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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 ("Fund"), which is administered by the California Housing Finance Agency ("Agency"), a component unit of the State of California, as of June 30, 2007 and 2006, and the related combined statements of revenue, expenses and changes in equity, and of cash flows for the years then ended. The accompanying financial statements of the Fund are not intended to present the financial position or the results of the operations of the Agency. 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 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, 2007 and 2006, and the results of its operating 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 on pages 3 through 10 is not a required part of the combined financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Agency. 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.

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplemental combining program information as of and for the year ended June 30, 2007 on pages 40 through 57 is presented for the purpose of additional analysis and is not a required part of the combined 2007 financial statements of the Fund. The supplemental combining program information is the responsibility of the Agency's management. Such information has been subjected to the auditing procedures applied in our audits of the combined 2007 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2007 financial statements taken as a whole.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 24, 2007, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte + Touche LLP

October 24, 2007

CALIFORNIA HOUSING FINANCE FUND
Management Discussion and Analysis
of Financial Position and Results of Operations
As of and for the fiscal years ended June 2007 and 2006

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 other special purpose loans. Loans for these purposes generally would not produce sufficient revenues to support payments to bondholders. These loans typically accrue simple interest with repayment of principal and interest deferred for the term of the loan or until certain events occur, such as a sale of the property. Also included in this category are certain State-funded programs, 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 2007 – 2006

- Operating income before transfers was $85 million for fiscal year 2007 compared to $37 million for fiscal year 2006. The increase in Operating income before transfers is reflective of more earnings in homeownership interest income, the sale of subordinate loans and sale of our multifamily REO loans.

- The Agency originated $1.9 billion in new loans receivable during fiscal year 2007. Overall, program loans receivable increased $1.2 billion to $7.5 billion at fiscal year end as homeownership loan receivables increased by over $1.1 billion and multifamily loan receivables increased by $68 million.

- Home mortgage delinquencies have been surging nationally, especially for borrowers who took out subprime mortgages. Although the Agency does not make subprime loans, the Agency continues to review its loan loss reserves. This year the reserve was increased by a net of $8.3 million to $75.5 million. In addition, the Agency maintains its Emergency Reserve Account at approximately one percent of the net program loans receivable.

- During fiscal year 2007, $40 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 2007, the Agency issued $1.5 billion of notes and bonds. All but $180 million was issued as fixed rate debt and $120 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, $1.3 billion of bond indebtedness during fiscal year 2007.

- During the fiscal year 2007, the Agency sold 6,039 subordinate loans to Fannie Mae for $66 million. The sale resulted in a $6 million increase in interest income on program loans.

- During the fiscal year 2007, the Agency sold its remaining multifamily REO's. The sale resulted in a $27 million increase in other revenues.

Condensed Financial Information:

Combined Balance Sheet

The following table presents condensed combined balance sheets for the Fund as of June 30, 2007 and 2006 and the change from the prior year (dollars in millions):

Condensed Combined Balance Sheets

	2007	2006	Change
Assets			
Cash and investments	$2,068	$3,057	$ (989)
Program loans receivable-net	7,509	6,271	1,238
Other	125	125	
Total Assets	$9,702	$9,453	$249
Liabilities			
Bonds payable – net	$7,579	$7,445	$134
Other	730	740	(10)
Total Liabilities	8,309	8,185	124
Fund Equity			
Invested in capital assets	1	1	
Restricted equity	1,392	1,267	125
Total Fund Equity	1,393	1,268	125
Total Liabilities and Fund Equity	$9,702	$9,453	$249

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 $249 million during fiscal year 2007. The Fund's cash and investments were $2.1 billion as of June 30, 2007, a decrease of $989 million from June 30, 2006. The 32% 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, 21% is in the form of cash and investments at fiscal year end. Of the Fund's investment balance, 39% 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 2007 fiscal year decreased by over $1 billion, due primarily to the investment in homeownership loans. In addition, over $1 billion of the Fund's investments are held in the State's Surplus Money Investment Fund ("SMIF") and earn a variable rate of interest. The amount of funds invested in SMIF during fiscal year 2007 increased by $169 million.

The composition of cash and investments as of June 30, 2007 and 2006 and the changes from the prior year are shown in the table below (dollars in millions):

Cash and Investments

	2007	2006	Change
Investment agreements	$810	$1,866	$ (1,056)
SMIF	1,094	925	169
Securities & Commercial paper	115	125	(10)
Cash	49	141	(92)
Total	$2,068	$3,057	$ (989)

Program loans receivable increased by $1.2 billion or 20% during fiscal year 2007 compared to fiscal year 2006. This increase is due primarily to the increase in the homeownership loan portfolio. Multifamily Rental Housing Program loan originations were $238 million during fiscal year 2007, compared to $345 million loans originated during fiscal year 2006. The Agency had a very active year originating new Homeownership program loans. Within the Fund, the Agency originated almost $1.9 billion in new loans of which over $1.7 billion were single family first mortgages. As interest rates increased fewer borrowers refinanced their Agency loans resulting in a 50% decrease in loan prepayments to $414 million during fiscal year 2007 compared to $826 million received in fiscal year 2006. The Agency does not offer home refinance opportunities to its borrowers as the homeownership loan programs are restricted to first time homebuyers.

Liabilities

The Fund's liabilities were $8.3 billion as of June 30, 2007, an increase of $124 million from June 30, 2006. Of the Fund's liabilities, over 91% is in the form of bond indebtedness. The Fund's bonds payable at June 30, 2007 increased by $134 million from the prior year as the $1.5 billion in new issuances in 2007 were offset by scheduled principal payments and $1.3 billion in bond redemptions. 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 on October 5, 2007 a bill was signed by the Governor to increase the cap to $13.15 billion.

All of the bonds issued by the Agency are reported within the Fund. The Agency issued a total of $1.5 billion of Agency bonds during fiscal year 2007, an increase from the $1.2 billion issued during fiscal year 2006. Of the bonds issued during fiscal year 2007, all but $180 million were issued as fixed interest rate bonds, and $120 million of variable rate debt was swapped to provide synthetically fixed interest rates. As of June 30, 2007, the estimated "net" variable interest rate exposure of the Fund's total bond indebtedness was $632 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 2007 fiscal year, federally taxable bonds increased by 10% and as of June 30, 2007 represents 24% of all bonds outstanding, while tax-exempt bonds decreased by 1% and as of June 30, 2007 represents 76% 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 2007, the Agency issued $420 million of taxable bonds to further leverage tax-exempt issuance authority.

Shown below are the amounts of variable and fixed rate indebtedness, by tax status, as of June 30, 2007 and 2006 and the changes from the prior year (dollars in millions):

Bonds Payable

	2007	2006	Change
Tax-Exempt Bonds			
*Variable Rate	$4,163	$5,144	$ (981)
Fixed Rate	1,559	624	935
Total Tax-Exempt Bonds	$5,722	$5,768	$ (46)
Federally Taxable Bonds			
*Variable Rate	$1,315	$1,455	$ (140)
Fixed Rate	512	204	308
Total Federally Taxable Bonds	$1,827	$1,659	$ 168
* * Total Bonds Outstanding	$7,549	$7,427	$ 122

* Certain variable rate bonds have been swapped to a fixed rate (see Note 7 to the Combined Financial Statements).
* * The HUD debenture is not included.

Other liabilities decreased by $10 million during fiscal year 2007. This decrease is due primarily to the decrease in the amount owed to the IRS.

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 $125 million as a result of operating income of the Fund, in the amount of $85 million and transfers to the Fund in the amount of $40 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, 2007 and June 30, 2006 and the changes from the prior year (dollars in millions):

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

	2007	2006	Change
Operating Revenues:			
Interest income program loans – net	$ 375	$ 314	$ 61
Interest income investments – net	122	139	(17)
Increase in fair value of investments	(4)	(3)	(1)
Other loan and commitment fees	19	13	6
Other revenues	105	87	18
Total Operating Revenues	617	550	67
Operating Expenses:			
Interest	365	345	20
Mortgage servicing fees	17	14	3
Operating expenses	32	31	1
Other expenses	118	123	(5)
Total Operating Expenses	532	513	19
Operating Income before transfers	$ 85	$ 37	$ 48

Operating Revenues

Total operating revenues of the Fund were $617 million during fiscal year 2007 compared to $550 million during fiscal year 2006, an increase of $67 million or 12%.

Interest income on program loans was $375 million during fiscal year 2007 compared to $314 million during fiscal year 2006, an increase of $61 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 $1.2 billion or 20% at June 30, 2007 compared to June 30, 2006, and the Homeownership loan portfolio increased by over $1 billion.

Interest income from investments decreased 12% to $122 million in fiscal year 2007 from $139 million in fiscal year 2006. This decrease is due primarily to the investment in homeownership loans as the fund's investment portfolio decreased by $897 million or 31% during fiscal year 2007.

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The fair value of the Fund's $115 million investment in securities and commercial paper decreased by $1 million during fiscal year 2007. 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 $6 million to $19 million for fiscal year 2007 compared to $13 million during fiscal year 2006. The increase is primarily attributable to an increase in servicing fee income from Agency loan servicing and multifamily prepayment fees.

Other revenues increased by $18 million to $105 million during fiscal year 2007 compared to $87 million in fiscal year 2006, primarily due to the sale of multifamily REO's.

Operating Expenses

Total operating expenses of the Fund were $532 million during fiscal year 2007 compared to $513 million during fiscal year 2006, an increase of $19 million or 4%.

Bonds payable at June 30, 2007 increased by $134 million from June 30, 2006 and bond interest expense, which represents 68% of the Fund's total operating expenses, increased by $20 million or 6% compared to fiscal year 2006. The increase in bond interest expense is attributed to the rise in interest rates of our variable rate bonds, plus the increase in bonds payable.

The 3% growth in operating expenses from $31 million during fiscal year 2006 to $32 million during fiscal year 2007 (as shown in the condensed combined statements of revenues, expenses and changes in fund equity), resulted from increased staff salary expenses.

Operating Income before Transfers

The overall operating results of the Fund for fiscal year 2007 are reflective of the activity in the operating revenues and expenses discussed above. Operating income before transfers for fiscal year 2007 was $85 million compared to $37 million for fiscal year 2006. The $48 million increase in operating income before transfers is primarily due to the increase in interest income from program loans, the sale of subordinate loans, and the sale of multifamily REO's.

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	$1,866	$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 $826 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 $1.3 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 $1.2 billion of Agency bonds during fiscal year 2006, an 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 is 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, a 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, a 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.

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CALIFORNIA HOUSING FINANCE FUND
COMBINED BALANCE SHEETS
June 30, 2007 and June 30, 2006
(Dollars in Thousands)

	2007 Combined Totals	2006 Combined Totals
ASSETS		
Current assets:		
Cash and cash equivalents	$ 49,444	$ 140,518
Investments	1,966,049	2,874,921
Current portion - program loans receivable, net of allowance	316,709	316,695
Interest receivable:		
Program loans, net	36,604	30,414
Investments	31,429	36,411
Accounts receivable	13,676	12,599
Other assets	818	743
Total current assets	2,414,729	3,412,301
Noncurrent assets:		
Investments	52,188	41,391
Program loans receivable, net of allowance	7,192,123	5,954,047
Deferred financing costs	37,345	31,398
Other assets	5,375	13,464
Total noncurrent assets	7,287,031	6,040,300
Total assets	$ 9,701,760	$ 9,452,601
LIABILITIES AND FUND EQUITY		
Current liabilities:		
Current portion - bonds payable, net	$ 79,536	$ 855,741
Interest payable	147,850	125,216
Due to other government entities, net	350,326	301,634
Compensated absences	2,223	1,836
Deposits and other liabilities	180,857	228,607
Total current liabilities	760,792	1,513,034
Noncurrent liabilities:		
Bonds and debenture notes payable, net	7,499,692	6,588,622
Due to other government entities, net	11,003	39,301
Deferred revenue	37,360	43,437
Total noncurrent liabilities	7,548,055	6,671,360
Total liabilities	8,308,847	8,184,394
Commitments and contingencies (see notes 11 and 13)		
Fund equity:		
Invested in capital assets	866	894
Restricted by indenture	731,330	703,539
Restricted by statute	660,717	563,774
Total fund equity	1,392,913	1,268,207
Total liabilities and fund equity	$ 9,701,760	$ 9,452,601

See notes to combined financial statements.

CALIFORNIA HOUSING FINANCE FUND
COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
June 30, 2007 and June 30, 2006
(Dollars in Thousands)

	2007 Combined Totals	2006 Combined Totals
OPERATING REVENUES		
Interest income:		
Program loans, net	$ 374,756	$ 314,229
Investments, net	122,584	138,581
Increase (decrease) in fair value of investments	(3,694)	(3,498)
Loan commitment fees	3,266	2,146
Other loan fees	15,793	10,970
Other revenues	104,735	87,407
Total operating revenues	617,440	549,835
OPERATING EXPENSES		
Interest	364,688	344,711
Amortization of bond discount and deferred losses on refundings of debt	483	10,005
Mortgage servicing expenses	16,708	14,019
Provision for program loan losses	8,766	7,550
Operating expenses	32,270	30,988
Other expenses	109,549	105,513
Total operating expenses	532,464	512,786
Operating income before transfers	84,976	37,049
Transfers, interfund	39,730	41,758
Increase in fund equity	124,706	78,807
Fund equity at beginning of year	1,268,207	1,189,400
Fund equity at end of year	$ 1,392,913	$ 1,268,207

See notes to combined financial statements.

CALIFORNIA HOUSING FINANCE FUND
COMBINED STATEMENTS OF CASH FLOWS
June 30, 2007 and June 30, 2006
(Dollars in Thousands)

	2007 Combined Totals	2006 Combined Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 368,566	$ 307,934
Payments to suppliers	(28,862)	(25,515)
Payments to employees	(21,460)	(19,604)
Other receipts (payments)	(1,298,687)	(674,908)
Net cash used for operating activities	(980,443)	(412,093)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Due to other government entities	49,412	(970)
Net cash provided by (used for) noncapital financing activities	49,412	(970)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sales of bonds and debenture notes	1,536,229	1,224,061
Payment of bond principal	(98,890)	(151,641)
Early bond redemptions	(1,306,701)	(1,142,226)
Interest paid on debt	(342,055)	(334,329)
Interfund transfers	39,730	41,758
Additions to deferred costs	(10,304)	(5,720)
Net cash used for capital and related financing activities	(181,991)	(368,097)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity and sale of investments	6,212,279	6,672,337
Purchase of investments	(5,317,897)	(5,956,993)
Interest on investments, net	127,566	135,493
Net cash provided by (used for) investing activities	1,021,948	850,837
Net increase (decrease) in cash and cash equivalents	(91,074)	69,677
Cash and cash equivalents at beginning of year	140,518	70,841
Cash and cash equivalents at end of year	$ 49,444	$ 140,518
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 84,976	$ 37,049
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest expense on debt	364,688	344,711
Interest on investments	(122,584)	(138,581)
Changes in fair value of investments	3,695	3,498
Accretion of capital appreciation bonds	3,744	4,111
Amortization of bond discount	94	83
Amortization of deferred losses on refundings of debt	800	9,922
Amortization of bond issuance costs	4,358	5,083
Amortization of bond premium	(412)	
Amortization of deferred revenue	(3,266)	(2,146)
Depreciation	189	216
Provision for program loan losses	8,767	7,549
Provision for yield reduction payments	(14,492)	
Provision for nonmortgage investment excess	(13,807)	(1,530)
Changes in certain assets and liabilities:		
Purchase of program loans	(1,993,406)	(1,868,660)
Collection of principal from program loans, net	742,319	1,144,167
Interest receivable	(6,190)	(6,296)
Accounts receivable	(1,077)	15,669
Due from (to) other funds		
Due to other government entities	(719)	43
Other assets	12,052	2,780
Compensated absences	387	(283)
Deposits and other liabilities	(47,749)	31,766
Deferred revenue	(2,810)	(1,244)
Net cash provided by operating activities	$ (980,443)	$ (412,093)

See notes to combined financial statements.

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CALIFORNIA HOUSING FINANCE FUND
NOTES TO COMBINED FINANCIAL STATEMENTS
Fiscal Years Ended June 30, 2007 and 2006

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, 2006, the Mortgage Insurance Fund had total assets of $66,687,132 and equity of $64,621,829, 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 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 are 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 $39,730,000 during fiscal year 2007.

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

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

Loan Servicing: The Agency services nearly all multifamily program loans, 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 $350,000,000 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, 2007 draws totaling $4,985,105 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, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Funds Accounting*, which allows the Agency to apply all GASB pronouncements and only Financial Accounting Standards Board ("FASB") pronouncements which date prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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, plus unamortized bond premiums, 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 $1,870,519 and $1,735,000 the years ended June 30, 2007 and 2006, respectively. HUD pass-through payments aggregated $74,505,313 and $73,987,152 for the years ended June 30, 2007 and 2006, respectively, and are reported as other operating revenues and expenses within Other Programs and Accounts.

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, 2007 and 2006, all cash and cash equivalents, totaling $49,444,000 and $140,518,000, 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, 2007. 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, 2007 and 2006 are as follows (dollars in thousands):

	Category 1	Category 2	Category 3	Fair Value June 2007	Fair Value June 2006
U.S. Treasury Securities	$ 1,206			$ 1,206	$ 1,248
U.S. Agency Securities --- GNMA's	6,780			6,780	26,468
Federal Agency Securities	46,980			46,980	20,224
Investment Agreements --- Financial Institutions (at cost)		524,002		524,002	1,023,941
Commercial Paper	59,679			59,679	77,560
Total	$ 114,645	$ 524,002	$ -		
Other Investments (not subject to categorization):					
Surplus Money Investment Fund --- State of California				1,093,857	924,654
Other Investment Agreements (at cost)				285,733	842,217
Total Investments				$ 2,018,237	$ 2,916,312
Current portion				1,966,049	2,874,921
Noncurrent portion				52,188	41,391
Total				$ 2,018,237	$ 2,916,312

Note 4 – INVESTMENT RISK FACTORS

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

	2007 Combined Totals	2006 Combined Totals
U.S. Treasury Securities	$ 1,206	$ 1,248
U.S. Treasury Securities --- GNMA's	6,780	26,468
Federal Agency Securities	46,980	20,224
Commercial Paper	59,679	77,560
Investment Agreement --- Financial Institutions (at cost)	809,735	1,866,158
Surplus Money Investment Fund --- State of California	1,093,857	924,654
Total Investments	$ 2,018,237	$ 2,916,312

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 a 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):

	2007 Combined Totals	2006 Combined Totals
Fixed income securities:		
U.S. government guaranteed	$ 54,965	$ 47,940
Guaranteed interest contracts:		
Rated Aaa/AAA	175,097	547,009
Rated Aaa/AA+	9,059	
Rated Aaa/AA-	13,060	
Rated Aa3/AA	124,536	222,057
Rated Aa3/AA-	228,620	
Rated Aa3/A+		
Rated Aa2/AA	257,550	90,192
Rated Aa2/AA-		478,135
Rated Aa2/A+		
Rated Aa2/A		515,699
Rated Aa2/A-		4,430
Rated Aa1/AA	1,813	2,855
Rated Aa1/AA-		5,782
Commercial Paper:		
Rated P1/A-1+	59,679	6,072
N/A		71,488
Total fixed income securities	$ 924,379	$ 1,991,659

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, 2007, 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, 2007, 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, 2007, 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:

	2007	2006
Fixed income securities:		
U.S. government guaranteed	9.38	7.00
Commercial Paper	0.10	0.03

Note 5 – PROGRAM LOANS RECEIVABLE

Changes in program loans receivable for the years ended June 30, 2007 and 2006 are as follows (dollars in thousands):

	2007 Combined Totals	2006 Combined Totals
Beginning of the year balance	$ 6,338,223	$ 5,613,766
Loans purchased/funded	1,994,978	1,868,661
Amortized principal repayments	(324,555)	(285,157)
Loan prepayments	(417,763)	(859,011)
Chargeoffs	(502)	(36)
Subtotal	7,590,381	6,338,223
Unamortized Mortgage Discount	(1,575)	
Transfer REO to other assets	(4,509)	(280)
Allowance for loan losses	(75,465)	(67,201)
End of year balance	$ 7,508,832	$ 6,270,742
Current portion	$ 316,709	$ 316,695
Noncurrent portion	7,192,123	5,954,047
Total	$ 7,508,832	$ 6,270,742

Note 6 – ALLOWANCE FOR PROGRAM LOAN LOSSES

Changes in the allowance for program loan losses for the year ended June 30, 2007 and 2006 are as follows (dollars in thousands):

	2007 Combined Totals	2006 Combined Totals
Beginning of year balance	$67,201	$59,688
Provisions for program loan losses	8,766	7,549
Chargeoffs	(502)	(36)
End of year balance	$ 75,465	$ 67,201

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, 2007 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	$ 2,050		2,050
1982 Series B	Tax-Exempt	10.625%	2014	650		650
1983 Series A	Tax-Exempt	10.263%	2015	18,799		18,799
1983 Series B	Tax-Exempt	10.751%	2015	4,138		4,138
1984 Series B	Tax-Exempt	11.493%	2016	562		562
1985 Series A	Tax-Exempt	10.989%	2016	750		750
1985 Series B	Tax-Exempt	9.876%	2017	3,475		3,475
1994 Series D	Tax-Exempt	3.900%	2034		8,100	8,100
1995 Series I	Tax-Exempt	3.750%	2035		12,950	12,950
1996 Series K	Tax-Exempt	5.650% - 6.150%	2016	5,920		5,920
1997 Series D	Tax-Exempt	5.150% - 5.400%	2009	3,550		3,550
1997 Series E	Tax-Exempt	5.150%	2026	405		405
1997 Series G	Taxable	5.720%	2017		3,790	3,790
1997 Series O	Tax-Exempt	5.650%	2027	6,455		6,455
1998 Series F	Tax-Exempt	4.700% - 5.000%	2016	16,695		16,695
1998 Series J	Tax-Exempt	4.850%	2027	3,485		3,485
1998 Series L	Taxable	6.140%	2019	5,640		5,640
1998 Series M	Taxable	5.590%	2023		10,270	10,270
1998 Series P	Taxable	5.300%	2029		24,670	24,670
1998 Series S	Taxable	5.660%	2026	7,115		7,115
1998 Series T	Taxable	5.280%	2029		10,225	10,225
1999 Series F	Tax-Exempt	5.200%	2028	4,362		4,362
1999 Series G	Taxable	6.870%	2011	11,800		11,800
1999 Series N	Tax-Exempt	4.900% - 6.300%	2031	20,216		20,216
1999 Series O	Taxable	5.510%	2012		21,255	21,255
2000 Series B	Tax-Exempt	6.200%	2019	4,442		4,442
2000 Series C	Tax-Exempt	3.703%	2031		38,290	38,290
2000 Series D	Taxable	5.520%	2023		27,785	27,785
2000 Series D	Taxable	5.520%	2023		5,525	5,525
2000 Series G	Tax-Exempt	3.600%	2017		2,470	2,470
2000 Series G	Tax-Exempt	3.670%	2031		46,930	46,930
2000 Series H	Taxable	5.480%	2017		35,810	35,810
2000 Series J	Tax-Exempt	3.670%	2031		27,445	27,445

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	$ 21,255	$ (472)
4.8500%	LIBOR @ 65%	1/27/00	2/1/17	42,500	(2,993)
7.1950%	LIBOR	1/27/00	2/1/13	27,785	(1,142)
Fixed Amount	LIBOR @ 65%	4/6/00	8/1/08	2,470	(1,213)
4.8000%	LIBOR @ 65%	4/6/00	2/1/23	60,000	(4,230)
7.2600%	LIBOR	4/6/00	8/1/10	35,810	(802)
4.9000%	LIBOR @ 65%	5/25/00	8/1/30	29,845	(2,606)

	Bonds and Debenture Notes					
Bond Issue	**Type of Bond**	**Interest Rate Range**	**Final Maturity Date**	**Outstanding Fixed**	**Outstanding Variable**	**Total**
2000 Series K	Taxable	5.260%	2031		67,460	67,460
2000 Series N	Tax-Exempt	3.670%	2031		31,750	31,750
2000 Series Q	Tax-Exempt	3.710%	2032		12,600	12,600
2000 Series Q	Tax-Exempt	3.710%	2032		25,000	25,000
2000 Series R	Taxable	5.350%	2032		59,350	59,350
2000 Series U	Tax-Exempt	3.710%	2017		30,690	30,690
2000 Series V	Taxable	5.500%	2032		52,800	52,800
2000 Series X-1	Tax-Exempt	3.380%	2015		4,400	4,400
2000 Series X-2	Tax-Exempt	3.650%	2031		33,870	33,870
2000 Series Z	Taxable	5.540%	2031		54,360	54,360
2001 Series C	Tax-Exempt	3.680%	2031		4,900	4,900
2001 Series C	Tax-Exempt	3.680%	2031		2,145	2,145
2001 Series C	Tax-Exempt	3.680%	2031		315	315
2001 Series D	Taxable	5.620%	2022		70,120	70,120
2001 Series F	Tax-Exempt	3.710%	2032		25,000	25,000
2001 Series G	Taxable	5.560%	2029		53,955	53,955
2001 Series G	Taxable	5.560%	2029		665	665
2001 Series J	Tax-Exempt	3.700%	2032		51,345	51,345
2001 Series K	Taxable	5.600%	2032		73,115	73,115
2001 Series N	Tax-Exempt	3.710%	2021		14,635	14,635
2001 Series O	Taxable	5.630%	2032		76,130	76,130
2001 Series O	Taxable	5.630%	2032		525	525
2001 Series R	Tax-Exempt	3.700%	2023		15,790	15,790
2001 Series R	Tax-Exempt	3.700%	2032		4,270	4,270
2001 Series S	Taxable	5.670%	2023		52,110	52,110
2001 Series U	Tax-Exempt	3.700%	2032		54,845	54,845
2001 Series V	Taxable	5.490%	2031		29,825	29,825
2002 Series A	Tax-Exempt	5.900%	2022	859		859
2002 Series B	Tax-Exempt	3.700%	2033		45,005	45,005
2002 Series C	Taxable	5.610%	2033		44,130	44,130
2002 Series D	Taxable	5.530%	2030		42,120	42,120
2002 Series E	Taxable	5.220%	2033		17,000	17,000
2002 Series F	Tax-Exempt	3.710%	2033		53,275	53,275
2002 Series H	Taxable	5.610%	2022		32,095	32,095
2002 Series H	Taxable	5.610%	2022		415	415
2002 Series J	Tax-Exempt	3.700%	2033		88,630	88,630
2002 Series L	Taxable	5.610%	2024		33,750	33,750
2002 Series M	Tax-Exempt	3.700%	2032		41,600	41,600
2002 Series M	Tax-Exempt	3.700%	2032		6,485	6,485
2002 Series M	Tax-Exempt	3.700%	2033		30,930	30,930
2002 Series O	Taxable	5.580%	2033		29,630	29,630
2002 Series P	Tax-Exempt	3.710%	2027		57,710	57,710
2002 Series Q	Tax-Exempt	3.740%	2033		22,510	22,510
2002 Series S	Taxable	5.500%	2018		900	900
2002 Series T	Taxable	5.270%	2032		25,155	25,155
2002 Series U	Tax-Exempt	3.700%	2032		35,575	35,575
2002 Series U	Tax-Exempt	3.700%	2031		45,725	45,725
2002 Series V	Tax-Exempt	3.150% - 3.750%	2009	7,570		7,570
2003 Series B	Taxable	5.490%	2027		6,100	6,100
2003 Series C	Taxable	5.201%	2033		7,000	7,000
2003 Series D	Tax-Exempt	3.596%	2033		48,750	48,750
2003 Series D	Tax-Exempt	3.596%	2022		42,345	42,345
2003 Series E	Tax-Exempt	2.050% - 2.350%	2008	2,350		2,350
2003 Series F	Tax-Exempt	3.720%	2022		49,665	49,665
2003 Series F	Tax-Exempt	3.720%	2034		79,565	79,565

SWAPS

Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
7.5000%	LIBOR	5/25/00	2/1/17	$ 67,460	$ (4,595)
5.1600%	LIBOR @ 65%	5/25/00	8/1/22	50,000	(2,321)
4.6600%	LIBOR @ 65%	7/27/00	2/1/16	18,445	(995)
4.9500%	LIBOR @ 65%	7/27/00	8/1/23	25,000	(1,227)
7.1100%	LIBOR	7/27/00	8/1/22	59,350	(5,275)
4.5275%	LIBOR @ 65%	10/5/00	8/1/15	30,725	(1,360)
7.0960%	6 mo LIBOR	10/5/00	8/1/14	52,800	(2,300)
4.3580%	LIBOR @ 64%	12/13/00	8/1/15	9,010	(226)
4.5100%	LIBOR @ 65%	12/13/00	8/1/31	34,390	(1,912)
6.8430%	3 mo LIBOR	12/13/00	8/1/16	54,360	(2,290)
3.9000%	LIBOR @ 65%	1/25/01	8/1/20	4,900	(68)
Fixed Amount	LIBOR @ 65%	1/25/01	8/1/16	2,145	(702)
6.2150%	3 mo LIBOR+.26%	1/25/01	8/1/19	70,120	(1,198)
3.8700%	LIBOR @ 65%	4/5/01	8/1/17	25,000	(508)
6.0100%	3 mo LIBOR+.20%	4/5/01	2/1/16	53,955	(623)
4.1430%	LIBOR @ 65%	5/31/01	8/1/24	69,405	(2,086)
3.9910%	LIBOR @ 65%	7/26/01	8/1/18	16,315	(335)
6.3600%	3 mo LIBOR+.27%	7/26/01	8/1/20	76,130	(1,726)
3.6900%	LIBOR @ 65%	10/10/01	2/1/19	15,935	(86)
Fixed Amount	LIBOR @ 65%	10/10/01	8/1/11	4,270	(994)
5.5300%	3 mo LIBOR+.31%	10/10/01	8/1/18	52,110	587
4.1300%	SIFMA less .15%	12/6/01	8/1/32	58,715	(1,076)
3.8880%	LIBOR @ 65%	4/18/02	8/1/27	45,005	(826)
5.6000%	3 mo LIBOR+.25%	5/1/02	8/1/12	44,130	50
5.8000%	3 mo LIBOR+.17%	8/1/02	2/1/11	42,120	(168)
6.1950%	1 mo LIBOR	8/1/02	8/1/14	17,000	(569)
3.9940%	LIBOR @ 65%	6/6/02	2/1/24	60,730	(1,548)
5.5350%	3 mo LIBOR+.25%	11/1/02	2/1/13	32,095	60
3.8630%	LIBOR @ 65%	8/8/02	8/1/32	96,345	(1,373)
5.1000%	3 mo LIBOR+.25%	12/1/02	2/1/13	33,750	393
3.7280%	LIBOR @ 65%	10/17/02	8/1/22	41,600	(284)
Fixed Amount	LIBOR @ 65%	10/17/02	8/1/12	6,485	(1,178)
4.4800%	LIBOR @ 65%	10/17/02	8/1/33	30,930	86
3.9890%	3 mo LIBOR+.22%	2/3/03	2/1/12	29,630	1,074
3.1480%	LIBOR @ 65%	12/12/02	8/1/22	57,710	2,045
3.8200%	LIBOR @ 65%	12/12/02	8/1/32	22,510	599
3.3500%	3 mo LIBOR+.14%	5/1/03	8/1/07	900	2
3.9100%	LIBOR @ 60%+.26%	3/6/03	2/1/31	35,575	1,077
3.2400%	LIBOR @ 60%+.26%	3/6/03	2/1/31	45,725	446
3.7750%	LIBOR @ 60%+.26%	4/10/03	8/1/33	48,750	1,210
3.1300%	LIBOR @ 60%+.26%	4/10/03	8/1/19	42,345	1,196
3.1250%	LIBOR @ 60%+.26%	3/26/03	2/1/18	49,665	1,380
3.7000%	LIBOR @ 60%+.26%	3/26/03	2/1/34	79,565	2,288

	Bonds and Debenture Notes							
Bond Issue	**Type of Bond**	**Interest Rate Range**			**Final Maturity Date**	**Outstanding Fixed**	**Outstanding Variable**	**Total**
2003 Series G	Taxable			5.510%	2034		21,075	21,075
2003 Series H	Tax-Exempt			3.700%	2032		54,000	54,000
2003 Series H	Tax-Exempt			3.700%	2033		68,135	68,135
2003 Series I	Taxable			5.540%	2033		36,230	36,230
2003 Series K	Tax-Exempt			3.740%	2033		70,005	70,005
2003 Series K	Tax-Exempt			3.740%	2034		55,035	55,035
2003 Series L	Taxable			5.540%	2034		32,990	32,990
2003 Series M	Tax-Exempt			3.710%	2024		57,790	57,790
2003 Series M	Tax-Exempt			3.710%	2034		75,245	75,245
2003 Series N	Taxable			5.570%	2034		39,295	39,295
2004 Series A	Tax-Exempt			3.710%	2033		41,840	41,840
2004 Series A	Tax-Exempt			3.710%	2034		34,375	34,375
2004 Series A	Tax-Exempt			3.710%	2034		1,165	1,165
2004 Series B	Taxable			5.530%	2034		5,790	5,790
2004 Series D	Tax-Exempt	2.250%	-	2.900%	2009	5,670		5,670
2004 Series E	Tax-Exempt			3.720%	2035		58,260	58,260
2004 Series E	Tax-Exempt			3.720%	2035		69,040	69,040
2004 Series F	Taxable			5.550%	2035		48,485	48,485
2004 Series G	Tax-Exempt			3.710%	2034		64,330	64,330
2004 Series G	Tax-Exempt			3.710%	2035		28,045	28,045
2004 Series H	Taxable			5.590%	2035		12,640	12,640
2004 Series I	Tax-Exempt			3.710%	2034		17,065	17,065
2004 Series I	Tax-Exempt			3.710%	2035		12,935	12,935
2005 Series A	Tax-Exempt			3.710%	2035		173,525	173,525
2005 Series B	Tax-Exempt			3.690%	2016		58,210	58,210
2005 Series B	Tax-Exempt			3.690%	2035		95,220	95,220
2005 Series B	Tax-Exempt			3.690%	2035		29,520	29,520
2005 Series C	Tax-Exempt	2.950%	-	3.700%	2013	38,540		38,540
2005 Series D	Tax-Exempt			3.720%	2038		68,125	68,125
2005 Series D	Tax-Exempt			3.720%	2040		106,130	106,130
2005 Series E	Tax-Exempt	2.875%	-	3.350%	2011	17,525		17,525
2005 Series F	Tax-Exempt			3.720%	2037		71,870	71,870
2005 Series F	Tax-Exempt			3.720%	2038		86,685	86,685
2005 Series F	Tax-Exempt			3.720%	2040		18,220	18,220
2005 Series G	Tax-Exempt			3.710%	2034		21,160	21,160
2005 Series G	Tax-Exempt			3.710%	2034		13,580	13,580
2005 Series H	Tax-Exempt			3.710%	2036		87,010	87,010
2005 Series H	Tax-Exempt			3.710%	2036		76,710	76,710
2006 Series A	Tax-Exempt			3.710%	2035		34,680	34,680
2006 Series A	Tax-Exempt			3.710%	2035		185	185
2006 Series B	Tax-Exempt	3.450%	-	4.000%	2013	24,635		24,635
2006 Series C	Tax-Exempt			3.710%	2037		85,885	85,885
2006 Series C	Tax-Exempt			3.710%	2037		89,005	89,005
2006 Series D	Tax-Exempt	4.250%	-	4.400%	2017	20,000		20,000
2006 Series E	Tax-Exempt	4.000%	-	5.050%	2026	99,865		99,865
2006 Series F	Tax-Exempt			3.710%	2041		60,000	60,000
2006 Series F	Tax-Exempt			3.710%	2041		60,000	60,000
2006 Series G	Tax-Exempt	3.650%	-	3.875%	2016	29,490		29,490
2006 Series H	Tax-Exempt	3.550%	-	5.750%	2030	75,200		75,200
2006 Series I	Tax-Exempt	4.750%	-	4.800%	2041	165,310		165,310
2006 Series J	Tax-Exempt	3.375%	-	4.150%	2016	32,790		32,790
2006 Series K	Tax-Exempt	4.550%	-	5.500%	2042	267,210		267,210
2006 Series L	Tax-Exempt	3.500%	-	4.150%	2016	50,185		50,185
2006 Series M	Tax-Exempt	4.550%	-	5.000%	2042	219,815		219,815
2007 Series A	Taxable			5.720%	2032	90,000		90,000
2007 Series B	Taxable			5.521%	2042		40,000	40,000

SWAPS					
Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
2.6750%	LIBOR @ 60%+.26%	8/7/03	8/1/30	54,000	2,884
3.4270%	LIBOR @ 60%+.26%	8/7/03	8/1/33	68,135	3,244
3.2700%	LIBOR @ 60%+.26%	8/1/04	2/1/18	70,005	270
4.2450%	LIBOR @ 60%+.26%	8/1/04	8/1/30	55,035	(1,051)
3.2250%	LIBOR @ 60%+.26%	2/2/04	8/1/19	57,790	1,391
3.8900%	LIBOR @ 60%+.26%	2/2/04	2/1/34	75,245	1,596
3.0875%	LIBOR @ 60%+.26%	8/1/04	8/1/30	41,840	1,230
4.0450%	LIBOR @ 60%+.26%	8/1/04	2/1/34	34,375	1,478
3.5400%	LIBOR @ 60%+.26%	4/1/05	8/1/20	58,260	371
4.1330%	LIBOR @ 60%+.26%	4/1/05	2/1/35	69,040	(162)
3.6100%	LIBOR @ 60%+.26%	2/1/05	2/1/34	64,330	11
4.0821%	LIBOR @ 60%+.26%	8/1/04	2/1/35	29,235	295
3.5600%	LIBOR @ 60%+.26%	8/4/04	2/1/33	17,065	88
4.0750%	LIBOR @ 60%+.26%	8/4/04	2/1/35	12,935	130
3.8040%	LIBOR @ 60%+.26%	4/5/05	8/1/35	173,525	3,156
3.0490%	LIBOR @ 60%+.26%	7/1/05	2/1/16	58,210	2,560
3.7260%	LIBOR @ 60%+.26%	7/1/05	2/1/35	95,220	1,108
3.1580%	LIBOR @ 60%+.26%	5/19/05	2/1/36	68,125	1,876
3.6040%	LIBOR @ 60%+.26%	5/19/05	2/1/40	106,130	3,860
3.2200%	LIBOR @ 60%+.26%	7/28/05	8/1/31	71,870	2,189
3.3860%	LIBOR @ 60%+.26%	7/28/05	2/1/38	86,685	4,774
4.4540%	97% SIFMA & HR	12/15/05	2/1/34	21,160	(121)
3.9320%	IBOR @ 62%+.25%&H	12/15/05	2/1/34	13,580	163
3.6500%	LIBOR @ 62%+.25%	12/15/05	8/1/31	87,010	960
3.8570%	LIBOR @ 62%+.25%	12/15/05	2/1/36	76,710	1,868
4.3530%	97% SIFMA	2/2/06	8/1/35	34,680	(15)
4.0180%	LIBOR @ 62%+.25%	4/19/06	8/1/30	85,885	108
4.0590%	LIBOR @ 62%+.25%	4/19/06	2/1/37	89,005	(675)
4.2550%	LIBOR @ 62%+.25%	7/27/06	8/1/40	60,000	(394)
4.1360%	LIBOR @ 62%+.25%	7/27/06	2/1/41	60,000	(68)

Bond Issue	Type of Bond	Interest Rate Range			Final Maturity Date	Outstanding Fixed	Outstanding Variable	Total
	Bonds and Debenture Notes							
2007 Series C	Taxable			5.50%	2042		20,000	20,000
2007 Series D	Taxable	3.700%	-	4.40%	2018	76,010		76,010
2007 Series E	Taxable	4.650%	-	5.00%	2042	193,990		193,990
Single Family Mortgage Bonds 1995 Issue A:								
1995 Issue A-1	Taxable	7.900%	-	8.240%	2014	155		155
1995 Issue A-2	Tax-Exempt	5.950%	-	6.450%	2026	1,300		1,300
Single Family Mortgage Bonds 1995 Issue B:								
1995 Issue B-2	Tax-Exempt	5.650%	-	6.300%	2027	4,180		4,180
Single Family Mortgage Bonds II:								
1997 Series A-1	Tax-Exempt	5.200%	-	6.000%	2020	9,060		9,060
1997 Series B-1	Tax-Exempt	4.750%	-	5.650%	2028	3,970		3,970
1997 Series B-3	Tax-Exempt	4.500%	-	5.400%	2029	8,565		8,565
1997 Series B-4	Taxable			6.460%	2018	1,120		1,120
1997 Series C-1	Tax-Exempt			5.050%	2011	1,580		1,580
1997 Series C-2	Tax-Exempt			5.625%	2020	2,260		2,260
1997 Series C-3	Taxable			6.790%	2029	3,715		3,715
1998 Series A	Tax-Exempt	4.550%	-	5.400%	2026	1,350		1,350
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	9,530		9,530
1999 Series A-3	Taxable			5.880%	2021	2,660		2,660
1999 Series A-4	Taxable			4.712%	2030		1,075	1,075
1999 Series D-2	Tax-Exempt			5.200%	2013	1,795		1,795
1999 Series D-3	Taxable			6.880%	2017	4,405		4,405
Housing Program Bonds:								
2004 Series A	Tax-Exempt			3.810%	2036		50,000	50,000
2006 Series A	Tax-Exempt	4.750%	-	4.950%	2036	47,090		47,090
2006 Series B -SF	Taxable			5.320%	2036		11,110	11,110
2006 Series B - MF	Taxable			5.320%	2036		50,000	50,000
Multi-Unit Rental Housing Revenue Bonds I:								
1994 Series B	Tax-Exempt	7.000%	-	7.125%	2024	11,690		11,690
Multifamily Loan Purchase Bonds:								
2000 Series A	Taxable			Variable	2017	95,463		95,463
Multifamily Housing Revenue Bonds II:								
1995 Series A	Tax-Exempt			6.250%	2037	2,765		2,765
1995 Series C	Taxable	8.000%	-	8.100%	2037	20,115		20,115
1996 Series A	Tax-Exempt			6.050%	2027	16,920		16,920
1996 Series B	Tax-Exempt	5.550%	-	6.150%	2022	21,035		21,035

SWAPS					
Fixed Rate Paid By Agency	**Floating Rate Received By Agency**	**Effective Date**	**Termination Date**	**Outstanding Notional/Applicable Amount**	**Fair Value**
3.1450%	LIBOR @ 60%+.26%	11/4/04	11/1/19	35,000	1,373

Bond Issue	Type of Bond	Interest Rate Range			Final Maturity Date	Outstanding Fixed	Outstanding Variable	Total
	Bonds and Debenture Notes							
Multifamily Housing Revenue Bonds III:								
1997 Series A	Tax-Exempt	5.850%	-	6.050%	2038	64,385		64,385
1998 Series A	Tax-Exempt	4.650%	-	5.500%	2038	31,115		31,115
1998 Series B	Tax-Exempt	4.650%	-	5.500%	2039	75,950		75,950
1998 Series C	Tax-Exempt	4.400%	-	5.300%	2028	11,630		11,630
1999 Series A	Tax-Exempt	4.400%	-	5.375%	2036	34,505		34,505
2000 Series A	Tax-Exempt			3.738%	2035		33,335	33,335
2000 Series A	Tax-Exempt			3.738%	2035		49,685	49,685
2000 Series B	Tax-Exempt			3.491%	2031		7,280	7,280
2000 Series C	Tax-Exempt			3.668%	2033		63,300	63,300
2000 Series D	Tax-Exempt			3.630%	2031		15,925	15,925
2001 Series A	Tax-Exempt			3.668%	2032		12,015	12,015
2001 Series C	Taxable			5.350%	2041		12,960	12,960
2001 Series D	Tax-Exempt			3.434%	2022		2,805	2,805
2001 Series D	Tax-Exempt			3.434%	2022		1,590	1,590
2001 Series E	Tax-Exempt			3.704%	2036		50,555	50,555
2001 Series F	Tax-Exempt			3.601%	2032		16,585	16,585
2001 Series G	Tax-Exempt			3.737%	2036		44,915	44,915
2001 Series G	Tax-Exempt			3.737%	2036		10,085	10,085
2001 Series G	Tax-Exempt			3.737%	2036		425	425
2001 Series H	Taxable			5.353%	2036		15,595	15,595
2002 Series A	Tax-Exempt			3.704%	2037		18,210	18,210
2002 Series A	Tax-Exempt			3.704%	2037		12,540	12,540
2002 Series A	Tax-Exempt			3.704%	2037		155	155
2002 Series B	Tax-Exempt			3.597%	2035		27,010	27,010
2002 Series C	Tax-Exempt			3.734%	2037		14,330	14,330
2002 Series C	Tax-Exempt			3.734%	2037		16,940	16,940
2002 Series C	Tax-Exempt			3.734%	2037		1,720	1,720
2002 Series D	Tax-Exempt			3.434%	2035		12,175	12,175
2002 Series E	Tax-Exempt			3.396%	2037		15,765	15,765
2002 Series E	Tax-Exempt			3.396%	2037		41,110	41,110
2002 Series E	Tax-Exempt			3.396%	2037		1,415	1,415
2003 Series A	Tax-Exempt			3.631%	2038		29,490	29,490
2003 Series A	Tax-Exempt			3.631%	2038		27,735	27,735
2003 Series A	Tax-Exempt			3.631%	2038		760	760
2003 Series B	Tax-Exempt			3.750%	2038		9,125	9,125
2003 Series B	Tax-Exempt			3.750%	2038		15,375	15,375
2003 Series B	Tax-Exempt			3.750%	2038		9,465	9,465
2003 Series B	Tax-Exempt			3.750%	2038		8,525	8,525
2003 Series C	Tax-Exempt			3.673%	2038		15,635	15,635
2003 Series C	Tax-Exempt			3.673%	2038		16,735	16,735
2003 Series C	Tax-Exempt			3.673%	2038		18,575	18,575
2003 Series C	Tax-Exempt			3.673%	2038		19,955	19,955
2004 Series A	Tax-Exempt			3.463%	2034		22,065	22,065
2004 Series B	Tax-Exempt			3.818%	2039		12,840	12,840
2004 Series B	Tax-Exempt			3.818%	2039		7,050	7,050
2004 Series B	Tax-Exempt			3.818%	2039		5,480	5,480
2004 Series B	Tax-Exempt			3.818%	2039		16,595	16,595
2004 Series B	Tax-Exempt			3.818%	2039		2,810	2,810
2004 Series B	Tax-Exempt			3.818%	2039		14,730	14,730
2004 Series C	Tax-Exempt			3.394%	2037		9,210	9,210
2004 Series C	Tax-Exempt			3.394%	2037		4,195	4,195
2004 Series D	Tax-Exempt			3.728%	2039		13,260	13,260
2004 Series D	Tax-Exempt			3.728%	2039		6,315	6,315
2004 Series D	Tax-Exempt			3.728%	2039		7,215	7,215

SWAPS					
Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
5.4550%	SIFMA less .15%	7/12/00	2/1/35	33,335	(5,810)
4.6600%	LIBOR @ 65%	7/12/00	2/1/26	49,685	(3,935)
4.5850%	LIBOR @ 64%	7/12/00	2/1/31	7,280	(491)
4.4300%	LIBOR @ 65%	11/16/00	2/1/33	63,300	(4,994)
4.3950%	LIBOR @ 64%	11/16/00	2/1/31	15,925	(1,111)
4.6200%	SIFMA less .15%	2/22/01	2/1/32	12,015	(684)
4.4520%	SIFMA less .20%	6/28/01	8/1/22	2,805	(122)
4.7120%	SIFMA less .15%	6/28/01	2/1/36	50,555	(2,911)
4.0290%	SIFMA less .20%	2/1/02	2/1/32	16,585	(235)
4.2050%	SIFMA less .15%	2/1/02	8/1/36	45,165	(1,061)
4.5950%	SIFMA less .15%	2/1/04	2/1/34	10,085	(616)
4.5000%	SIFMA less .15%	8/1/02	8/1/32	18,210	(863)
4.8900%	SIFMA less .15%	2/2/04	2/1/37	12,540	(1,083)
4.0370%	SIFMA less .20%	2/1/03	2/1/35	27,010	(351)
4.4050%	SIFMA less .15%	2/1/04	2/1/37	14,330	(610)
4.6380%	SIFMA less .15%	8/1/05	8/1/37	16,940	(1,140)
4.0850%	SIFMA less .20%	2/3/03	2/1/35	12,175	(177)
4.1510%	SIFMA less .15%	2/3/03	2/1/34	15,765	(249)
4.5710%	SIFMA less .15%	11/1/04	8/1/37	41,110	(2,517)
4.2950%	SIFMA less .15%	9/1/05	2/1/38	29,490	(898)
3.3850%	SIFMA less .15%	8/1/03	8/1/36	27,735	1,229
3.8830%	LIBOR @ 60%+.26%	12/1/04	8/1/38	9,125	(172)
3.9680%	LIBOR @ 60%+.26%	7/1/05	2/1/36	15,375	(404)
4.0600%	LIBOR @ 60%+.26%	2/1/06	8/1/38	9,465	(359)
3.5560%	LIBOR @ 60%+.26%	2/1/04	8/1/35	15,635	172
4.0260%	LIBOR @ 60%+.26%	8/1/05	8/1/35	16,735	(308)
4.1770%	LIBOR @ 60%+.26%	2/1/06	8/1/38	18,575	359
3.0590%	LIBOR @ 60%+.21%	8/1/04	8/1/34	22,520	1,052
3.6920%	LIBOR @ 60%+.26%	8/1/06	8/1/36	12,860	123
3.3860%	LIBOR @ 60%+.26%	8/1/04	8/1/34	7,090	298
3.3300%	LIBOR @ 60%+.26%	8/1/04	8/1/34	5,480	246
4.9783%	SIFMA less .15%	8/1/06	2/1/39	16,595	(1,172)
4.5390%	SIFMA less .15%	8/1/04	8/1/34	2,835	(96)
3.4350%	LIBOR @ 60%+.21%	2/1/05	8/1/25	9,210	(108)
3.5880%	LIBOR @ 60%+.21%	12/1/06	2/1/37	4,195	(5)
3.5900%	LIBOR @ 60%+.26%	2/1/05	2/1/35	13,260	(130)
3.5680%	LIBOR @ 60%+.26%	12/1/05	2/1/36	6,315	19
3.7780%	LIBOR @ 60%+.26%	11/1/06	2/1/37	7,215	(115)

	Bonds and Debenture Notes					
Bond Issue	**Type of Bond**	**Interest Rate Range**	**Final Maturity Date**	**Outstanding Fixed**	**Outstanding Variable**	**Total**
2004 Series D	Tax-Exempt	3.728%	2039		38,735	38,735
2004 Series D	Tax-Exempt	3.728%	2039		54,060	54,060
2005 Series A	Tax-Exempt	3.434%	2035		2,420	2,420
2005 Series B	Tax-Exempt	3.704%	2038		2,755	2,755
2005 Series B	Tax-Exempt	3.704%	2038		26,865	26,865
2005 Series B	Tax-Exempt	3.704%	2038		3,805	3,805
2005 Series B	Tax-Exempt	3.704%	2038		27,120	27,120
2005 Series C	Tax-Exempt	3.000% - 4.900%	2036	9,025		9,025
2005 Series D	Tax-Exempt	3.696%	2038		33,270	33,270
2005 Series D	Tax-Exempt	3.696%	2038		57,355	57,355
2005 Series E	Tax-Exempt	3.400% - 5.125%	2038	22,935		22,935
2006 Series A	Tax-Exempt	3.708%	2041		8,300	8,300
2006 Series A	Tax-Exempt	3.708%	2041		9,445	9,445
2006 Series A	Tax-Exempt	3.708%	2041		4,290	4,290
2006 Series A	Tax-Exempt	3.708%	2040		42,715	42,715
2007 Series A	Tax-Exempt	3.750% - 4.750%	2034	12,165		12,165
				2,071,091	5,477,925	7,549,016
Unamortized discount						(1,000)
Unamortized premium						12,565
Unamortized deferred losses on refundings						(4,487)
Total Bonds						7,556,094
Housing Assistance Trust:						
Ridgeway Apartments (debenture note)		6.375%	2010	23,134		23,134
Total Bonds and Debenture Notes				2,094,225	5,477,925	7,579,228

SWAPS

Fixed Rate Paid By Agency	Floating Rate Received By Agency	Effective Date	Termination Date	Outstanding Notional/Applicable Amount	Fair Value
3.9840%	LIBOR @ 60%+.26%	12/1/07	8/1/39	38,735	(1,417)
3.5640%	SIFMA less .20%	7/1/05	8/1/35	2,420	101
3.9540%	SIFMA less .15%	6/15/05	8/1/35	2,755	43
4.0790%	SIFMA less .15%	2/1/07	2/1/37	26,645	(52)
3.9570%	SIFMA less .15%	8/1/07	2/1/38	4,060	84
3.7010%	LIBOR @ 60%+.26%	2/1/06	2/1/38	33,270	107
4.042% + HR	97% SIFMA & HR	6/15/06	8/1/27	8,300	(87)
4.381% + HR	97% SIFMA & HR	6/15/06	8/1/39	9,445	(190)
4.492% + HR	97% SIFMA & HR	6/15/06	2/1/41	4,290	(110)
				4,707,300	(35,067)

Changes in bonds and debenture notes payable for the year ended June 30, 2007 and 2006 are as follows (dollars in thousands):

	2007 Combined Totals	2006 Combined Totals
Beginning of year balance	$7,444,363	$7,500,766
New bonds issued	1,523,660	1,224,061
New debenture notes issued		
Scheduled maturities	(98,890)	(151,641)
Redemptions	(1,306,701)	(1,142,226)
Bond accretions	3,744	4,111
Amortized discount	94	83
Amortized premium	(412)	
Amortized deferred loss	801	9,922
Additions to deferred loss		(912)
Reclassified Discount as deferred loss		199
Additions to discount	(407)	
Additions to premiums	12,976	
End of year balance	$7,579,228	$ 7,444,363
Current portion	$ 79,536	$ 855,741
Noncurrent portion	7,499,692	6,588,622
Total	$ 7,579,228	$ 7,444,363

The Agency's variable rate debt is typically related to common indices such as the Securities Industry and Financial Markets Association ("SIFMA", formerly 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, 2007, 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
2008	$ 51,687	$142,273	$ 27,855	$ 188,127	$ 21,189	$ 431,131
2009	83,750	146,404	76,202	188,045	19,708	514,109
2010	83,422	142,959	88,899	184,107	18,868	518,255
2011	85,148	139,584	95,304	179,718	17,957	517,711
2012	78,924	136,078	113,974	175,018	17,247	521,241
2012-2017	434,018	628,315	638,479	798,550	68,570	2,567,932
2018-2022	350,599	496,885	795,755	648,402	49,450	2,341,091
2023-2027	411,499	399,015	868,132	475,010	31,897	2,185,553
2028-2032	430,839	284,886	1,133,359	274,428	16,912	2,140,424
2033-2037	476,387	170,293	697,068	79,558	4,853	1,428,159
2038-2042	432,822	48,215	81,788	4,976	452	568,253
2043-2047	13,105	336				13,441
Total	$ 2,932,200	$ 2,735,243	$ 4,616,815	$ 3,195,939	$ 267,103	$ 13,747,300

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, 2007 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	Swap Notional Amount	Unmatched Swap	Fair Value
Home Mortgage Revenue Bonds					
2000 Series C	*	$ 38,290	$ 42,500	$ 4,210	$ (310)
2000 Series G		46,930	60,000	13,070	(921)
2000 Series J	*	27,445	29,845	2,400	(230)
2000 Series N		31,750	50,000	18,250	(847)
2000 Series Q		12,600	18,445	5,845	(315)
2000 Series U	*	30,690	30,725	35	(8)
2000 Series X-1		4,400	9,010	4,610	(116)
2000 Series X-2		33,870	34,390	520	(33)
2001 Series J	*	51,345	69,405	18,060	(753)
2001 Series N	*	14,635	16,315	1,680	(39)
2001 Series R		15,790	15,935	145	(1)
2001 Series U		54,845	58,715	3,870	(71)
2002 Series F	*	53,275	60,730	7,455	(235)
2002 Series J	*	88,630	96,345	7,715	(202)
2002 Series P	*	57,710	60,925	3,215	(41)
2004 Series G		28,045	29,235	1,190	12
Multifamily Housing Revenue Bonds III:					
2001 Series G		44,915	45,165	250	(6)
2004 Series A		22,065	22,520	455	21
2004 Series B		7,050	7,090	40	2
2004 Series B		12,840	12,860	20	1
2004 Series B		2,810	2,835	25	(1)
2005 Series B		3,805	4,060	255	5
Total		$ 683,735	$ 777,050	$ 93,315	$ (4,088)

* Includes Basis Swaps.

As of June 30, 2007 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-two percent of the notional amount outstanding at June 30, 2007 is with four of the counterparties. The largest single exposure to any one counterparty is $1,267,490,000. 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 $35,067,000 as of June 30, 2007. Fair values are as reported by the Agency's dealer counterparties and are estimated using the zero-coupon method.

As of June 30, 2007, the Agency's swap portfolio has an aggregate negative fair value and the Agency is not exposed to credit risk. Should the negative fair value of the swap portfolio be reduced as a result of market fluctuations and the aggregate fair value eventually become positive, 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	$ 2,276,765	67
Aaa	AAAt	0	0
Aaa	AA+	746,435	20
Aa3	A+	783,975	19
Aa2	AA+	60,715	2
Aa2	AA	414,295	11
Aa2	AA-	214,830	8
Aa1	AA+	0	0
Aa1	AA	210,285	5
Aa1	AA-	0	0
		$ 4,707,300	132

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

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 SIFMA/LIBOR percentage is high. As of June 30, 2007, the SIFMA rate was 3.73%, 65% of one-month LIBOR was 3.458% and 60% of one-month LIBOR plus 26 basis points was 3.452%. 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 $630,565,000 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%	02/01/04	2/1/17	$ 42,500	$ (132)
2000 Series J	LIBOR @ 65%	LIBOR @ 63%-0.019%	02/01/04	8/1/30	29,845	(248)
2000 Series U	LIBOR @ 65%	LIBOR @ 63%-0.019%	02/01/04	8/1/15	33,420	(72)
2000 Series X-2	LIBOR @ 65%	LIBOR @ 63%-0.019%	02/01/04	8/1/31	34,390	(241)
2001 Series J	LIBOR @ 65%	LIBOR @ 61.5%	02/01/04	8/1/24	69,405	(806)
2001 Series N	LIBOR @ 65%	LIBOR @ 63%-0.019%	02/01/04	8/1/18	16,315	(43)
2002 Series B	LIBOR @ 65%	LIBOR @ 63%-0.019%	02/01/04	8/1/27	45,005	(409)
2002 Series F	LIBOR @ 65%	LIBOR @ 63%-0.019%	02/01/04	2/1/24	60,730	(371)
2002 Series J	LIBOR @ 65%	LIBOR @ 61.5%	02/01/04	8/1/32	96,345	(1,154)
2002 Series M	LIBOR @ 65%	LIBOR @ 63%-0.019%	02/01/04	8/1/22	41,600	(338)
2002 Series P	LIBOR @ 65%	LIBOR @ 61.5%	02/01/04	8/1/22	60,925	(783)
Multifamily Housing Revenue Bonds III:						
2000 Series A	LIBOR @ 65%	LIBOR @ 61.5%	02/01/04	2/1/26	49,685	(633)
2000 Series C	LIBOR @ 65%	LIBOR @ 61.5%+.012%	02/01/04	2/1/29	50,400	(715)
					$ 630,565	$ (5,945)

*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 6/30/07.

In addition to the basis swaps described above, 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 SIFMA.

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, 2007 and 2006, the Fund had liabilities to the IRS totaling $9,550,000 and $23,357,000, 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 an increase in "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, 2007 and 2006, the Fund had liabilities to the IRS totaling $1,453,000 and $15,944,000, 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 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

For the year ended June 30, 2007, the Agency did not economically refund any of its bond indebtedness and therefore incurred no loss on the extinguishment of debt. For the year ended June 30, 2006, the Agency extinguished certain Multifamily Rental Housing Program debt. A summary of the loss from the extinguishment of 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 obligations defeased	33,636
Less proceeds disbursed	33,870
Less premiums disbursed	678
Deferred loss on defeasance	$ (912)

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, 2007 and 2006 the employer contribution rates were 16.778% - 16.997% and 15.890% - 15.942%, respectively.

The Fund's contributions to the PERF for the years ended June 30, 2007, 2006 and 2005 were $2,284,320, $2,059,047 and $2,181,278 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, 2006 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, 2006 CalPERS CAFR.

Note 11 – COMMITMENTS

As of June 30, 2007, the Agency had outstanding commitments to fund Homeownership Program loans totaling $36,652,399 and had outstanding commitments to fund Multifamily Program loans totaling $98,554,640. As of June 30, 2007, the Agency had proceeds available from bonds issued to fund $268,502,409 of Homeownership Program loans and $114,961,055 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, 2007.

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, 2007
(Dollars in Thousands)

	Homeownership Programs	Multifamily Rental Housing Programs	Other Programs and Accounts	Combined Totals
ASSETS				
Current assets:				
Cash and cash equivalents	$ 15,938	$ 3,972	$ 29,534	$ 49,444
Investments	1,017,704	348,819	599,526	1,966,049
Current portion - program loans receivable, net of allowance	86,390	218,325	11,994	316,709
Interest receivable:				
Program loans, net	24,866	6,841	4,897	36,604
Investments	16,385	6,226	8,818	31,429
Accounts receivable	12,749	83	844	13,676
Due from (to) other funds	(14,888)	(50,845)	65,733	0
Other assets	125	593	100	818
Total current assets	1,159,269	534,014	721,446	2,414,729
Noncurrent assets:				
Investments	32,644	18,783	761	52,188
Program loans receivable, net of allowance	5,349,688	1,331,605	510,830	7,192,123
Due from (to) other funds	(11,850)		11,850	0
Deferred financing costs	29,576	7,709	60	37,345
Other assets	4,509	-	866	5,375
Total noncurrent assets	5,404,567	1,358,097	524,367	7,287,031
Total assets	$ 6,563,836	$ 1,892,111	$ 1,245,813	$ 9,701,760
LIABILITIES AND FUND EQUITY				
Current liabilities:				
Current portion - bonds payable, net	$ 58,253	$ 21,283		$ 79,536
Interest payable	110,005	25,247	$ 12,598	147,850
Due to other government entities, net			350,326	350,326
Compensated absences			2,223	2,223
Deposits and other liabilities	10,608	192	170,057	180,857
Total current liabilities	178,866	46,722	535,204	760,792
Noncurrent liabilities:				
Bonds and debenture notes payable, net	5,919,847	1,556,711	23,134	7,499,692
Due to other government entities	8,853	2,150		11,003
Deferred revenue	11,448	21	25,891	37,360
Total noncurrent liabilities	5,940,148	1,558,882	49,025	7,548,055
Total liabilities	6,119,014	1,605,604	584,229	8,308,847
Fund equity:				
Invested in capital assets	0	0	866	866
Restricted by indenture	444,822	286,507	1	731,330
Restricted by statute	0	0	660,717	660,717
Total fund equity	444,822	286,507	661,584	1,392,913
Total liabilities and fund equity	$ 6,563,836	$ 1,892,111	$ 1,245,813	$ 9,701,760

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY
Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Homeownership Programs	Multifamily Rental Housing Programs	Other Programs and Accounts	Combined Totals
OPERATING REVENUES				
Interest income:				
Program loans, net	$ 261,455	$ 106,266	$ 7,035	$ 374,756
Investments, net	64,690	21,831	36,063	122,584
Increase (decrease) in fair value of investments	(4,151)	347	110	(3,694)
Loan commitment fees	331	5	2,930	3,266
Other loan fees	1,644	3,090	11,059	15,793
Other revenues	499	5,899	98,337	104,735
Total operating revenues	324,468	137,438	155,534	617,440
OPERATING EXPENSES				
Interest	264,466	81,396	18,826	364,688
Amortization of bond discount and deferred losses on refundings of debt	(258)	741		483
Mortgage servicing expenses	16,557	9	142	16,708
Provision for program loan losses	(192)	4,569	4,389	8,766
Operating expenses			32,270	32,270
Other expenses	10,324	6,869	92,356	109,549
Total operating expenses	290,897	93,584	147,983	532,464
Operating income (loss) before transfers	33,571	43,854	7,551	84,976
Transfers, interfund			39,730	39,730
Transfers, intrafund	(291)	(49,344)	49,634	
Increase in fund equity	33,280	(5,490)	96,915	124,706
Fund equity at beginning of year	411,542	291,997	564,668	1,268,207
Fund equity at end of year	$ 444,822	$ 286,507	$ 661,584	$ 1,392,913

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2007
(Dollars in Thousands)

	Homeownership Programs	Multifamily Rental Housing Programs	Other Programs and Accounts	Combined Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 255,231	$ 105,866	$ 7,469	$ 368,566
Payments to suppliers	(17,126)	(235)	(11,501)	(28,862)
Payments to employees			(21,460)	(21,460)
Other receipts (payments)	(1,207,077)	(23,015)	(68,595)	(1,298,687)
Net cash provided by (used for) operating activities	(968,972)	82,616	(94,087)	(980,443)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intrafund transfers	(291)	(49,343)	49,634	0
Due to other government entities			49,412	49,412
Net cash provided by (used for) noncapital financing activities	(291)	(49,343)	99,046	49,412
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sales of bonds and debenture notes	1,524,064	12,165	-	1,536,229
Payment of bond principal	(59,286)	(39,604)		(98,890)
Early bond redemptions	(1,124,356)	(182,345)		(1,306,701)
Interest paid on debt	(248,604)	(81,683)	(11,768)	(342,055)
Interfund transfers			39,730	39,730
Additions to deferred costs	(9,693)	(611)		(10,304)
Net cash provided by (used for) capital and related financing activities	82,125	(292,078)	27,962	(181,991)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturity and sale of investments	3,780,750	795,863	1,635,666	6,212,279
Purchase of investments	(2,989,907)	(587,280)	(1,740,710)	(5,317,897)
Interest on investments, net	72,100	22,115	33,351	127,566
Net cash provided by (used for) investing activities	862,943	230,698	(71,693)	1,021,948
Net decrease in cash and cash equivalents	(24,195)	(28,107)	(38,772)	(91,074)
Cash and cash equivalents at beginning of year	40,133	32,079	68,306	140,518
Cash and cash equivalents at end of year	$ 15,938	$ 3,972	$ 29,534	$ 49,444
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	$ 33,571	$ 43,854	$ 7,551	$ 84,976
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Interest expense on debt	264,466	81,396	18,826	364,688
Interest on investments	(64,690)	(21,831)	(36,063)	(122,584)
Changes in fair value of investments	4,151	(346)	(110)	3,695
Accretion of capital appreciation bonds	3,744			3,744
Amortization of bond discount	21	73		94
Amortization of deferred losses on refundings of debt	133	667		800
Amortization of bond issuance costs	2,777	1,559	22	4,358
Amortization of bond premium	(412)	-	-	(412)
Amortization of deferred revenue	(331)	(5)	(2,930)	(3,266)
Depreciation	-	-	189	189
Provision for program loan losses	(192)	4,613	4,346	8,767
Provision for yield reduction payments	(14,492)	-	-	(14,492)
Provision (reversal) for nonmortgage investment excess	(13,518)	(289)	-	(13,807)
Changes in certain assets and liabilities:				
Purchase of program loans	(1,679,188)	(231,085)	(83,133)	(1,993,406)
Collection of principal from program loans, net	495,898	211,787	34,634	742,319
Interest receivable	(6,223)	(400)	433	(6,190)
Accounts receivable	(918)	(56)	(103)	(1,077)
Due from (to) other funds	8,206	(9,826)	1,620	
Due from other government entities	-	-	(719)	(719)
Other assets	6	3,663	8,383	12,052
Compensated absences	-	-	387	387
Deposits and other liabilities	1,649	(1,158)	(48,240)	(47,749)
Deferred revenue	(3,630)	-	820	(2,810)
Net cash provided by (used for) operating activities	$ (968,972)	$ 82,616	$ (94,087)	$ (980,443)

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING BALANCE SHEET -
HOMEOWNERSHIP PROGRAMS
June 30, 2007
(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	$ 13,847	$ 10	$ 10	$ 804	$ 1,183	$ 84	$ 15,938
Investments	954,113	1,007	833	14,269	82	47,400	1,017,704
Current portion - program loans receivable, net of allowance	84,401	112	169	1,708			86,390
Interest receivable:							
Program loans, net	24,292	24	31	334		185	24,866
Investments	15,422	19	14	284	5	641	16,385
Accounts receivable	12,247	4	7	470		21	12,749
Due from (to) other funds	(14,691)		(7)	(34)	(75)	(81)	(14,888)
Other assets	124			1			125
Total current assets	1,089,755	1,176	1,057	17,836	1,195	48,250	1,159,269
Noncurrent assets:							
Investments	32,167			476		1	32,644
Program loans receivable, net of allowance	5,218,187	3,508	4,772	61,806		61,415	5,349,688
Due to other funds	(11,850)						(11,850)
Deferred financing costs	28,435	8	26	303		804	29,576
Other assets	4,509						4,509
Total noncurrent assets	5,271,448	3,516	4,798	62,585	-	62,220	5,404,567
Total assets	$ 6,361,203	$ 4,692	$ 5,855	$ 80,421	$ 1,195	$ 110,470	$ 6,563,836
LIABILITIES AND FUND EQUITY							
Current liabilities:							
Current portion - bonds payable, net	$ 54,528	$ 75	$ 185	$ 3,465			$ 58,253
Interest payable	107,143	40	108	1,192		$ 1,522	110,005
Due to other government entities, net							
Compensated absences							
Deposits and other liabilities	10,564	1	5	22		16	10,608
Total current liabilities	172,235	116	298	4,679	-	1,538	178,866
Noncurrent liabilities:							
Bonds payable, net	5,757,554	1,380	3,995	48,718		108,200	5,919,847
Due to other government entities, net	6,848	26		1,114	$ 674	191	8,853
Deferred revenue	13,530	(1)	2	(2,083)			11,448
Total noncurrent liabilities	5,777,932	1,405	3,997	47,749	674	108,391	5,940,148
Total liabilities	5,950,167	1,521	4,295	52,428	674	109,929	6,119,014
Fund equity:							
Invested in capital assets							
Restricted by indenture	411,036	3,171	1,560	27,993	521	541	444,822
Restricted by statute							
Total fund equity	411,036	3,171	1,560	27,993	521	541	444,822
Total liabilities and fund equity	$ 6,361,203	$ 4,692	$ 5,855	$ 80,421	$ 1,195	$ 110,470	$ 6,563,836

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY - HOMEOWNERSHIP PROGRAMS
Fiscal Year Ended June 30, 2007
(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	$ 251,279	$ 338	$ 396	$ 4,490		$ 4,952	$ 261,455
Investments, net	48,984	6	47	242	$ 14,008	1,403	64,690
Decrease in fair value of investments	(4,160)			9			(4,151)
Loan commitment fees	299			32			331
Other loan fees	1,644						1,644
Other revenues	499						499
Total operating revenues	298,545	344	443	4,773	14,008	6,355	324,468
OPERATING EXPENSES							
Interest	243,080	128	288	3,324	13,487	4,159	264,466
Amortization of bond discount and deferred losses on refundings of debt	(271)			13			(258)
Mortgage servicing expenses	16,260	16	20	261			16,557
Provision (reversal) for program loan losses	1,580	(2)	(1)	(18)		(1,751)	(192)
Operating expenses							
Other expenses	10,831	13	23	(872)	11	318	10,324
Total operating expenses	271,480	155	330	2,708	13,498	2,726	290,897
Operating income (loss) before transfers	27,065	189	113	2,065	510	3,629	33,571
Transfers, interfund							
Transfers, intrafund					11	(302)	(291)
Increase (decrease) in fund equity	27,065	189	113	2,065	521	3,327	33,280
Fund equity at beginning of year	383,971	2,982	1,447	25,928		(2,786)	411,542
Fund equity (deficit) at end of year	$ 411,036	$ 3,171	$ 1,560	$ 27,993	$ 521	$ 541	$ 444,822

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS -
HOMEOWNERSHIP PROGRAMS
Fiscal Year Ended June 30, 2007
(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	$ 244,999	$ 343	$ 399	$ 4,595		$ 4,895	$ 255,231
Payments to suppliers	(16,785)	(17)	(22)	(282)		(20)	(17,126)
Payments to employees							
Internal activity - payments to other funds							
Other receipts (payments)	(1,257,624)	1,350	787	12,316	$ (845)	36,939	(1,207,077)
Net cash provided by (used for) operating activities	(1,029,410)	1,676	1,164	16,629	(845)	41,814	(968,972)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Intrafund transfers					11	(302)	(291)
Due to other government entities							
Net cash provided by (used for) noncapital financing activities	-	-	-	-	11	(302)	(291)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from sales of bonds	1,512,569				11,495		1,524,064
Payment of bond principal	(55,971)	(145)	(310)	(2,860)			(59,286)
Early bond redemptions	(358,686)	(1,315)	(1,375)	(17,795)	(745,185)		(1,124,356)
Interest paid on debt	(224,185)	(168)	(331)	(3,843)	(16,236)	(3,841)	(248,604)
Interfund transfers							
Additions to deferred costs	(9,842)				(11)	160	(9,693)
Net cash provided by (used for) capital and related financing activities	863,885	(1,628)	(2,016)	(24,498)	(749,937)	(3,681)	82,125
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from maturity and sale of investments	2,984,267	1,597	1,954	33,067	745,186	14,679	3,780,750
Purchase of investments	(2,895,202)	(1,653)	(1,166)	(26,886)	(11,500)	(53,500)	(2,989,907)
Interest on investments, net	53,994	8	63	306	16,849	880	72,100
Net cash provided by (used for) investing activities	143,059	(48)	851	6,487	750,535	(37,941)	862,943
Net increase (decrease) in cash and cash equivalents	(22,466)	0	(1)	(1,382)	(236)	(110)	(24,195)
Cash and cash equivalents at beginning of year	36,313	10	11	2,186	1,419	194	40,133
Cash and cash equivalents at end of year	$ 13,847	$ 10	$ 10	$ 804	$ 1,183	$ 84	$ 15,938
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:							
Operating income (loss)	$ 27,065	$ 189	$ 113	$ 2,065	$ 510	$ 3,629	$ 33,571
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:							
Interest expense on debt	243,080	128	288	3,324	13,487	4,159	264,466
Interest on investments	(48,984)	(6)	(47)	(242)	(14,008)	(1,403)	(64,690)
Changes in fair value of investments	4,160	0 #	0	(9)	0	0	4,151
Accretion of capital appreciation bonds	3,744						3,744
Amortization of bond discount	20			1			21
Amortization of deferred losses on refundings of debt	121			12			133
Amortization of bond issuance costs	2,570	9	12	142	11	33	2,777
Amortization of bond premium	(412)						(412)
Amortization of deferred revenue	(299)			(32)			(331)
Depreciation							
Provision (reversal) for program loan losses	1,580	(2)	(1)	(18)	0	(1,751)	(192)
Provision for yield reduction payments	(14,492)						(14,492)
Provision for nonmortgage investment excess	(10,344)	25		(2,556)	(834)	191	(13,518)
Changes in certain assets and liabilities:							
Purchase of program loans	(1,705,759)					26,571	(1,679,188)
Collection of principal from program loans, net	471,084	1,329	796	15,367		7,322	495,898
Interest receivable	(6,280)	6	3	104		(56)	(6,223)
Accounts receivable	(784)	(1)	1	(125)		(9)	(918)
Due from (to) other funds	5,329	(1)	0	(278)	(11)	3,167	8,206
Due to other government entities							
Other assets	6						6
Compensated absences							
Deposits and other liabilities	1,699		(1)	(10)		(39)	1,649
Deferred revenue	(2,514)			(1,116)			(3,630)
Net cash provided by (used for) operating activities	$ (1,029,410)	$ 1,676	$ 1,164	$ 16,629	$ (845)	$ 41,814	$ (968,972)

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING BALANCE SHEET -
MULTIFAMILY RENTAL HOUSING PROGRAMS
June 30, 2007
(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	$ 3	$ 79	$ 2,276		$ 26
Investments	70,628	21,742			9,798
Current portion - program loans receivable, net of allowance	5,811	4,788	24,000		903
Interest receivable:					
Program loans, net	83	5			375
Investments	922	181	4		241
Accounts receivable					
Due to other funds	(28,719)	(21,803)	(1)		
Other assets	25				8
Total current assets	48,753	4,992	26,279	-	11,351
Noncurrent assets:					
Investments	1,205	935			
Program loans receivable, net of allowance	106,974	56,637	69,959		56,224
Due from (to) other funds					
Deferred financing costs	37				96
Other assets					
Total noncurrent assets	108,216	57,572	69,959	-	56,320
Total assets	$ 156,969	$ 62,564	$ 96,238	$ -	$ 67,671
LIABILITIES AND FUND EQUITY					
Current liabilities:					
Current portion - bonds payable, net	$ 345				$ 595
Interest payable	345		$ 775		1,708
Due to other government entities, net					
Compensated absences					
Deposits and other liabilities	3		2		3
Total current liabilities	693	-	777	-	2,306
Noncurrent liabilities:					
Bonds payable, net	11,252		95,464		59,763
Due to other government entities, net					
Deferred revenue					
Total noncurrent liabilities	11,252	-	95,464	-	59,763
Total liabilities	11,945	-	96,241	-	62,069
Fund equity:					
Invested in capital assets					
Restricted by indenture	145,024	62,564	(3)	$ -	5,602
Restricted by statute					
Total fund equity	145,024	62,564	(3)	-	5,602
Total liabilities and fund equity	$ 156,969	$ 62,564	$ 96,238	$ -	$ 67,671

Multifamily Housing Revenue Bonds III	Multifamily Draw Down Bonds	Multifamily Housing Program Bonds	Total Multifamily Rental Housing Programs
$ 1,500	$ 44	$ 44	$ 3,972
232,084		14,567	348,819
181,434		1,389	218,325
6,123		255	6,841
4,687		191	6,226
83			83
(280)	(42)		(50,845)
559		1	593
426,190	2	16,447	534,014
16,643			18,783
1,006,495		35,316	1,331,605
7,307		269	7,709
1,030,445	-	35,585	1,358,097
$ 1,456,635	$ 2	$ 52,032	$ 1,892,111
$ 20,343			$ 21,283
21,326		$ 1,093	25,247
184			192
41,853	-	1,093	46,722
1,340,233		49,999	1,556,711
2,150			2,150
21			21
1,342,404	-	49,999	1,558,882
1,384,257		51,092	1,605,604
72,378	2	940	286,507
72,378	2	940	286,507
$ 1,456,635	$ 2	$ 52,032	$ 1,892,111

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY - MULTIFAMILY RENTAL HOUSING PROGRAMS
Fiscal Year Ended June 30, 2007
(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	$ 11,031	$ 5,971	$ 9,042		$ 4,532
Investments, net	3,085	1,609	71		601
Increase (Decrease) in fair value of investments	9	(121)			(121)
Loan commitment fees					
Other loan fees	3,006				84
Other revenues					
Total operating revenues	17,131	7,459	9,113	-	5,096
OPERATING EXPENSES					
Interest	830	26	9,084		4,164
Amortization of bond discount and deferred losses on refundings of debt	9	4			60
Mortgage servicing expenses					
Provision (reversal) for program loan losses	(116)	(39)			(14)
Operating expenses					
Other expenses	46	25	29		282
Total operating expenses	769	16	9,113	-	4,492
Operating income (loss) before transfers	16,363	7,443	-	-	603
Transfers, interfund					
Transfers, intrafund	(28,719)	(21,803)			
Increase (decrease) in fund equity	(12,356)	(14,360)	-	-	603
Fund equity at beginning of year	157,380	76,924	(3)		4,999
Fund equity at end of year	$ 145,024	$ 62,564	(3)	$ -	$ 5,602

Multifamily Housing Revenue Bonds III	Multifamily Draw Down Bonds	Multifamily Housing Program Bonds	Total Multifamily Rental Housing Programs
$ 73,105		$ 2,585	$ 106,266
15,562	$ 90	$ 813	21,831
580			347
5			5
			3,090
5,899			5,899
95,151	90	3,398	137,438
64,123	88	3,081	81,396
668			741
9			9
4,694		44	4,569
6,477		10	6,869
75,971	88	3,135	93,584
19,180	2	263	43,854
229		949	(49,344)
19,409	2	1,212	(5,490)
52,969		(272)	291,997
$ 72,378	$ 2	$ 940	$ 286,507

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS -
MULTIFAMILY RENTAL HOUSING PROGRAMS
Fiscal Year Ended June 30, 2007
(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	$ 11,034	$ 5,968	$ 9,042		$ 4,538
Payments to suppliers	(16)	(3)	(15)		(19)
Payments to employees					
Internal activity - payments to other funds					
Other receipts (payments)	46,670	(5,661)	20,888		819
Net cash provided by (used for) operating activities	57,688	304	29,915	-	5,338
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Intrafund transfers	(28,719)	(21,802)		-	-
Due to other government entities					
Net cash provided by (used for) noncapital financing activities	(28,719)	(21,802)	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sales of bonds					
Payment of bond principal	(320)	(160)	(20,899)		(550)
Early bond redemptions		(3,350)			(8,430)
Interest paid on debt	(839)	(124)	(9,245)		(4,398)
Interfund transfers					
(Additions) deductions to deferred costs					
Net cash provided by (used for) capital and related financing activities	(1,159)	(3,634)	(30,144)	-	(13,378)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from maturity and sale of investments	62,294	197,352			21,494
Purchase of investments	(92,720)	(174,734)			(14,110)
Interest on investments, net	2,617	1,563	72	1	618
Net cash provided by (used for) investing activities	(27,809)	24,181	72	1	8,002
Net increase (decrease) in cash and cash equivalents	1	(951)	(157)	1	(38)
Cash and cash equivalents at beginning of year	2	1,030	2,433	(1)	64
Cash and cash equivalents at end of year	$ 3	$ 79	$ 2,276	-	$ 26
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	$ 16,363	$ 7,443	$ -	-	$ 603
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Interest expense on debt	830	26	$ 9,084	-	4,164
Interest on investments	(3,085)	(1,609)	(71)	-	(601)
Changes in fair value of investments	(9)	122			121
Accretion of capital appreciation bonds					
Amortization of bond discount	9	4			60
Amortization of deferred losses on refundings of debt					
Amortization of bond issuance costs	3	9			17
Amortization of bond premium					
Amortization of deferred revenue					
Depreciation					
Provision (reversal) for program loan losses	(116)	(39)			(14)
Provision for yield reduction payments					
Provision (reversal) for nonmortgage investment excess					
Changes in certain assets and liabilities:					
Purchase of program loans	231				
Collection of principal from program loans, net	14,743	7,125	20,904		912
Interest receivable	2	(3)			6
Accounts receivable					
Due from (to) other funds	28,719	(12,773)			
Due to other government entities					
Other assets	1				71
Compensated absences					
Deposits and other liabilities	(3)	(1)	(2)		(1)
Deferred revenue					
Net cash provided by (used for) operating activities	$ 57,688	$ 304	$ 29,915	-	$ 5,338

Multifamily Housing Revenue Bonds III	Multifamily Draw Down Bonds	Multifamily Housing Programs Bonds	Total Multifamily Rental Housing Programs
$ 72,736		$ 2,548	$ 105,866
(182)			(235)
(61,202)	$ (26)	(24,503)	(23,015)
11,352	(26)	(21,955)	82,616
229		949	(49,343)
229	-	949	(49,343)
12,165			12,165
(17,675)			(39,604)
(150,200)	(20,365)		(182,345)
(64,920)	(169)	(1,988)	(81,683)
(332)		(279)	(611)
(220,962)	(20,534)	(2,267)	(292,078)
466,992	20,365	27,366	795,863
(300,720)		(4,996)	(587,280)
16,122	176	946	22,115
182,394	20,541	23,316	230,698
(26,987)	(19)	43	(28,107)
28,487	63	1	32,079
$ 1,500	$ 44	$ 44	$ 3,972
$ 19,180	$ 2	$ 263	$ 43,854
64,123	88	3,081	81,396
(15,562)	(90)	(813)	(21,831)
(580)			(346)
			73
667			667
1,520		10	1,559
(5)			(5)
4,738		44	4,613
(263)	(26)		(289)
(229,035)		(2,281)	(231,085)
167,228		875	211,787
(369)		(36)	(400)
(56)			(56)
(2,675)		(23,097)	(9,826)
3,592		(1)	3,663
(1,151)			(1,158)
$ 11,352	$ (26)	$ (21,955)	$ 82,616

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING BALANCE SHEET -
OTHER PROGRAMS AND ACCOUNTS
June 30, 2007
(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	$ 842	$ 267			$ 1	$ 26,393
Investments	124,379	92,339		$ 34,151	47,333	135,952
Current portion - program loans receivable, net of allowance	467	1,350				
Interest receivable:						
Program loans, net	4,426	148				
Investments	1,532	1,174		443	611	1,813
Accounts receivable	7				13	571
Due from (to) other funds	27	(30,507)		17,437	27,130	(5,360)
Other assets						
Total current assets	131,680	64,771	-	52,031	75,088	159,369
Noncurrent assets:						
Investments	759					
Program loans receivable, net of allowance	156,344	132,103				1
Due from other funds				11,850		
Deferred financing costs						
Other assets						
Total noncurrent assets	157,103	132,103	-	11,850	-	1
Total assets	$ 288,783	$ 196,874	$ -	$ 63,881	$ 75,088	$ 159,369
LIABILITIES AND FUND EQUITY						
Current liabilities:						
Current portion - bonds payable, net						
Interest payable	$ 198					
Due to (from) other government entities, net	5	$ 685				
Compensated absences						
Deposits and other liabilities		5,585		$ 806		$ 155,746
Total current liabilities	203	6,270	-	806	-	155,746
Noncurrent liabilities:						
Debenture notes payable, net	23,134					
Due from other government entities						
Deferred revenue						
Total noncurrent liabilities	23,134	-	-	-	-	-
Total liabilities	23,337	6,270	-	806	-	155,746
Fund Equity:						
Invested in capital assets						
Restricted by indenture						
Restricted by statute	265,446	190,604	-	63,075	75,088	3,623
Total fund equity	265,446	190,604	-	63,075	75,088	3,623
Total liabilities and fund equity	$ 288,783	$ 196,874	$ -	$ 63,881	$ 75,088	$ 159,369

Loan Warehousing	Operating Account	Total Other Programs and Accounts
$ 1,917	$ 114	$ 29,534
126,615	38,757	599,526
10,177		11,994
323		4,897
2,643	602	8,818
226	27	844
13,660	43,346	65,733
	100	100
155,561	82,946	721,446
	2	761
222,384	(2)	510,830
		11,850
	60	60
	866	866
222,384	926	524,367
$ 377,945	$ 83,872	$ 1,245,813
$ 12,398	2	$ 12,598
350,000	$ (364)	350,326
	2,223	2,223
5,224	2,696	170,057
367,622	4,557	535,204
		23,134
(321)	26,212	25,891
(321)	26,212	49,025
367,301	30,769	584,229
	866	866
	1	1
10,644	52,236	660,717
10,644	53,103	661,584
$ 377,945	$ 83,872	$ 1,245,813

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY - OTHER PROGRAMS AND ACCOUNTS
Fiscal Year Ended June 30, 2007
(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	$ 4,335	$ 1,197				
Investments, net	6,321	4,209		$ 3,151	$ 3,277	$ 841
Increase in fair value of investments	110					
Loan commitment fees						
Other loan fees		26				6,644
Other revenues	23,381					74,945
Total operating revenues	34,147	5,432	-	3,151	3,277	82,430
OPERATING EXPENSES						
Interest	1,475					
Amortization of bond discount and deferred losses on refundings of debt						
Mortgage servicing expenses	3					
Provision (reversal) for program loan losses	1,533	3,012				
Operating expenses						
Other expenses	1,785	6,386		326		81,655
Total operating expenses	4,796	9,398	-	326	-	81,655
Operating income (loss) before transfers	29,351	(3,966)	-	2,825	3,277	775
Transfers, interfund		39,730				
Transfers, intrafund	1,256	(26)			9,103	1,650
Increase (decrease) in fund equity	30,607	35,738	-	2,825	12,380	2,425
Fund equity at beginning of year	234,839	154,866		60,250	62,708	1,198
Fund equity (deficit) at end of year	$ 265,446	$ 190,604	$ -	$ 63,075	$ 75,088	$ 3,623

Loan Warehousing	Operating Account	Total Other Programs and Accounts
$ 1,503		$ 7,035
15,890	$ 2,374	36,063
		110
	2,930	2,930
	4,389	11,059
	11	98,337
17,393	9,704	155,534
17,351		18,826
139		142
(155)	(1)	4,389
	32,270	32,270
113	2,091	92,356
17,448	34,360	147,983
(55)	(24,656)	7,551
		39,730
322	37,329	49,634
267	12,673	96,915
10,377	40,430	564,668
$ 10,644	$ 53,103	$ 661,584

CALIFORNIA HOUSING FINANCE FUND
SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS -
OTHER PROGRAMS AND ACCOUNTS
Fiscal Year Ended June 30, 2007
(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	$ 4,173	$ 1,466				
Payments to suppliers	(3)					
Payments to employees						
Internal activity - payments to other funds						
Other receipts (payments)	32,931	(23,751)		$ (3,490)	$ (144)	$ 985
Net cash provided by (used for) operating activities	37,101	(22,285)	-	(3,490)	(144)	985
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Intrafund transfers	1,256	(26)			9,103	1,650
Due to other government entities		(516)				
Net cash provided by (used for) noncapital financing activities	1,256	(542)	-	-	9,103	1,650
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		39,730				
(Additions) deductions to deferred costs						
Net cash provided by (used for) capital and related financing activities	(1,475)	39,730	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from maturity and sale of investments	42,780	35,567		3,387	5,974	63,362
Purchase of investments	(98,910)	(57,054)		(3,005)	(18,502)	(63,971)
Interest on investments, net	5,514	3,837		3,108	3,069	404
Net cash provided by (used for) investing activities	(50,616)	(17,650)	-	3,490	(9,459)	(205)
Net increase (decrease) in cash and cash equivalents	(13,734)	(747)	-	-	(500)	2,430
Cash and cash equivalents at beginning of year	14,576	1,014		0	501	23,963
Cash and cash equivalents at end of year	$ 842	$ 267	-	$ -	$ 1	$ 26,393
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	$ 29,351	$ (3,966)	-	$ 2,825	$ 3,277	$ 775
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Interest expense on debt	1,475	-	-			
Interest on investments	(6,321)	(4,209)	-	(3,151)	(3,277)	(841)
Changes in fair value of investments	(110)					
Accretion of capital appreciation bonds						
Amortization of bond discount						
Amortization of deferred losses on refundings of debt						
Amortization of bond issuance costs						
Amortization of bond premium						
Amortization of deferred revenue						
Depreciation						
Provision (reversal) for program loan losses	1,533	3,012				
Provision for yield reduction payments						
Provision for nonmortgage investment excess						
Changes in certain assets and liabilities:						
Purchase of program loans	(28,604)	(56,960)				
Collection of principal from program loans, net	9,121	12,562				
Interest receivable	(162)	269				
Accounts receivable	3				27	(141)
Due from (to) other funds	22,994	27,069		(3,490)	(171)	(2,569)
Due to other government entities	(719)					
Other assets	8,540					
Compensated absences						
Deposits and other liabilities		(62)		326		3,761
Deferred revenue						
Net cash provided by (used for) operating activities	$ 37,101	$ (22,285)	-	$ (3,490)	$ (144)	$ 985

Loan Warehousing	Operating Account	Total Other Programs and Accounts
$ 1,830		$ 7,469
(138)	$ (11,360)	(11,501)
	(21,460)	(21,460)
(70,133)	(4,993)	(68,595)
(68,441)	(37,813)	(94,087)
322	37,329	49,634
50,000	(72)	49,412
50,322	37,257	99,046
(10,293)		(11,768)
		39,730
(10,293)	-	27,962
1,441,698	42,898	1,635,666
(1,454,709)	(44,559)	(1,740,710)
15,161	2,258	33,351
2,150	597	(71,693)
(26,262)	41	(38,772)
28,179	73	68,306
$ 1,917	$ 114	$ 29,534
$ (55)	$ (24,656)	$ 7,551
17,351		18,826
(15,890)	(2,374)	(36,063)
		(110)
	22	22
	(2,930)	(2,930)
	189	189
(199)		4,346
2,431		(83,133)
12,951		34,634
326		433
8		(103)
(32,874)	(9,339)	1,620
		(719)
	(157)	8,383
	387	387
(51,608)	(657)	(48,240)
(882)	1,702	820
$ (68,441)	$ (37,813)	$ (94,087)

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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, 2006 and 2005, and the related statements of revenues, expenses, and changes in fund equity, and of cash flows for the years then ended. The accompanying financial statements are the statements of the Fund and do not include the financial position or the results of the operations of the Agency. 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, 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.

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 20, 2007

CALIFORNIA HOUSING LOAN INSURANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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 2006 – 2005

- Insurance in force has increased by $857 million, or 75%, to $2 billion as of December 31, 2006 compared to $1.14 billion as of December 31, 2005. This increase in insured loans is primarily due to an increased proportion of Agency loans the Fund had insured this year.

- Home mortgage delinquencies and foreclosures have been surging nationally in recent months, especially for people who took out sub prime mortgages. In response to rising concern of risks of increasing foreclosures, the Agency has increased its reserve for loan losses by $155,000 to $534,000 as a result of the Fund's increase in insurance in force and higher loss reserves required to cover potential delinquencies. The Agency continues to monitor delinquencies closely and is proactive in its attempts to mitigate losses.

- New insurance written was $1.05 billion during fiscal year 2006 compared to $655 million during fiscal year 2005. The $395 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 $107,500 and $22,100 in fiscal year 2006 and 2005, 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 $2.7 million to $5.2 million during fiscal year 2006 compared to operating income of $2.5 million during fiscal year 2005. The Fund remains financially strong and has fund equity of $64.6 million, at December 31, 2006 compared with $59.4 million in 2005.

Fiscal Year 2006 Compared to Fiscal Year 2005

Condensed Balance Sheets

The following table presents condensed balance sheets for the Fund as of December 31, 2006 and December 31, 2005 and the change from year to year (dollars in thousands):

	2006	2005	Change
ASSETS			
Cash, cash equivalents and investments	$ 64,096	$ 58,842	$ 5,254
Other assets	2,591	1,940	651
TOTAL ASSETS	$ 66,687	$ 60,782	$ 5,905
LIABILITIES AND FUND EQUITY			
Liabilities:			
Unpaid losses and loss adjustment expenses	$ 534	$ 379	$ 155
Unearned premiums	384	484	(100)
Accounts payable and other liabilities	1,147	522	625
Total liabilities	2,065	1,385	680
Fund Equity:			
Invested in capital assets	4	6	(2)
Restricted by statute	64,618	59,391	5,227
Total fund equity	64,622	59,397	5,225
TOTAL LIABILITIES AND FUND EQUITY	$ 66,687	$ 60,782	$ 5,905

Assets— Total assets of the Fund were $66.7 million as of December 31, 2006, an increase of $5.9 million or 10% from December 31, 2005. 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 $64 million as of December 31, 2006, an increase of $5.3 million from December 31, 2005. The increase is primarily due to an increase in premiums earned 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 $2.6 million as of December 31, 2006, an increase of $651,000 or 34% from December 31, 2005. The increase is the result of more interest receivable and accounts receivable from premiums.

Liabilities—The Fund's liabilities were $2.1 million as of December 31, 2006, an increase of $680,000 or 49% from December 31, 2005.

The reserve for unpaid losses and loss adjustment expenses were $534,000 as of December 31, 2006, an increase of $155,000 from December 31, 2005. 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, 2006, 132 insured loans with balances aggregating $31 million were either reported as delinquent by the lender or, delinquent but not reported, while 93 insured loans with balances aggregating $17.2 million were reported or delinquent and not reported by lenders as of December 31, 2005.

Unearned premiums were $384,000 as of December 31, 2006, a decrease of $100,000 from December 31, 2005. 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 $1,147,000 as of December 31, 2006, an increase of $625,000 from December 31, 2005. This increase is largely attributable to amounts owed to our reinsurer and due to the California Housing Finance Fund for administration costs.

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 $5.2 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, 2006 and December 31, 2005 and the change from year to year (dollars in thousands):

	2006	2005	Change
OPERATING REVENUES			
Premiums earned	$ 12,405	$ 7,081	$ 5,324
Investment income	2,858	1,732	1,126
Other revenues	230	0	230
Total operating revenues	15,493	8,813	6,680
OPERATING EXPENSES			
Loss and loss adjustment expenses (recoveries)	190	76	114
Operating expenses	10,076	6,211	3,865
Other expenses (benefits)	2	3	(1)
Total operating expenses	10,268	6,290	3,978
OPERATING INCOME	$ 5,225	$ 2,523	$ 2,702

Operating Revenues—Operating revenues were $15.5 million during fiscal year 2006 compared to $8.8 million during fiscal year 2005, an increase of $6.7 million or 76%.

Premiums earned in fiscal year 2006 increased by $5.3 million, or 75%, compared to premiums earned in fiscal year 2005. The increase in premiums earned corresponds with the increase in insurance in force. Insurance in force was $2 billion and $1.14 billion as of December 31, 2006 and 2005, respectively.

Investment income increased $1.1 million to $2.9 million in fiscal year 2006 from $1.7 million in fiscal year 2005. 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 2006	Interest Payment Periods	Fiscal Year 2005
January - March	4.032 %	January - March	2.373 %
April - June	4.529 %	April - June	2.851 %
July - September	4.926 %	July - September	3.178 %
October - December	5.106 %	October - December	3.626 %

Operating Expenses—Total operating expenses were $10.3 million during fiscal year 2006 compared to $6.3 million during fiscal year 2005, an increase of $4 million or 63%.

Loss and loss adjustment recoveries increased by $114,000. 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 $10.1 million during fiscal year 2006 compared to $6.2 million during fiscal year 2005, an increase of $3.9 million or 61%. The increase is primarily in ceded premiums to the reinsurer.

Operating Income—Operating income for fiscal year 2006 was $5.2 million compared to $2.5 million in fiscal year 2005, an increase of $2.7 million. The increase in operating income is a result of the increase of earned premiums and an increase in investment income.

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 $3.5 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	$ 7,081	$ 5,926	$ 1,155
Investment income	1,732	872	860
Other revenues	0	13	(13)
Total operating revenues	8,813	6,811	2,002
OPERATING EXPENSES			
Loss and loss adjustment expenses (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 $796 million as of December 31, 2005 and 2004, respectively.

Investment income increased $860,000 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 expenses 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.

CALIFORNIA HOUSING LOAN INSURANCE FUND

BALANCE SHEETS
AS OF DECEMBER 31, 2006 AND 2005

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 20,060	$ 36,639
Investment in Surplus Money Investment Fund	64,076,000	58,805,000
Interest receivable	816,412	536,547
Other current assets	1,581,188	1,171,230
Total current assets	66,493,660	60,549,416
NONCURRENT ASSETS—Other assets	193,471	232,366
TOTAL	$ 66,687,131	$ 60,781,782
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES:		
Reserves for unpaid losses and loss adjustment expenses	$ 534,186	$ 379,131
Unearned premiums	321,525	385,121
Reinsurance payable	547,074	321,993
Accounts payable and other liabilities	84,913	21,632
Due to California Housing Finance Fund	514,955	178,496
Total current liabilities	2,002,653	1,286,373
NONCURRENT LIABILITIES—Unearned premiums	62,649	98,402
Total liabilities	2,065,302	1,384,775
CONTINGENCIES (Note 9)		
FUND EQUITY:		
Invested in capital assets	4,132	6,253
Restricted by statute	64,617,697	59,390,754
Total fund equity	64,621,829	59,397,007
TOTAL	$ 66,687,131	$ 60,781,782

See notes to financial statements.

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
OPERATING REVENUES:		
Premiums earned	$12,404,598	$ 7,080,605
Investment income	2,858,109	1,732,468
Other revenues	229,778	
Total operating revenues	15,492,485	8,813,073
OPERATING EXPENSES:		
Loss and loss adjustment expenses (net of recoveries)	189,380	75,802
Operating expenses	10,076,162	6,211,082
Other expenses—net	2,121	3,086
Total operating expenses	10,267,663	6,289,970
OPERATING INCOME	5,224,822	2,523,103
TRANSFER FROM PROP 46 (Note 8)		958,903
FUND EQUITY—Beginning of year	59,397,007	55,915,001
FUND EQUITY—End of year	$64,621,829	$59,397,007

See notes to financial statements.

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 11,848,862	$ 6,270,912
Payments to suppliers	(9,275,097)	(5,736,457)
Payments to employees	(431,438)	(424,407)
Internal activity—payments from other funds	336,459	730,260
Other receipts (payments)	197,391	(18,156)
Net cash provided by operating activities	2,676,177	822,152
CASH FLOWS PROVIDED BY RELATED FINANCING ACTIVITIES—Transfer from Prop 46 (Note 8)		958,903
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	1,850,000	1,568,000
Purchase of investments	(7,121,000)	(4,823,000)
Interest on investments	2,578,244	1,477,594
Net cash used in investing activities	(2,692,756)	(1,777,406)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(16,579)	3,649
CASH AND CASH EQUIVALENTS—Beginning of year	36,639	32,990
CASH AND CASH EQUIVALENTS—End of year	$ 20,060	$ 36,639
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 5,224,822	$ 2,523,103
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest on investments	(2,858,109)	(1,732,468)
Unpaid loss and loss adjustment expenses	155,055	59,108
Depreciation expense	2,121	3,086
Deferred policy acquisition expense	332,519	315,315
Changes in certain operating assets and liabilities:		
Other assets	(705,703)	(626,652)
Unearned premiums	(99,349)	(439,350)
Payable to reinsurer	225,081	55,433
Accounts payable and other liabilities	63,281	(65,683)
Due to California Housing Finance Fund	336,459	730,260
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 2,676,177	$ 822,152

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, 2006 the CHFF had total assets of $9.5 billion and fund equity of $1.3 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 $770 million and $499 million at December 31, 2006 and 2005, respectively. Over 82% of the insured first mortgage loans outstanding at December 31, 2006 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 excess 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 $416,677 and $497,941 as of December 31, 2006 and 2005, 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 December 2004, GASB issued Statement of Governmental Accounting Standards ("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 adopted the new standard for the fiscal year beginning January 1, 2006. Adoption of this standard did not 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, 2006 and 2005, consist of the following:

	2006	2005
Surplus Money Investment Fund—State of California	$ 64,076,000	$ 58,805,000
Total Investments	$ 64,076,000	$ 58,805,000

Credit Risk— Fixed income securities are subject to credit risk, which is the chance that a 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, 2006 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, 2006, 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, 2006, 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, 2006, 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, 2006 and 2005. 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	**2006**	**2005**
Gross reserve for loss and loss adjustment—beginning of year balance	$ 1,428,856	$ 943,548
Incurred (recovered) related to:		
Provision attributable to the current year	1,870,152	1,133,893
Change in provision attributable to prior years	(1,058,185)	(626,491)
Total incurred	811,967	507,402
Payments related:		
Current year	(98,901)	
Prior years	(8,634)	(22,094)
Total payments	(107,535)	(22,094)
Gross reserve for loss and loss adjustment—end of year balance	$ 2,133,288	$ 1,428,856

Net of Reinsurance	**2006**	**2005**
Net reserve for loss and loss adjustment—beginning of year balance	$ 379,131	$ 320,023
Incurred (recovered) related to:		
Provision attributable to the current year	467,558	283,016
Change in provision attributable to prior years	(278,178)	(207,214)
Total incurred	189,380	75,802
Payments related:		
Current year	(32,167)	(11,170)
Prior years	(2,158)	(5,524)
Total payments	(34,325)	(16,694)
Net reserve for loss and loss adjustment—end of year balance	$ 534,186	$ 379,131

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 2006 and 2005 was $7.9 million and $4.3 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 $735,106 and $377,555 at December 31, 2006 and 2005, respectively. The increase in the amount payable at December 31, 2006 was due to a change in the reimbursement procedures. Total amounts receivable from the CHEF were $220,151 and $199,059 at December 31, 2006 and 2005, respectively. For the years ended December 31, 2006 and 2005, total expenses allocated to the Fund by the Agency were $1,247,481 and $1,255,000, respectively.

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, 2006.

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, 2007, 2006 and 2005 the employer contribution rates were as follows:

	Fiscal Year ended		
	June 30, 2007	June 30, 2006	June 30, 2005
State Miscellaneous Member First Tier	16.997%	15.942%	17.022%
State Miscellaneious Member Second Tier	16.778%	15.890%	13.216%

The Fund's contributions to the PERF for the years ended December 31, 2006, 2005 and 2004 were $94,440, $104,062, and $109,919, respectively, equal to the required contributions for each 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, 2006, 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 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, 2006 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. The Fund drew no funds in 2006 and $958,903 in 2005 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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