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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combined balance sheets of the California Housing Finance Fund ("Fund"), which is administered by the California Housing Finance Agency ("Agency"), a component unit of the State of California, as of June 30, 2006 and 2005 and the related combined statements of revenues, expenses and changes in fund equity, and of cash flows for the years then ended. These combined financial statements are the responsibility of the management of the Agency. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits 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 combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of the Fund, as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of management of the Agency. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and we do not express an opinion on it.

Our audits were performed for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplemental combining program information as of and for the year ended June 30, 2006 on pages 42 through 59 are presented for the purpose of additional analysis and are not a required part of the basic 2006 combined financial statements of the Fund. The supplemental combining program information is the responsibility of the management of the Agency. Such information has been subjected to the auditing procedures applied in our audit of the basic 2006 combined financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2006 combined financial statements taken as a whole.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 6, 2006, on our consideration of the Agencies internal control over financial reporting and our tests of its compliance with certain provisions, loans, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing, of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting. That report is an integral part of an audit in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Deloitte + Touche LLP

October 6, 2006

CALIFORNIA HOUSING FINANCE FUND
Management Discussion and Analysis
of Financial Position and Results of Operations
As of and for the fiscal years ended June 2006 and 2005

Introduction – The California Housing Finance Agency

The California Housing Finance Agency ("Agency") was created in 1975 by an act of the California Legislature and commenced operations in 1976. The Agency is a component unit of the State of California ("State") and is included in the State's Comprehensive Annual Financial Report. The Agency is authorized to administer the activities of the California Housing Finance Fund ("Fund"), the California Housing Loan Insurance Fund ("Mortgage Insurance Fund") and two state general obligation bond funds. The following Management Discussion and Analysis applies only to the activities of the California Housing Finance Fund and should be read in conjunction with the Fund's combined financial statements and the notes to the combined 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 combined financial statements present the totals 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 information and information for specific programs and accounts is reported after the Notes to the combined financial statements.

The Homeownership Programs provide low cost mortgage capital to a network of approved lenders from whom the Agency purchases previously funded and closed loans secured by single family homes purchased by individual borrowers. 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. Interest rates on Agency 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, funded periodically from a portion of the Fund's operating income before transfers. The Housing Assistance Trust provides a source of funding for low or very low income multifamily developments and home buyer downpayment assistance. Loans for these purposes generally would not produce sufficient revenues to support payments to bondholders. These loans typically accrue simple interest with repayment of principal and interest deferred for the term of the loan or until certain events occur, such as a sale of the property. Also included in this category are certain State-funded programs, which the Agency has been asked to administer for the State on a contract basis. Operating expenses of the Agency's loan and bond programs are paid from an Operating Account that is replenished from the Fund's operating income before transfers. Other accounts maintained by the Agency provide security for the issuance of bonds, emergency contingencies, loan servicing operations and loan warehousing activities.

Financial Highlights 2006 – 2005

- Operating income before transfers was $37 million for fiscal year 2006 compared to $21.3 million for fiscal year 2005. The increase in Operating income before transfers is reflective of more earnings in homeownership interest income and an increase in interest income from investments.

- The Agency originated $1.8 billion in new loans receivable during fiscal year 2006. Overall, program loans receivable increased $717 million to $6.3 billion at fiscal year end as homeownership loan receivables increased by $570 million and multifamily loan receivables increased by $147 million.

- During fiscal year 2006, $41.8 million was transferred into the Fund by the State pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002. The funds were used to make loans and grants to borrowers and homeowners through programs administered by the Agency on a contract basis.

- During fiscal year 2006, the Agency issued $1.2 billion of notes and bonds.

- During fiscal year 2006 the Agency continued to actively use the interest rate swap market to provide synthetically fixed interest rates on many of the bonds issued. The Agency obtained a lower fixed cost of funds in the interest rate swap market than could be achieved by issuing fixed rate bonds. Of the $1.2 billion in bonds issued, all but $124 million was issued as variable rate debt and $626 million of variable rate debt was synthetically swapped to fixed.

- The Agency continued to actively manage the Fund's interest expense and exposures within the debt portfolio, redeeming, and in some cases refunding, $1.6 billion of bond indebtedness during fiscal year 2006.

Condensed Financial Information:

Combined Balance Sheet

The following table presents condensed combined balance sheets for the Fund as of June 30, 2006 and 2005 and the change from the prior year (dollars in millions):

Condensed Combined Balance Sheets

	2006	2005	Change
Assets			
Cash and investments	$ 3,057	$ 3,706	$ (649)
Program loans receivable-net	6,271	5,554	717
Other	125	134	(9)
Total Assets	$ 9,453	$ 9,394	$ 59
Liabilities			
Bonds payable – net	$ 7,445	$ 7,501	$ (56)
Other	740	704	36
Total Liabilities	8,185	8,205	(20)
Fund Equity			
Invested in capital assets	1	1	
Restricted equity	1,267	1,188	79
Total Fund Equity	1,268	1,189	79
Total Liabilities and Fund Equity	$ 9,453	$ 9,394	$ 59

Assets

Of the Fund's assets, 99% is represented by cash and investments and program loans receivable. The Fund does not have a significant investment in capital assets.

Total assets increased by $59 million during fiscal year 2006. The Fund's cash and investments were $3.1 billion as of June 30, 2006, a decrease of $649 million from June 30, 2005. The 18% decrease in cash and investments is related to the increase in program loans receivables and the increase in bond redemptions during the fiscal year.

Of the Fund's assets, 32% is in the form of cash and investments at fiscal year end. Of the Fund's investment balance, 64% is in investment agreements. Consistent with the Agency's investment policy, bond proceeds are normally invested in investment agreements with highly rated providers of such instruments because the agreements provide a low level of counterparty risk, a fixed rate of return and complete liquidity. The amount of funds invested in investment agreements during the 2006 fiscal year decreased by $739 million, due primarily to the investment in homeownership loans. In addition, a substantial portion 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 2006 decreased by $46 million, due primarily to bond redemptions and refundings.

The composition of cash and investments as of June 30, 2006 and 2005 and the changes from the prior year are shown in the table below (dollars in millions):

Cash and Investments

	2006	2005	Change
Investment agreements	$1866	$2,605	$ (739)
SMIF	925	971	(46)
Securities	125	59	66
Cash	141	71	70
Total	$3,057	$3,706	$ (649)

Program loans receivable increased by $717 million or 13% during fiscal year 2006 compared to fiscal year 2005. This increase is due primarily to the increase in homeownership loan portfolio and increase in the Multifamily construction lending program. Multifamily Rental Housing Program loan originations were $345 million during fiscal year 2006, compared to program loans originated during fiscal year 2005 of $167 million. Special Program loan originations were $35 million during fiscal year 2006, compared to program loans originated during fiscal year 2005 of $207 million. The Agency had a very active year originating new Homeownership program loans and processing high levels of prepayments from borrowers. Within the Fund, the Agency originated almost $1.8 billion in new loans of which over $1.5 billion were single family first mortgages. However many homebuyers continued to take advantage of very low loan interest rates by refinancing their Agency loans resulting in fiscal year loan prepayments in excess of $900 million during fiscal year 2006 compared to $1.3 billion of prepayments received in fiscal year 2005. The Agency does not offer home refinance opportunities to its borrowers as the homeownership loan programs are restricted to first time homebuyers.

Other assets decreased by $9 million or 7% during fiscal year 2006. Nearly all of this decrease is attributable to a reduction in accounts receivable from mortgage lenders as of June 30, 2006 when compared to June 30, 2005.

Liabilities

The Fund's liabilities were $8.2 billion as of June 30, 2006, a decrease of $20 million from June 30, 2005. Of the Fund's liabilities, over 91% is in the form of bond indebtedness. The Fund's bonds payable at June 30, 2006 decreased by $56 million from the prior year as the $1.2 billion in new issuances in 2006 were offset by scheduled principal payments and bond redemptions totaling $1.3 billion. Many of the bond redemptions during fiscal year 2005 were as a result of the large number of loan prepayments from homeowners. The Agency's governing statutes impose a cap of $11.15 billion for bonds and notes issued and outstanding within the Fund. This debt cap is revisited every few years and is normally revised upward as needed.

All of the bonds issued by the Agency are reported within the Fund. The Agency issued a total of $1.2 billion of Agency bonds during fiscal year 2006, a decrease from the $2.3 billion issued during fiscal year 2005. Of the bonds issued during fiscal year 2006, all but $124 million were issued as variable interest rate bonds, and $626 million of variable rate debt was swapped to provide synthetically fixed interest rates. As of June 30, 2006, the estimated "net" variable interest rate exposure of the Fund's total bond indebtedness was $714 million. The estimated "net' variable interest rate exposure excludes all variable interest rate bonds swapped to fixed interest rates or directly backed by complementary variable interest rate assets. This "net" variable interest rate exposure provides an internal hedge against today's low interest rate environment evidenced by low short-term investment rates and increased loan prepayments. Interest costs on variable interest rate bonds that are swapped to a fixed interest rate have generally provided a lower total interest cost to the Fund than interest costs of traditional fixed interest rate products.

The Agency issues both tax-exempt and federally taxable bonds. During the 2006 fiscal year, federally taxable bonds decreased by 14% and as of June 30, 2006 represents 22% of all bonds outstanding, while tax-exempt bonds increased by 4% and as of June 30, 2006 represents 78% 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 2006, the Agency had adequate tax-exempt issuance authority and did not need to leverage such authority through the issuance of taxable bonds.

Shown below are the amounts of variable and fixed rate indebtedness, by tax status, as of June 30, 2006 and 2005 and the changes from the prior year (dollars in millions):

Bonds Payable

	2006	2005	Change
Tax-Exempt Bonds			
*Variable Rate	$5,144	$4,777	$ 367
Fixed Rate	624	778	(154)
Total Tax-Exempt Bonds	$5,768	$5,555	$ 213
Federally Taxable Bonds			
*Variable Rate	$1,455	$1,669	$ (214)
Fixed Rate	204	269	(65)
Total Federally Taxable Bonds	$1,659	$1,938	$ (279)
* * Total Bonds Outstanding	$7,427	$7,493	$ (66)

* Certain variable rate bonds have been swapped to a fixed rate (see Note 7 to the Combined Financial Statements).

* * The HUD debenture note, unamortized discount and unamortized deferred losses are not included.

During fiscal year 2005, the Agency issued a debenture note payable to HUD in the amount of $23.1 million. This debenture was issued in connection with filing a claim under the FHA Risk-Sharing program for a defaulted loan on a Multifamily development.

Other liabilities increased by $36 million or 5% during fiscal year 2006. This increase is due primarily to the increase in impound and warehouse accounts payable as a result of the growth in program loans.

Equity

All of the Fund's equity is restricted pursuant to trust agreements with bondholders and the Agency's enabling legislation or invested in capital assets. Total equity of the Fund grew by $79 million as a result of operating income of the Fund, in the amount of $37 million and transfers to the Fund in the amount of $41.8 million pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002.

Revenues, Expenses, and Changes in Fund Equity

The following table presents condensed combined statements of revenues, expenses, and changes in fund equity for the Fund for the fiscal years ended June 30, 2006 and June 30, 2005 and the changes from the prior year (dollars in millions):

Condensed Combined Statements of Revenues, Expenses, and Changes in Fund Equity

	2006	2005	Change
Operating Revenues:			
Interest income program loans – net	$314	$300	$14
Interest income investments – net	139	120	19
Increase in fair value of investments	(3)	1	(4)
Other loan and commitment fees	13	10	3
Other revenues	87	79	8
Total Operating Revenues	550	510	40
Operating Expenses:			
Interest	345	326	19
Mortgage servicing fees	14	14	
Operating expenses	31	29	2
Other expenses	123	120	3
Total Operating Expenses	513	489	24
Operating Income before transfers	$ 37	$ 21	$16

Operating Revenues

Total operating revenues of the Fund were $550 million during fiscal year 2006 compared to $510 million during fiscal year 2005, an increase of $40 million or 8%.

Interest income on program loans was $314 million during fiscal year 2006 compared to $300 million during fiscal year 2005, an increase of $14 million. The increase in interest income on program loans is a result of an increase in the Fund's homeownership loan portfolio. Overall, program loans receivable increased $717 million or 13% at June 30, 2006 compared to June 30, 2005, and the Homeownership portfolio increased by $570 million.

The Fund's investment portfolio decreased by $719 million or 20% during fiscal year 2006, however, interest income from investments increased 16% to $139 million in fiscal year 2006 from $120 million in fiscal year 2005. This increase is due to the rise in interest rates during the year.

The fair value of the Fund's $125 million investment in securities decreased by $4 million during fiscal year 2006. The decrease in the fair value is attributable to both realized and unrealized gains and losses during the fiscal year.

Other loan and commitment fees increased $3 million to $13 million for fiscal year 2006 compared to $10 million during fiscal year 2005. The increase is primarily attributable to an increase in servicing fee income from Agency loan servicing.

Other revenues increased by $8 million to $87 million during fiscal year 2006 compared to $79 million in fiscal year 2005 and were the result of the sale of a multifamily REO.

Operating Expenses

Total operating expenses of the Fund were $513 million during fiscal year 2006 compared to $489 million during fiscal year 2005, an increase of $24 million or 5%.

Bonds payable at June 30, 2006 decreased by $56 million from June 30, 2005 however, bond interest expense, which represents 67% of the Fund's total operating expenses, increased by $19 million or 6% compared to fiscal year 2005. The increase in bond interest expense is attributed to the rise in interest rates of our variable rate bonds.

The 6% growth in operating expenses from $29 million during fiscal year 2005 to $31 million during fiscal year 2006 (as shown in the condensed combined statements of revenues, expenses and changes in fund equity), resulted from an expansion of loan products offered and from increased staff expenses and technology related expenses related to building an infrastructure to support the growth in Agency programs.

Operating Income before Transfers

The overall operating results of the Fund for fiscal year 2006 are reflective of the activity in the operating revenues and expenses discussed above. Operating income before transfers for fiscal year 2006 was $37 million compared to $21 million for fiscal year 2005. The $16 million increase in operating income before transfers is primarily due to the increase in interest income from program loans, increase in investment income, and the sale of a multifamily REO.

Financial Highlights 2005 – 2004

- Operating income before transfers was $21.3 million for fiscal year 2005 compared to $55 million for fiscal year 2004. The decrease in Operating income before transfers is reflective of a reduction in homeownership interest income due to a continued decrease in the weighted average interest rate on loans and the decrease in homeownership program loans receivable.

- The Agency originated $1.7 billion in new loans receivable during fiscal year 2005. Overall, program loans receivable increased $94 million to $5.6 billion at fiscal year end as first-time homebuyers continued to refinance their loans at a high rate resulting in $1.3 billion of first loan prepayments.

- During fiscal year 2005, $48.8 million was transferred into the Fund by the State pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002. The funds were used to make loans and grants to borrowers and homeowners through programs administered by the Agency on a contract basis.

- During fiscal year 2005, the Agency issued $2.3 billion of notes and bonds.

- During fiscal year 2005 the Agency continued to actively use the interest rate swap market to provide synthetically fixed interest rates on many of the bonds issued. The Agency obtained a lower fixed cost of funds in the interest rate swap market than could be achieved by issuing fixed rate bonds. Of the $2.3 billion in bonds issued, all but $44 million was issued as variable rate debt and $517 million of variable rate debt was synthetically swapped to fixed.

- The Agency continued to actively manage the Fund's interest expense and exposures within the debt portfolio, redeeming, and in some cases refunding, $2.5 billion of bond indebtedness during fiscal year 2005.

Condensed Financial Information:

Combined Balance Sheet

The following table presents condensed combined balance sheets for the Fund as of June 30, 2005 and 2004 and the change from the prior year (dollars in millions):

Condensed Combined Balance Sheets

	2005	2004	Change
Assets			
Cash and investments	$3,706	$4,066	$(360)
Program loans receivable-net	5,554	5,460	94
Other	134	155	(21)
Total Assets	$9,394	$9,681	$(287)
Liabilities			
Bonds payable – net	$7,501	$7,873	$(372)
Other	704	689	15
Total Liabilities	8,205	8,562	(357)
Fund Equity			
Invested in capital assets	1	1	
Restricted equity	1,188	1,118	70
Total Fund Equity	1,189	1,119	70
Total Liabilities and Fund Equity	$9,394	$9,681	$(287)

Assets

Of the Fund's assets, 99% is represented by cash and investments and program loans receivable. The Fund does not have a significant investment in capital assets.

Total assets decreased by $287 million or 3% during fiscal year 2005. The Fund's cash and investments were $3.7 billion as of June 30, 2005, a decrease of $360 million from June 30, 2004. The 9% decrease in cash and investments is related to the decrease in interest income on program loans and the increase in bond redemptions during the fiscal year.

Of the Fund's assets, 39% is in the form of cash and investments at fiscal year end. Of the Fund's investment balance, 72% is in investment agreements. Consistent with the Agency's investment policy, bond proceeds are normally invested in investment agreements with highly rated providers of such instruments because the agreements provide a low level of counterparty risk, a fixed rate of return and complete liquidity. The amount of funds invested in investment agreements during the 2005 fiscal year increased by $508 million, due primarily to the issuance of drawdown bonds whose proceeds are invested in investment agreements. In addition, a substantial portion 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 2005 decreased by $833 million, due primarily to bond redemptions and refundings.

The composition of cash and investments as of June 30, 2005 and 2004 and the changes from the prior year are shown in the table below (dollars in millions):

Cash and Investments

	2005	2004	Change
Investment agreements	$2,605	$2,097	$508
SMIF	971	1,804	(833)
Securities	59	75	(16)
Cash	71	90	(19)
Total	$3,706	$4,066	$(360)

Program loans receivable increased by $94 million or 2% during fiscal year 2005 compared to fiscal year 2004. This increase is due primarily to the significant increase the Agency has experienced in its Multifamily construction lending program. Multifamily Rental Housing Program loan originations were $167 million during fiscal year 2005, compared to program loans originated during fiscal year 2004 of $125 million. Special Program loan originations were $207 million during fiscal year 2005, compared to program loans originated during fiscal year 2004 of $83 million. The Agency had a very active year originating new Homeownership program loans and processing high levels of prepayments from borrowers. Within the Fund, the Agency originated almost $1.7 billion in new loans of which over $1.3 billion were single family first mortgages. However many homebuyers continued to take advantage of very low loan interest rates by refinancing their Agency loans resulting in fiscal year loan prepayments in excess of $1.3 billion during fiscal year 2005 compared to $1.8 billion of prepayments received in fiscal year 2004. The Agency does not offer home refinance opportunities to its borrowers as the homeownership loan programs are restricted to first time homebuyers.

Other assets decreased by $21 million or 14% during fiscal year 2005. Nearly all of this decrease is attributable to a reduction in interest receivable from investments in homeownership as of June 30, 2005 when compared to June 30, 2004.

Liabilities

The Fund's liabilities were $8.2 billion as of June 30, 2005, a decrease of $357 million or 4% from June 30, 2004. Of the Fund's liabilities, over 91% is in the form of bond indebtedness. The Fund's bonds payable at June 30, 2005 decreased by $372 million from the prior year as the $2.3 billion in new issuances in 2005 were offset by scheduled principal payments and $2.5 billion in bond redemptions. Many of the bond redemptions during fiscal year 2005 were as a result of the large number of loan prepayments from homeowners. The Agency's governing statutes impose a cap of $11.15 billion for bonds and notes issued and outstanding within the Fund. This debt cap is revisited every few years and is normally revised upward as needed.

All of the bonds issued by the Agency are reported within the Fund. The Agency issued a total of $2.3 billion of Agency bonds during fiscal year 2005, an increase from the $2 billion issued during fiscal year 2004. Of the bonds issued during fiscal year 2005, all but $44 million were issued as variable interest rate bonds, and $517 million of variable rate debt was swapped to provide synthetically fixed interest rates. As of June 30, 2005, the estimated "net" variable interest rate exposure of the Fund's total bond indebtedness was $943 million. The estimated "net' variable interest rate exposure excludes all variable interest rate bonds swapped to fixed interest rates or directly backed by complementary variable interest rate assets. This "net" variable interest rate exposure provides an internal hedge against today's low interest rate environment evidenced by low short-term investment rates and increased loan prepayments. Interest costs on variable interest rate bonds that are swapped to a fixed interest rate have generally provided a lower total interest cost to the Fund than interest costs of traditional fixed interest rate products.

The Agency issues both tax-exempt and federally taxable bonds. During the 2005 fiscal year, federally taxable bonds decreased by 38% and as of June 30, 2005 represent 26% of all bonds outstanding, while tax-exempt bonds increased by 16% and as of June 30, 2005 represent 74% 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 2005, the Agency had adequate tax-exempt issuance authority and did not need to leverage such authority through the issuance of taxable bonds.

Shown below are the amounts of variable and fixed rate indebtedness, by tax status, as of June 30, 2005 and 2004 and the changes from the prior year (dollars in millions):

Bonds Payable

	2005	2004	Change
Tax-Exempt Bonds			
*Variable Rate	$4,777	$3,216	$ 1,561
Fixed Rate	778	1,564	(786)
Total Tax-Exempt Bonds	$5,555	$4,780	$ 775
Federally Taxable Bonds			
*Variable Rate	$1,669	$2,684	$(1,015)
Fixed Rate	269	425	(156)
Total Federally Taxable Bonds	$1,938	$3,109	$(1,171)
Total Bonds Outstanding	$7,493	$7,889	$ (396)

* Certain variable rate bonds have been swapped to a fixed rate (see Note 6 to the Combined Financial Statements).

During fiscal year 2005, the Agency issued a debenture note payable to HUD in the amount of $23.1 million. This debenture was issued in connection with filing a claim under the FHA Risk-Sharing program for a defaulted loan on a Multifamily development.

Other liabilities increased by $15 million or 2% during fiscal year 2005. This increase is due primarily to the increase in the amount due to the IRS for yield reduction payments on Homeownership variable rate bonds. (see Note 7 to the Combined Financial Statements).

Equity

All of the Fund's equity is restricted pursuant to trust agreements with bondholders and the Agency's enabling legislation or invested in capital assets. Total equity of the Fund grew by $70 million or 6% as a result of operating income of the Fund, in the amount of $21 million and transfers to the Fund in the amount of $48.8 million pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002.

Revenues, Expenses, and Changes in Fund Equity

The following table presents condensed combined statements of revenues, expenses, and changes in fund equity for the Fund for the fiscal years ended June 30, 2005 and June 30, 2004 and the changes from the prior year (dollars in millions):

Condensed Combined Statements of Revenues, Expenses, and Changes in Fund Equity

	2005	2004	Change
Operating Revenues:			
Interest income program loans – net	$300	$346	$(46)
Interest income investments – net	120	117	3
Increase in fair value of investments	1	(8)	9
Other loan and commitment fees	10	16	(6)
Other revenues	79	78	1
Total Operating Revenues	510	549	(39)
Operating Expenses:			
Interest	326	336	(10)
Mortgage servicing fees	14	15	(1)
Operating expenses	29	26	3
Other expenses	120	117	3
Total Operating Expenses	489	494	(5)
Operating Income before transfers	$ 21	$ 55	$(34)

Operating Revenues

Total operating revenues of the Fund were $510 million during fiscal year 2005 compared to $549 million during fiscal year 2004, a decrease of $39 million or 7%.

Interest income on program loans was $300 million during fiscal year 2005 compared to $346 million during fiscal year 2004, a decrease of $46 million. The decrease in interest income on program loans is a result of the reduction in the Fund's homeownership loan portfolio coupled with a decrease in the weighted average interest rate on homeownership loans. Overall, program loans receivable increased $94 million or 2% at June 30, 2005 compared to June 30, 2004, however, the Homeownership portfolio decreased by $72 million.

The Fund's investment portfolio decreased by $341 million or 8% during fiscal year 2005, however, interest income from investments increased 3% to $120 million in fiscal year 2005 from $117 million in fiscal year 2004. This increase is due to the decrease of $2.4 million in the positive arbitrage adjustment, which is taken against interest income from investments.

The fair value of the Fund's $59 million investment in securities increased by $1 million during fiscal year 2005. The increase in the fair value is attributable to both realized and unrealized gains and losses during the fiscal year.

Other loan and commitment fees decreased $6 million to $10 million for fiscal year 2005 compared to $16 million during fiscal year 2004. The decrease is primarily attributable to a reduction in Homeownership commitments made to homebuilders due to continued low interest rates.

Other revenues increased by $1 million to $79 million during fiscal year 2005 compared to $78 million in fiscal year 2004.

Operating Expenses

Total operating expenses of the Fund were $489 million during fiscal year 2005 compared to $494 million during fiscal year 2004, a decrease of $5 million or 1%.

Bonds payable at June 30, 2005 decreased by $372 million or 5% from June 30, 2004 and therefore bond interest expense, which represents 67% of the Fund's total operating expenses, decreased by $10 million or 3% compared to fiscal year 2004. The decrease in bond interest expense is also attributed to the continued use of interest rate swaps to create synthetic fixed interest rates with a lower cost than if fixed rate bonds were issued.

Mortgage servicing fees decreased by $1 million or 7% in 2005 over 2004 as a result of a decrease in the level of program loans receivable balances being serviced by outside servicers.

The 12% growth in operating expenses from $26 million during fiscal year 2004 to $29 million during fiscal year 2005 (as shown in the condensed combined statements of revenues, expenses and changes in fund equity), resulted from an expansion of loan products offered and from increased staff expenses and technology related expenses related to building an infrastructure to support the growth in Agency programs.

Operating Income before Transfers

The overall operating results of the Fund for fiscal year 2005 are reflective of the activity in the operating revenues and expenses discussed above. Operating income before transfers for fiscal year 2005 was $21 million compared to $55 million for fiscal year 2004. The $34 million decrease in operating income before transfers is primarily due to the reduction Homeownership interest income and the decrease in Homeownership program loans receivable.

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CALIFORNIA HOUSING FINANCE FUND
COMBINED BALANCE SHEETS
June 30, 2006 and June 30, 2005
(Dollars in Thousands)

	2006 Combined Totals	2005 Combined Totals
ASSETS		
Current assets:		
Cash and cash equivalents	$ 140,518	$ 70,842
Investments	2,874,921	3,583,448
Current portion - program loans receivable, net of allowance	316,695	257,085
Interest receivable:		
Program loans, net	30,414	24,118
Investments	36,411	33,324
Accounts receivable	12,599	28,266
Other assets	743	727
Total current assets	3,412,301	3,997,810
Noncurrent assets:		
Investments	41,391	51,707
Program loans receivable, net of allowance	5,954,047	5,296,855
Deferred financing costs	31,398	31,474
Other assets	13,464	16,334
Total noncurrent assets	6,040,300	5,396,370
Total assets	$ 9,452,601	$ 9,394,180
LIABILITIES AND FUND EQUITY		
Current liabilities:		
Current portion - bonds payable, net	$ 855,741	$ 1,096,458
Interest payable	125,216	114,835
Due to other government entities, net	301,634	302,561
Compensated absences	1,836	2,119
Deposits and other liabilities	228,607	196,841
Total current liabilities	1,513,034	1,712,814
Noncurrent liabilities:		
Bonds and debenture notes payable, net	6,588,622	6,404,308
Due to other government entities, net	39,301	40,832
Deferred revenue	43,437	46,826
Total noncurrent liabilities	6,671,360	6,491,966
Total liabilities	8,184,394	8,204,780
Commitments and contingencies (see notes 11 and 13)		
Fund equity:		
Invested in capital assets	894	906
Restricted by indenture	703,539	721,750
Restricted by statute	563,774	466,744
Total fund equity	1,268,207	1,189,400
Total liabilities and fund equity	$ 9,452,601	$ 9,394,180

See notes to combined financial statements.

CALIFORNIA HOUSING FINANCE FUND
COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
June 30, 2006 and June 30, 2005
(Dollars in Thousands)

	2006 Combined Totals	2005 Combined Totals
OPERATING REVENUES		
Interest income:		
Program loans, net	$ 314,229	$ 300,330
Investments, net	138,581	119,381
Increase (decrease) in fair value of investments	(3,498)	788
Loan commitment fees	2,146	2,368
Other loan fees	10,970	7,994
Other revenues	87,407	79,263
Total operating revenues	549,835	510,124
OPERATING EXPENSES		
Interest	344,711	326,345
Amortization of bond discount and deferred losses on refundings of debt	10,005	1,391
Mortgage servicing expenses	14,019	14,084
Provision for program loan losses	7,550	6,833
Operating expenses	30,988	29,199
Other expenses	105,513	111,007
Total operating expenses	512,786	488,859
Operating income before transfers	37,049	21,265
Transfers, interfund	41,758	48,835
Increase in fund equity	78,807	70,100
Fund equity at beginning of year	1,189,400	1,119,300
Fund equity at end of year	$ 1,268,207	$ 1,189,400

See notes to combined financial statements.

CALIFORNIA HOUSING FINANCE FUND
COMBINED STATEMENTS OF CASH FLOWS
June 30, 2006 and June 30, 2005
(Dollars in Thousands)

	2006 Combined Totals	2005 Combined Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 307,934	$ 302,004
Payments to suppliers	(25,515)	(25,608)
Payments to employees	(19,604)	(18,580)
Other receipts (payments)	(674,908)	(83,225)
Net cash provided by operating activities	(412,093)	174,591
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Due to other government entities	(970)	415
Net cash provided by noncapital financing activities	(970)	415
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sales of bonds and debenture notes	1,224,061	2,328,074
Payment of bond principal	(151,641)	(182,570)
Early bond redemptions	(1,142,226)	(2,525,937)
Interest paid on debt	(334,329)	(329,300)
Interfund transfers	41,758	48,835
Additions to deferred costs	(5,720)	(6,268)
Net cash used for capital and related financing activities	(368,097)	(667,166)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity and sale of investments	6,672,337	7,519,902
Purchase of investments	(5,956,993)	(7,177,848)
Interest on investments, net	135,494	131,212
Net cash provided by (used for) investing activities	850,838	473,266
Net increase (decrease) in cash and cash equivalents	69,678	(18,894)
Cash and cash equivalents at beginning of year	70,841	89,736
Cash and cash equivalents at end of year	$ 140,519	$ 70,842
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 37,049	$ 21,265
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest expense on debt	344,711	326,345
Interest on investments	(138,581)	(119,381)
Changes in fair value of investments	3,498	(788)
Accretion of capital appreciation bonds	4,111	7,820
Amortization of bond discount	83	162
Amortization of deferred losses on refundings of debt	9,922	1,229
Amortization of bond issuance costs	5,083	8,927
Amortization of deferred revenue	(2,146)	(2,368)
Depreciation	216	217
Provision for program loan losses	7,549	6,833
Provision for yield reduction payments	0	12,618
Provision for nonmortgage investment excess	(1,530)	1,058
Changes in certain assets and liabilities:		
Purchase of program loans	(1,868,660)	(1,664,388)
Collection of principal from program loans, net	1,144,167	1,563,503
Interest receivable	(6,296)	1,673
Accounts receivable	15,669	3,722
Due to other government entities	43	362
Other assets	2,780	16
Compensated absences	(283)	459
Deposits and other liabilities	31,766	5,214
Deferred revenue	(1,244)	93
Net cash provided by operating activities	$ (412,093)	$ 174,591

See notes to combined financial statements.

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CALIFORNIA HOUSING FINANCE FUND
NOTES TO COMBINED FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2006 and 2005

Note 1 – AUTHORIZING LEGISLATION AND ORGANIZATION

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

The Agency 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 combined financial statements.

The accompanying combined financial statements are the combined financial statements of the Fund and do not include the financial position or the results of operations of the Mortgage 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, 2005, the Mortgage Insurance Fund had total assets of $60,782,000 and equity of $59,397,000 respectively (not covered by this Independent Auditors' Report).

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

Programs and accounts are as follows:

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

Single Family Mortgage Bonds 1995 Issue A: The Single Family Mortgage Bonds 1995 Issue A provide financing for the Agency's Home Mortgage Program which purchases eligible mortgage loans, secured by trust deeds on newly constructed or existing single family homes, condominiums, planned unit developments and manufactured housing permanently attached to the land and originated and serviced by qualified lending institutions. All mortgage loans purchased under this program will be insured either by the FHA, the Mortgage Insurance Fund, the VA or a private mortgage guaranty insurance policy 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.

Single Family Mortgage Bonds 1995 Issue B: The Single Family Mortgage Bonds 1995 Issue B provide financing for the Agency's Home Mortgage Program which purchases eligible mortgage loans, secured by trust deeds on newly constructed or existing single family homes, condominiums, planned unit developments and manufactured housing permanently attached to the land and originated and serviced by qualified lending institutions. All mortgage loans purchased under this program will be insured either by the FHA, the Mortgage Insurance Fund, the VA or a private mortgage guaranty insurance policy 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.

Single Family Mortgage Bonds II: The Single Family Mortgage Bonds II, a parity indenture, provide financing for the Agency's Home Mortgage Program which purchases eligible mortgage loans, secured by trust deeds on newly constructed or existing single family homes, condominiums, planned unit developments and manufactured housing permanently attached to the land and originated and serviced by qualified lending institutions. All mortgage loans purchased under this program will be insured either by the FHA, the Mortgage Insurance Fund, the VA or a private mortgage guaranty insurance policy 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.

Draw Down Bonds: The Draw Down Bonds are a low cost means for preserving tax exempt borrowing authority; they were issued in lieu of short term notes. The bonds are unrated and are issued in variable rate form and have monthly or weekly rate resets based on certain indices. The bonds are secured solely by their proceeds which are invested in investment agreements or the SMIF. These investments bear interest rates equal to or slightly in excess of the rates on the bonds.

Housing Program Bonds: The Housing Program Bonds Indenture was created to provide a vehicle for issuing debt to finance either multifamily or single family programs of the Agency. Bonds issued under this indenture are backed by the Agency's general obligation. As of June 30, 2006, the Agency has three series of bonds issued and outstanding under this indenture. These bonds were issued to finance deferred payment, simple interest loans originated under certain of the Agency's down payment assistance programs, *as well as to finance certain multifamily loans.*

Multi-Unit Rental Housing Revenue Bonds (I & II): These bonds, issued in two phases under the Multi-Unit Rental Housing Program, provide for the permanent financing of newly constructed or substantially rehabilitated multi-unit rental housing developments. Housing developments financed under this program are designed primarily for occupancy by persons and families of low or moderate income.

Multifamily Loan Purchase Bonds: On July 26, 2000, the Agency purchased 278 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: The Multifamily Housing Revenue Bonds funded Tara Village Apartments, a multifamily residential development intended for occupancy in part by persons and families of very low income. The loan was collateralized by a Guaranteed Mortgage Pass-through Certificate issued by the Federal National Mortgage Association.

Multifamily Housing Revenue Bonds II: The Multifamily Housing Revenue Bonds II are fixed rate bonds collateralized by the Government National Mortgage Association ("GNMA") mortgage-backed securities and/or FHA insured loans. The bonds were issued to 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.

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.

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 is the debenture note payable related to the claim filed under the FHA Risk Sharing Act discussed in note 7, as well as funds held in trust representing Earned Surplus and Financial Adjustment Factor ("FAF") Savings from HUD Section 8 projects. Earned Surplus is to be used in lowering the rents for persons and families of low or moderate income in accordance with state law. FAF Savings are to be used in providing decent, safe, and sanitary housing, which is available for very-low income families and persons qualifying in accordance with federal law.

Contract Administration Programs: The Agency administers loan and grant programs for the Rental Housing Construction Program, the School Facilities Fee Assistance Program, the California Homebuyer's Downpayment Assistance Program and programs offered pursuant to the Housing and Emergency Shelter Trust Fund Act of 2002. 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 received transfers in the amount of $ 41,750,000 during fiscal year 2006.

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, a small portion of the homeownership program loans in first lien position, all junior or subordinate lien homeownership program loans and certain other loans for the California State Teachers Retirement System. Loan servicing agreements require that the Agency hold and maintain escrow and reserve accounts, on behalf of borrowers, that are reported as "Deposits and other Liabilities".

Loan Warehousing: The Agency borrowed $300,000,000 from the State's Pooled Money Investment Account for short-term warehousing of Agency loans. Homeownership loans are typically warehoused as they are purchased from originating lenders and subsequently transferred to individual bond financings on a monthly basis. The borrowing, which is reapplied for and approved in six-month intervals, requires that interest be paid on the loan at a rate equal to the earnings rate on the State's Surplus Money Investment Fund ("SMIF") on the date of the new loan.

The Agency also entered into a revolving credit agreement with a financial institution to provide a line of credit for short-term borrowings of up to $100,000,000, which may be increased up to $150,000,000. Under the terms of the agreement the Agency elects a fixed or variable rate of interest dependent on the expected duration of the draw and determined on the date of the draw as a stated spread to an associated index. The line of credit is available to the Agency until February 29, 2008. The proceeds of this credit facility are to be used for working capital purposes, including warehousing of multifamily program loans or homeownership program loans and making counterparty payments for various financial contracts. At June 30, 2006 draws totaling $56,643,949 were outstanding.

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 combined financial statements have been prepared using the accrual method of accounting and on the basis of accounting principles generally accepted in the United States of America (hereinafter referred to as "Generally Accepted Accounting Principles").

Accounting and Reporting Standards: The Agency follows the Standards of Governmental Accounting and Financial Reporting, as promulgated by the Governmental Accounting Standards Board ("GASB"). The Agency has adopted the option under GASB No. 20 that allows the Agency to apply all GASB pronouncements and only Financial Accounting Standards Board ("FASB") pronouncements which date prior to November 30, 1989.

Use of Estimates: The preparation of combined 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 combined 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 Agency considers cash on hand, cash on deposit with financial institutions and cash held in money market funds to be cash and cash equivalents.

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

Interest Rate Swap Agreements: The Agency enters into interest rate swap agreements with swap counterparties to manage variable interest rate risk exposure resulting from the issuance of variable rate bonds. The interest rate swap agreements provide synthetic fixed rates of interest on the underlying bonds and are accounted for as matched swaps in accordance with settlement accounting. An interest rate swap is considered to be a matched swap if it is linked through designation with an asset or liability that is on the balance sheet, provided that it has the opposite interest characteristics of such balance sheet 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.

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 collectibility 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 combined 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, net: Bonds Payable and Debenture Notes Payable are carried at their outstanding principal balances, less unamortized bond discounts, unamortized underwriters discounts and deferred losses on refundings.

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

Capital Appreciation Bonds: Capital appreciation bonds are payable upon redemption or at maturity in an amount equal to the initial principal amount of such bond plus an amount of interest which, based on semi-annual compounding from the original issuance date, will produce a given yield to the stated maturity. This "Accreted Value" is accrued as bond interest, thereby increasing the original issuance amount of the capital appreciation bond which is not paid until redemption or maturity.

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.

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

Fund Equity: Fund equity is classified as invested in capital assets or restricted equity. Invested in capital assets represents investments in office equipment and furniture net of depreciation. Restricted equity represents equity balances under the lien of bond indentures that are therefore pledged to bondholders. State statutes further restrict other net assets 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 Fund Equity.

Other Operating Revenues and Expenses: The Agency administers certain Section 8 contracts under the HUD guidelines of New Construction and Substantial Rehabilitation. Included in most contracts is an administrative fee earned by the Agency which totaled $1,735,000 and $1,773,000 the years ended June 30, 2006 and 2005, respectively. HUD pass-through payments aggregated $73,987,152 and $74,123,000 for the years ended June 30, 2006 and 2005, respectively, and are reported as other operating revenues and expenses within Other Programs and Accounts.

Recent Accounting Pronouncements: In March 2003, GASB issued Statement of Government Accounting Standards ("SGAS") No. 40, Deposit and Investment Risk Disclosures. The Agency has adopted GASB Statement No. 40, effective for the fiscal year beginning July 1, 2004. GASB Statement No. 40 establishes additional disclosure requirements addressing common risks of investments. Implementation of the statement did not affect the Agency's net assets or revenues, expenses, and changes in net assets, but resulted in additional disclosure.

Note 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

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

Cash and Cash Equivalents: At June 30, 2006 and 2005, all cash and cash equivalents, totaling $140,518,000 and $70,842,000, respectively, were covered by federal depository insurance or by collateral held by the Agency's agent in the Agency's name.

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. The Fund's investments are categorized to give an indication of the level of risk assumed by the Agency at June 30, 2006. Category 1 includes investments that are insured or registered or for which the securities are held within the Fund by the Agency's agent in the Agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agency but not in the Agency's name.

Investments at June 30, 2006 and 2005 are as follows (dollars in thousands):

	Category 1	Category 2	Category 3	Fair Value June 30, 2006	Fair Value June 30, 2005
U.S. Treasury Securities	$ 1,248			$ 1,248	$ 1,644
U.S. Agency Securities --- GNMA's	26,468			26,468	28,992
Federal Agency Securities	20,224			20,224	22,143
Commercial Paper	77,560			77,560	7,456
Investment Agreements --- Financial Institutions (at cost)		$1,023,941		1,023,941	1,287,913
Total	$ 125,500	$1,023,941	$ -		
Other Investments (not subject to categorization):					
Surplus Money Investment Fund --- State of California				924,654	969,912
Other Investment Agreements (at cost)				842,217	1,317,095
Total Investments				$2,916,312	$3,635,155
Current portion				$2,874,921	$3,583,448
Noncurrent portion				41,391	51,707
Total				$2,916,312	$3,635,155

Note 4 – INVESTMENT RISK FACTORS

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

	2006 Combined Totals	2005 Combined Totals
U.S. Treasury Securities	$ 1,248	$ 1,644
U.S. Treasury Securities --- GNMA's	26,468	28,992
Federal Agency Securities	20,224	22,143
Commercial Paper	77,560	7,456
Investment Agreement --- Financial Institutions (at cost)	1,866,158	2,605,008
Surplus Money Investment Fund --- State of California	924,654	969,912
Total Investments	$2,916,312	$3,635,155

There are many factors that can affect the value of investments. Some, such as credit risk, custodial credit risk, and concentration of credit risk and interest rate risk, may affect both equity and fixed income securities. Equity and debt securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates. It is the investment policy of the Agency to invest substantially all of its funds in fixed income securities, which limits the Agency's exposure to most types of risk.

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

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

	2006 Combined Totals	2005 Combined Totals
Fixed income securities:		
U.S. government guaranteed	$ 47,940	$ 52,779
Guaranteed interest contracts:		
Rated Aaa/AAA	547,009	617,611
Rated Aaa/A		648,487
Rated Aa3/AA	222,057	304,294
Rated Aa3/AA-		437,835
Rated Aa3/A+		1,424
Rated Aa2/AA	90,192	472,599
Rated Aa2/AA-	478,135	112,821
Rated Aa2/A+		
Rated Aa2/A	515,699	
Rated Aa2A-	4,430	
Rated Aa1/AA	2,855	8,468
Rated Aa1/AA-	5,782	1,469
Commercial Paper:		
Rated P1/A-1+	6,072	7,456
N/A	71,488	
Total fixed income securities	$1,991,659	$2,665,243

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, 2006, the Agency did not have any investments exposed to custodial credit. All investments are held by the State of California or a 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 ,2006, no investments in any one issuer exceed 5% of the net assets, 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, 2006, 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 effective duration for fixed income securities at June 30, is as follows:

	2006	2005
Fixed income securities:		
U.S. government guaranteed	7.00	9.55
Commercial Paper	.03	.27

Note 5 – PROGRAM LOANS RECEIVABLE

Changes in program loans receivable for the years ended June 30, 2006 and 2005 are as follows (dollars in thousands):

	2006 Combined Totals	2005 Combined Totals
Beginning of year balance	$5,613,766	$5,512,912
Loans purchased/funded	1,868,661	1,664,388
Amortized principal repayments	(285,157)	(233,647)
Loan prepayments	(859,011)	(1,329,856)
Chargeoffs	(36)	(31)
Subtotal	6,338,223	5,613,766
Transfer REO to other assets	(280)	(138)
Allowance for loan losses	(67,201)	(59,688)
End of year balance	$6,270,742	$5,553,940
Current portion	$ 316,695	$ 257,085
Noncurrent portion	5,954,047	5,296,855
Total	$6,270,742	$5,553,940

Note 6 – ALLOWANCE FOR PROGRAM LOAN LOSSES

Changes in the allowance for program loan losses for the year ended June 30, 2006 and 2005 are as follows (dollars in thousands):

	2006 Combined Totals	2005 Combined Totals
Beginning of year balance	$59,688	$52,886
Provision for program loan losses	7,549	6,833
Chargeoffs	(36)	(31)
End of year balance	$67,201	$59,688

Note 7 – BONDS AND DEBENTURE 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 $11,150,000,000, 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 and outstanding notional amounts and fair value of associated interest rate swaps as of June 30, 2006 are as follows (dollars in thousands):

	Bonds and Debenture Notes					
Bond Issue	**Type of Bond**	**Interest Rate Range**	**Final Maturity Date**	**Outstanding Fixed**	**Outstanding Variable**	**Total**
Home Mortgage Revenue Bonds:						
1982 Series A	Tax-Exempt	10.250%	2014	$ 2,245		$ 2,245
1982 Series B	Tax-Exempt	10.625%	2014	715		715
1983 Series A	Tax-Exempt	10.263%	2015	17,008		17,008
1983 Series B	Tax-Exempt	10.751%	2015	4,428		4,428
1984 Series B	Tax-Exempt	11.493%	2016	639		639
1985 Series A	Tax-Exempt	10.989%	2016	673		673
1985 Series B	Tax-Exempt	9.876%	2017	3,475		3,475
1993 Series B	Tax-Exempt	5.650%	2014	3,795		3,795
1993 Series E	Tax-Exempt	5.200% - 5.500%	2014	965		965
1994 Series D	Tax-Exempt	3.300%	2034		$ 9,100	9,100
1995 Series E	Tax-Exempt	5.550% - 5.800%	2008	2,980		2,980
1995 Series G	Tax-Exempt	5.600% - 5.800%	2008	7,860		7,860
1995 Series I	Tax-Exempt	3.250%	2035		13,900	13,900
1996 Series J-1	Tax-Exempt	4.750% - 5.000%	2009	2,015		2,015
1996 Series K	Tax-Exempt	5.650% - 6.150%	2016	7,275		7,275
1996 Series L	Tax-Exempt	5.650%	2006	890		890
1996 Series P	Tax-Exempt	5.350% - 5.750%	2010	3,420		3,420
1997 Series D	Tax-Exempt	5.100% - 5.400%	2009	4,985		4,985
1997 Series E	Tax-Exempt	5.150%	2026	1,400		1,400
1997 Series F	Taxable	7.180%	2029	100		100
1997 Series G	Taxable	5.240%	2017		4,625	4,625
1997 Series O	Tax-Exempt	5.650%	2027	7,575		7,575
1998 Series F	Tax-Exempt	4.600% - 5.000%	2016	22,290		22,290
1998 Series H	Taxable	6.330% - 6.430%	2028	1,440		1,440
1998 Series J	Tax-Exempt	4.850%	2027	5,010		5,010
1998 Series L	Taxable	6.070% - 6.140%	2019	10,705		10,705
1998 Series M	Taxable	5.145%	2023		12,010	12,010
1998 Series N	Tax-Exempt	4.500%	2022	800		800
1998 Series O	Taxable	5.570%	2022	860		860
1998 Series P	Taxable	4.836%	2029		28,785	28,785
1998 Series R	Tax-Exempt	4.125% - 4.250%	2007	150		150
1998 Series S	Taxable	5.660%	2026	11,840		11,840
1998 Series T	Taxable	4.896%	2029		10,760	10,760
1999 Series F	Tax-Exempt	5.200%	2028	5,602		5,602
1999 Series G	Taxable	6.870%	2011	17,200		17,200

Swaps					
Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value

	Bonds and Debenture Notes						
Bond Issue	**Type of Bond**	**Interest Rate Range**		**Final Maturity Date**	**Outstanding Fixed**	**Outstanding Variable**	**Total**
1999 Series N	Tax-Exempt	4.800% -	6.300%	2031	22,586		22,586
1999 Series O	Taxable		5.065%	2012		28,855	28,855
2000 Series B	Tax-Exempt		6.200%	2019	6,627		6,627
2000 Series C	Tax-Exempt		3.353%	2031		38,290	38,290
2000 Series D	Taxable		5.075%	2023		36,295	36,295
2000 Series G	Tax-Exempt		3.344%	2017		4,225	4,225
2000 Series G	Tax-Exempt		3.474%	2031		49,435	49,435
2000 Series H	Taxable		5.035%	2017		49,165	49,165
2000 Series J	Tax-Exempt		3.413%	2031		29,205	29,205
2000 Series K	Taxable		4.820%	2031		77,730	77,730
2000 Series N	Tax-Exempt		3.413%	2031		36,055	36,055
2000 Series Q	Tax-Exempt		3.419%	2032		13,585	13,585
2000 Series Q	Tax-Exempt		3.419%	2032		25,000	25,000
2000 Series R	Taxable		4.871%	2032		65,890	65,890
2000 Series U	Tax-Exempt		3.408%	2017		32,565	32,565
2000 Series V	Taxable		4.920%	2032		62,115	62,115
2000 Series X-1	Tax-Exempt		3.225%	2015		4,655	4,655
2000 Series X-2	Tax-Exempt		3.406%	2031		36,445	36,445
2000 Series Z	Taxable		5.095%	2031		63,320	63,320
2001 Series C	Tax-Exempt		3.395%	2031		4,900	4,900
2001 Series C	Tax-Exempt		3.395%	2031		3,290	3,290
2001 Series D	Taxable		5.175%	2022		78,765	78,765
2001 Series F	Tax-Exempt		3.419%	2032		25,000	25,000
2001 Series G	Taxable		5.115%	2029		64,830	64,830
2001 Series J	Tax-Exempt		3.326%	2032		57,585	57,585
2001 Series K	Taxable		5.155%	2032		88,055	88,055
2001 Series N	Tax-Exempt		3.328%	2021		15,870	15,870
2001 Series O	Taxable		5.185%	2032		86,090	86,090
2001 Series R	Tax-Exempt		3.318%	2023		16,230	16,230
2001 Series R	Tax-Exempt		3.318%	2032		5,345	5,345
2001 Series S	Taxable		5.225%	2023		58,810	58,810
2001 Series U	Tax-Exempt		3.327%	2032		56,540	56,540
2001 Series V	Taxable		5.045%	2031		38,500	38,500
2002 Series A	Tax-Exempt		5.900%	2022	1,653		1,653
2002 Series B	Tax-Exempt		3.334%	2033		46,900	46,900
2002 Series C	Taxable		5.165%	2033		53,675	53,675
2002 Series D	Taxable		5.085%	2030		54,780	54,780
2002 Series E	Taxable		4.640%	2033		17,000	17,000
2002 Series F	Tax-Exempt		3.329%	2033		57,090	57,090
2002 Series H	Taxable		5.165%	2022		43,220	43,220
2002 Series J	Tax-Exempt		3.327%	2033		95,700	95,700
2002 Series L	Taxable		5.165%	2024		41,525	41,525
2002 Series M	Tax-Exempt		3.319%	2032		41,600	41,600
2002 Series M	Tax-Exempt		3.319%	2032		7,770	7,770
2002 Series M	Tax-Exempt		3.319%	2033		32,295	32,295
2002 Series O	Taxable		5.135%	2033		38,545	38,545
2002 Series P	Tax-Exempt		3.419%	2027		61,000	61,000
2002 Series Q	Tax-Exempt		3.419%	2033		25,110	25,110
2002 Series S	Taxable		5.055%	2019		6,180	6,180
2002 Series T	Taxable		4.704%	2032		25,155	25,155
2002 Series U	Tax-Exempt		3.330%	2032		38,320	38,320
2002 Series U	Tax-Exempt		3.330%	2031		47,110	47,110
2002 Series V	Tax-Exempt	2.750% -	3.750%	2009	10,680		10,680
2003 Series B	Taxable		5.045%	2027		12,880	12,880
2003 Series C	Taxable		4.676%	2033		7,000	7,000

Swaps

Fixed Rate Paid By Agency	**Floating Rate Received By Agency**	**Effective Date**	**Termination Date**	**Outstanding Notional/Applicable Amount**	**Fair Value**
6.6550%	LIBOR	12/9/99	8/1/12	$ 28,855	$ (613)
4.8500%	LIBOR @ 65%	1/27/00	2/1/17	42,500	(3,418)
7.1950%	LIBOR	1/27/00	2/1/13	36,295	(1,615)
2.3800%	LIBOR @ 65%	4/6/00	8/1/08	4,225	(1,759)
4.8000%	LIBOR @ 65%	4/6/00	2/1/23	60,000	(4,403)
7.2600%	LIBOR	4/6/00	8/1/10	49,165	(1,325)
4.9000%	LIBOR @ 65%	5/25/00	8/1/30	31,645	(3,005)
7.5000%	LIBOR	5/25/00	2/1/17	77,730	(5,267)
5.1600%	LIBOR @ 65%	5/25/00	8/1/22	50,000	(2,573)
4.6600%	LIBOR @ 65%	7/27/00	2/1/16	18,770	(1,077)
4.9500%	LIBOR @ 65%	7/27/00	8/1/23	25,000	(1,310)
7.1100%	LIBOR	7/27/00	8/1/22	65,890	(5,775)
4.5275%	LIBOR @ 65%	10/5/00	8/1/15	35,030	(1,693)
7.0960%	6 mo LIBOR	10/5/00	8/1/14	62,115	(2,723)
4.3580%	LIBOR @ 64%	12/13/00	8/1/15	10,120	(253)
4.5100%	LIBOR @ 65%	12/13/00	8/1/31	36,445	(2,260)
6.8430%	3 mo LIBOR	12/13/00	8/1/16	63,320	(2,573)
3.9000%	LIBOR @ 65%	1/25/01	8/1/20	5,670	(66)
2.3780%	LIBOR @ 65%	1/25/01	8/1/16	3,290	(861)
6.2150%	3 mo LIBOR+.26%	1/25/01	8/1/19	78,765	(1,021)
3.8700%	LIBOR @ 65%	4/5/01	8/1/17	25,000	(461)
6.0100%	3 mo LIBOR+.20%	4/5/01	2/1/16	64,830	(614)
4.1430%	LIBOR @ 65%	5/31/01	8/1/24	73,055	(2,920)
3.9910%	LIBOR @ 65%	7/26/01	8/1/18	17,570	(389)
6.3600%	3 mo LIBOR+.27%	7/26/01	8/1/20	86,090	(1,608)
3.6900%	LIBOR @ 65%	10/10/01	2/1/19	17,710	(19)
2.2720%	LIBOR @ 65%	10/10/01	8/1/11	5,345	(948)
5.5300%	3 mo LIBOR+.31%	10/10/01	8/1/18	58,810	1,014
4.1300%	BMA less .15%	12/6/01	8/1/32	59,900	(330)
3.8880%	LIBOR @ 65%	4/18/02	8/1/27	46,900	(1,273)
5.6000%	3 mo LIBOR+.25%	5/1/02	8/1/12	53,675	232
5.8000%	3 mo LIBOR+.17%	8/1/02	2/1/11	54,780	(37)
6.1950%	1 mo LIBOR	8/1/02	8/1/14	17,000	(511)
3.9940%	LIBOR @ 65%	6/6/02	2/1/24	63,455	(1,921)
5.5350%	3 mo LIBOR+.25%	11/1/02	2/1/13	43,220	271
3.8630%	LIBOR @ 65%	8/8/02	8/1/32	99,955	(2,382)
5.1000%	3 mo LIBOR+.25%	12/1/02	2/1/13	41,525	766
3.7280%	LIBOR @ 65%	10/17/02	8/1/22	41,600	(527)
2.2740%	LIBOR @ 65%	10/17/02	8/1/12	7,770	(1,006)
4.4800%	LIBOR @ 65%	10/17/02	8/1/33	37,080	161
3.9890%	3 mo LIBOR+.22%	2/3/03	2/1/12	38,545	1,685
3.1480%	LIBOR @ 65%	12/12/02	8/1/22	61,000	1,710
3.8200%	LIBOR @ 65%	12/12/02	8/1/32	25,110	1,051
3.3500%	3 mo LIBOR+.14%	5/1/03	8/1/07	6,180	62
3.9100%	LIBOR @ 60%+.26%	3/6/03	2/1/31	38,320	742
3.2400%	LIBOR @ 60%+.26%	3/6/03	2/1/31	47,110	1,393

	Bonds and Debenture Notes					
Bond Issue	**Type of Bond**	**Interest Rate Range**	**Final Maturity Date**	**Outstanding Fixed**	**Outstanding Variable**	**Total**
2003 Series D	Tax-Exempt	3.408%	2033		48,750	48,750
2003 Series D	Tax-Exempt	3.408%	2022		46,095	46,095
2003 Series E	Tax-Exempt	1.600% - 2.350%	2008	3,870		3,870
2003 Series F	Tax-Exempt	3.405%	2022		52,575	52,575
2003 Series F	Tax-Exempt	3.405%	2034		79,565	79,565
2003 Series G	Taxable	5.065%	2034		21,585	21,585
2003 Series H	Tax-Exempt	3.406%	2032		57,675	57,675
2003 Series H	Tax-Exempt	3.406%	2033		68,135	68,135
2003 Series I	Taxable	5.095%	2033		36,620	36,620
2003 Series K	Tax-Exempt	3.440%	2033		72,000	72,000
2003 Series K	Tax-Exempt	3.441%	2034		64,210	64,210
2003 Series L	Taxable	5.095%	2034		32,990	32,990
2003 Series M	Tax-Exempt	3.408%	2024		65,035	65,035
2003 Series M	Tax-Exempt	3.326%	2034		75,245	75,245
2003 Series N	Taxable	5.125%	2034		39,595	39,595
2004 Series A	Tax-Exempt	3.415%	2033		47,750	47,750
2004 Series A	Tax-Exempt	3.415%	2034		39,720	39,720
2004 Series B	Taxable	5.085%	2034		6,405	6,405
2004 Series D	Tax-Exempt	1.900% - 2.900%	2009	10,470		10,470
2004 Series E	Tax-Exempt	3.424%	2035		59,600	59,600
2004 Series E	Tax-Exempt	3.424%	2035		69,040	69,040
2004 Series F	Taxable	5.105%	2035		48,885	48,885
2004 Series G	Tax-Exempt	3.415%	2034		67,220	67,220
2004 Series G	Tax-Exempt	3.415%	2035		29,235	29,235
2004 Series H	Taxable	5.145%	2035		22,375	22,375
2004 Series I	Tax-Exempt	3.420%	2034		17,065	17,065
2004 Series I	Tax-Exempt	3.420%	2035		12,935	12,935
2004 Series J	Taxable	5.035%	2035		1,860	1,860
2005 Series A	Tax-Exempt	3.410%	2035		192,055	192,055
2005 Series B	Tax-Exempt	3.393%	2016		62,920	62,920
2005 Series B	Tax-Exempt	3.393%	2035		95,220	95,220
2005 Series B	Tax-Exempt	3.393%	2035		36,860	36,860
2005 Series C	Tax-Exempt	2.750% - 3.700%	2013	42,355		42,355
2005 Series D	Tax-Exempt	3.418%	2038		69,870	69,870
2005 Series D	Tax-Exempt	3.418%	20		106,130	106,130
2005 Series E	Tax-Exempt	2.600% - 3.350%	2011	20,000	20,000	20,000
2005 Series F	Tax-Exempt	3.424%	2037		73,315	73,315
2005 Series F	Tax-Exempt	3.424%	2038		86,685	86,685
2005 Series F	Tax-Exempt	3.424%	2040		20,000	20,000
2005 Series G	Tax-Exempt	3.345%	2034		21,320	21,320
2005 Series G	Tax-Exempt	3.345%	2034		13,680	13,680
2005 Series H	Tax-Exempt	3.317%	2036		88,290	88,290
2005 Series H	Tax-Exempt	3.317%	2036		76,710	76,710
2006 Series A	Tax-Exempt	3.348%	2035		35,000	35,000
2006 Series B	Tax-Exempt	3.400% - 4.000%	2013	25,000		25,000
2006 Series C	Tax-Exempt	3.610%	2037		85,995	85,995
2006 Series C	Tax-Exempt	3.610%	2037		89,005	89,005
Single Family Mortgage Bonds 1995 Issue A:						
1995 Issue A-1	Taxable	7.900% - 8.240%	2014	385		385
1995 Issue A-2	Tax-Exempt	5.800% - 6.450%	2026	2,530		2,530
Single Family Mortgage Bonds 1995 Issue B:						
1995 Issue B-2	Tax-Exempt	5.500% - 6.300%	2027	5,865		5,865

Swaps

Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
3.7750%	LIBOR @ 60%+.26%	4/10/03	8/1/33	48,750	1,579
3.1300%	LIBOR @ 60%+.26%	4/10/03	8/1/19	46,095	1,496
3.1250%	LIBOR @ 60%+.26%	3/26/03	2/1/18	52,575	1,609
3.7000%	LIBOR @ 60%+.26%	3/26/03	2/1/34	79,565	2,717
2.6750%	LIBOR @ 60%+.26%	8/7/03	8/1/30	57,675	3,556
3.4270%	LIBOR @ 60%+.26%	8/7/03	8/1/33	68,135	3,789
3.2700%	LIBOR @ 60%+.26%	8/1/04	2/1/18	72,000	1,438
4.2450%	LIBOR @ 60%+.26%	8/1/04	8/1/30	64,210	(77)
3.2250%	LIBOR @60%+.26%	2/2/04	8/1/19	65,035	1,948
3.8900%	LIBOR @60%+.26%	2/2/04	2/1/34	75,245	1,992
3.0875%	LIBOR @ 60%+.26%	8/1/04	8/1/30	47,750	1,601
4.0450%	LIBOR @ 60%+.26%	8/1/04	2/1/34	39,720	422
3.5400%	LIBOR @ 60%+.26%	4/1/05	8/1/20	59,600	673
4.1330%	LIBOR @ 60%+.26%	4/1/05	2/1/35	69,040	43
3.6100%	LIBOR @ 60%+.26%	2/1/05	2/1/34	67,220	155
4.0821%	LIBOR @ 60%+.26%	8/1/04	2/1/35	31,335	439
3.5600%	LIBOR @ 60%+.26%	8/4/04	2/1/33	17,065	156
4.0750%	LIBOR @ 60%+.26%	8/4/04	2/1/35	12,935	163
3.8040%	LIBOR @ 60%+.26%	4/5/05	8/1/35	192,055	4,106
3.0490%	LIBOR @ 60%+.26%	7/1/05	2/1/16	62,920	3,053
3.7260%	LIBOR @ 60%+.26%	7/1/05	2/1/35	95,220	1,514
3.1580%	LIBOR @ 60%+.26%	5/19/05	2/1/36	69,870	2,364
3.6040%	LIBOR @ 60%+.26%	5/19/05	2/1/40	106,130	4,219
3.2200%	LIBOR @ 60%+.26%	7/28/05	8/1/31	72,995	2,757
3.3860%	LIBOR @ 60%+.26%	7/28/05	2/1/38	86,685	(5,183)
4.4540%	97% BMA & HR	12/15/05	2/1/34	21,320	137
3.9320%	LIBOR @ 62%+.25%&HR	12/15/05	2/1/34	13,680	230
3.6500%	LIBOR @ 26%+.25%	12/15/05	8/1/31	88,290	1,461
3.8570%	LIBOR @ 26%+.25%	12/15/05	2/1/36	76,710	2,049
4.3530%	97% BMA	2/2/06	8/1/35	35,000	445
4.0180%	LIBOR @ 26%+.25%	4/19/06	8/1/30	85,995	485
4.0590%	LIBOR @ 26%+.25%	4/19/06	2/1/37	89,005	1,049

Bond Issue	Type of Bond	Interest Rate Range			Final Maturity Date	Outstanding Fixed	Outstanding Variable	Total
Single Family Mortgage Bonds II:								
1997 Series A-1	Tax-Exempt	5.200%	-	6.000%	2020	12,225		12,225
1997 Series B-1	Tax-Exempt	4.750%	-	5.650%	2028	4,790		4,790
1997 Series B-3	Tax-Exempt	4.500%	-	5.400%	2029	8,940		8,940
1997 Series B-4	Taxable			6.460%	2018	3,420		3,420
1997 Series C-1	Tax-Exempt			5.050%	2011	1,905		1,905
1997 Series C-2	Tax-Exempt	4.950%	-	5.650%	2025	2,290		2,290
1997 Series C-3	Taxable			6.790%	2029	6,700		6,700
1997 Series C-4	Tax-Exempt	4.950%	-	5.650%	2025	280		280
1998 Series A	Tax-Exempt	4.500%	-	5.400%	2026	2,080		2,080
1998 Series B	Tax-Exempt	5.150%	-	5.200%	2030	1,135		1,135
1999 Series A-2	Tax-Exempt	4.800%	-	5.250%	2030	11,270		11,270
1999 Series A-3	Taxable			5.880%	2021	6,480		6,480
1999 Series A-4	Taxable			4.658%	2030		1,075	1,075
1999 Series D-2	Tax-Exempt	5.200%	-	5.550%	2022	2,375		2,375
1999 Series D-3	Taxable			6.880%	2017	7,910		7,910
Draw Down Bonds:								
Series 2004 B-1	Tax-Exempt			4.404%	2007		436,425	436,425
Series 2005 A	Tax-Exempt			4.850%	2008		47,116	47,116
Series 2005 B	Tax-Exempt			4.850%	2008		250,150	250,150
Housing Program Bonds:								
Series 2004 A	Tax-Exempt			3.656%	2036		50,000	50,000
Series 2006 A	Tax-Exempt	4.750%	-	3.656%	2036		47,090	47,090
Series 2006 B - SF	Taxable			5.124%	2036		11,110	11,110
Series 2006 B - MF	Taxable			5.124%	2036		50,000	50,000
Multi-Unit Rental Housing Revenue Bonds I:								
1994 Series B	Tax-Exempt	6.600%	-	7.125%	2024	12,010		12,010
Multi-Unit Rental Housing Revenue Bonds II:								
1992 Series B	Tax-Exempt			6.700%	2015	3,510		3,510
Multifamily Loan Purchase Bonds:								
2000 Series A	Taxable			Variable	2017	116,363		116,363
Multifamily Housing Revenue Bonds II:								
1995 Series A	Tax-Exempt			6.250%	2037	11,195		11,195
1995 Series C	Taxable	8.000%	-	8.100%	2037	20,275		20,275
1996 Series A	Tax-Exempt			6.050%	2027	16,920		16,920
1996 Series B	Tax-Exempt	5.450%	-	6.150%	2022	21,425		21,425
Multifamily Housing Revenue Bonds III:								
1997 Series A	Tax-Exempt	5.850%	-	6.050%	2038	64,385		64,385
1998 Series A	Tax-Exempt	4.550%	-	5.500%	2038	31,925		31,925
1998 Series B	Tax-Exempt	4.550%	-	5.500%	2039	77,835		77,835
1998 Series C	Tax-Exempt	4.350%	-	5.300%	2028	12,170		12,170
1999 Series A	Tax-Exempt	4.300%	-	5.375%	2036	35,360		35,360
2000 Series A	Tax-Exempt			3.769%	2035		33,335	33,335
2000 Series A	Tax-Exempt			3.769%	2035		51,340	51,340
2000 Series B	Tax-Exempt			3.631%	2031		7,620	7,620
2000 Series C	Tax-Exempt			3.689%	2033		63,300	63,300

Swaps					
Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
3.145%	LIBOR @ 60%+.26%	11/4/04	11/1/19	35,000	1,631
5.4550%	BMA less .15%	7/12/00	2/1/35	33,335	(5,060)
4.6600%	LIBOR @ 65%	7/12/00	2/1/26	51,340	(4,062)
4.5850%	LIBOR @ 64%	7/12/00	2/1/31	7,620	(512)
4.4300%	LIBOR @ 65%	11/16/00	2/1/33	63,300	(5,466)

Bonds and Debenture Notes

Bond Issue	Type of Bond	Interest Rate Range	Final Maturity Date	Outstanding Fixed	Outstanding Variable	Total
2000 Series D	Tax-Exempt	3.639%	2031		16,410	16,410
2001 Series A	Tax-Exempt	3.689%	2032		12,495	12,495
2001 Series C	Taxable	5.185%	2041		12,960	12,960
2001 Series D	Tax-Exempt	3.210%	2022		2,905	2,905
2001 Series D	Tax-Exempt	3.210%	2022		1,645	1,645
2001 Series E	Tax-Exempt	3.396%	2036		53,465	53,465
2001 Series E	Tax-Exempt	3.396%	2036		2,890	2,890
2001 Series F	Tax-Exempt	3.362%	2032		17,135	17,135
2001 Series G	Tax-Exempt	2.382%	2036		45,505	45,505
2001 Series G	Tax-Exempt	2.382%	2036		10,285	10,285
2001 Series G	Tax-Exempt	2.382%	2036		1,640	1,640
2001 Series H	Taxable	4.882%	2036		15,595	15,595
2002 Series A	Tax-Exempt	2.392%	2037		18,565	18,565
2002 Series A	Tax-Exempt	2.392%	2037		12,810	12,810
2002 Series B	Tax-Exempt	3.352%	2035		31,440	31,440
2002 Series C	Tax-Exempt	3.402%	2037		14,550	14,550
2002 Series C	Tax-Exempt	3.402%	2037		17,215	17,215
2002 Series C	Tax-Exempt	3.402%	2037		3,305	3,305
2002 Series D	Tax-Exempt	3.210%	2035		12,370	12,370
2002 Series E	Tax-Exempt	3.396%	2037		15,975	15,975
2002 Series E	Tax-Exempt	3.396%	2037		41,560	41,560
2002 Series E	Tax-Exempt	3.396%	2037		4,790	4,790
2003 Series A	Tax-Exempt	3.388%	2038		29,710	29,710
2003 Series A	Tax-Exempt	3.388%	2038		28,605	28,605
2003 Series A	Tax-Exempt	3.388%	2038		760	760
2003 Series B	Tax-Exempt	3.650%	2038		9,245	9,245
2003 Series B	Tax-Exempt	3.650%	2038		15,705	15,705
2003 Series B	Tax-Exempt	3.650%	2038		9,545	9,545
2003 Series B	Tax-Exempt	3.650%	2038		25,140	25,140
2003 Series C	Tax-Exempt	3.409%	2038		16,085	16,085
2003 Series C	Tax-Exempt	3.409%	2038		17,230	17,230
2003 Series C	Tax-Exempt	3.409%	2038		19,010	19,010
2003 Series C	Tax-Exempt	3.409%	2038		41,830	41,830
2004 Series A	Tax-Exempt	3.188%	2034		22,660	22,660
2004 Series B	Tax-Exempt	3.512%	2039		12,950	12,950
2004 Series B	Tax-Exempt	3.512%	2039		7,300	7,300
2004 Series B	Tax-Exempt	3.512%	2039		5,560	5,560
2004 Series B	Tax-Exempt	3.512%	2039		16,890	16,890
2004 Series B	Tax-Exempt	3.512%	2039		3,035	3,035
2004 Series B	Tax-Exempt	3.512%	2039		49,690	49,690
2004 Series C	Tax-Exempt	3.085%	2037		9,480	9,480
2004 Series C	Tax-Exempt	3.085%	2037		4,220	4,220
2004 Series D	Tax-Exempt	2.489%	2039		13,440	13,440
2004 Series D	Tax-Exempt	3.354%	2039		6,505	6,505
2004 Series D	Tax-Exempt	3.354%	2039		7,215	7,215
2004 Series D	Tax-Exempt	3.354%	2039		38,735	38,735
2004 Series D	Tax-Exempt	3.354%	2039		72,330	72,330
2005 Series A	Tax-Exempt	3.210%	2035		2,460	2,460
2005 Series B	Tax-Exempt	2.450%	2038		2,795	2,795
2005 Series B	Tax-Exempt	2.450%	2038		26,645	26,645
2005 Series B	Tax-Exempt	2.450%	2038		4,060	4,060
2005 Series B	Tax-Exempt	2.450%	2038		58,405	58,405
2005 Series C	Tax-Exempt	3.000% - 4.900%	2036	9,025		9,025
2005 Series D	Tax-Exempt	3.312%	2038		33,870	33,870
2005 Series D	Tax-Exempt	3.312%	2038		57,355	57,355
2005 Series E	Tax-Exempt	3.400% - 5.125%	2038	22,935		22,935

Swaps

Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
4.3950%	LIBOR @ 64%	11/16/00	2/1/31	16,410	(1,131)
4.6200%	BMA less .15%	2/22/01	2/1/32	12,495	(517)
4.4520%	BMA less .20%	6/28/01	8/1/22	2,905	(95)
4.7120%	BMA less .15%	6/28/01	2/1/36	53,465	(3,024)
4.0290%	BMA less .20%	2/1/02	2/1/32	17,135	(20)
4.2050%	BMA less .15%	2/1/02	8/1/36	45,780	(316)
4.5950%	BMA less .15%	2/1/04	2/1/34	10,285	(464)
4.5000%	BMA less .15%	8/1/02	8/1/32	18,565	(586)
4.8900%	BMA less .15%	2/2/04	2/1/37	12,810	(872)
4.0370%	BMA less .20%	2/1/03	2/1/35	31,440	90
4.4050%	BMA less .15%	2/1/04	2/1/37	14,550	(344)
4.6380%	BMA less .15%	8/1/05	8/1/37	17,215	(851)
4.0850%	BMA less .20%	2/3/03	2/1/35	12,370	39
4.1510%	BMA less .15%	2/3/03	2/1/34	15,975	40
4.5710%	BMA less .15%	11/1/04	8/1/37	41,560	(1,716)
4.2950%	BMA less .15%	9/1/05	2/1/38	29,710	223
3.3850%	BMA less .15%	8/1/03	8/1/36	28,605	1,719
3.8830%	LIBOR @ 60%+.26%	12/1/04	8/1/38	9,245	(171)
3.9680%	LIBOR @ 60%+.26%	7/1/05	2/1/36	15,705	(401)
4.0600%	LIBOR @ 60%+.26%	2/1/06	8/1/38	9,545	(363)
3.5560%	LIBOR @ 60%+.26%	2/1/04	8/1/35	16,085	372
4.0260%	LIBOR @ 60%+.26%	8/1/05	8/1/35	17,230	(146)
4.1770%	LIBOR @ 60%+.26%	2/1/06	8/1/38	19,010	(341)
3.0590%	LIBOR @ 60%+.21%	8/1/04	8/1/34	23,100	1,139
3.6920%	LIBOR @ 60%+.26%	8/1/06	8/1/36	12,950	159
3.3860%	LIBOR @ 60%+.26%	8/1/04	8/1/34	7,300	321
3.3300%	LIBOR @ 60%+.26%	8/1/04	8/1/34	5,560	258
4.9783%	BMA less .15%	8/1/06	2/1/39	16,890	(948)
4.5390%	BMA less .15%	8/1/04	8/1/34	3,035	(51)
3.4350%	LIBOR @ 60%+.21%	2/1/05	8/1/25	9,480	130
3.5880%	LIBOR @ 60%+.21%	12/1/06	2/1/37	4,220	7
3.5900%	LIBOR @ 60%+.26%	2/1/05	2/1/35	13,440	131
3.5680%	LIBOR @ 60%+.26%	12/1/05	2/1/36	6,505	30
3.7780%	LIBOR @ 60%+.26%	11/1/06	2/1/37	7,215	25
3.9840%	LIBOR @ 60%+.26%	12/1/07	8/1/39	38,735	(513)
3.5640%	BMA less .20%	7/1/05	8/1/35	2,460	155
3.9540%	BMA less .15%	6/15/05	8/1/35	2,795	101
4.0790%	BMA less .15%	2/1/07	2/1/37	26,645	511
3.9570%	BMA less .15%	8/1/07	2/1/38	4,060	190
3.7010%	LIBOR @ 60%+.26%	2/1/06	2/1/38	33,870	(100)

Bond Issue	Type of Bond	Interest Rate Range	Final Maturity Date	Outstanding Fixed	Outstanding Variable	Total
		Bonds and Debenture Notes				
2006 Series A	Tax-Exempt	3.924%	2041		8,300	8,300
2006 Series A	Tax-Exempt	3.924%	2041		9,445	9,445
2006 Series A	Tax-Exempt	3.924%	2041		4,290	4,290
2006 Series A	Tax-Exempt	3.924%	2040		54,880	54,880
Multifamily Draw Down Bonds:						
Series 2005	Tax-Exempt	4.850%	2008		20,365	20,365
				827,494	6,599,711	7,427,205
Unamortized discount						(688)
Unamortized deferred losses on refundings						(5,288)
Total Bonds						7,421,229
Housing Assistance Trust:						
Ridgeway Apartments (debenture note)		6.375%	2010	23,134		23,134
Total Bonds and Debenture Notes				$ 850,628	$6,599,711	$7,444,363

Swaps					
Fixed Rate Paid By Agency	**Floating Rate Received By Agency**	**Effective Date**	**Termination Date**	**Outstanding Notional/Applicable Amount**	**Fair Value**
4.042% + HR	97% BMA & HR	6/15/06	8/1/27	8,300	23
4.381% + HR	97% BMA & HR	6/15/06	8/1/39	9,445	3
4.492% + HR	97% BMA & HR	6/15/06	2/1/41	4,290	0
				$4,885,175	$ (27,837)

Changes in bonds and debenture notes payable for the year ended June 30, 2006 and 2005 are as follows (dollars in thousands):

	2006 Combined Totals	**2005 Combined Totals**
Beginning of year balance	$7,500,766	$7,873,007
New bonds issued	1,224,061	2,304,940
New debenture notes issued		23,134
Scheduled maturities	(151,641)	(182,570)
Redemptions	(1,142,226)	(2,525,937)
Bond accretions	4,111	7,820
Unamortized discount	83	162
Unamortized deferred loss	9,922	1,229
Additions to deferred costs	(912)	(1,019)
Reclassified discount as deferred loss	199	
End of year balance	$7,444,363	$7,500,766
Current portion	$ 855,741	$1,096,458
Noncurrent portion	6,588,622	6,404,308
Total	$7,444,363	$7,500,766

The Agency's variable rate debt is typically related to common indices such as the Bond Market Association ("BMA") 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, 2006, 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**
2007	$ 808,251	$ 128,445	$ 47,497	$ 192,445	$ 26,679	$ 1,203,317
2008	85,689	93,578	89,373	201,490	19,097	489,227
2009	75,728	89,853	99,990	197,176	17,514	480,261
2010	69,636	86,087	104,013	192,227	16,823	468,786
2011	67,767	82,471	106,713	187,191	16,055	460,197
2012-2016	211,810	366,708	639,250	855,867	66,804	2,140,439
2017-2021	172,957	309,311	795,162	701,527	49,378	2,028,335
2022-2026	202,353	256,727	880,922	519,390	32,700	1,892,092
2027-2031	242,139	190,689	1,101,344	318,580	18,379	1,871,131
2032-2036	182,112	131,595	765,670	103,734	5,620	1,188,731
2037-2041	506,747	51,757	172,082	7,245	500	738,331
Total	$2,625,189	$1,787,221	$4,802,016	$3,476,872	$269,549	$ 12,960,847

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), the exceptions are listed below 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.

Terms, Fair Value and Credit Risk of Interest Rate Swaps*:* The terms of the outstanding fixed payer swaps as of June 30, 2006 are summarized in the table above. The terms of the outstanding basis swaps are summarized in the table under Basis Risk Associated with Interest Rate Swaps.

All notional amounts (or “applicable amounts”) of the fixed payer swaps match the principal amounts of the associated debt with the following exceptions (dollars in thousands):

Bond Issue	Bonds Outstanding	Swaps Notional Amount	Unmatched Swaps	Fair Value
Home Mortgage Revenue Bonds:				
2000 Series C *	$ 38,290	$ 42,500	$ 4,210	$ (338)
2000 Series G	49,435	60,000	10,565	(775)
2000 Series J	29,205	31,645	2,440	(232)
2000 Series N	36,055	50,000	13,945	(718)
2000 Series Q	13,585	18,770	5,185	(297)
2000 Series U	32,565	35,030	2,465	(120)
2000 Series X-1	4,655	10,120	5,465	(137)
2001 Series C	4,900	5,670	770	(9)
2001 Series J	57,585	73,055	15,470	(618)
2001 Series N	15,870	17,570	1,700	(38)
2001 Series R	16,230	17,710	1,480	(2)
2001 Series U	56,540	59,900	3,360	(19)
2002 Series F	57,090	63,455	6,365	(193)
2002 Series J	95,700	99,955	4,255	(101)
2002 Series M	32,295	37,080	4,785	(429)
2004 Series G	29,235	31,335	2,100	29
Multifamily Housing Revenue Bonds III:				
2001 Series G	45,505	45,780	275	(2)
2004 Series A	22,660	23,100	440	22
Total	$ 637,400	$ 722,675	$ 85,275	$ (3,977)

*Includes Basis Swaps.

As of June 30, 2006 the fair value of the unmatched swaps is reported in the combined balance sheets as “Deposits and other liabilities” or “Accounts receivable” and as a gain or loss on the fair value of the swaps as “Other Revenues” or “Other Expenses” in the combined statements of revenues, expenses and changes in Fund equity. The Agency did not pay or receive any cash when the swap transactions were initiated.

The Agency utilizes eleven highly-creditworthy counterparties for its interest rate swap transactions. Seventy-three percent of the notional amount outstanding at June 30, 2006 is with four of the counterparties. The largest single exposure to any one counterparty is $1,342,280,000. The Agency negotiated “asymmetrical” credit requirements for all interest rate swap transactions. These asymmetrical provisions impose higher credit standards on the counterparties than on the Agency. Counterparties are required to collateralize their exposure to the Agency when their credit ratings fall from double-A to the highest single-A category (A1/A+), whereas the Agency is not required to provide collateralization until its ratings fall to the mid-single-A category (A2/A).

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 $27,837,000 as of June 30, 2006. Fair values are as reported by the Agency’s dealer counterparties and are estimated using the zero-coupon method.

As of June 30, 2006, the Agency’s swap portfolio has an aggregate negative fair value and the Agency is not exposed to credit risk. However, should interest rates begin to rise; the negative fair value of the swap portfolio would be reduced and could eventually become positive. At this point, the Agency would become exposed to the counterparties’ credit, since the counterparties would be obligated to make payments to the Agency in the event of termination.

The table below shows the number of fixed payer swaps and outstanding notional amounts by the counterparties' respective credit ratings (dollars in thousands).

Moody's	Standard & Poors	Outstanding Notional Amount	Number of Swap Transactions
Aaa	AAA	$2,241,005	59
Aaa	AAA[t]	0	0
Aaa	AA+	0	0
Aa3	A+	895,390	24
Aa2	AA+	70,810	2
Aa2	AA	98,555	2
Aa2	AA-	218,300	8
Aa1	AA+	334,330	9
Aa1	AA	221,945	5
Aa1	AA-	804,840	20
		$4,885,175	129

Basis Risk Associated with Interest Rate Swaps: 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 BMA 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 BMA and LIBOR converge.

Based on the historic relationship between short-term tax-exempt and taxable rates, the Agency initially chose to enter into many swaps at a ratio of 65% of LIBOR. However, with short-term rates at historic lows, the historic relationship between tax-exempt and taxable rates has not been maintained. Therefore, after considerable study of California tax-exempt variable rate history, the Agency settled on a new formula (60% of LIBOR plus a spread, currently .26%) that results in comparable fixed-rate economics but performs better when short-term rates are low and the BMA/LIBOR percentage is high. As of June 30, 2006, the BMA rate was 3.97%, 65% of one-month LIBOR was 3.467% and 60% of one-month LIBOR plus 26 basis points was 3.461%. Since December of 2002 the Agency has used this new formula, and the Agency expects to continue to use this formula for LIBOR based swaps exclusively. In addition, the Agency entered into thirteen basis swaps as a means to change the variable rate formula received for $650,895,000 outstanding notional amount. These basis swaps changed the variable rate formula received from counterparties from 65% of LIBOR to those described in the table below (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 @ 63%-0.019%	2/1/04	2/1/17	$ 42,500	$ (215)
2000 Series J	LIBOR @ 65%	LIBOR @ 63%-0.019%	2/1/04	8/1/30	31,645	(282)
2000 Series U	LIBOR @ 65%	LIBOR @ 63%-0.019%	2/1/04	8/1/15	35,030	(136)
2000 Series X-2	LIBOR @ 65%	LIBOR @ 63%-0.019%	2/1/04	8/1/31	36,445	(285)
2001 Series J	LIBOR @ 65%	LIBOR @ 61.5%	2/1/04	8/1/24	73,055	(884)
2001 Series N	LIBOR @ 65%	LIBOR @ 63%-0.019%	2/1/04	8/1/18	17,570	(70)
2002 Series B	LIBOR @ 65%	LIBOR @ 63%-0.019%	2/1/04	8/1/27	46,900	(461)
2002 Series F	LIBOR @ 65%	LIBOR @ 63%-0.019%	2/1/04	2/1/24	63,455	(460)
2002 Series J	LIBOR @ 65%	LIBOR @ 61.5%	2/1/04	8/1/32	99,955	(1,251)
2002 Series M	LIBOR @ 65%	LIBOR @ 63%-0.019%	2/1/04	8/1/22	41,600	(403)
2002 Series P	LIBOR @ 65%	LIBOR @ 61.5%	2/1/04	8/1/22	61,000	(825)
Multifamily Housing Revenue Bonds III:						
2000 Series A	LIBOR @ 65%	LIBOR @ 61.5%	2/1/04	2/1/26	51,340	(666)
2000 Series C	LIBOR @ 65%	LIBOR @ 61.5%+0.012%	2/1/04	2/1/29	50,400	(729)
					$ 650,895	$ (6,667)

*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 6/30/06.

In addition, the Multifamily Housing Revenue Bonds III Series 2000 C has two associated interest rate swaps, one for $63,300,000, the total amount of the bonds outstanding, and the second on $12,900,000 of the same bonds (the second swap is not reflected in the interest rate swap table above). Under the terms of the first swap the Agency pays a fixed interest rate and receives a variable interest rate; while under the second swap, the Agency elected to pay a variable rate of interest based on a percentage of LIBOR and receive a variable rate of interest based on BMA.

Termination Risk associated with Interest Rate Swaps: 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 Associated with Interest Rate Swaps: The Agency's interest rate swap agreements have limited rollover risk as the swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled and anticipated reductions in the associated bonds payable.

Debenture Note Payable: In October 2004, a Development known as "Ridgeway Apartments," situated in Marin City, California, defaulted on its loan, which was insured by FHA under the Risk Sharing Act, with 50% of the risk covered by FHA. In May 2005, the Agency submitted a claim under the Risk Sharing Act, which FHA paid on May 13, 2005, in the amount of $23,133,890, representing the unpaid principal balance of this loan in the amount of $22,117,043 plus unpaid interest of $1,016,847. On June 8, 2005, the amount representing the unpaid principal balance of the loan was used to redeem the respective multifamily housing revenue bonds issued to fund the loan, and the loan has been transferred to the Agency's Housing Assistance Trust.

In place of the bonds the Agency's obligation is to HUD in the form of a "debenture note payable", due May 13, 2010 with annual interest payments at a rate of 6.75%. The debenture note payable may be paid earlier upon the loan default being resolved (which may include the loan default being cured).

Note 8 – NONMORTGAGE INVESTMENT EXCESS

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, 2006 and 2005, the Fund had liabilities to the IRS totaling $23,357,000 and $24,887,000, respectively reported in the combined balance sheets as "Due to other Government entities". The net effect of changes in the liability account has been recorded as a reduction of "Interest income from Investments" in the combined statements of revenues, expenses and changes in Fund equity.

The Agency issued Home Mortgage Revenue Bonds in 1994 and 1995 as variable rate plans of finance subject to review and monitoring for mortgage yield compliance. As of June 30, 2006 and 2005 these bonds had estimated liabilities to the IRS of $15,944,000 reported in the combined balance sheets as "Due to other Government entities". The net effect of changes in the liability account has been recorded as a reduction of "interest income from program loans and loan agreements". The Agency will continue to monitor the status of mortgage yield compliance for the aforementioned bonds to monitor and mitigate further liability.

Note 9 – EXTINGUISHMENT OF DEBT

On November 3, 2005 the Agency issued Multifamily Housing Revenue Bonds III 2005 Series C, Series D and Series E and on February 1, 2006 a portion of the proceeds were used to refund Multifamily Housing Revenue Bonds II 1995 Series B. The loss from the debt refunding was deferred and will be amortized as a component of interest expense over the shorter of the term of the bonds extinguished or the term of the refunding bonds.

A summary of the loss from the extinguishment of the Multifamily Rental Housing Programs' debt for the year ended June 30, 2006 is as follows (dollars in thousands):

Unmatured principal	$33,870
Unamortized bond issuance costs	(35)
Unamortized underwriter's fees	(0)
Unamortized underwriter's discount	(199)
Net obligation defeased	33,636
Less proceeds disbursed	33,870
Less premiums disbursed	678
Deferred loss on defeasance	$ (912)

The refunding will decrease the debt service cash outflow for Multifamily Programs by approximately $4,739,495. The refunding may also provide for an economic gain (present value of the difference between new and old debt service requirements) for Multifamily Programs, which is estimated to be approximately $7,782,194.

Note 10 – PENSION PLAN

The Fund contributes to the Public Employees' Retirement Fund ("PERF") as part of the State of California, the primary government. The PERF is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employment Retirement System ("CalPERS"). CalPERS provides retirement, death, disability and post retirement health care benefits to members as established by state statute. CalPERS issues a publicly available Comprehensive Annual Financial Report ("CAFR") that includes financial statements and required supplementary information for the Public Employees' Retirement Fund. A copy of that report may be obtained from CalPERS, Central Supply, P.O. Box 942715, Sacramento, CA 95229-2715 or via the internet at www.calpers.ca.gov.

For the CalPERS fiscal years ended June 30, 2006 and 2005 the employer contribution rates were 15.890% - 15.942% and 13.21% - 17.022%, respectively.

The Fund's contributions to the PERF for the years ended June 30, 2006, 2005 and 2004 were $2,059,047, $2,181,278 and $1,802,204 respectively, equal to the required contributions for each fiscal year.

Required contributions are determined by actuarial valuation using the individual entry age normal actuarial cost method. The most recent actuarial valuation available is as of June 30, 2005 which actuarial assumptions included (a) 7.75% investment rate of return compounded annually, (b) projected salary increases that vary based on duration of service, and (c) overall payroll growth factor of 3.25% annually. Both (a) and (c) included an inflation component of 3% compounded annually and a .25% per annum productivity increase assumption.

The most recent actuarial valuation of the PERF indicated that there was an unfunded actuarial accrued liability. The amount of the under funded liability applicable to each agency or department cannot be determined. Trend information, which presents CalPERS progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 2005 CalPERS CAFR.

Note 11 – COMMITMENTS

As of June 30, 2006, the Agency had outstanding commitments to fund Homeownership Program loans totaling $49,246,814 and had outstanding commitments to fund Multifamily Program loans totaling $270,400,000. As of June 30, 2006, the Agency had proceeds available from bonds issued to fund $121,137,360 of Homeownership Program loans and $297,230,896 of Multifamily Program loans.

Note 12 – 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. Quarterly the Fund charges the Mortgage Insurance Fund for these expenses.

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

Subsequently, the Agency Executive Director established an inter-fund credit agreement in the amount of $100,000,000 in which the Mortgage Insurance Fund may borrow from the Fund as needed for the purpose of paying claims arising out of policies of mortgage guarantee insurance and costs and expenses related to the payment of such claims. Interest rate(s) and repayment terms are determined upon receipt of a request to draw on this credit facility. The Mortgage Insurance Fund had not requested a draw on this credit through June 30, 2006.

Note 13 – 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 combined financial statements.

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CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING BALANCE SHEET
June 30, 2006
(Dollars in Thousands)

	Homeownership Programs	Multifamily Rental Housing Programs	Other Programs and Accounts	Combined Totals
ASSETS				
Current assets:				
Cash and cash equivalents	$ 40,134	$ 32,079	$ 68,305	$ 140,518
Investments	1,868,569	512,015	494,337	2,874,921
Current portion - program loans receivable, net of allowance	75,918	232,298	8,479	316,695
Interest receivable:				
Program loans, net	18,861	6,222	5,331	30,414
Investments	24,119	6,186	6,106	36,411
Accounts receivable	11,832	27	740	12,599
Due from (to) other funds	(29,779)	(37,574)	67,353	
Other assets	131	507	105	743
Total current assets	2,009,785	751,760	650,756	3,412,301
Noncurrent assets:				
Investments	13,710	26,887	794	41,391
Program loans receivable, net of allowance	4,216,250	1,267,604	470,193	5,954,047
Due from (to) other funds	(11,850)		11,850	
Deferred financing costs	22,660	8,656	82	31,398
Other assets	280	3,750	9,434	13,464
Total noncurrent assets	4,241,050	1,306,897	492,353	6,040,300
Total assets	$ 6,250,835	$ 2,058,657	$ 1,143,109	$ 9,452,601
LIABILITIES AND FUND EQUITY				
Current liabilities:				
Current portion - bonds payable, net	$ 816,504	$ 39,237		$ 855,741
Interest payable	94,143	25,535	$ 5,538	125,216
Due to other government entities, net			301,634	301,634
Compensated absences			1,836	1,836
Deposits and other liabilities	8,958	1,351	218,298	228,607
Total current liabilities	919,605	66,123	527,306	1,513,034
Noncurrent liabilities:				
Bonds and debenture notes payable, net	4,867,688	1,697,800	23,134	6,588,622
Due to other government entities	36,862	2,439		39,301
Deferred revenue	15,410	26	28,001	43,437
Total noncurrent liabilities	4,919,960	1,700,265	51,135	6,671,360
Total liabilities	5,839,565	1,766,388	578,441	8,184,394
Fund equity:				
Invested in capital assets			894	894
Restricted by indenture	411,270	292,269		703,539
Restricted by statute			563,774	563,774
Total fund equity	411,270	292,269	564,668	1,268,207
Total liabilities and fund equity	$ 6,250,835	$ 2,058,657	$ 1,143,109	$ 9,452,601

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Homeownership Programs	Multifamily Rental Housing Programs	Other Programs and Accounts	Combined Totals
OPERATING REVENUES				
Interest income:				
Program loans, net	$ 206,853	$ 97,082	$ 10,294	$ 314,229
Investments, net	95,966	20,067	22,548	138,581
Increase (decrease) in fair value of investments	(2,396)	(1,124)	22	(3,498)
Loan commitment fees	790	5	1,351	2,146
Other loan fees	901	1,054	9,015	10,970
Other revenues	755	499	86,153	87,407
Total operating revenues	302,869	117,583	129,383	549,835
OPERATING EXPENSES				
Interest	253,012	78,006	13,693	344,711
Amortization of bond discount and deferred losses on refundings of debt	9,110	895		10,005
Mortgage servicing expenses	13,865	8	146	14,019
Provision for program loan losses	3,643	2,264	1,643	7,550
Operating expenses			30,988	30,988
Other expenses	13,113	5,808	86,592	105,513
Total operating expenses	292,743	86,981	133,062	512,786
Operating income (loss) before transfers	10,126	30,602	(3,679)	37,049
Transfers, interfund			41,758	41,758
Transfers, intrafund	1,923	(34,835)	32,912	
Increase in fund equity	12,049	(4,233)	70,991	78,807
Fund equity at beginning of year	399,221	296,502	493,677	1,189,400
Fund equity at end of year	$ 411,270	$ 292,269	$ 564,668	$ 1,268,207

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Homeownership Programs	Multifamily Rental Housing Programs	Other Programs and Accounts	Combined Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 204,505	$ 96,170	$ 7,259	$ 307,934
Payments to suppliers	(14,419)	(213)	(10,883)	(25,515)
Payments to employees			(19,604)	(19,604)
Other receipts (payments)	(557,313)	(129,518)	11,923	(674,908)
Net cash provided by (used for) operating activities	(367,227)	(33,561)	(11,305)	(412,093)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intrafund transfers	1,923	(34,835)	32,912	
Due to other government entities			(970)	(970)
Net cash provided by (used for) noncapital financing activities	1,923	(34,835)	31,942	(970)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sales of bonds and debenture notes	1,003,596	220,465	0	1,224,061
Payment of bond principal	(112,717)	(38,924)		(151,641)
Early bond redemptions	(1,004,401)	(137,825)		(1,142,226)
Interest paid on debt	(247,781)	(75,333)	(11,215)	(334,329)
Interfund transfers			41,758	41,758
Additions to deferred costs	(3,816)	(1,904)		(5,720)
Net cash provided by (used for) capital and related financing activities	(365,119)	(33,521)	30,543	(368,097)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturity and sale of investments	4,083,136	933,212	1,655,989	6,672,337
Purchase of investments	(3,436,392)	(828,111)	(1,692,490)	(5,956,993)
Interest on investments, net	95,551	19,681	20,262	135,494
Net cash provided by (used for) investing activities	742,295	124,782	(16,239)	850,838
Net decrease in cash and cash equivalents	11,872	22,865	34,941	69,678
Cash and cash equivalents at beginning of year	28,262	9,214	33,365	70,841
Cash and cash equivalents at end of year	$ 40,134	$ 32,079	$ 68,306	$ 140,519
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	$ 10,126	$ 30,602	$ (3,679)	$ 37,049
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Interest expense on debt	253,012	78,006	13,693	344,711
Interest on investments	(95,966)	(20,067)	(22,548)	(138,581)
Changes in fair value of investments	2,396	1,124	(22)	3,498
Accretion of capital appreciation bonds	4,111			4,111
Amortization of bond discount	10	73		83
Amortization of deferred losses on refundings of debt	9,100	822		9,922
Amortization of bond issuance costs	4,038	1,023	22	5,083
Amortization of deferred revenue	(790)	(5)	(1,351)	(2,146)
Depreciation			216	216
Provision for program loan losses	4,663	2,658	228	7,549
Provision for yield reduction payments	0			0
Provision (reversal) for nonmortgage investment excess	(2,058)	528		(1,530)
Changes in certain assets and liabilities:				
Purchase of program loans	(1,481,601)	(322,584)	(64,475)	(1,868,660)
Collection of principal from program loans, net	901,915	157,176	85,076	1,144,167
Interest receivable	(2,349)	(912)	(3,035)	(6,296)
Accounts receivable	15,714	(10)	(35)	15,669
Due from (to) other funds	11,545	36,953	(48,498)	
Due from other government entities			43	43
Other assets	25	(11)	2,766	2,780
Compensated absences			(283)	(283)
Deposits and other liabilities	2,802	1,063	27,901	31,766
Deferred revenue	(3,920)		2,676	(1,244)
Net cash provided by (used for) operating activities	$ (367,227)	$ (33,561)	$ (11,305)	$ (412,093)

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING BALANCE SHEET -
HOMEOWNERSHIP PROGRAMS
June 30, 2006
(Dollars in Thousands)

	Home Mortgage Revenue Bonds	Single Family Mortgage Bonds 1995 Issue A	Single Family Mortgage Bonds 1995 Issue B	Single Family Mortgage Bonds II	Draw Down Bonds	Housing Program Bonds	Total Homeownership Programs
ASSETS							
Current assets:							
Cash and cash equivalents	$ 36,313	$ 10	$ 11	$ 2,186	$ 1,419	$ 195	$ 40,134
Investments	1,066,236	950	1,621	20,477	733,769	45,516	1,868,569
Current portion - program loans receivable, net of allowance	73,681	136	180	1,921			75,918
Interest receivable:							
Program loans, net	18,012	30	34	438		347	18,861
Investments	20,433	20	29	348	2,846	443	24,119
Accounts receivable	11,463	4	7	346		12	11,832
Due from (to) other funds	(9,362)		(7)	(312)	(86)	(20,012)	(29,779)
Other assets	130			1			131
Total current assets	1,216,906	1,150	1,875	25,405	737,948	26,501	2,009,785
Noncurrent assets:							
Investments	13,269			441			13,710
Program loans receivable, net of allowance	4,000,040	4,812	5,556	76,942		128,900	4,216,250
Due to other funds	(11,850)						(11,850)
Deferred financing costs	21,163	17	38	444		998	22,660
Other assets	280						280
Total noncurrent assets	4,022,902	4,829	5,594	77,827	-	129,898	4,241,050
Total assets	$ 5,239,808	$ 5,979	$ 7,469	$ 103,232	$ 737,948	$ 156,399	$ 6,250,835
LIABILITIES AND FUND EQUITY							
Current liabilities:							
Current portion - bonds payable, net	$ 79,313	$ 165	$ 325	$ 3,010	$ 733,691		$ 816,504
Interest payable	88,247	80	152	1,711	2,749	$ 1,204	94,143
Due to other government entities, net							
Compensated absences							
Deposits and other liabilities	8,866	2	5	32		53	8,958
Total current liabilities	176,426	247	482	4,753	736,440	1,257	919,605
Noncurrent liabilities:							
Bonds payable, net	4,631,384	2,750	5,540	69,814		158,200	4,867,688
Due to other government entities, net	31,683			3,671	1,508		36,862
Deferred revenue	16,344			(934)			15,410
Total noncurrent liabilities	4,679,411	2,750	5,540	72,551	1,508	158,200	4,919,960
Total liabilities	4,855,837	2,997	6,022	77,304	737,948	159,457	5,839,565
Fund equity:							
Invested in capital assets							
Restricted by indenture	383,971	2,982	1,447	25,928		(3,058)	411,270
Restricted by statute							
Total fund equity	383,971	2,982	1,447	25,928	-	(3,058)	411,270
Total liabilities and fund equity	$ 5,239,808	$ 5,979	$ 7,469	$ 103,232	$ 737,948	$ 156,399	$ 6,250,835

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY - HOMEOWNERSHIP PROGRAMS
Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Home Mortgage Revenue Bonds	Single Family Mortgage Bonds 1995 Issue A	Single Family Mortgage Bonds 1995 Issue B	Single Family Mortgage Bonds II	Draw Down Bonds	Housing Program Bonds	Total Homeownership Programs
OPERATING REVENUES							
Interest income:							
Program loans, net	$ 198,385	$ 443	$ 497	$ 5,851		$ 1,677	$ 206,853
Investments, net	61,480	84	98	1,358	$ 32,440	506	95,966
Decrease in fair value of investments	(2,337)			(59)			(2,396)
Loan commitment fees	682			108			790
Other loan fees	901						901
Other revenues	755						755
Total operating revenues	259,866	527	595	7,258	32,440	2,183	302,869
OPERATING EXPENSES							
Interest	212,402	273	430	4,965	32,440	2,502	253,012
Amortization of bond discount and deferred losses on refundings of debt	8,890			220			9,110
Mortgage servicing expenses	13,479	20	26	340			13,865
Provision (reversal) for program loan losses	504	(3)	(3)	(34)		3,179	3,643
Operating expenses							
Other expenses	13,179	39	43	(540)	185	207	13,113
Total operating expenses	248,454	329	496	4,951	32,625	5,888	292,743
Operating income (loss) before transfers	11,412	198	99	2,307	(185)	(3,705)	10,126
Transfers, interfund							
Transfers, intrafund	(764)				185	2,502	1,923
Increase (decrease) in fund equity	10,648	198	99	2,307	-	(1,203)	12,049
Fund equity at beginning of year	373,323	2,784	1,348	23,621		(1,855)	399,221
Fund equity (deficit) at end of year	$ 383,971	$ 2,982	$ 1,447	$ 25,928	$ -	$ (3,058)	$ 411,270

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS - HOMEOWNERSHIP PROGRAMS
Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Home Mortgage Revenue Bonds	Single Family Mortgage Bonds 1995 Issue A	Single Family Mortgage Bonds 1995 Issue B	Single Family Mortgage Bonds II	Draw Down Bonds	Housing Program Bonds	Total Homeownership Programs
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers	$ 196,236	$ 458	$ 512	$ 5,969		$ 1,330	$ 204,505
Payments to suppliers	(14,000)	(22)	(28)	(363)		(6)	(14,419)
Payments to employees							
Internal activity - payments to other funds							
Other receipts (payments)	(527,501)	2,298	2,467	30,993	$ 946	(66,516)	(557,313)
Net cash provided by (used for) operating activities	(345,265)	2,734	2,951	36,599	946	(65,192)	(367,227)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Intrafund transfers	(764)				185	2,502	1,923
Due to other government entities							
Net cash provided by (used for) noncapital financing activities	(764)	-	-	-	185	2,502	1,923
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from sales of bonds	635,000				260,396	108,200	1,003,596
Payment of bond principal	(107,862)	(290)	(445)	(4,120)			(112,717)
Early bond redemptions	(483,296)	(4,430)	(3,175)	(55,280)	(458,220)		(1,004,401)
Interest paid on debt	(206,860)	(404)	(522)	(6,325)	(32,089)	(1,581)	(247,781)
Interfund transfers							
Additions to deferred costs	(2,953)				(185)	(678)	(3,816)
Net cash provided by (used for) capital and related financing activities	(165,971)	(5,124)	(4,142)	(65,725)	(230,098)	105,941	(365,119)
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from maturity and sale of investments	3,470,396	4,857	4,026	66,874	458,220	78,763	4,083,136
Purchase of investments	(3,008,670)	(2,776)	(2,953)	(39,655)	(260,397)	(121,941)	(3,436,392)
Interest on investments, net	62,813	132	119	1,845	30,563	79	95,551
Net cash provided by (used for) investing activities	524,539	2,213	1,192	29,064	228,386	(43,099)	742,295
Net increase (decrease) in cash and cash equivalents	12,539	(177)	1	(62)	(581)	152	11,872
Cash and cash equivalents at beginning of year	23,774	187	10	2,248	2,000	43	28,262
Cash and cash equivalents at end of year	$ 36,313	$ 10	$ 11	$ 2,186	$ 1,419	$ 195	$ 40,134
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:							
Operating income (loss)	$ 11,412	$ 198	$ 99	$ 2,307	$ (185)	$ (3,705)	$ 10,126
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:							
Interest expense on debt	212,402	273	430	4,965	32,440	2,502	253,012
Interest on investments	(61,480)	(84)	(98)	(1,358)	(32,440)	(506)	(95,966)
Changes in fair value of investments	2,337			59			2,396
Accretion of capital appreciation bonds	4,111						4,111
Amortization of bond discount	8			2			10
Amortization of deferred losses on refundings of debt	8,882			218			9,100
Amortization of bond issuance costs	3,350	29	26	433	185	15	4,038
Amortization of deferred revenue	(681)			(109)			(790)
Depreciation							
Provision (reversal) for program loan losses	504	(3)	(3)	(34)		4,199	4,663
Provision for yield reduction payments							0
Provision for nonmortgage investment excess	(3,161)			(29)	1,132		(2,058)
Changes in certain assets and liabilities:							
Purchase of program loans	(1,380,080)					(101,521)	(1,481,601)
Collection of principal from program loans, net	854,742	2,241	2,432	29,997		12,503	901,915
Interest receivable	(2,150)	15	15	119		(348)	(2,349)
Accounts receivable	14,751	70	3	902		(12)	15,714
Due from (to) other funds	(10,213)	(4)	48	249	(185)	21,650	11,545
Due to other government entities							
Other assets	24			1			25
Compensated absences							
Deposits and other liabilities	2,780	(1)	(1)	(6)	(1)	31	2,802
Deferred revenue	(2,803)			(1,117)			(3,920)
Net cash provided by (used for) operating activities	$ (345,265)	$ 2,734	$ 2,951	$ 36,599	$ 946	$ (65,192)	$ (367,227)

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING BALANCE SHEET -
MULTIFAMILY RENTAL HOUSING PROGRAMS
June 30, 2006
(Dollars in Thousands)

	Multi-Unit Rental Housing Revenue Bonds I	Multi-Unit Rental Housing Revenue Bonds II	Multifamily Loan Purchase Bonds	Housing Revenue Bonds (Insured)	Multifamily Housing Revenue Bonds II
ASSETS					
Current assets:					
Cash and cash equivalents	$ 2	$ 1,030	$ 2,434		$ 64
Investments	40,202	44,476			8,837
Current portion - program loans receivable, net of allowance	10,428	4,481	24,000		786
Interest receivable:					
Program loans, net	85	2			381
Investments	454	135	4		259
Accounts receivable					
Due to other funds		(34,576)	(1)		
Other assets	26				79
Total current assets	51,197	15,548	26,437	-	10,406
Noncurrent assets:					
Investments	1,196	941			8,466
Program loans receivable, net of allowance	117,215	64,031	90,863		57,238
Due from (to) other funds					
Deferred financing costs	40	9			113
Other assets					
Total noncurrent assets	118,451	64,981	90,863	0	65,817
Total assets	$ 169,648	$ 80,529	$ 117,300	$ -	$ 76,223
LIABILITIES AND FUND EQUITY					
Current liabilities:					
Current portion - bonds payable, net	$ 319	$ 320			$ 550
Interest payable	354	98	$ 936		1,942
Due to other government entities, net					
Compensated absences					
Deposits and other liabilities	7	1	4		4
Total current liabilities	680	419	940	-	2,496
Noncurrent liabilities:					
Bonds payable, net	11,588	3,186	116,363		68,728
Due to other government entities, net					
Deferred revenue					
Total noncurrent liabilities	11,588	3,186	116,363	-	68,728
Total liabilities	12,268	3,605	117,303	-	71,224
Fund equity:					
Invested in capital assets					
Restricted by indenture	157,380	76,924	(3)	$ -	4,999
Restricted by statute					
Total fund equity	157,380	76,924	(3)	-	4,999
Total liabilities and fund equity	$ 169,648	$ 80,529	$ 117,300	$ -	$ 76,223

Multifamily Housing Revenue Bonds III	Multifamily Draw Down Bonds	Total Multifamily Rental Housing Programs
$ 28,487	$ 62	$ 32,079
398,135	20,365	512,015
192,603		232,298
5,754		6,222
5,247	87	6,186
27		27
(2,955)	(42)	(37,574)
402		507
627,700	20,472	751,760
16,284		26,887
938,257		1,267,604
8,494		8,656
3,750		3,750
966,785	-	1,306,897
$ 1,594,485	$ 20,472	$ 2,058,657
$ 17,683	$ 20,365	$ 39,237
22,124	81	25,535
1,335		1,351
41,142	20,446	66,123
1,497,935		1,697,800
2,413	26	2,439
26		26
1,500,374	26	1,700,265
1,541,516	20,472	1,766,388
52,969		292,269
52,969	-	292,269
$ 1,594,485	$ 20,472	$ 2,058,657

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY - MULTIFAMILY RENTAL HOUSING PROGRAMS
Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Multi-Unit Rental Housing Revenue Bonds I	Multi-Unit Rental Housing Revenue Bonds II	Multifamily Loan Purchase Bonds	Housing Revenue Bonds (Insured)	Multifamily Housing Revenue Bonds II
OPERATING REVENUES					
Interest income:					
Program loans, net	$ 12,501	$ 7,263	$ 10,243		$ 6,194
Investments, net	1,289	1,984	51		1,178
Increase (Decrease) in fair value of investments	(161)	10			(560)
Loan commitment fees					
Other loan fees		1,054			
Other revenues					
Total operating revenues	13,629	10,311	10,294	-	6,812
OPERATING EXPENSES					
Interest	851	1,030	10,258		5,982
Amortization of bond discount and deferred losses on refundings of debt	9	22			42
Mortgage servicing expenses					
Provision (reversal) for program loan losses	(710)	(139)			(17)
Operating expenses					
Other expenses	61	112	39		351
Total operating expenses	211	1,025	10,297	-	6,358
Operating income (loss) before transfers	13,418	9,286	(3)	-	454
Transfers, interfund					
Transfers, intrafund		(34,576)			(3,309)
Increase (decrease) in fund equity	13,418	(25,290)	(3)	-	(2,855)
Fund equity at beginning of year	143,962	102,214			7,854
Fund equity at end of year	$ 157,380	$ 76,924	(3)	$ -	$ 4,999

Multifamily Housing Revenue Bonds III	Multifamily Draw Down Bonds	Total Multifamily Rental Housing Programs
$ 60,881		$ 97,082
15,119	$ 446	20,067
(413)		(1,124)
5		5
		1,054
499		499
76,091	446	117,583
59,439	446	78,006
822		895
8		8
3,130		2,264
5,239	6	5,808
68,638	452	86,981
7,453	(6)	30,602
3,044	6	(34,835)
10,497	-	(4,233)
42,472		296,502
$ 52,969	$ -	$ 292,269

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS -
MULTIFAMILY RENTAL HOUSING PROGRAMS
Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Multi-Unit Rental Housing Revenue Bonds I	Multi-Unit Rental Housing Revenue Bonds II	Multifamily Loan Purchase Bonds	Housing Revenue Bonds (Insured)	Multifamily Housing Revenue Bonds II
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	$ 12,508	$ 7,292	$ 10,243		$ 6,429
Payments to suppliers	(18)	(8)	(12)		(21)
Payments to employees					
Internal activity - payments to other funds					
Other receipts (payments)	5,589	60,912	19,573		38,856
Net cash provided by (used for) operating activities	18,079	68,196	29,804	-	45,264
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Intrafund transfers	0	(34,576)		-	(3,309)
Due to other government entities					
Net cash provided by (used for) noncapital financing activities	0	(34,576)	-	-	(3,309)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sales of bonds					
Payment of bond principal	(300)	(2,860)	(19,444)		(2,060)
Early bond redemptions		(22,550)			(35,670)
Interest paid on debt	(859)	(1,761)	(10,307)		(6,951)
Interfund transfers					
(Additions) deductions to deferred costs					(677)
Net cash provided by (used for) capital and related financing activities	(1,159)	(27,171)	(29,751)	-	(45,358)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from maturity and sale of investments	74,889	245,540			10,492
Purchase of investments	(92,813)	(253,695)			(8,337)
Interest on investments, net	1,004	2,679	48		1,243
Net cash provided by (used for) investing activities	(16,920)	(5,476)	48	-	3,398
Net increase (decrease) in cash and cash equivalents	-	973	101	-	(5)
Cash and cash equivalents at beginning of year	2	57	2,333		68
Cash and cash equivalents at end of year	$ 2	$ 1,030	$ 2,434	-	$ 63
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	$ 13,418	$ 9,286	$ (3)	-	$ 454
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Interest expense on debt	851	1,030	$ 10,258	-	5,982
Interest on investments	(1,289)	(1,984)	(51)	-	(1,178)
Changes in fair value of investments	161	(10)			560
Accretion of capital appreciation bonds					
Amortization of bond discount	9	22			42
Amortization of deferred losses on refundings of debt					912
Amortization of bond issuance costs	4	105			8
Amortization of deferred revenue					
Depreciation					
Provision (reversal) for program loan losses	(710)	(139)			(581)
Provision for yield reduction payments					
Provision (reversal) for nonmortgage investment excess					
Changes in certain assets and liabilities:					
Purchase of program loans					44,949
Collection of principal from program loans, net	5,625	25,282	19,600		(6,211)
Interest receivable	7	29			235
Accounts receivable					
Due from (to) other funds		34,576	(2)		
Due to other government entities					
Other assets	1				93
Compensated absences					
Deposits and other liabilities	2	(1)	2		(1)
Deferred revenue					
Net cash provided by (used for) operating activities	$ 18,079	$ 68,196	$ 29,804	-	$ 45,264

Multifamily Housing Revenue Bonds III	Multifamily Draw Down Bonds	Total Multifamily Rental Housing Programs
$ 59,698		$ 96,170
(154)		(213)
(254,467)	19	(129,518)
(194,923)	19	(33,561)
3,044	6	(34,835)
3,044	6	(34,835)
200,100	20,365	220,465
(14,260)		(38,924)
(57,995)	(21,610)	(137,825)
(55,035)	(420)	(75,333)
(1,221)	(6)	(1,904)
71,589	(1,671)	(33,521)
580,681	21,610	933,212
(452,901)	(20,365)	(828,111)
14,348	359	19,681
142,128	1,604	124,782
21,838	(42)	22,865
6,649	105	9,214
$ 28,487	$ 63	$ 32,079
$ 7,453	$ (6)	$ 30,602
59,439	446	78,006
(15,119)	(446)	(20,067)
413		1,124
		73
(90)		822
900	6	1,023
(5)		(5)
4,088		2,658
502	26	528
(367,533)		(322,584)
112,880		157,176
(1,183)		(912)
(10)		(10)
2,385	(6)	36,953
(105)		(11)
1,062	(1)	1,063
$ (194,923)	$ 19	$ (33,561)

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING BALANCE SHEET -
OTHER PROGRAMS AND ACCOUNTS
June 30, 2006
(Dollars in Thousands)

	Housing Assistance Trust	Contract Administration Programs	Revolving Credit Agreement	Supplementary Bonds Security Account	Emergency Reserve Account	Loan Servicing
ASSETS						
Current assets:						
Cash and cash equivalents	$ 14,575	$ 1,014		$ 1	$ 500	$ 23,962
Investments	68,104	70,852		34,533	34,805	135,343
Current portion - program loans receivable, net of allowance	50	3,932				
Interest receivable:						
Program loans, net	4,264	418				
Investments	726	802		399	404	1,376
Accounts receivable	10				40	430
Due from (to) other funds	23,021	(3,437)		13,946	26,959	(7,929)
Other assets						
Total current assets	110,750	73,581	-	48,879	62,708	153,182
Noncurrent assets:						
Investments	794					
Program loans receivable, net of allowance	138,812	88,134				
Due from other funds				11,850		
Deferred financing costs						
Other assets	8,540					
Total noncurrent assets	148,146	88,134	-	11,850	-	-
Total assets	$ 258,896	$161,715	-	$ 60,729	$ 62,708	$ 153,182
LIABILITIES AND FUND EQUITY						
Current liabilities:						
Current portion - bonds payable, net						
Interest payable	$ 198					
Due to (from) other government entities, net	725	$ 1,201				
Compensated absences						
Deposits and other liabilities		5,648		$ 479		$ 151,984
Total current liabilities	923	6,849	-	479	-	151,984
Noncurrent liabilities:						
Debenture notes payable, net	23,134					
Due from other government entities						
Deferred revenue						
Total noncurrent liabilities	23,134	-	-	-	-	-
Total liabilities	24,057	6,849	-	479	-	151,984
Fund Equity:						
Invested in capital assets						
Restricted by indenture						
Restricted by statute	234,839	154,866	-	60,250	62,708	1,198
Total fund equity	234,839	154,866	-	60,250	62,708	1,198
Total liabilities and fund equity	$ 258,896	$161,715	-	$ 60,729	$ 62,708	$ 153,182

Loan Warehousing	Operating Account	Total Other Programs and Accounts
$ 28,179	$ 74	$ 68,305
113,604	37,096	494,337
4,497		8,479
649		5,331
1,915	484	6,106
234	26	740
(19,214)	34,007	67,353
	105	105
129,864	71,792	650,756
		794
243,247		470,193
		11,850
	82	82
	894	9,434
243,247	976	492,353
$ 373,111	$ 72,768	$ 1,143,109
$ 5,340		$ 5,538
300,000	$ (292)	301,634
	1,836	1,836
56,833	3,354	218,298
362,173	4,898	527,306
		23,134
561	27,440	28,001
561	27,440	51,135
362,734	32,338	578,441
	894	894
10,377	39,536	563,774
10,377	40,430	564,668
$ 373,111	$ 72,768	$ 1,143,109

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY - OTHER PROGRAMS AND ACCOUNTS
Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Housing Assistance Trust	Contract Administration Programs	Revolving Credit Agreement	Supplementary Bonds Security Account	Emergency Reserve Account	Loan Servicing
OPERATING REVENUES						
Interest income:						
Program loans, net	$ 6,389	$ 1,479				
Investments, net	2,955	2,155		$ 2,269	$ 2,476	$ 508
Increase in fair value of investments	22					
Loan commitment fees						
Other loan fees		19				5,263
Other revenues	11,769					74,370
Total operating revenues	21,135	3,653	-	2,269	2,476	80,141
OPERATING EXPENSES						
Interest	1,673					
Amortization of bond discount and deferred losses on refundings of debt						
Mortgage servicing expenses	5					
Provision (reversal) for program loan losses	2,843	1,301				
Operating expenses						
Other expenses	47	4,126		165		81,081
Total operating expenses	4,568	5,427	-	165	-	81,081
Operating income (loss) before transfers	16,567	(1,774)	-	2,104	2,476	(940)
Transfers, interfund		41,758				
Transfers, intrafund	1,961	(20)			3,014	1,500
Increase (decrease) in fund equity	18,528	39,964	-	2,104	5,490	560
Fund equity at beginning of year	216,311	114,902		58,146	57,218	638
Fund equity (deficit) at end of year	$ 234,839	$ 154,866	$ -	$ 60,250	$ 62,708	$ 1,198

Loan Warehousing	Operating Account	Total Other Programs and Accounts
$ 2,426		$ 10,294
10,454	$ 1,731	22,548
		22
	1,351	1,351
	3,733	9,015
	14	86,153
12,880	6,829	129,383
12,020		13,693
141		146
(2,501)		1,643
	30,988	30,988
87	1,086	86,592
9,747	32,074	133,062
3,133	(25,245)	(3,679)
		41,758
768	25,689	32,912
3,901	444	70,991
6,476	39,986	493,677
$ 10,377	$ 40,430	$ 564,668

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS -
OTHER PROGRAMS AND ACCOUNTS
Fiscal Year Ended June 30, 2006
(Dollars in Thousands)

	Housing Assistance Trust	Contract Administration Programs	Revolving Credit Agreement	Supplementary Bonds Security Account	Emergency Reserve Account	Loan Servicing
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$ 3,782	$ 1,116				
Payments to suppliers	(4)					
Payments to employees						
Internal activity - payments to other funds						
Other receipts (payments)	(12,949)	(24,802)		$ (4,860)	$ (15,742)	$ 7,446
Net cash provided by (used for) operating activities	(9,171)	(23,686)	-	(4,860)	(15,742)	7,446
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Intrafund transfers	1,961	(20)			3,014	1,500
Due to other government entities		(889)				
Net cash provided by (used for) noncapital financing activities	1,961	(909)	-	-	3,014	1,500
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from sales of debenture notes						
Payment of bond principal						
Early bond redemptions						
Interest paid on debt	(1,475)					
Interfund transfers		41,758				
(Additions) deductions to deferred costs						
Net cash provided by (used for) capital and related financing activities	(1,475)	41,758	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from maturity and sale of investments	144,188	44,462		4,726	19,002	59,070
Purchase of investments	(125,290)	(62,945)		(2,004)	(8,674)	(68,062)
Interest on investments, net	2,793	1,747		2,137	2,399	27
Net cash provided by (used for) investing activities	21,691	(16,736)	-	4,859	12,727	(8,965)
Net increase (decrease) in cash and cash equivalents	13,006	427	-	(1)	(1)	(19)
Cash and cash equivalents at beginning of year	1,569	587		1	501	23,982
Cash and cash equivalents at end of year	$ 14,575	$ 1,014	-	$ -	$ 500	$ 23,963
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	$ 16,567	$ (1,774)	-	$ 2,104	$ 2,476	$ (940)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Interest expense on debt	1,673	-	-			
Interest on investments	(2,955)	(2,155)	-	(2,269)	(2,476)	(508)
Changes in fair value of investments	(22)					
Accretion of capital appreciation bonds						
Amortization of bond discount						
Amortization of deferred losses on refundings of debt						
Amortization of bond issuance costs						
Amortization of deferred revenue						
Depreciation						
Provision (reversal) for program loan losses	2,196	1,301				
Provision for yield reduction payments						
Provision for nonmortgage investment excess						
Changes in certain assets and liabilities:						
Purchase of program loans	(6,244)	(39,103)				
Collection of principal from program loans, net	13,098	17,715				
Interest receivable	(2,607)	(363)				
Accounts receivable	(2)				14	23
Due from (to) other funds	(33,918)	628		(4,860)	(15,756)	(922)
Due to other government entities	43					
Other assets	3,000					
Compensated absences						
Deposits and other liabilities		65		165		9,793
Deferred revenue						
Net cash provided by (used for) operating activities	$ (9,171)	$ (23,686)	-	$ (4,860)	$ (15,742)	$ 7,446

Loan Warehousing	Operating Account	Total Other Programs and Accounts
$ 2,361		$ 7,259
(148)	$ (10,731)	(10,883)
	(19,604)	(19,604)
61,668	1,162	11,923
63,881	(29,173)	(11,305)
768	25,689	32,912
	(81)	(970)
768.000	25,608	31,942
		0
(9,740)		(11,215)
		41,758
(9,740)	-	30,543
1,345,011	39,530	1,655,989
(1,387,982)	(37,533)	(1,692,490)
9,607	1,552	20,262
(33,364)	3,549	(16,239)
21,545	(16)	34,941
6,636	89	33,365
$ 28,181	$ 73	$ 68,306
$ 3,133	$ (25,245)	$ (3,679)
12,020		13,693
(10,454)	(1,731)	(22,548)
		(22)
	22	22
	(1,351)	(1,351)
	216	216
(3,269)		228
(19,128)		(64,475)
54,263		85,076
(65)		(3,035)
(70)		(35)
9,129	(2,799)	(48,498)
		43
	(234)	2,766
	(283)	(283)
18,082	(204)	27,901
240	2,436	2,676
$ 63,881	$ (29,173)	$ (11,305)

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets 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 December 31, 2005 and 2004, and the related statements of revenues, expenses, and changes in fund equity, and of cash flows for the years then ended. These financial statements are the responsibility of the management of the Agency. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Agency's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Deloitte + Touche LLP

April 28, 2006

CALIFORNIA HOUSING LOAN INSURANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

Introduction – The California Housing Finance Agency

The California Housing Finance Agency (the "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 (the "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 (the "CHFF") and two State general obligation bond funds. The following Management Discussion and Analysis applies only to the activities of the California Housing Loan Insurance 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 is 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 (the "FNMA") and Federal Home Loan Mortgage Corporation (the "FHLMC"); and loans made by localities, non-profit 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 in respect to the maintenance of policyholders' surpluses, the Fund is exempt from regulatory control by the State Department of Insurance. The claims-paying ability of the Fund has been assigned a rating of A+ by Standard & Poor's.

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.

Financial Highlights 2005 – 2004

- The Fund drew $959,000 in 2005 compared with $8.7 million in 2004 of the $85 million allocated from the voter approved Proposition 46, *Housing and Emergency Shelter Trust Fund Act of 2002* ("Prop 46"). The remainder of the Prop 46 funds available has reverted and therefore, there will be no more draws by the Fund. These funds are invested and available to be utilized to pay claims as needed.

- Insurance in force has increased by $345 million, or 43%, to $1.14 billion as of December 31, 2005 compared to $797 million as of December 31, 2004. This increase in insured loans is primarily due to an increased proportion of Agency loans the Fund had insured this year.

- New insurance written was $655 million during fiscal year 2005 compared to $355 million during fiscal year 2004. The $300 million increase is primarily a result of a continued emphasis on the Agency's programs.

- Continuing the trend since fiscal year 2001 and largely due to the rapid price appreciation of homes in California, insurance claims activity remained at very low levels. Insurance claim payments were $22,100 and $58,400 in fiscal year 2005 and 2004, respectively.

- The Fund continued the services of 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.

- Operating income increased $2.3 million to $2.5 million during fiscal year 2005 compared to operating income of $168,000 during fiscal year 2004. The Fund remains financially strong and has fund equity of $59.4 million, at December 31, 2005 compared with $55.9 million in 2004.

Fiscal Year 2005 Compared to Fiscal Year 2004

Condensed Balance Sheets

The following table presents condensed balance sheets for the Fund as of December 31, 2005 and December 31, 2004 and the change from year to year (dollars in thousands):

	2005	2004	Change
Assets			
Cash, cash equivalents and investments	$ 58,842	$ 55,583	$ 3,259
Other assets	1,940	1,929	11
TOTAL ASSETS	$ 60,782	$ 57,512	$ 3,270
Liabilities and Fund Equity			
Liabilities:			
Unpaid losses and loss adjustment expenses	$ 379	$ 320	$ 59
Unearned premiums	484	923	(439)
Accounts payable and other liabilities	522	354	168
Total liabilities	1,385	1,597	(212)
Fund Equity:			
Invested in capital assets	6	9	(3)
Restricted by statute	59,391	55,906	3,485
Total fund equity	59,397	55,915	3,482
TOTAL LIABILITIES AND FUND EQUITY	$ 60,782	$ 57,512	$ 3,270

Assets— Total assets of the Fund were $60.8 million as of December 31, 2005, an increase of $3.3 million or 6% from December 31, 2004. Of the Fund's assets, more than 96% are represented by cash and investments. The Fund does not have a significant investment in capital assets.

Cash and investments were $58.8 million as of December 31, 2005, an increase of $3.3 million from December 31, 2004. The increase is primarily due to an increase in premiums earned, the additional draw of Prop 46 funds and investment income. 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 $1.9 million as of December 31, 2005, and were equal to the amount as of December 31, 2004.

Liabilities—The Fund's liabilities were $1.4 million as of December 31, 2005, a decrease of $212,000 or 13% from December 31, 2004.

The reserve for unpaid losses and loss adjustment expenses were $379,000 as of December 31, 2005, an increase of $59,000 from December 31, 2004. The increase in the loss reserve is the result of the Fund's increase in insurance in force and higher loss reserves required to cover potential delinquencies. As of December 31, 2005, 93 insured loans with balances aggregating $17.2 million were either reported as delinquent by the lender or, delinquent but not reported, while 96 insured loans with balances aggregating $12.7 million were reported or delinquent and not reported by lenders as of December 31, 2004.

Unearned premiums were $484,000 as of December 31, 2005, a decrease of $439,000 from December 31, 2004. The decrease in unearned premiums is the continuation of an expected trend due to a change in premium collection practices. Beginning in 1996, management adopted the mortgage insurance industry norm of collecting monthly premium payments in arrears for newly established loan insurance products as compared to past practices of collecting annual premiums in advance. As a result, each year a greater percentage of insured loans require monthly premium payments, which are earned when received, rather than annual payments, which are received in advance and deferred and earned over a one-year period.

Accounts payable and other liabilities were $522,000 as of December 31, 2005, an increase of $168,000 from December 31, 2004. This increase is largely attributable to amounts owed to our reinsurer.

Fund Equity—All of the Fund's equity is restricted or invested in capital assets. The Fund's equity is restricted pursuant to the Agency's enabling legislation. Total equity of the Fund grew by $3.3 million as a result of increased premiums earned and investment income.

Condensed Statements of Revenues and Expenses

The following table presents condensed statements of revenues and expenses for the Fund for the fiscal years ended December 31, 2005 and December 31, 2004 and the change from year to year (dollars in thousands):

	2005	2004	Change
OPERATING REVENUES			
Premiums earned	$ 7,080	$ 5,926	$ 1,154
Investment income	1,733	872	861
Other revenues	0	13	(13)
Total operating revenues	8,813	6,811	2,002
OPERATING EXPENSES			
Loss and loss adjustment recoveries	76	(450)	526
Operating expenses	6,211	7,089	(878)
Other expenses (benefits)	3	4	(1)
Total operating expenses	6,290	6,643	(353)
Operating income	$ 2,523	$ 168	$ 2,355

Operating Revenues—Operating revenues were $8.8 million during fiscal year 2005 compared to $6.8 million during fiscal year 2004, an increase of $2 million or 29%.

Premiums earned in fiscal year 2005 increased by $1.2 million, or 19%, compared to premiums earned in fiscal year 2004. The increase in premiums earned corresponds with the increase in insurance in force. Insurance in force was $1.14 billion and $797 million in fiscal years 2005 and 2004, respectively.

Investment income increased $861,000 to $1.7 million in fiscal year 2005 from $872,000 in fiscal year 2004. This increase was due to the increase in the investment portfolio and the increase in interest rates. SMIF interest rates for the past two years are shown in the following table:

Interest Payment Periods	Fiscal Year 2005	Interest Payment Periods	Fiscal Year 2004
January - March	2.373 %	January - March	1.467 %
April - June	2.851 %	April - June	1.441 %
July - September	3.178 %	July - September	1.665 %
October - December	3.626 %	October - December	1.995 %

Operating Expenses—Total operating expenses were $6.3 million during fiscal year 2005 compared to $6.6 million during fiscal year 2004, a decrease of $353,000 or 6%.

Loss and loss adjustment recoveries increased by $526,000. The increase is attributable to the increase of new insurance written for higher loan sizes and the increase in required reserves to cover potential delinquencies.

The Fund's operating expenses were $6.2 million during fiscal year 2005 compared to $7.1 million during fiscal year 2004, a decrease of $878,000 or 13%. The decrease is primarily attributable to the decrease in staff charges and litigation expenses.

Operating Income—Operating income for fiscal year 2005 was $2.5 million compared to $168,000 in fiscal year 2004, an increase of $2.4 million. The increase in operating income is a result of the increase of earned premiums, increase in investment income and reduction in litigation expenses.

Fiscal Year 2004 Compared to Fiscal Year 2003

Condensed Balance Sheets

The following table presents condensed balance sheets for the Fund as of December 31, 2004 and December 31, 2003 and the change from year to year (dollars in thousands):

	2004	2003	Change
Assets			
Cash, cash equivalents and investments	$ 55,583	$ 48,648	$ 6,935
Other assets	1,929	1,601	328
TOTAL ASSETS	$ 57,512	$ 50,249	$ 7,263
Liabilities and Fund Equity			
Liabilities:			
Unpaid losses and loss adjustment expenses	$ 320	$ 810	$ (490)
Unearned premiums	923	1,305	(382)
Accounts payable and other liabilities	354	1,096	(742)
Total liabilities	1,597	3,211	(1,614)
Fund Equity:			
Invested in capital assets	9	13	(4)
Restricted by statute	55,906	47,025	8,881
Total fund equity	55,915	47,038	8,877
TOTAL LIABILITIES AND FUND EQUITY	$ 57,512	$ 50,249	$ 7,263

Assets— Total assets of the Fund were $57.5 million as of December 31, 2004, an increase of $7.3 million or 14% from December 31, 2003. Of the Fund's assets, more than 97% are represented by cash and investments. The Fund does not have a significant investment in capital assets.

Cash and investments were $55.6 million as of December 31, 2004, an increase of $7 million from December 31, 2003. The increase is primarily related to the deposit of $8.7 million of Proposition 46 funds to be utilized by the Fund to pay claims. 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 $1.9 million as of December 31, 2004, an increase of $328,000 from December 31, 2003. The increase is primarily in the amount which was due from the California Housing Finance Fund. As of December 31, 2004, this amount due was $1.3 million, an increase of $945,000 from December 31, 2003. This increase was mainly comprised of the litigation expense reimbursement due from the California Housing Finance Fund.

Liabilities—The Fund's liabilities were $1.6 million as of December 31, 2004, a decrease of $1.6 million or 50% from December 31, 2003.

The reserve for unpaid losses and loss adjustment expenses were $320,000 as of December 31, 2004, a decrease of $490,000 from December 31, 2003. The decrease in the loss reserve is the result of the Fund entering into a reinsurance contract with Genworth under which the level of reinsurance has been increased over the prior contract resulting in a reduction in required reserves. Genworth assumes 75% of the risk on the loans under reinsurance which represent 98% of the insured loans at December 31, 2004. As of December 31, 2004, 96 insured loans with balances aggregating $12.7 million were either reported as delinquent by the lender or, delinquent but not reported, while 147 insured loans with balances aggregating $19.4 million were reported or delinquent and not reported by lenders as of December 31, 2003.

Unearned premiums were $923,000 as of December 31, 2004, a decrease of $382,000 from December 31, 2003. The decrease in unearned premiums is the continuation of an expected trend due to a change in premium collection practices. Beginning in 1996, management adopted the mortgage insurance industry norm of collecting monthly premium payments in arrears for newly established loan insurance products as compared to past practices of collecting annual premiums in advance. As a result, each year a greater percentage of insured loans require monthly premium payments, which are earned when received, rather than annual payments, which are received in advance and deferred and earned over a one-year period. During the fiscal year ending December 31, 2004 the Fund experienced high levels of prepayments of its older loan portfolio, which also contributed to the decrease in unearned premiums.

Accounts payable and other liabilities were $354,000 as of December 31, 2004, a decrease of $742,000 from December 31, 2003. This decrease is largely attributable to amounts paid in 2004 for legal fees incurred in 2003.

Fund Equity—All of the Fund's equity is restricted or invested in capital assets. The Fund's equity is restricted pursuant to the Agency's enabling legislation. Total equity of the Fund grew by $8.9 million as a result of a deposit of $8.7 million from Prop 46 monies.

Condensed Statements of Revenues and Expenses

The following table presents condensed statements of revenues and expenses for the Fund for the fiscal years ended December 31, 2004 and December 31, 2003 and the change from year to year (dollars in thousands):

	2004	2003	Change
OPERATING REVENUES			
Premiums earned	$ 5,926	$ 9,205	$ (3,279)
Investment income	872	795	77
Other revenues	13	372	(359)
Total operating revenues	6,811	10,372	(3,561)
OPERATING EXPENSES			
Loss and loss adjustment recoveries	(450)	(803)	353
Operating expenses	7,089	7,688	(599)
Other expenses (benefits)	4	(417)	421
Total operating expenses	6,643	6,468	175
Operating income	$ 168	$ 3,904	$ (3,736)

Operating Revenues—Operating revenues were $6.8 million during fiscal year 2004 compared to $10.4 million during fiscal year 2003, a decrease of $3.6 million or 34%.

Premiums earned in fiscal year 2004 decreased by $3.3 million, or 36%, compared to premiums earned in fiscal year 2003. The decrease in premiums earned corresponds with the decrease in insurance in force. Insurance in force was $797 million and $866 million in fiscal years 2004 and 2003, respectively.

Investment income increased $76,741 to $871,838 in fiscal year 2004 from $795,097 in fiscal year 2003. This increase was due to the increase in the investment portfolio. Starting in 2004, SMIF interest earnings were paid quarterly rather than semi-annually as in the past. SMIF interest rates for the past two years are shown in the following table:

Interest Payment Periods	Fiscal Year 2004	Interest Payment Periods	Fiscal Year 2003
January - March	1.467 %	January - June	1.859 %
April - June	1.441 %	July - December	1.590 %
July - September	1.665 %		
October - December	1.995 %		

***Operating Expenses*—**Total operating expenses were $6.6 million during fiscal year 2004 compared to $6.5 million during fiscal year 2003, an increase of $175,000 or 3%.

Loss and loss adjustment recoveries decreased by $353,324. The decrease is attributable to a reduction in delinquent loans.

The Fund's operating expenses were $7.1 million during fiscal year 2004 compared to $7.7 million during fiscal year 2003, a decrease of $599,000 or 8%. The decrease is primarily attributable to the decrease in premiums ceded.

Other expenses in fiscal year 2004 increased by $421,000 when compared to other expenses incurred in fiscal year 2003. The increase is largely attributable to a transfer to the California Housing Finance Fund of the mortgage loan portfolio in 2003 and the reversal of the allowance for loan losses associated with that portfolio.

***Operating Income*—**Operating income for fiscal year 2004 was $168,000 compared to $3.9 million in fiscal year 2003, a decrease of $3.7 million or 96%. The reduction in operating income is a result of the decrease of earned premiums due to insurance cancellations from prepayments and the decrease in insurance in force.

CALIFORNIA HOUSING LOAN INSURANCE FUND

BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

ASSETS	**2005**	**2004**
CURRENT ASSETS:		
Cash and cash equivalents	$ 36,639	$ 32,990
Investment in Surplus Money Investment Fund	58,805,000	55,550,000
Interest receivable	536,547	281,672
Due from California Housing Finance Fund	-	551,764
Other current assets	1,171,230	782,289
Total current assets	60,549,416	57,198,715
NONCURRENT ASSETS—Other assets	232,366	313,057
TOTAL ASSETS	$ 60,781,782	$ 57,511,772
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES:		
Reserves for unpaid losses and loss adjustment expenses	$ 379,131	$ 320,023
Unearned premiums	385,121	815,355
Reinsurance payable	321,993	266,560
Accounts payable and other liabilities	21,632	87,315
Due to California Housing Finance Fund	178,496	-
Total current liabilities	1,286,373	1,489,253
NONCURRENT LIABILITIES—Unearned premiums	98,402	107,518
Total liabilities	1,384,775	1,596,771
CONTINGENCIES (Note 9)		
FUND EQUITY:		
Invested in capital assets	6,253	9,339
Restricted by statute	59,390,754	55,905,662
Total fund equity	59,397,007	55,915,001
TOTAL LIABILITIES AND FUND EQUITY	$ 60,781,782	$ 57,511,772

See notes to financial statements.

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
OPERATING REVENUES:		
Premiums earned	$ 7,080,605	$ 5,926,550
Investment income	1,732,468	871,838
Other revenues	-	12,927
Total operating revenues	8,813,073	6,811,315
OPERATING EXPENSES:		
Loss and loss adjustment expenses (recoveries)	75,802	(450,429)
Operating expenses	6,211,082	7,089,471
Other expenses, net	3,086	4,051
Total operating expenses	6,289,970	6,643,093
OPERATING INCOME	2,523,103	168,222
TRANSFER FROM PROP 46 (Note 8)	958,903	8,709,000
FUND EQUITY—Beginning of year	55,915,001	47,037,779
FUND EQUITY—End of year	$ 59,397,007	$ 55,915,001

See notes to financial statements.

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 6,270,912	$ 5,750,495
Payments to suppliers	(5,736,457)	(7,196,424)
Payments to employees	(424,407)	(672,620)
Internal activity--payments (to) from other funds	730,260	(602,928)
Other payments	(18,156)	(27,589)
Net cash (used in) provided by operating activities	822,152	(2,749,066)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payment on notes	-	-
Interest paid on notes	-	-
Net cash used in noncapital financing activities	-	-
CASH FLOWS PROVIDED BY RELATED FINANCING ACTIVITIES—Transfer from Prop 46 (Note 8)	958,903	8,709,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	1,568,000	4,667,000
Purchase of investments	(4,823,000)	(11,633,000)
Interest on investments	1,477,594	974,997
Net cash used in investing activities	(1,777,406)	(5,991,003)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,649	(31,069)
CASH AND CASH EQUIVALENTS—Beginning of year	32,990	64,059
CASH AND CASH EQUIVALENTS—End of year	$ 36,639	$ 32,990
RECONCILIATION OF OPERATING INCOME TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 2,523,103	$ 168,222
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:		
Interest on investments	(1,732,468)	(871,838)
Unpaid loss and loss adjustment expenses	59,108	(489,966)
Depreciation expense	3,086	4,051
Deferred policy acquisition expense	315,315	314,558
Changes in certain operating assets and liabilities:		
Other assets	(626,652)	(197,786)
Unearned premiums	(439,350)	(382,491)
Payable to reinsurer	55,433	(36,865)
Accounts payable and other liabilities	(65,683)	(654,023)
Due (to) from California Housing Finance Fund	730,260	(602,928)
Net cash (used in) provided by operating activities	$ 822,152	$ (2,749,066)

See notes to financial statements.

1. AUTHORIZING LEGISLATION AND ORGANIZATION

The California Housing Loan Insurance Fund (the "Fund") is one of two continuously appropriated funds administered by the California Housing Finance Agency (the "Agency"). The Agency was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act (the "Act"), as amended, as a public instrumentality, a political subdivision and a component unit of the State of California (the "State"), and is in the State's Annual Financial Report, and administers the activities of the Fund and the California Housing Finance Fund (the "CHFF"). 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 CHFF. As of June 30, 2005 the CHFF had total assets of $9.4 billion and fund equity of $1.2 billion (not covered by this Independent Auditors' Report).

The Agency is 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 $499 million and $384 million at December 31, 2005 and 2004, respectively. Over 95% of the insured first mortgage loans outstanding at December 31, 2005 have loan to value ratios, measured as of the funding date of the loan, equal to or greater than 90%.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting—The Fund is accounted for as an enterprise fund. Accordingly the accompanying financial statements have been prepared using the accrual method of accounting and on the basis of accounting principles generally accepted in the United States of America (hereinafter referred to as "Generally Accepted Accounting Principles") which differ from statutory accounting practices followed by insurance companies in reporting to insurance regulatory authorities.

Accounting and Reporting Standards—The Fund follows the *Standards of Governmental Accounting and Financial Reporting*, as promulgated by *the Governmental Accounting Standards Board* ("GASB"). The Fund has adopted the option under GASB No. 20 which allows the Fund to apply all GASB pronouncements and only *Financial Accounting Standards Board* ("FASB") pronouncements which date prior to November 30, 1989.

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 (the "SMIF") to be cash and cash equivalents.

Investments—The Agency invests the Fund's cash in the 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.

Deferred Policy Acquisition Costs—The Fund defers certain costs related to the acquisition of new insurance policies and amortizes these costs over the expected life of the policies. These costs are associated with the acquisition, underwriting and processing of new policies. Deferred policy acquisition costs were $497,941 and $558,408 for the years ended December 31, 2005 and 2004, respectively, and are included as part of Other Assets on the Balance Sheets.

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 based upon the unpaid delinquent balance on mortgage loans reported by lenders as of the close of the accounting period, estimates of incurred but not reported ("IBNR") claims and historical and expected frequency and loss severity information.

There is a high level of uncertainty inherent in the evaluation of the required loss and loss adjustment expense reserves. Management has selected frequency of claims paid and severity loss ratios that it believes are reasonable and reflective of anticipated ultimate experience. 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.

Fund Equity—Fund equity is classified as invested in Capital Assets or Restricted Equity. Invested in Capital Assets represents investments in office equipment and furniture net of depreciation. Restricted Equity represents equity that is restricted pursuant to the Agency's enabling legislation.

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.

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 deferred 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 deferred 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 Financial ("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. The Fund uses reinsurance to reduce net risk in force and optimize capital allocation.

Recent Accounting Pronouncements—In March 2003, GASB issued Statement of Governmental Accounting Standards ("SGAS") No. 40, Deposit and Investment Risk Disclosures. The Fund adopted GASB Statement No. 40 effective for the fiscal year beginning January 1, 2005. GASB Statement No. 40 establishes additional disclosure requirements addressing common risks of investments. Implementation of the statement did not affect the Fund's net assets or revenues, expenses, and changes in net assets, but resulted in additional disclosure.

In December 2004, GASB issued SGAS No. 46, *Net Assets restricted by Enabling Legislation,* an amendment of SGAS No. 34, effective for periods beginning after June 15, 2005. SGAS No. 46 clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. The Fund will adopt the new standard for the fiscal year beginning January 1, 2006. Management does not expect that adoption of this standard will have any material effect on the Fund's financial statements.

3. INVESTMENT RISK FACTORS

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 earning 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 limits the Fund's exposure to most types of risk.

Investments by type at December 31, 2005 consist of the following:

	2005	2004
Surplus Money Investment Fund --- State of California	$58,805,000	$55,550,000
Total Investments	$58,805,000	$55,550,000

Credit Risk: Fixed income securities are subject to credit risk, which is the chance that an issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government are not considered to have credit risk. At December 31, 2005 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, 2005, 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, 2005 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, 2005, the Fund 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 Fund's investments are not affected by effective duration.

4. 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, 2005 and 2004. 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

	2005	2004
Gross reserve for loss and loss adjustment, beginning of year balance	$ 943,548	$ 2,128,271
Incurred (recovered) related to:		
Provision attributable to the current year	1,133,893	457,437
Change in provision attributable to prior years	(626,491)	(1,583,746)
Total (recovered) incurred	507,402	(1,126,309)
Payments related:		
Current year	-	-
Prior years	(22,094)	(58,414)
Total payments	(22,094)	(58,414)
Gross reserve for loss and loss adjustment, end of year balance	$ 1,428,856	$ 943,548

Net of reinsurance

	2005	2004
Net reserve for loss and loss adjustment, beginning of year balance	$ 320,023	$ 809,989
Incurred (recovered) related to:		
Provision attributable to the current year	283,016	161,209
Change in provision attributable to prior years	(207,214)	(611,638)
Total (recovered) incurred	75,802	(450,429)
Payments related:		
Current year	(11,170)	(8,431)
Prior years	(5,524)	(31,106)
Total payments	(16,694)	(39,537)
Net reserve for loss and loss adjustment, end of year balance	$ 379,131	$ 320,023

Reserves for loss and loss adjustment expenses relate to delinquent loans, net of reinsurance. Such estimates were based on historical experience which management believed was representative of 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.

5. REINSURANCE

Effective March 1, 2003, the Fund entered into a 75% quota-share reinsurance agreement with Genworth to reinsure 98% of the Funds 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 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 2005 and 2004 was $4.3 million and $3.6 million, respectively.

6. ARRANGEMENTS WITH THE CALIFORNIA HOUSING FINANCE FUND

Certain of the 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 quarterly for these expenses. Amounts payable to the CHFF were $266,011 and $704,752 at December 31, 2005 and 2004, respectively. The decrease in the amount payable at December 31, 2005 was due to a change in the reimbursement procedures. For the years ended December 31, 2005 and 2004, total expenses allocated to the Fund by the Agency were $1,255,000 and $1,432,294 respectively. For the years ending December 31, 2005 and 2004, management determined that CHFF should participate in certain legal and consulting expenses originally paid by the Fund. The amount due to the Fund from the CHFF for these expenses was $56,647 and $1,256,516 at December 31, 2005 and 2004, respectively and is included in the Due from California Housing Finance Fund.

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

Subsequently, the Agency Executive Director established an inter-fund credit agreement in the amount of $100,000,000 in which the Fund may borrow from CHFF as needed for the purpose of paying claims arising out of policies of mortgage guarantee insurance and costs and expenses related to the payment of such claims. Interest rates and repayment terms are determined upon receipt of a request to draw on this credit facility. The Fund had not requested a draw on this credit through December 31, 2005.

7. PENSION PLAN

The Fund contributes to the Public Employees' Retirement Fund ("PERF") as part of the State of California, the primary government. The PERF is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employment Retirement System ("CalPERS"). CalPERS provides retirement, death, disability and post retirement health care benefits to members as established by state statute. CalPERS issues a publicly available Comprehensive Annual Financial Report ("CAFR") that includes financial statements and required supplementary information for the Public Employees' Retirement Fund. A copy of that report may be obtained from CalPERS, Central Supply, and P.O. Box 942175, Sacramento, CA 95229-2715 or via the internet at www.calpers.ca.gov.

For the CalPERS fiscal years ended June 30, 2005 and 2004 the employer contribution rates were 13.216% to 17.022% and 10.265% to 14.843%, respectively. For the CalPERS fiscal year beginning July 1, 2005, which covers the period July 1, to December 31, 2005, the employer contribution rates were 15.890% to 15.942%. The Fund's contributions to the PERF for the years ended December 31, 2005, 2004 and 2003 were $104,062, $109,919, and $81,784, respectively, equal to the required contributions for each fiscal year.

Required contributions are determined by actuarial valuation using the individual entry age normal cost method. The most recent actuarial valuation available is as of June 30, 2004, which actuarial assumptions included (a) 7.75% investment rate of return compounded annually, (b) projected salary increases that vary by duration of service, and (c) overall payroll growth factor of 3.25% annually. Both (a) and (c) included an inflation component of 3% and a .25% per annum productivity increase assumption. The amortization method is based on a level percentage of payroll closed. The remaining amortization at June 30, 2004 was 20 to 30 years.

The most recent actuarial valuation of the PERF indicated that there was an unfunded actuarial accrued liability. The amount of the under funded liability applicable to each agency or department cannot be determined. Trend information, which presents CalPERS progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 2004 CalPERS CAFR.

8. TRANSFER FROM HOUSING AND EMERGENCY SHELTER TRUST FUND ACT OF 2002

The *Housing and Emergency Shelter Trust Fund Act of 2002* (“Prop 46”) is a $2.1 billion dollar bond measure that was passed by the voters of California in November 2002. The bond provides monies to help fund the construction, rehabilitation and preservation of affordable rental housing, emergency shelters and homeless facilities, as well as funds that can be used to provide down payment assistance to low and moderate income first-time homebuyers. As such, the Fund drew $959,000 in 2005 and $8.7 million in 2004 of the $85 million allocated towards assistance in developing low income housing from Prop 46. The remainder of the Prop 46 funds available for this purpose has reverted and therefore, there will be no more draws by the Fund. These funds are invested and available to be utilized to pay claims as needed.

9. CONTINGENCIES

Certain 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 Fund, its review of such lawsuits and claims and consultation with counsel, the Fund believes the liability relating to these actions, if any, would not have a material adverse effect on the Fund’s financial statements.

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