CALIFORNIA HOUSING LOAN INSURANCE FUND
Sacramento, California

FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION, AND
INDEPENDENT AUDITORS' REPORT
Years Ended December 31, 2014 and 2013

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California Housing Loan Insurance Fund

Independent Auditors' Report

Board of Directors
California Housing Finance Agency
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the California Housing Loan Insurance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency), a component unit of the State of California, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Fund will continue as a going concern. As discussed in Note 2 to the financial statements, the Fund is experiencing difficulty in generating sufficient cash flow to meet its obligations and sustain its operations. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-12 are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2015 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
April 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2014 AND 2013

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

The following Management Discussion and Analysis applies only to the activities of the 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 ("FNMA"), and Federal Home Loan Mortgage Corporation ("FHLMC"); and loans made by localities, nonprofit agencies, and the California State Teachers' Retirement System. In conducting business the Agency is authorized to reinsure any risk undertaken by the Fund.

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

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

FINANCIAL RESULTS 2014 – 2013

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

CALIFORNIA HOUSING LOAN INSURANCE FUND

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

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

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

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

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

- Each month, the Fund continues to receive its share of premiums from policies still in force and uses the monthly premiums received along with any other available funds to pay the Fund's claims on a "first-in, first-out" basis in the order in which the claims are received after paying the monthly operating expenses of the Fund (see Note 2). The Fund continues to remain dependent upon the ability of the Fund's reinsurer to pay its share of the claims. (see Note 5).

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

CALIFORNIA HOUSING LOAN INSURANCE FUND

2014 COMPARED TO 2013

CONDENSED STATEMENTS OF NET POSITION

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

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

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

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

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

CALIFORNIA HOUSING LOAN INSURANCE FUND

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

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

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

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

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

CONDENSED STATEMENTS OF REVENUES AND EXPENSES

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

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

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

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

CALIFORNIA HOUSING LOAN INSURANCE FUND

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

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

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

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

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

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

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

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

CALIFORNIA HOUSING LOAN INSURANCE FUND

FINANCIAL RESULTS 2013 – 2012

- The Fund had an operating income of $30.2 million for 2013. Net operating results of the Fund improved by approximately $49.6 million in 2013 when compared to the operating loss of $19.4 million in 2012. This was primarily due to the $31.1 million decrease in Premium Deficiency Reserve and the $12.3 million decrease in net claim payments during 2013. The Fund has a net deficit balance of $81.0 million at December 31, 2013, compared to a net deficit balance of $111.2 million at December 31, 2012.

- Insurance in force decreased by $316.6 million, or 22 %, to $1.16 billion as of December 31, 2013, compared to $1.47 billion as of December 31, 2012. The Fund ceased committing to insure new loans in September 2009.

- The number and amount of insured delinquencies declined from 999 or $276.8 million in 2012 to 642 or $167.6 million in 2013. Gross insurance claim payments were $52.5 million and $99.6 million in 2013 and 2012, respectively, before reinsurance.

- The Fund's reserve for loan losses decreased by $9.4 million in 2013 to $18.2 million as a result of the Fund's decreased number of delinquencies outstanding and improving California housing market. The Agency continues to monitor delinquencies closely and is proactive in its attempts to mitigate losses.

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

- Each month, the Fund continues to receive its share of premiums from policies still in force and uses the monthly premiums received along with any other available funds to pay the Fund's claims on a "first-in, first-out" basis in the order in which the claims are received after paying the monthly operating expenses of the Fund (see Note 2). The Fund continues to remain dependent upon the ability of the Fund's reinsurer to pay its share of the claims. (see Note 5).

- Moody's Investor Services ("Moody's") rating of Genworth Mortgage Insurance Corporation remained at "Ba2" during the year.

CALIFORNIA HOUSING LOAN INSURANCE FUND

2013 COMPARED TO 2012

CONDENSED STATEMENTS OF NET POSITION

The following table presents condensed statements of net position for the Fund as of December 31, 2013 and 2012, and the change from year to year (dollars in thousands):

	2013	2012	Change
ASSETS			
Cash, cash equivalents, and investments	$ 159	$ 208	$ (49)
Other assets	823	946	(123)
Total assets	$ 982	$ 1,154	$ (172)
LIABILITIES			
Reserves for unpaid losses and loss adjustment expenses	$ 18,178	$ 27,577	$ (9,399)
Premium deficiency reserve	18,719	49,849	(31,130)
Unearned premiums	33	75	(42)
Accounts payable and other liabilities	45,043	34,846	10,197
Total liabilities	$ 81,973	$ 112,347	$ (30,374)
NET POSITION			
Net investment in capital assets	14	18	(4)
Unrestricted	(81,005)	(111,211)	30,206
Total net position	$ (80,991)	$ (111,193)	$ 30,202

Assets - Total assets of the Fund were $982 thousand as of December 31, 2013, a decrease of $172 thousand or 15% from December 31, 2012. Of the Fund's assets, 16% are represented by cash and investments. The Fund does not have a significant investment in capital assets.

Cash, cash equivalents, and investments were $159 thousand as of December 31, 2013, a decrease of $49 thousand from December 31, 2012. 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 $823 thousand as of December 31, 2013, a decrease of $123 thousand or 13% from December 31, 2012. The decrease is primarily due to having a lower accounts receivable from Genworth as the number of active policies has declined.

CALIFORNIA HOUSING LOAN INSURANCE FUND

Liabilities - The Fund's liabilities were $82 million as of December 31, 2013, a decrease of $30.3 million or 27% from December 31, 2012.

The reserve for unpaid losses and loss adjustment expenses was $18.2 million as of December 31, 2013, a decrease of $9.4 million from December 31, 2012. The premium deficiency reserve decreased $31.1 million to $18.7 million in 2013. As of December 31, 2013, 706 insured loans with balances aggregating $184.4 million were either reported as delinquent by the lender or assumed delinquent but not reported. As of December 31, 2012, 1,099 insured loans with balances aggregating $304.5 million were either reported as delinquent by the lender or assumed delinquent but not reported.

Unearned premiums were $33 thousand as of December 31, 2013, a decrease of $42 thousand from December 31, 2012. The decrease was due to policy adjustments between the servicer and reinsurer. The expected trend of this account is to decrease over time 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 recorded as earned over a one-year period.

Accounts payable and other liabilities were $45 million as of December 31, 2013, an increase of $10.2 million from December 31, 2012. Genworth is only paying their 75% share of the claim payment and the Fund is paying 25% share of the claim payment. Since the Fund's cash is temporarily depleted each month, an accounts payable is being set up for the Fund's share of the claim payments that have not yet been paid.

Net Position - The Fund's net position is classified as unrestricted or net investment in capital assets. Total net position of the Fund increased by $30.2 million as a result of this current year's operations.

CONDENSED STATEMENTS OF REVENUES AND EXPENSES

The following table presents condensed statements of revenues and expenses for the Fund for the years ended December 31, 2013 and 2012, and the change from year to year (dollars in thousands):

	2013	2012	Change
OPERATING REVENUES:			
Premiums earned	$ 9,038	$ 10,683	$ (1,645)
Expired book revenue - reinsurer	422	-	422
Investment income	-	-	-
Other revenues	7	1	6
Total operating revenues	9,467	10,684	(1,217)
OPERATING EXPENSES:			
Loss and loss adjustment expenses	4,221	17,895	(13,674)
Premium deficiency reserve expenses	(31,130)	4,206	(35,336)
Salaries and general expenses	6,130	7,876	(1,746)
Other expenses	44	111	(67)
Total operating expenses	(20,735)	30,088	(50,823)
OPERATING INCOME(LOSS)	$ 30,202	$ (19,404)	$ 49,606

CALIFORNIA HOUSING LOAN INSURANCE FUND

Operating Revenues - Operating revenues were $9.5 million during 2013 compared to $10.7 million during 2012, a decrease of $1.2 million or 11%.

Premiums earned in 2013 decreased by $1.6 million or 15% compared to premiums earned in 2012. The decrease in premiums earned corresponds with the decrease in insurance in force. Insurance in force was $1.16 billion and $1.47 billion as of December 31, 2013 and 2012, respectively.

As the 10 year reinsurance period expires for a book year, the Fund receives Genworth's reserves set aside for that book year. In 2013, the Fund received $422 thousand for the policies that began reinsurance in the 2003 book year.

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

Interest Payment Periods	Fiscal Year 2013	Interest Payment Periods	Fiscal Year 2012
January — March	0.275%	January — March	0.374%
April — June	0.246%	April — June	0.361%
July — September	0.249%	July — September	0.349%
October — December	0.248%	October — December	0.316%

Other revenues increased by $6 thousand to $7 thousand in 2013 from $1 thousand in 2012. Recoveries made on amounts owed from defendants in certain litigation increased from last year.

Operating Expenses - Total operating expenses were negative $20.7 million during 2013 compared to $30.1 million during 2012, a decrease of $50.8 million or 169%.

Loss and loss adjustment expenses decreased by $13.7 million in 2013 while the premium deficiency reserve expenses decreased by $35.3 million in 2013. The decrease in premium deficiency reserve expense is attributable to a lower expected future paid losses amount on unexpired business on the books as of December 31, 2013.

The Fund's salaries and general expenses were $6.1 million during 2013 compared to $7.9 million during 2012, a decrease of $1.7 million or 22%. The decrease is primarily a result of lower ceded premiums to the reinsurer due to lower insurance in force.

Operating Income - Operating income for 2013 was $30.2 million compared to an operating loss of $19.4 million in 2012, an increase of $49.6 million in income. The increase is primarily a result of the decreasing premium deficiency reserve balance and a decreasing reserve for unpaid losses in 2013.

CALIFORNIA HOUSING LOAN INSURANCE FUND

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

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

CalHFA Financing Division
500 Capitol Mall, Suite 1400
Sacramento, CA 95814
Phone: 916.326.8650
Fax: 916.322.1464
financing@calhfa.ca.gov

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 33,140	$ 153,485
Investment in Surplus Money Investment Fund	4,000	5,000
Interest receivable	3	2
Other current assets	694,756	809,813
Total current assets	731,899	968,300
NONCURRENT ASSETS — Capital assets	9,681	13,553
Total assets	$ 741,580	$ 981,853
LIABILITIES		
CURRENT LIABILITIES:		
Reserves for unpaid losses and loss adjustment expenses	$ 7,167,077	$ 18,177,904
Premium deficiency reserve	14,479,000	18,719,000
Unearned premiums	11,095	32,512
Reinsurance payable	212,404	282,021
Claims payable	46,199,490	43,825,725
Accounts payable and other liabilities	77	553
Compensated absences	4,032	56,855
Due to CalHFA	139,752	202,515
Total current liabilities	68,212,927	81,297,085
NONCURRENT LIABILITIES — OPEB	732,000	676,000
Total liabilities	68,944,927	81,973,085
CONTINGENCIES (Note 8)		
NET POSITION		
Net investment in capital assets	9,681	13,553
Unrestricted	(68,213,028)	(81,004,785)
Total net position (deficit)	$ (68,203,347)	$ (80,991,232)

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
OPERATING REVENUES		
Premium earned	$ 7,349,299	$ 9,037,652
Expired book revenue - reinsurer	1,346,900	422,252
Investment income	10	12
Other revenues	7,200	7,500
Total operating revenues	8,703,409	9,467,416
OPERATING EXPENSES		
Loss and loss adjustment expenses - net of recoveries	(4,825,045)	4,221,060
Premium deficiency reserve expenses	(4,240,000)	(31,130,000)
Salaries and general expenses	5,007,215	6,129,916
Other (income) expenses	(26,646)	44,420
Total operating expenses	(4,084,476)	(20,734,604)
OPERATING INCOME	12,787,885	30,202,020
NET POSITION (DEFICIT) - Beginning of year	(80,991,232)	(111,193,252)
NET POSITION (DEFICIT) - End of year	$ (68,203,347)	$ (80,991,232)

See notes to financial statements.

CALIFORNIA HOUSING LOAN INSURANCE FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers - premium	$ 7,442,939	$ 9,114,342
Receipts from customers - expired book reserve	1,346,900	422,253
Payments to suppliers	(4,839,005)	(6,020,688)
Payments to employees	(260,608)	(387,338)
Payments to claimants	(3,812,018)	(3,293,698)
Payment to other government entities	(6,763)	108,464
Other receipts	7,200	7,500
Net cash used in operating activities	(121,355)	(49,165)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	1,000	7,000
Interest on investments	10	21
Net cash provided by investing activities	1,010	7,021
DECREASE IN CASH AND CASH EQUIVALENTS	(120,345)	(42,144)
CASH AND CASH EQUIVALENTS — Beginning of year	153,485	195,629
CASH AND CASH EQUIVALENTS — End of year	$ 33,140	$ 153,485
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating income	$ 12,787,885	$ 30,202,020
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Investment interest revenue	(10)	(12)
Unpaid loss and loss adjustment expenses	(11,010,827)	(9,398,886)
Premium deficiency reserve expense	(4,240,000)	(31,130,000)
Depreciation expense	3,872	4,128
Effects of changes in certain operating assets and liabilities:		
Other assets	115,056	119,028
Unearned premiums	(21,417)	(42,338)
Reinsurance payable	(69,617)	(82,818)
Compensated absences	(52,823)	(37,691)
Claims payable	2,373,765	10,326,248
Accounts payable and other liabilities	(476)	(117,308)
Due to CalHFA	(62,763)	27,464
Due to CalPERS - OPEB	56,000	81,000
NET CASH USED IN OPERATING ACTIVITIES	$ (121,355)	$ (49,165)

See notes to financial statements.

1. AUTHORIZING LEGISLATION AND ORGANIZATION

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

The California Housing Loan Insurance Fund (the "Fund") is one of two continuously appropriated funds administered by the California Housing Finance Agency (the "Agency"). These funds allow the Agency to carry out its purpose of meeting the housing needs of persons and families of low and moderate income within the State. The Agency is authorized to insure mortgage loans and to issue bonds, notes, and other obligations to fund loans to qualified borrowers for single-family houses and multifamily developments. The Agency has no taxing power and is exempt from federal income taxes and state franchise taxes.

The accompanying financial statements are the statements of the Fund and do not include the financial position or the results of operations of the Agency. As of June 30, 2014, the Agency had total assets of $5.57 billion and fund equity of $1.48 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 $316.4 million and $405.6 million at December 31, 2014 and 2013, respectively. Of the insured first mortgage loans outstanding at December 31, 2014, 88.2% have loan-to-value ratios, measured as of the funding date of the loan, greater than 90%.

The Fund's reserve for loan losses decreased during 2014 as a result of the improved California housing market, decrease in the number of insured California home mortgage delinquencies, and changes made to the loss reserve methodology. The Fund is currently unrated. In 2014, Moody's rating of Genworth Mortgage Insurance Corporation remained unchanged at "Ba1".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CALIFORNIA HOUSING LOAN INSURANCE FUND

The financial statements of the Fund were prepared using generally accepted accounting principles that are applicable to a going concern. Management of the Fund has concluded that there is substantial doubt as to the Fund's ability to continue to fully meet its designated purpose of paying claims and expenses. The financial statements of the Fund do not include any adjustments that might result from the outcome of this uncertainty. As of December 31, 2014, the Fund's cash and cash equivalents are not sufficient to meet the Fund's total anticipated cash requirements to pay its obligations over the next twelve months. Management believes that attempts to raise any additional capital will be unsuccessful. The Fund will continue to receive its share of premiums from policies still in force and will use the premiums received along with any other available funds to pay the Fund's obligations on a "first-in, first-out" basis in the order in which the claims are received after paying the monthly expenses of the Fund. Further, management of the Fund is actively managing the Fund and continuously reviewing the reinsurance agreement with Genworth to determine the best course of action for both the expiring (unreinsured) and reinsured books of business.

Accounting and Reporting Standards - The Fund follows the Standards of Governmental Accounting and Financial Reporting, as promulgated by the Governmental Accounting Standards Board (GASB). The Fund has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) pronouncements issued on or before November 30, 1989, that does not conflict with or contradict GASB pronouncements.

Use of Estimates - The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

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

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

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

Claims Payable - The Fund establishes claims payable for claims received but not yet paid. As of December 31, 2014, the Fund's claims payable were $42,791,240 and $3,408,250 for CHFF and other external parties, respectively. The claims payable as of December 31, 2013 were $41,116,984 and $2,708,741 for CHFF and other external parties, respectively.

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

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

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

Premium Deficiency - The Fund establishes reserves for a premium deficiency wherein future paid losses and expenses on unexpired business exceed the related premium revenue for such business, along with the current loss reserves. A premium deficiency is therefore recognized in the balance sheet as an accrued liability, recorded as a Premium Deficiency Reserve for the excess amount. The liability for the premium deficiency reserve is an estimate based upon the delinquent balance on mortgage loans reported by lenders as of the close of the accounting period, historical claim payment and loss incurred pattern development, future estimated premium, and future estimated losses on currently performing mortgage loans.

Net Position - Fund net position is classified as invested in capital assets, restricted equity or unrestricted equity. Invested in capital assets represents investments in office equipment and furniture net of depreciation and any related debt. Restricted net position represents net position that is restricted pursuant to the Agency's enabling legislation. Unrestricted net position represents net position not restricted for any purpose. There was no restricted net position at either December 31, 2014 or 2013.

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

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

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

Recently Adopted GASB Pronouncements – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* This statement established accounting and financial reporting standards related to government combinations or disposals of government operations. The requirements of this Statement are effective in the financial reporting period beginning after December 31, 2013. In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, with effective date for reporting periods beginning after June 15, 2013. This statement enhances comparability of financial statements among governments by requiring consistent reporting by both governments that extend nonexchange financial guarantees and those governments that receive nonexchange financial guarantees. Both GASB 69 and 70 were adopted for the Fund's reports starting from January 1, 2014, but were determined to have no effect on the Agency.

New GASB Pronouncements - In 2012, GASB also issued GASB No. 68, *Accounting and Financial Reporting for Pensions- An Amendment of GASB Statement No. 27*, effective for fiscal years beginning after June 15, 2014. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions, and to improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities. In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions made subsequent to the Measurement date- An Amendment of GASB Statement No. 68*. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. The Agency will apply all applicable Statements with the effective date starting January 1, 2015.

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

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

Cash and Cash Equivalents - At December 31, 2014 and 2013, all cash and cash equivalents, totaling $33 thousand and $153 thousand, respectively, were covered by federal depository insurance or collateral held by the Agency's agent in the Agency's name.

Investments - Investment of funds is restricted by the Act, generally, to certain types of investment - securities, including direct obligations of the U.S. Government and its agencies, the State Treasurer's Pooled Money Investment Account, and other financial instruments.

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

Investments by type at December 31, 2014 and 2013, consist of the following:

	2014	2013
Surplus Money Investment Fund — State of California	$ 4,000	$ 5,000

Credit Risk - Fixed income securities are subject to credit risk, which is the risk that an issuer will fail to pay interest or principal in a timely manner or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. At December 31, 2014, 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, 2014, 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, 2014, 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, 2014, the Fund does not have any debt investments that are highly sensitive to changes in interest rates.

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, 2014 and 2013. 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	**2014**	**2013**
Gross reserve for loss and loss adjustment — beginning of year balance	$ 63,836,492	$ 104,856,756
Incurred (recovered) related to:		
Provision attributable to the current year	12,406,364	41,526,212
Change in provision attributable to prior years	(29,389,179)	(30,090,724)
Total incurred	(16,982,815)	11,435,488
Payments related to:		
Current year	(853,465)	(6,091,613)
Prior years	(20,563,218)	(46,364,139)
Total payments	(21,416,683)	(52,455,752)
Gross reserve for loss and loss adjustment — end of year balance	$ 25,436,994	$ 63,836,492

Net of Reinsurance	**2014**	**2013**
Net reserve for loss and loss adjustment — beginning of year balance	$ 18,177,904	$ 27,576,790
Incurred (recovered) related to:		
Provision attributable to the current year	3,335,231	11,471,562
Change in provision attributable to prior years	(8,160,276)	(7,250,502)
Total incurred	(4,825,045)	4,221,060
Payments related to:		
Current year	(213,252)	(1,487,107)
Prior years	(5,972,530)	(12,132,839)
Total payments	(6,185,782)	(13,619,946)
Net reserve for loss and loss adjustment — end of year balance	$ 7,167,077	$ 18,177,904

The change in provision attributable to prior year (net of reinsurance) decreased by $8.2 million for the year ended December 31, 2014 due primarily to a change in loss reserve methodology as explained in Note 2 and decrease in loan delinquencies from the year ended December 31, 2013, while the change in provision attributable to prior year (net of reinsurance) decreased by $7.3 million for the year ended December 31, 2013 from the year ended December 31, 2012 is also due to a decrease in loan delinquencies.

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

5. REINSURANCE

Effective March 1, 2003, the Fund entered into a 75% quota share reinsurance agreement with Genworth to reinsure most (currently, approximately 94%) of the Fund's portfolio. Under the terms of this agreement, the reinsurer will indemnify the Fund for 75% of all losses paid on the insured loans to which the Fund cedes 64.5% of the related premiums. The treaty was amended for loans insured on or after May 1, 2008 to cede 67% of premiums collected and amended again on April 1, 2009 to cede 69% of premiums collected on loans insured on or after that date. However, there are no loans currently ceded at 69%. The Fund's reinsurance agreement typically provides for a recovery of a proportionate level of claim expenses from the reinsurer. The Fund remains liable to its policyholders if the reinsurer is unable to satisfy its obligations under the reinsurance agreement. The amount of earned premiums ceded to Genworth for the years ended 2014 and 2013 was $4.4 million and $5.8 million, respectively.

According to the terms of the reinsurance agreement, Genworth's reinsurance is for a period up to the end of the tenth calendar year for each existing book year. Therefore, insurance policies issued in 2004 book year had reinsurance through December 31, 2013. The Agency elected not to renew the reinsurance on the expiring 2004 book. If the reinsurance is not renewed after the expiration date, the Fund receives 100% of the related premiums, pays for 100% of any related claims, and receives Genworth's reserves set aside for the related book year. In 2014, the Fund received $1.3 million from Genworth's reserve set aside for book year 2004.

6. ARRANGEMENTS WITH THE CALIFORNIA HOUSING FINANCE FUND

Certain administrative and operating expenses charged to the Fund are provided by the Agency. These expenses, initially paid from the CHFF, include office space, business services, legal services, accounting services, information systems support, and human resource support services. The Fund is charged monthly for these expenses and a payable is recorded. For the years ended December 31, 2014 and 2013, total expenses allocated to the Fund by the Agency were $359,221 and $496,736, respectively.

As part of CalHFA's Loan Modification Program, Genworth remits pre-claim advance payments to the Fund. The payments received are remitted directly to the CHFF. The total pre-claim advance payments due to CHFF were $119,717 and $70,145 at December 31, 2014 and 2013, respectively.

7. PENSION PLAN AND POST RETIREMENT BENEFITS

The Fund contributes to the Public Employees' Retirement Fund (PERF) as part of the State of California, the primary government. The PERF is an agent multiple-employer defined benefit pension plan administered by the California Public Employment Retirement System (CalPERS). CalPERS provides retirement, death, disability, and postretirement 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 via the internet at www.calpers.ca.gov.

For the CalPERS fiscal years ended June 30, 2014, 2013, and 2012, the employer contribution rates were as follows:

	Jun-14	Dec-13	Jun-13	Dec-12
State Miscellaneous Member First Tier	21.203 %	21.203 %	20.503 %	20.503 %
State Miscellaneous Member Second Tier	21.355	21.355	20.457	20.457

The Fund's contributions to the PERF for the years ended December 31, 2014, 2013, and 2012, were $28,210, $82,097, and $335,203, 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, 2014, which actuarial assumptions included (a) 7.5% investment rate of return compounded annually, (b) projected salary increases that vary by duration of service, and (c) overall payroll growth factor of 3% annually. The overall payroll growth factor included a new price inflation component of 2.75% and a 0.25% per annum real wage inflation assumption.

The most recent actuarial valuation of the PERF indicated that there was an unfunded actuarial accrued liability. The amount of the underfunded liability applicable to each Agency or department cannot be determined. Trend information, which presents CalPERS progress in accumulating sufficient assets to pay benefits when due, are presented in the June 30, 2014, CalPERS CAFR.

GASB Statement 45 requires states and local governments to publicly disclose the future dollar amount of their obligations to pay for Other Postemployment Benefits (OPEB), like healthcare, that are provided to retired employees, including retired public employees. The OPEB is an agent single employer defined benefit healthcare plan administered by CalPERS. State Controller's Office sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The State Controller's Office estimated the Fund's unfunded OPEB costs to be $732,000 and $676,000 for the years ended December 31, 2014 and 2013, respectively, and this liability was added to Personal Services in the respective year. CalPERS issues a publicly available CAFR that includes financial statements and required supplementary information for the OPEB.

8. LITIGATION

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

The amounts received from the defendants were $7,200 and $7,500 during the years ended December 31, 2014 and 2013, respectively which is recorded as other revenue in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. To date, the Agency has received approximately $2.9 million.

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

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
California Housing Finance Agency
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California Housing Loan Insurance Fund (the Fund), which is administered by the California Housing Finance Agency (the Agency), a Component Unit of the State of California, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated April 30, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
April 30, 2015