decrease of $1 million or 11%.

Premiums earned in 2015 decreased by $1.7 million or 23% compared to premiums earned in 2014. The decrease in premiums earned corresponds with the decrease in insurance in force. Insurance in force was $668.9 million and $913.4 million as of December 31, 2015 and 2014, respectively.

As the 10 year reinsurance period expires for a book year, the Fund receives Genworth's reserves set aside for that book year. In 2015, the Fund received $2.0 million for the policies that began reinsurance in 2005 book year.

The Fund invests its cash in SMIF only. SMIF interest rates for the past two years are shown in the following table:

Periods	Year 2015	Periods	Year 2014
January — March	0.254%	January — March	0.222%
April — June	0.283%	April — June	0.228%
July — September	0.316%	July — September	0.234%
October — December	0.364%	October — December	0.249%

CALIFORNIA HOUSING LOAN INSURANCE FUND

Other revenues remained at $7 thousand in both 2015 and 2014. Recoveries made on amounts owed from defendants in certain litigation stay the same from last year.

Operating Expenses - Total operating expenses were negative $6.8 million during 2015 compared to negative $4.1 million during 2014, a decrease of $2.7 million or 67%, primarily due to the following:

The loss and loss adjustment expenses increased by $5.1 million in 2015 as a result of the significant change to the loss reserve methodology in 2014 when compared to 2015 in which there was no change to the methodology.

The decrease in premium deficiency reserve expenses was $6.3 million in 2015 when compared to 2014. The change in premium deficiency reserve expense is attributable to a change in estimate of continuing expenses, reflective of decreased activity and a reduction in active claims as of December 31, 2015 (see Note 2).

The Fund's salaries and general expenses were $3.5 million during 2015 compared to $5.0 million during 2014, a decrease of $1.5 million or 30%. The decrease is primarily a result of lower ceded premiums to the reinsurer due to lower insurance in force.

Operating Income - Operating income for 2015 was $14.5 million compared to an operating income of $12.8 million in 2014, an increase of $1.7 million in income.

CALIFORNIA HOUSING LOAN INSURANCE FUND

FINANCIAL RESULTS 2014 – 2013

- The Fund had operating income of $12.8 million for 2014. Net operating results of the Fund decreased by approximately $17.4 million in 2014 when compared to the operating income of $30.2 million in 2013. The Fund has a net deficit balance of $68.2 million at December 31, 2014, compared to a net deficit balance of $81.0 million at December 31, 2013.

- The Fund's reserve for loan losses decreased by $11 million to $7.2 million in 2014 as a result of the Fund's decreased number of delinquencies outstanding, improving California housing market and change to the loss reserve methodology in 2014 (see Note 2). The Agency continues to monitor delinquencies closely and is proactive in its attempts to mitigate losses.

- The Fund's premium deficiency reserve decreased by $4.2 million to $14.5 million in 2014. In 2013, the premium deficiency reserve decreased by $31.1 million to $18.7 million.

- Insurance in force decreased by $243.2 million, or 21%, to $913.4 million as of December 31, 2014, compared to $1.16 billion as of December 31, 2013. The Fund ceased committing to insure new loans in September 2009.

- The number and amount of insured delinquencies declined from 642 or $167.6 million in 2013 to 426 or $111.4 million in 2014. Gross insurance claim payments were $21.5 million and $52.5 million in 2014 and 2013, respectively, before reinsurance.

- The Fund continued the reinsurance treaty and administrative services agreement with Genworth Financial ("Genworth"), previously known as GE Mortgage Insurance Corporation ("GEMICO"). This insurance treaty cedes to Genworth a 75% quota share of the insurance risk and 64.5% of the premium collected for most loans insured by the Fund. The treaty was amended for loans insured on or after May 1, 2008 to 67% of premium collected and amended again on April 1, 2009 to 69% of premium collected on loans insured on or after that date.

- Each month, the Fund continues to receive its share of premiums from policies still in force and uses the monthly premiums received along with any other available funds to pay the Fund's claims on a "first-in, first-out" basis in the order in which the claims are received after paying the monthly operating expenses of the Fund (see Note 2). The Fund continues to remain dependent upon the ability of the Fund's reinsurer to pay its share of the claims. (see Note 6).

- Moody's Investor Services ("Moody's") rating of Genworth Mortgage Insurance Corporation remained at "Ba1" during the year.

CALIFORNIA HOUSING LOAN INSURANCE FUND

2014 COMPARED TO 2013

CONDENSED STATEMENTS OF NET POSITION

The following table presents condensed statements of net position for the Fund as of December 31, 2014 and 2013, and the change from year to year (dollars in thousands):

	2014	2013	Change
ASSETS			
Cash, cash equivalents, and investments	$ 37	$ 159	$ (122)
Other assets	705	823	(118)
Total assets	$ 742	$ 982	$ (240)
LIABILITIES			
Reserves for unpaid losses and loss adjustment expenses	$ 7,167	$ 18,178	$ (11,011)
Premium deficiency reserve	14,479	18,719	(4,240)
Unearned premiums	11	33	(22)
Accounts payable and other liabilities	47,288	45,043	2,245
Total liabilities	68,945	81,973	(13,028)
NET POSITION			
Net investment in capital assets	10	14	(4)
Unrestricted	(68,213)	(81,005)	12,792
Total net position	$ (68,203)	$ (80,991)	$ 12,788

Assets - Total assets of the Fund were $742 thousand as of December 31, 2014, a decrease of $240 thousand or 24% from December 31, 2013. Of the Fund's assets, 5% are represented by cash and investments. The Fund does not have a significant investment in capital assets.

Cash, cash equivalents, and investments were $37 thousand as of December 31, 2014, a decrease of $122 thousand from December 31, 2013. The Agency invests the Fund's cash in the State's Surplus Money Investment Fund ("SMIF"). SMIF provides the Fund a variable rate of return and complete liquidity. Cash invested in SMIF is deposited within the State's Centralized Treasury System and managed by the State Treasurer.

Other assets were $705 thousand as of December 31, 2014, a decrease of $118 thousand or 14% from December 31, 2013. The accounts receivable from Genworth for premiums is lower in 2014 due to the declining number of active policies.

Liabilities - The Fund's liabilities were $68.9 million as of December 31, 2014, a decrease of $13.0 million or 16% from December 31, 2013.

CALIFORNIA HOUSING LOAN INSURANCE FUND

The reserve for unpaid losses and loss adjustment expenses was $7.2 million as of December 31, 2014, a decrease of $11.0 million from December 31, 2013. The premium deficiency reserve decreased $4.2 million to $14.5 million in 2014. As of December 31, 2014, 426 insured loans with balances aggregating $111.4 million were reported as delinquent by the lender. As of December 31, 2013, 642 insured loans with balances aggregating $167.6 million were reported as delinquent by the lender.

Unearned premiums were $11 thousand as of December 31, 2014, a decrease of $22 thousand from December 31, 2013.

Accounts payable and other liabilities were $47.3 million as of December 31, 2014, an increase of $2.2 million from December 31, 2013. Genworth is paying their 75% share of the claim payment and the Fund is paying 25% share of the claim payment. Since the Fund's cash is temporarily depleted each month, an accounts payable is set up for the Fund's share of the claim payments that have not yet been paid.

Net Position - The Fund's net position is classified as unrestricted or net investment in capital assets. Total net position of the Fund was increased by $12.8 million as a result of this current year's operations.

CONDENSED STATEMENTS OF REVENUES AND EXPENSES

The following table presents condensed statements of revenues and expenses for the Fund for the years ended December 31, 2014 and 2013, and the change from year to year (dollars in thousands):

	2014	2013	Change
OPERATING REVENUES:			
Premiums earned	$ 7,349	$ 9,038	$ (1,689)
Expired book revenue - reinsurer	1,347	422	925
Other revenues	7	7	0
Total operating revenues	8,703	9,467	(764)
OPERATING EXPENSES:			
Loss and loss adjustment expenses	(4,825)	4,221	(9,046)
Premium deficiency reserve expenses	(4,240)	(31,130)	26,890
Salaries and general expenses	5,007	6,130	(1,123)
Other expenses	(27)	44	(71)
Total operating expenses	(4,085)	(20,735)	16,650
OPERATING INCOME	$ 12,788	$ 30,202	$ (17,414)

Operating Revenues - Operating revenues were $8.7 million during 2014 compared to $9.5 million during 2013, a decrease of $0.8 million or 8%.

Premiums earned in 2014 decreased by $1.7 million or 19% compared to premiums earned in 2013. The decrease in premiums earned corresponds with the decrease in insurance in force. Insurance in force was $913.4 million and $1.16 billion as of December 31, 2014 and 2013, respectively.

CALIFORNIA HOUSING LOAN INSURANCE FUND

As the 10 year reinsurance period expires for a book year, the Fund receives Genworth's reserves set aside for that book year. In 2014, the Fund received $1.3 million for the policies that began reinsurance in 2004 book year.

The Fund invests its cash in SMIF only. SMIF interest rates for the past two years are shown in the following table:

Interest Payment Periods	Fiscal Year 2014	Interest Payment Periods	Fiscal Year 2013
January — March	0.222%	January — March	0.275%
April — June	0.228%	April — June	0.246%
July — September	0.234%	July — September	0.249%
October — December	0.249%	October — December	0.248%

Other revenues were $7 thousand in both 2014 and 2013. Recoveries made on amounts owed from defendants in certain litigation were the same as last year.

Operating Expenses - Total operating expenses were negative $4.1 million during 2014 compared to negative $20.7 million during 2013, an increase of $16.6 million or 80%, primarily due to the following:

As the housing market continued to be stabilized in California, Loss and loss adjustment expenses decreased by $9.0 million in 2014, while the decreasing in premium deficiency reserve expenses increased $26.9 million in 2014. The change in premium deficiency reserve expense is attributable to a lower expected future paid losses amount on unexpired business on the books as of December 31, 2014.

The Fund's salaries and general expenses were $5.0 million during 2014 compared to $6.1 million during 2013, a decrease of $1.1 million or 18%. The decrease is primarily a result of lower ceded premiums to the reinsurer due to lower insurance in force.

Operating Income - Operating income for 2014 was $12.8 million compared to an operating income of $30.2 million in 2013, a decrease of $17.4 million in income.

Contact Information - If you would like additional information on the California Housing Loan Insurance Fund, please visit www.calhfa.ca.gov.

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

CalHFA Financing Division
500 Capitol Mall, Suite 1400
Sacramento, CA 95814
Phone: 916.326.8650
Fax: 916.322.1464

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 37,146	$ 33,140
Investments in Surplus Money Investment Fund	5,000	4,000
Interest receivable	5	3
Accounts receivable	584,205	694,756
Total current assets	626,356	731,899
Noncurrent assets - Capital assets	5,808	9,681
Total assets	632,164	741,580
DEFERRED OUTFLOWS OF RESOURCES		
Employer contribution after measurement date	41,592	-
LIABILITIES		
Current liabilities:		
Reserves for unpaid losses and loss adjustment expenses	2,390,118	7,167,077
Premium deficiency reserve	3,913,000	14,479,000
Unearned premiums	4,967	11,095
Reinsurance payable	154,793	212,404
Claims payable	46,946,955	46,199,490
Accounts payable & other liabilities	-	77
Compensated absences	2,434	4,032
Due to CalHFA	134,232	139,752
Total current liabilities	53,546,499	68,212,927
Noncurrent liabilities:		
OPEB obligation	774,000	732,000
Pension liability	243,885	-
Total liabilities	54,564,384	68,944,927
DEFERRED INFLOWS OF RESOURCES		
Unamortized pension net difference	55,382	-
CONTINGENCIES (Note 10)		
NET POSITION		
Net investment in capital assets	5,808	9,681
Unrestricted	(53,951,818)	(68,213,028)
Total net position (deficit)	$ (53,946,010)	$ (68,203,347)

See notes to financial statements.

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
OPERATING REVENUES		
Premium earned	$ 5,660,918	$ 7,349,299
Expired book revenue - reinsurer	2,042,443	1,346,900
Investment income	17	10
Other revenues	7,200	7,200
Total operating revenues	7,710,578	8,703,409
OPERATING EXPENSES		
Loss and loss adjustment expense - net of recoveries	240,690	(4,825,045)
Premium deficiency reserve expenses	(10,566,000)	(4,240,000)
Salaries and General expenses	3,507,003	5,007,215
Other expenses (income)	7,881	(26,646)
Total operating (income) expenses	(6,810,426)	(4,084,476)
OPERATING INCOME	14,521,004	12,787,885
Net position (deficit) - Beginning of year	(68,203,347)	(80,991,232)
Cumulative effect of adoption of GASB 68 & 71	(263,667)	-
Restated net position at beginning of year	(68,467,014)	(80,991,232)
NET POSITION (DEFICIT) - End of year	$ (53,946,010)	$ (68,203,347)

See notes to financial statements.

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers - premium	$ 5,765,343	$ 7,442,939
Receipts from customers - expired book reserve	2,042,443	1,346,900
Payments to suppliers	(3,388,345)	(4,839,005)
Payments to claimants	(4,270,184)	(3,812,018)
Payments to employees	(168,164)	(260,608)
Payments from (to) other funds	16,698	(6,763)
Other (payments) receipts	7,200	7,200
Net cash provided by (used in) operating activities	4,991	(121,355)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchase) Sales of Investments	(1,000)	1,000
Interest on investments	14	10
Net cash provided by (used for) investing activities	(986)	1,010
Net increase (decrease) in cash and cash equivalents	4,006	(120,345)
Cash and cash equivalents at beginning of year	33,140	153,485
Cash and cash equivalents at end of year	$ 37,146	$ 33,140
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Operating income	$ 14,521,004	$ 12,787,885
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Interest on investments	(17)	(10)
Depreciation expenses	3,873	3,872
Unpaid loss and loss adjustment expenses	(4,776,959)	(11,010,827)
Premium deficiency reserve expenses	(10,566,000)	(4,240,000)
Effects of changes in operating assets and liabilities:		
Other assets and deferred outflows of resources	68,959	115,056
Unearned premium	(6,128)	(21,417)
Compensated absences	(1,598)	(52,823)
Reinsurance payable	(57,611)	(69,617)
Claims payable	747,465	2,373,765
Accounts payable and other liabilities	(77)	(476)
Unamortized net pension inflows	55,382	-
Due to CalHFA	(5,520)	(62,763)
Due to CalPERS - OPEB & pension	22,218	56,000
Net cash provided by (used for) operating activities	$ 4,991	$ (121,355)

See notes to financial statements.

1. AUTHORIZING LEGISLATION AND ORGANIZATION

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 Loan Insurance Fund (the "Fund"), the California Housing Finance Fund ("CHFF") and one state general obligation bond fund. 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 Housing Finance Fund are available on the Agency's website - www.calhfa.ca.gov.

The Fund is one of two continuously appropriated funds administered by the California Housing Finance Agency (the "Agency"). These funds allow the Agency to carry out its purpose of meeting the housing needs of persons and families of low and moderate income within the State. The Agency is authorized to insure mortgage loans and to issue 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.

The accompanying financial statements are the statements of the Fund and do not include the financial position or the results of operations of the Agency. As of June 30, 2015, the Housing Finance Fund had total assets of $4.99 billion and fund equity of $1.52 billion (not covered by this independent auditors' report).

The Agency was also authorized to use the Fund to provide mortgage insurance for loans made by the Agency and others which finance the acquisition, new construction, or rehabilitation of residential structures in California. Total risk in-force was $228.5 million and $316.4 million at December 31, 2015 and 2014, respectively. Of the insured first mortgage loans outstanding at December 31, 2015, 89.8% have loan-to-value ratios, measured as of the funding date of the loan, greater than 90%.

The Fund's reserve for loan losses decreased during 2015 as a result of the improved California housing market and decrease in the number of insured California home mortgage delinquencies. The Fund is currently unrated. In 2015, Moody's rating of Genworth Mortgage Insurance Corporation, the Fund's reinsurer, remained unchanged at "Ba1".

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 in accordance with accounting principles generally accepted in the United States of America (hereinafter referred to as "Generally Accepted Accounting Principles"), which differ from statutory accounting practices followed by insurance companies in reporting to insurance regulatory authorities. This fund is reported using the flow of economic resources focus.

CALIFORNIA HOUSING LOAN INSURANCE FUND

The financial statements of the Fund were prepared using generally accepted accounting principles that are applicable to a going concern. Management of the Fund has concluded that there is substantial doubt as to the Fund's ability to continue to fully meet its designated purpose of paying claims and expenses. The financial statements of the Fund do not include any adjustments that might result from the outcome of this uncertainty. As of December 31, 2015, the Fund's cash and cash equivalents are not sufficient to meet the Fund's total anticipated cash requirements to pay its obligations over the next twelve months. Management believes that attempts to raise any additional capital will be unsuccessful. The Fund will continue to receive its share of premiums from policies still in force and will use the premiums received along with any other available funds to pay the Fund's obligations on a "first-in, first-out" basis in the order in which the claims are received after paying the monthly expenses of the Fund. Further, management of the Fund is actively administering the Fund and continuously reviewing the reinsurance agreement with Genworth to determine the best course of action for both the expiring (unreinsured) and reinsured books of business.

Accounting and Reporting Standards - The Fund is accounted for as an enterprise fund. Accordingly, the accompanying financial statements have been prepared using the economic resources measurement focus and accrual basis of accounting as required by accounting principles generally accepted in the United States of America (hereinafter referred to as "Generally Accepted Accounting Principles", GAAP).

Recently Adopted 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. 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 Fund adopted GASB 68 and 71 for the fiscal year ended December 31, 2015.

New Accounting Pronouncements: In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application,* effective for financial statements for periods beginning after June 15, 2015. The requirements of GASB 72 will enhance comparability of financials statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The Fund plans to adopt GASB 72 for the periods beginning January 1, 2016.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, was issued in June 2015 with effective date for financial statements for fiscal years beginning after June 15, 2015. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local government for making decisions and assessing accountability. The Fund plans to adopt GASB 73 for the periods beginning January 1, 2016.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* effective for financial statements for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pension (other postemployment benefits or OPEB). This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and GASB No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The Fund plans to apply GASB 74 for the periods beginning January 1, 2017.

CALIFORNIA HOUSING LOAN INSURANCE FUND

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). The Fund plans to adopt GASB 75 for the periods beginning January 1, 2018.

In June 2015, GASB also issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of GAAP. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Fund plans to adopt GASB 76 for the periods beginning January 1, 2016.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Cash and Cash Equivalents - The Fund considers cash on hand and cash on deposit with the State Controller's Office other than the investment in the State's Surplus Money Investment Fund (SMIF) to be cash and cash equivalents.

Investments - The Agency invests the Fund's excess cash in SMIF, which represents a portion of the State's Pooled Money Investment Account (PMIA). These PMIA funds are on deposit within the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters, and maximum maturity of investments. Investments in SMIF are recorded at fair value. The Office of the State Treasurer of California issues a Pooled Money Investment Board Report with information on the PMIA's portfolio composition. A copy of that report may be obtained from the Office of the State Treasurer, 915 Capitol Mall, Room 106, Sacramento, CA 95814 or via the internet at www.treasurer.ca.gov.

Other Current Assets - The Fund considers current accounts receivable as other current assets.

Deferred Outflow and Deferred Inflow of Resources - Deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period, and deferred inflow of resources is an acquisition of net assets by the government that is applicable to future reporting period. The Fund's deferred outflow of resources represents employer contribution for pensions. Unamortized net difference between projected and actual earnings on investments for pensions is reported under the Fund's deferred inflow of resources.

Claims Payable - The Fund establishes claims payable for claims received but not yet paid. As of December 31, 2015, the Fund's claims payable were $42,588,038 and $4,358,917 for CHFF and other external parties, respectively. The claims payable as of December 31, 2014 were $42,791,240 and $3,408,250 for CHFF and other external parties, respectively.

CALIFORNIA HOUSING LOAN INSURANCE FUND

Reserves for Unpaid Losses and Loss Adjustment Expenses - The Fund establishes reserves for losses and loss adjustment expenses, to recognize the estimated liability for potential losses and related loss expenses in connection with borrower default on mortgage payments. The liability for unpaid losses and loss adjustment expenses resulting from mortgage insurance is an estimate and the loss reserve methodology changed in 2014. For 2015, the loss reserve methodology continues to include a variety of factors (i.e. unpaid delinquent balance on mortgage loans reported by servicers as of the close of the accounting period, loan status, unemployment rate, current LTV, Genworth's reinsurance percentage, and housing price index, etc.) to measure the impairment on a loan-by-loan basis in a regression analysis model. Estimates of IBNR (incurred but not reported) claims are implicitly included in this model.

There is a high level of uncertainty inherent in the evaluation of the required loss and loss adjustment expense reserves. Management has updated its loss reserve methodology to one it believes is more reasonable and accurate than the previous year. The ultimate costs of claims are dependent upon future events, the outcomes of which are affected by many factors. The Fund's claim reserving procedures and settlement practices, economic inflation, court rulings, real estate market conditions, and many other economic, scientific, legal, political, and social factors all can have significant effects on the ultimate cost of claims.

Changes in operations and management practices may also cause actual developments to vary from past experience. Since the emergence and disposition of claims are subject to uncertainties, the net amounts that will ultimately be paid to settle the liability may vary significantly from the estimated amounts provided for in the accompanying financial statements. Any adjustments that may be material to reserves are reflected in the operating results of the periods in which they are made.

Premium Deficiency – Premium deficiency is estimated future premiums less estimated future claims and expenses on active mortgage insurance policies plus reserves for unpaid losses and loss adjustment expenses. A premium deficiency is therefore recognized in the balance sheet as an accrued liability, recorded as a Premium Deficiency Reserve for the excess amount. The liability for the premium deficiency reserve is an estimate and the premium deficiency methodology changed in 2015. The new methodology uses a variety of factors (i.e. unpaid delinquent balance on mortgage loans reported by servicers as of the close of the accounting period, loan status, unemployment rate (both State and County), borrower's FICO score at origination, current LTV, Genworth's reinsurance percentage, and housing price index, etc.) to measure the impairment on a loan-by-loan basis in a regression analysis model.

There is a high level of uncertainty inherent in the evaluation of the premium deficiency reserve. Management has changed its premium deficiency reserve methodology to one it believes is more reasonable and accurate than the previous model. The effects of the change in methodology were recognized in the current year. The ultimate cost of claims associated with active mortgage insurance policies are dependent upon future events, the outcomes of which are affected by many factors. The Fund's reserving procedures and settlement practices, economic inflation, court rulings, real estate market conditions, and many other economic, scientific, legal, political, and social factors all can have significant effects on the ultimate cost of claims.

Net Position - Fund net position is classified as invested in capital assets, restricted equity or unrestricted equity. Invested in capital assets represents investments in office equipment and furniture net of depreciation and any related debt. Restricted net position represents net position that is restricted pursuant to the Agency's enabling legislation. Unrestricted net position represents net position not restricted for any purpose. There was no restricted net position at either December 31, 2015 or 2014.

CALIFORNIA HOUSING LOAN INSURANCE FUND

Operating Revenues and Expenses - The Fund's primary operating revenue is derived from premiums earned on private mortgage insurance written. The primary expenses are the expenses associated with the underwriting, acquisition, issuance, administration, and the reinsurance of private mortgage insurance products and policies, as well as the losses associated with these products and policies.

Recognition of Premium Income - Primary mortgage insurance policies are contracts that are generally non-cancelable by the insurer and provide payment of premiums on a monthly, annual, or single basis. Premiums written on a monthly basis are earned as coverage is provided. Premiums written on an annual basis are recorded as unearned premiums and amortized on a monthly pro rata basis over the year of coverage. Primary mortgage insurance premiums written on policies covering more than one year are referred to as single premiums. A portion of single premiums is recognized immediately in earnings, and the remaining portion is recorded as unearned premiums and amortized over the expected life of the policy.

Reinsurance - Effective March 1, 2003, the Fund entered into a reinsurance treaty and administrative services agreement with Genworth. This agreement cedes to Genworth a 75% quota share of the insurance risk for most loans insured by the Fund and provides for certain administrative services to be performed by Genworth through December 31, 2018. The Fund uses reinsurance to reduce net risk in force and optimize capital allocation.

Pensions - As part of the State, the primary government, the Fund contributes to the Miscellaneous Plan (the "Plan") and it is administered by the California Public Employees' Retirement System ("CalPERS"). The Plan is included in the Public Employees' Retirement Fund A ("PERF A"). PERF is comprised of and reported as PERF A, PERF B, and PERF C for accounting purposes. PERF A is comprised of agent multiple-employer plans, which include State and most public agencies rate plans. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

3. CHANGE IN ACCOUNTING PRINCIPLES

The Agency adopted GASB 68 and 71 for the year ended December 31, 2015. The cumulative effect of adoption of GASB 68 and 71 decreases the Fund's net position by $263.7 thousand. The Agency has restated net position as of December 31, 2014 by $263.7 thousand. Actuarial information as of the beginning of 2015 was not available since the measurement date of the actuarial valuation was June 30, 2014. Management believes any difference will not be material to the financial statements.

Net position, January 1, 2015 as previously stated	$ (62,203,347)
Cumulative effect of adoption of GASB 68	$ (263,065)
Cumulative effect of adoption of GASB 71	(602)
Net position, January 1, 2015, as restated	$ (62,467,014)

CALIFORNIA HOUSING LOAN INSURANCE FUND

4. CASH, CASH EQUIVALENTS, INVESTMENTS AND INVESTMENT RISK FACTORS

The Fund utilizes a cash and investment pool maintained by the State Treasurer's office. Each account's portion of this pool is included in investment on the statement of net position.

Cash and Cash Equivalents - At December 31, 2015 and 2014, all cash and cash equivalents, totaling $37 thousand and $33 thousand, respectively, were covered by federal depository insurance or collateral held by the Agency's agent in the Agency's name.

Investments - Investment of funds is restricted by the Act, 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, and other financial instruments.

There are many factors that can affect the value of investments. Some, such as credit risk, custodial credit risk, concentration of credit risk, and interest rate risk, may affect both equity and fixed-income securities. Equity and debt securities respond to 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 Fund to invest substantially all of its funds in fixed income securities, which limit the Fund's exposure to most types of risk. For the investments in the Surplus Money Investment Fund cost approximates market.

Investments by type at December 31, 2015 and 2014, consist of the following:

	2015	2014
Surplus Money Investment Fund — State of California	$ 5,000	$ 4,000

Credit Risk - Fixed income securities are subject to credit risk, which is the risk that an issuer will fail to pay interest or principal in a timely manner or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. At December 31, 2015, the Fund does not have any investments exposed to credit risk.

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 December 31, 2015, the Fund did not have any investments exposed to custodial credit. All investments are held by the State of California.

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 Fund to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. At December 31, 2015, the Fund does not have any investments exposed to concentration of credit risk.

Interest Rate Risk - Interest rate risk is the risk that the value of fixed income securities will decline due to decreasing interest rates. The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. At December 31, 2015, the Fund does not have any debt investments that are highly sensitive to changes in interest rates.

CALIFORNIA HOUSING LOAN INSURANCE FUND

5. RESERVES FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The following tables summarize the changes in the reserves for unpaid losses and loss adjustment expenses for the years ended December 31, 2015 and 2014. The first table presents reserves on a gross basis (before reinsurance) and the second table presents the reserve on a net basis (after reinsurance). The total net reserve for loss and loss adjustment is reflected in the financial statements.

Gross	**2015**	**2014**
Gross reserve for loss and loss adjustment — beginning of year balance	$ 25,436,994	$ 63,836,492
Incurred (recovered) related to:		
Provision attributable to the current year	3,674,084	12,406,364
Change in provision attributable to prior years	(8,666,090)	(29,389,179)
Total incurred	(4,992,006)	(16,982,815)
Payments related to:		
Current year	(862,357)	(853,465)
Prior years	(12,620,086)	(20,563,218)
Total payments	(13,482,443)	(21,416,683)
Gross reserve for loss and loss adjustment — end of year balance	$ 6,962,545	$ 25,436,994

Net of Reinsurance	**2015**	**2014**
Net reserve for loss and loss adjustment — beginning of year balance	$ 7,167,077	$ 18,177,904
Incurred (recovered) related to:		
Provision attributable to the current year	1,107,676	3,335,231
Change in provision attributable to prior years	(866,986)	(8,160,276)
Total incurred	240,690	(4,825,045)
Payments related to:		
Current year	(194,138)	(213,252)
Prior years	(4,823,511)	(5,972,530)
Total payments	(5,017,649)	(6,185,782)
Net reserve for loss and loss adjustment — end of year balance	$ 2,390,118	$ 7,167,077

The change in provision attributable to prior year (net of reinsurance) decreased by $0.9 million for the year ended December 31, 2015 due to the decrease in loan delinquencies from the year ended December 31, 2014. The change in provision attributable to prior year (net of reinsurance) decreased by $8.2 million for the year ended December 31, 2014 from the year ended December 31, 2013 is due to change in loss reserve methodology as explained in Note 2 and decrease in loan delinquencies.

CALIFORNIA HOUSING LOAN INSURANCE FUND

Reserves for loss and loss adjustment expenses relate to delinquent loans, net of reinsurance. Such estimates were based on a variety of factors, which management believes are most representative of factors needed to measure expected future losses at the time of estimation. As a result of the extended period of time that may exist between the report of a delinquency and claim payment thereon, significant uncertainty and variation exist with respect to the ultimate amount to be paid because economic conditions and real estate markets will change.

6. REINSURANCE

Effective March 1, 2003, the Fund entered into a 75% quota share reinsurance agreement with Genworth to reinsure most (currently, approximately 82%) of the Fund's portfolio. Under the terms of this agreement, the reinsurer will indemnify the Fund for 75% of all losses paid on the insured loans to which the Fund cedes 64.5% of the related premiums. The treaty was amended for loans insured on or after May 1, 2008 to cede 67% of premiums collected and amended again on April 1, 2009 to cede 69% of premiums collected on loans insured on or after that date. However, there are no loans currently ceded at 69%. The Fund's reinsurance agreement typically provides for a recovery of a proportionate level of claim expenses from the reinsurer. The Fund remains liable to its policyholders if the reinsurer is unable to satisfy its obligations under the reinsurance agreement. The amount of earned premiums ceded to Genworth for the years ended 2015 and 2014 was $3.0 million and $4.4 million, respectively.

According to the terms of the reinsurance agreement, Genworth's reinsurance is for a period up to the end of the tenth calendar year for each existing book year. Therefore, insurance policies issued in 2005 book year had reinsurance through December 31, 2014. The Agency elected not to renew the reinsurance on the expiring 2005 book. If the reinsurance is not renewed after the expiration date, the Fund receives 100% of the related premiums, pays for 100% of any related claims, and receives Genworth's reserves set aside for the related book year. In 2015, the Fund received $2.0 million from Genworth's reserve set aside for book year 2005. To date, the Fund has received $3.8 million in expired book revenue from Genworth.

7. ARRANGEMENTS WITH THE CALIFORNIA HOUSING FINANCE FUND

Certain administrative and operating expenses charged to the Fund are provided by the Agency. These expenses, initially paid from the CHFF, include office space, business services, legal services, accounting services, information systems support, and human resource support services. The Fund is charged monthly for these expenses and a payable is recorded. For the years ended December 31, 2015 and 2014, total expenses allocated to the Fund by the Agency were $239,660 and $359,221, respectively.

As part of CalHFA's Loan Modification Program, Genworth remits pre-claim advance payments to the Fund. The payments received are remitted directly to the CHFF. The total pre-claim advance payments due to CHFF were $113,107 and $119,717 at December 31, 2015 and 2014, respectively.

CALIFORNIA HOUSING LOAN INSURANCE FUND

8. PENSION PLAN

Plan Description, Benefits Provided and Employees Covered: As part of the State, the primary government, the Fund contributes to the Miscellaneous Plan (the "Plan") and it is administered by the California Public Employees' Retirement System ("CalPERS"). The Plan is included in the Public Employees' Retirement Fund A ("PERF A"). PERF is comprised of and reported as PERF A, PERF B and PERF C for accounting purposes. PERF A is comprised of agent multiple-employer plans, which include State and most public agencies rate plans. The Plan is a defined benefit pension plan. A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions and membership information are listed in the June 30, 2014 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained via the internet at www.calpers.ca.gov under Forms and Publications.

Prior to GASB 68 Implementation: GASB 68 is effective for reporting periods beginning after June 15, 2014. Prior to the implementation of GASB 68 in the year ended December 31, 2014, the net pension liability was not reported. For the CalPERS fiscal year ended June 30, 2014, the employees' contribution rates ranged from 1.5% to 11% of annual payroll and the employer contribution rates were 20.99% and 21.12% of annual payroll. Additionally for the period ended December 31, 2014, the Fund contributed $28,210 which was equal to the required contributions for the year.

GASB 68 Accounting Valuation Report:s: The State requested CalPERS GASB 68 Accounting Valuation Reports for the Plan. Copies of these reports may be obtained from the State Controller's Office, Division of Accounting and Reporting.

Contributions: Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers must be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015 (the measurement date), the employees' contribution rates ranged from 3% to 11% of annual payroll and the employer's contribution rates were 23.51% and 24.20% of annual payroll. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution. Contributions to the Plan for the year ended December 31, 2015 was $23,322.

Pension Liabilities, Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions: As of December 31, 2015, the Fund reported a liability of $243,885 for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2015 and was based on the Fund's pensionable compensation as a percentage of the State's total pensionable compensation. As of June 30, 2015, the Fund's proportionate share was 0.001%.

For the year ended December 31, 2015, the Fund recognized pension expense of $29,295. As of December 31, 2015, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions for the following sources:

CALIFORNIA HOUSING LOAN INSURANCE FUND

	2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual experience	$ 4,454	-
Differences between projected and actual earnings on pension plan investments	25,128	$ 30,452
Differences between Fund contributions and proportionate share of contributions	-	285
Changes in proportion	-	16,135
Changes of assumptions	-	8,510
Fund contributions subsequent to the measurement date	12,010	-
	$ 41,592	$ 55,382

As of December 31, 2015, the $12,010 reported as deferred outflows of resources related to pensions resulting from Fund contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending December 31:	
2016	$ (10,989)
2017	(10,958)
2018	(10,135)
2019	6,282

Actuarial Assumptions: For the measurement period ended June 30, 2015, the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2015 total pension liability was based on the following actuarial assumptions:

Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.65%
Post retirement benefit increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

CALIFORNIA HOUSING LOAN INSURANCE FUND

For the measurement period ended June 30, 2014, the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2014 and 2013 total pension liabilities were based on the following actuarial assumptions:

Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.50%, net of pension plan investment and administrative expenses; includes inflation
Post retirement benefit increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies

For the measurement period ended June 30, 2015, the mortality table was based on CalPERS' specific data. The tables include 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study that can be obtained via the internet at www.calpers.ca.gov under Forms and Publications.

All other actuarial assumptions used in the June 30, 2014 and 2013 valuations were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increases, mortality and retirement rates. The Experience Study report can be obtained via the internet at www.calpers.ca.gov under Forms and Publications.

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

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

For the measurement period ended June 30, 2015, the rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocations were adopted by CalPERS effective July 1, 2014. For the measurement period ended June 30, 2015, the following table reflects long-term expected real rate of returns by asset class:

CALIFORNIA HOUSING LOAN INSURANCE FUND

Asset Class	Target Allocation	Real Return Years 1-10[1]	Real Return Years 11+[2]
Global Equity	51%	5.25%	5.71%
Global Fixed Income	19	0.99	2.43
Private Equity	10	6.83	6.95
Real Estate	10	4.50	5.13
Inflation Sensitive	6	0.45	3.36
Infrastructure and Forestland	2	4.50	5.09
Liquidity	2	(0.55)	(1.05)
	100%		

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

Discount Rate: The discount rate used to measure the total pension liability for the measurement period ended June 30, 2015 was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the discount rates used for the current and previous measurement periods were adequate and the use of the municipal bond rate calculation was not necessary. The current and previous long term expected discount rates used in the current and previous measurement periods were applied to all plans in the Public Employees' Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained via the internet at www.calpers.ca.gov under the GASB 68 section.

Sensitivity of the Fund's Proportionate Share of the Net Pension Liability to Changes in Discount Rate: The following presents the Fund's proportionate share of the net pension liability as of the June 30, 2015 measurement date, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

	Discount Rate – 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Fund's net pension liability	$ 344,454	$ 243,885	$ 159,508

Pension Plan Fiduciary Net Position: As of June 30, 2015, the Plan's fiduciary net position was $68.1 billion. Detailed information about PERF A's fiduciary net position is available via the internet at www.calpers.ca.gov under Forms and Publications.

CALIFORNIA HOUSING LOAN INSURANCE FUND

Payable to the Pension Plan: As of December 31, 2015, the Fund did not report a payable related to pension contributions.

9. OTHER POSTEMPLOYMENT BENEFITS

GASB Statement 45 requires states and local governments to publicly disclose the future dollar amount of their obligations to pay for Other Postemployment Benefits (OPEB), like healthcare, that are provided to retired employees, including retired public employees. The OPEB is an agent single employer defined benefit healthcare plan administered by CalPERS. State Controller's Office (SCO) sets the employer contribution rate based on the annual required contribution of the employers (ARC), 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. Based on the SCO's OPEB calculation, the Fund allocated annual OPEB cost was $68,000, and the Fund allocated contributions was $26,000 for the year ended December 31, 2015. The State Controller's Office estimated the Fund's unfunded OPEB costs to be $774,000 and $732,000 for the years ended December 31, 2015 and 2014, respectively, and this liability was added to Personal Services in the respective year. CalPERS issues a publicly available CAFR that includes financial statements and required supplementary information for the OPEB.

10. LITIGATION

On June 14, 2002, the Agency filed a complaint in the case of California Housing Finance Agency (CalHFA) v. Hanover California Management and Accounting Center Inc., (HC) et al, Orange County Superior court #02CC10634 (Action). The trial in this matter has concluded and the Agency prevailed on all causes of action. The jury awarded $6.7 million in damages, prejudgment interest of $1 million, and finally the jury found that the defendants acted with malice, and awarded total punitive damages of $1.5 million. The defendants appealed the judgment and the Court of Appeal issued a decision affirming the judgment in full. The decision is now final.

The amounts received from the defendants were $7,200 and $7,200 during the years ended December 31, 2015 and 2014, respectively which is recorded as other revenue in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. To date, the Agency has received approximately $2.9 million.

Certain other lawsuits and claims arising in the ordinary course of business have been filed or are pending against the Fund. 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.

11. SUBSEQUENT EVENTS

In February 2016, Moody's reaffirmed the "Ba1" rating of Genworth Mortgage Insurance Corporation with a stable outlook.

CALIFORNIA HOUSING LOAN INSURANCE FUND

On June 27, 2016 Senate Bill No. 837 was approved by the Governor. This bill repeals provisions related to the Director of Insurance of the Fund and instead establishes the director of enterprise risk management and compliance within the agency. The Agency will continue to oversee and manage the Fund but will no longer be required to be budget a position within the Fund. Instead, the Agency will charge the Fund a monthly management fee beginning July 2016. Furthermore, this bill also changes the annual audit requirement of the Fund to the requirement of obtaining an annual agreed-upon procedures (AUP) engagement of the insurance fund's books and accounts provided that the AUP report is made available to the Governor, the chairperson and vice-chairperson of the Senate and Assembly housing policy committees, the Senate and Assembly budget committee, and the Joint Legislative Budget Committee no later than November 1 of each year. This will save the Fund money as the cost of an AUP engagement is lower than an audit.

CALIFORNIA HOUSING LOAN INSURANCE FUND

SCHEDULE OF THE FUND'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Miscellaneous Plan
Last Measurement Period Ended June 30

	2015
Fund's proportion of the net pension liability	0.001%
Fund's proportionate share of the net pension liability	$ 243,885
Fund's covered-employee payroll	$ 91,890
Fund's proportionate share of the net pension liability as a percentage of its covered-employee payroll	265.41%
Plan fiduciary net position as a percentage of the total pension liability	70.68%

CALIFORNIA HOUSING LOAN INSURANCE FUND

SCHEDULE OF FUND CONTRIBUTIONS
Miscellaneous Plan
Last Measurement Period Ended June 30

	2015
Contractually required contribution	$ 23,277
Contribution in relation to the contractually required contribution	(23,277)
Contribution deficiency (excess)	-
Fund's covered-employee payroll	$ 91,890
Contributions as a percentage of covered-employee payroll	25.33%

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were derived from the June 30, 2013 funding valuation report.

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2013 Funding Valuation Report.
Asset Valuation Method	Actuarial Value of Assets. For details, see June 30, 2013 Funding Valuation Report.
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.50 Net Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

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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 Loan Insurance 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 Loan Insurance 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 December 31, 2015, 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 26, 2016.

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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Board of Directors
California Housing Loan Insurance Fund

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*.

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

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Bellevue, Washington
October 26, 2016

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