Golden State Finance Authority (GSFA) Board of Directors Meeting



Thursday, June 18, 2015 11:15 A.M.

Downieville Masonic Hall 201 Commercial Street Downieville, CA 95936



Golden State Finance Authority (GSFA)
Board of Directors Meeting
Thursday, June 18, 2015
11:15 a.m.
Downieville Masonic Hall
201 Commercial Street
Downieville, CA 95936

AGENDA

- 1. Call to Order & Determination of Quorum Chair, Supervisor Kevin Cann, Mariposa County Vice Chair, Supervisor Les Baugh, Shasta County
- 2. Approval of Minutes March 18, 2015 Board Meeting

 Board Members absent from the meeting will be recorded as abstained unless the Board Member indicates otherwise

 Page 1
- 3. Member County Concerns
- 4. Public Comments

 At this time any member of the public may address the Board. Speakers are asked to state their name for the record. Comments are usually limited to no more than 3 minutes per speaker.
- 5. GSFA 2014 Audited Financial Statements ACTION Page 7

 Greg Norton, Executive Director
- 6. Golden State Finance Authority Joint Powers Agreement Update

 Greg Norton
- 7. Program Updates
 Greg Norton
- 8. Adjournment

Meeting facilities are accessible to persons with disabilities. By request, alternative agenda document formats are available to persons with disabilities. To arrange an alternative agenda document format or to arrange aid or services to modify or accommodate persons with a disability to participant in a public meeting, please call Sarah Bolnik at (916) 447-4806 at least 48 hours before the meeting.

Agenda items will be taken as close as possible to the schedule indicated. Any member of the general public may comment on agenda items at the time of discussion. In order to facilitate public comment, please let staff know if you would like to speak on a specific agenda item.





Golden State Finance Authority Board of Directors Meeting March 18, 2015 11:45 a.m. 1215 K Street, Suite 1650 Sacramento CA 95814 916-447-4806

MINUTES

Call to Order & Determination of Quorum

Chair, Supervisor Kevin Cann, Mariposa County, called the meeting to order at 11:59 a.m. A quorum was determined at that time. Those present:

Supervisor	County
Mary Rawson	Alpine
Doug Teeter	Butte
Kim Dolbow Vann	Colusa
Dave Finigan	Del Norte
Michael Ranalli	El Dorado
John Viegas	Glenn
Rex Bohn	Humboldt
Matt Kingsley	Inyo
Aaron Albaugh	Lassen
Kevin Cann	Mariposa
David Rogers	Madera
Carre Brown	Mendocino
Geri Byrne	Modoc
Tim Fesko	Mono
Diane Dillon	Napa
Nate Beason	Nevada
Kevin Goss	Plumas
Anthony Botelho	San Benito
Les Baugh	Shasta
Lee Adams	Sierra
Michael Kobseff	Siskiyou
Bob Williams	Tehama
John Fenley	Trinity
Randy Hanvelt	Tuolumne
Roger Abe	Yuba
Absent	
Brian Oneto	Amador
Cliff Edson	Calaveras

Michael Kelley Imperial
Anthony Farrington Lake
John Pedrozo Merced
Jim Holmes Placer
Larry Munger Sutter
Matt Rexroad Yolo

Others in Attendance

Supervisor Marshall Long, Mariposa County
Supervisor Karl Fisher, Trinity County
Supervisor Allen Ishida, Tulare County
Wanda Ishida
Ed Horton, Placer County Water Agency
Staci Heaton, RCRC Regulatory Affairs Advocate
Justin Caporusso, RCRC Public Affairs Specialist
Paul A. Smith, RCRC Senior Legislative Advocate
Lisa McCargar, RCRC Chief Financial Officer
Anthony Rahill, RCRC Data and Program Development Manager
Kathy Mannion, RCRC Legislative Advocate
Randall Echevarria, RCRC Legislative Analyst
Nick Konovaloff, RCRC Legislative Analyst
Sarah Bolnik, RCRC Office Manager

Staff in Attendance

Greg Norton, Executive Director Patricia Megason, Deputy Director Craig Ferguson, Vice President

Approval of Minutes – January 21, 2015 Board Meeting

Board Members absent from the meeting will be recorded as abstained unless the Board Member indicates otherwise

Supervisor Rex Bohn, Humboldt County, motioned to approve the minutes of the January 21, 2015 GSFA Board of Directors Meeting. Supervisor Michael Kobseff, Siskiyou County, seconded the motion. Motion unanimously passed.

Abstaining:

Supervisor Diane Dillon, Napa County; Supervisor Nate Beason, Nevada County

Member County Concerns

None

Public Testimony

None

Proposed Revisions to the Golden State Finance Authority JPA Agreement Greg Norton, Executive Director, reminded the Board of Directors that at the January 21, 2015 Meeting the Board unanimously approved Resolution 2015-02 changing the name of the organization to Golden State Finance Authority (GSFA) from California

Home Finance Authority (CHF).

In addition to the name change, one other slight revision to the JPA agreement included the wording in regards to the Executive Committee. The proposed change would allow no fewer than nine and no more than eleven on the Executive Committee of GSFA. The new wording also requires that the Chair and the Vice Chair serve on the Executive Committee.

Staff Recommendation:

Staff recommended that the GSFA Board of Directors review and approve the proposed revisions to the GSFA Joint Powers Authority Agreement.

Supervisor Michael Kobseff, Siskiyou County, motioned to approve the revisions to the GSFA JPA Agreement. Supervisor Tim Fesko, Mono County, seconded the motion. Motion passed unanimously.

Ordinance No. 2015-01: Ordinance Levying Special Tax Solely Within and Relating to Community Facilities District 2014-1 (Clean Energy)

Greg Norton reviewed with the Board of Directors the requirement to approve an ordinance levying a special tax as part of the establishment of the Communities Facilities District for the property assessed clean energy (PACE) program. Mr. Norton recommended approval by the Board for the ordinance levying a special tax. Mr. Norton also stated that if approved the ordinance will be published in Sacramento County, where it was approved, listing the names of who voted for and against it.

Staff Recommendation

Staff recommended that the Board of Directors review and approve Ordinance No. 2015-01

Supervisor Diane Dillon, Napa County, motioned to approve Ordinance No. 2015-01. Supervisor Michael Kobseff, Siskiyou County, seconded the motion. Motion passed unanimously.

Resolution 2015-03: Authorizing Multi-Family Housing Finance Program
Craig Ferguson, Vice President, reported on the multi-family housing program, and related actions requested of the Board.

Staff Recommendation:

Staff recommended that the GSFA Board of Directors approve the following:

- 1. Resolution 2015-03 which would authorize:
 - a. The initiation and implementation of a multifamily housing finance program.

- b. The issuance of debt for the financing of multi-family housing projects, the development and approval of financing structures, application procedures and the participation in any application required to assist a potential borrower in being awarded tax exempt volume cap by CDLAC.
- 2. Investment of up to \$1.0 million of GSFA resources as subsidy loans to be allocated among four projects in Kern, Ventura, Yuba, and Riverside counties.

Supervisor John Viegas, Glenn County, motioned to approve staff recommendations and Resolution 2015-03. Supervisor Kim Dolbow Vann, Colusa County, seconded the motion. Motion passed unanimously.

Supervisor Tim Fesko, Mono County, motioned to approve subsidy loan investment. Supervisor Diane Dillon, Napa County, seconded the motion. Motion passed unanimously.

Resolution 2015-04: Authorizing Appointment of Multi-Family Action Team
Greg Norton recommended that the Board create a multi-family action team made up
of five delegates that would be nominated by the GSFA Chair and confirmed by the
GSFA Executive Committee. These five delegates would be individuals that could
meet via conference call or in person with very little notice.

Staff Recommendation:

Staff recommended that the GSFA Board of Directors approve Resolution 2015-04 authorizing appointment of a multi-family review and approval action team of five delegates to review and approve specific multi-family projects including financing amounts, all necessary documents, and all other necessary steps to implement the program on behalf of GSFA.

Supervisor Kim Dolbow Vann, Colusa County, motioned to approve staff recommendations and Resolution 2015-04. Supervisor Diane Dillon, Napa County, seconded the motion. Motion passed unanimously.

Resolution 2015-05: Official Intent to Issue Multi-Family Housing Revenue Bonds

Craig Ferguson reported on Resolution 2015-05, approving the intent to issue multifamily housing revenue bonds, a required document as part of the CDLAC multifamily application.

Staff Recommendation:

Staff recommended that the GSFA Board of Directors approve Resolution 2015-05 which would authorize a declaration of intent to issue bonds, also known as an inducement resolution, relating to the issuance by GSFA of multifamily housing revenue bonds for the purpose of financing the acquisition and rehabilitation of four multifamily residential housing facilities located in four counties that are members or associate members of GSFA.

Supervisor Randy Hanvelt, Tuolumne County, motioned to approve Resolution 2015-05. Supervisor Bob Williams, Tehama County, seconded the motion. Motion unanimously passed.

Program Updates

Craig Ferguson provided an update on the existing Housing and Energy Retrofit Programs

Adjournment

Supervisor Kevin Cann, Mariposa County, adjourned the meeting of the GSFA Board of Directors at 12:32 p.m.

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To:

GSFA Board of Directors

From:

Greg Norton

Executive Director

Date:

June 8, 2015

Re:

GSFA 2014 Annual Audit Exit Conference and Financial Statements -

ACTION

Summary

The Golden State Finance Authority (Formerly the California Home Finance Authority in 2014) financial statements as of and for the year ended December 31, 2014, received an unqualified ("clean") audit opinion from Moss Adams LLP, our independent auditing firm. The auditors also issued a communication letter to Those Charged with Governance as required by U.S. audit standards. In summary, the communication states that there were no significant matters identified in the course of the audit and no audit adjustments were proposed or made to the original trial balance prepared by management.

Staff has continued efforts to enhance financial reporting and provide full disclosure of organizational financial activity. These audited financial statements further these efforts.

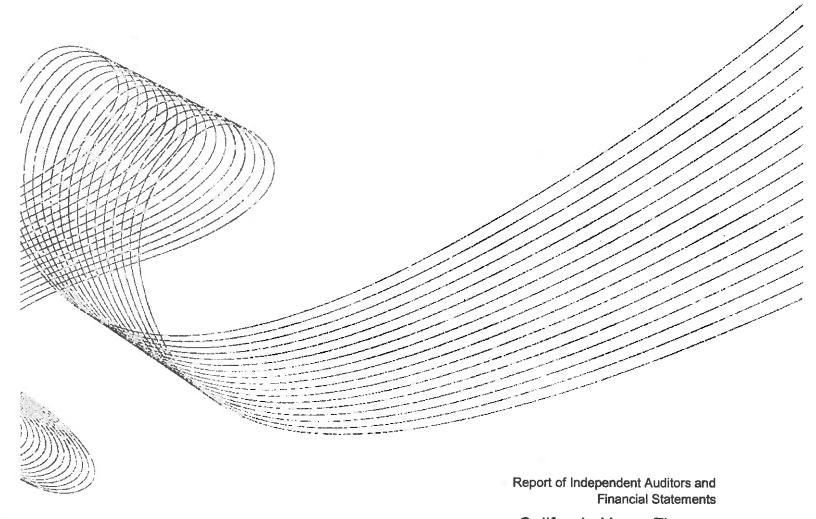
The GSFA Executive Committee reviewed and approved the 2014 financial statements and the letter of those charged with governance at the May 6, 2015 Executive Committee meeting.

Staff Recommendation:

Staff recommends that the GSFA Board of Directors review and approve the 2014 audited financial statements and communication letter as presented.

Attachments

- GSFA (Formerly CHF) 2014 Audited Financial Statements
- Communications with Those Charged with Governance letter



California Home Finance Authority

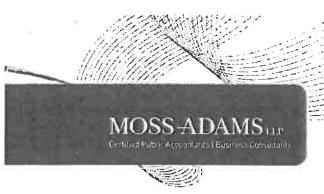
December 31, 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
California Home Finance Authority

Report on the Financial Statements

We have audited the accompanying financial statements of California Home Finance Authority (CHF) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the CHF'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.

Auditor's 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 auditor's 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 CHF'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.



Opinion

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

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 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2015 on our consideration of CHF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 CHF's internal control over financial reporting and compliance.

Sacramento, California

Moss Adams, LLP

April 2, 2015

CALIFORNIA HOME FINANCE AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014

This section presents management's discussion and analysis of California Home Finance Authority's (CHF) financial performance for the year ended December 31, 2014. Please read it in conjunction with the financial statements and notes thereto, which follow this section.

FINANCIAL HIGHLIGHTS

The assets of CHF exceeded liabilities at December 31, 2014, by \$68.4 million (net position), all of which is available to meet ongoing obligations. CHF's total net position increased by approximately \$2.4 million (up 3.6%) from December 31, 2013 to December 31, 2014 resulting from successful housing programs. As of December 31, 2014, in addition to cash resources available, assets include approximately \$9.3 million in second mortgage loans receivable, net of an allowance for loan losses. CHF's reported assets include approximately \$16.2 million in energy grant loans receivable, along with roughly \$10.8 million in cash deposits that are held on behalf of the California Energy Commission (CEC).

OVERVIEW OF THE FINANCIAL STATEMENTS

CHF's basic financial statements include the (1) statement of net position, (2) statement of revenues, expenses, and change in net position, (3) statement of cash flows, and (4) notes to basic financial statements, which explain in more detail some of the information in the financial statements.

CHF's financial statements report information about CHF using accounting methods similar to those used by private sector companies. These statements are intended to offer short-term and long-term financial information about its activities. The statement of net position includes all of CHF's operating assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to CHF creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities.

All of the revenues and expenses for 2014 are accounted for in the statement of revenues, expenses, and change in net position. This statement measures the success of CHF's operations over the year and can be used to determine whether CHF has successfully recovered all of its costs through the services it provides.

The statement of cash flows provides information about CHF's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, non-capital financing, and financing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of CHF's financial statements.

CALIFORNIA HOME FINANCE AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014

FINANCIAL ANALYSIS

California Home Finance Authority Condensed Statement of Net Position December 31, 2014 and 2013

						Increase (D	ecrease)
		2014		2013		\$	
Assets Current assets Non-current assets	\$	217,842,052 25,915,542	\$	107,370,771 31,566,858	\$	110,471,281 (5,651,316)	102.9% (17.9%)
Total assets	25 25	243,757,594	-	138,937,629		104,819,965	75.4%
Liabilities Current liabilities	-	175,363,757		72,942,249	- -	102,421,508	140.4%
Net position Net position, unrestricted	\$	68,393,837	\$	65,995,380	\$	2,398,457	3.6%

The statement of net position reflects a snapshot of CHF's financial position at a given moment in time. Changes in net position over time is an indicator of whether the financial condition of CHF is improving or declining. As of December 31, 2014, CHF's net position was \$68,393,837, an increase of \$2,398,457 (up 3.6%) from December 31, 2013. The increase in current assets of \$110,471,281 (up 102.9%) and the increase in current liabilities of \$102,421,508 (up 140.4%) resulted primarily from increased housing program activity and receivables and payables associated with estimated proceeds and obligations of mortgage backed securities to be settled at a future date. The decrease in noncurrent assets is due to energy loan and 2^{nd} mortgage repayments.

CALIFORNIA HOME FINANCE AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014

FINANCIAL ANALYSIS (CONTINUED)

California Home Finance Authority Condensed Statement of Revenues, Expenses, and Change in Net Position Years Ended December 31, 2014 and 2013

				Increase (D	ecrease)
	2014		2013	\$	%
Operating revenues					
Housing program revenue	\$ 22,345,056	\$	18,321,431	\$ 4,023,625	22.0%
Administrative service fee revenue	1,198,203		-0-	1,198,203	100%
Grant fees	468,958		505,948	(36,990)	(7.3%)
Total operating revenues	24,012,217		18,827,379	5,184,838	27.5%
Operating expenses					
Housing program expenses	21,365,046		13,529,397	7,835,649	57.9%
Grant costs	398,696		443,096	(44,400)	(10.0%)
Total operating expenses	21,763,742		13,972,493	7,791,249	55.8%
Operating income	2,248,475		4,854,886	(2,606,411)	(53.7%)
Non-operating revenue					
Interest income	169,128		101,063	68,065	67.3%
Gain (loss) on investments	(19,146)		(32,348)	13,202	(40.8%)
Total non-operating revenues	149,982		68,715	81,267	118.3%
Change in net position	2,398, 457		4,923,601	(2,525,144)	(51.3%)
Net position, beginning of year	65,995,380		61,071,779	4,923,601	8.1%
Net position, end of year	\$ 68,393,837	\$	65,995,380	\$ 2,398,457	3.6%

The statement of revenues, expenses, and change in net position reflects activity that has occurred during the fiscal period of time covered by this report. For the year ended December 31, 2014, CHF's operating revenues increased by \$5,184,838 (up 27.5%) from the year ended December 31, 2013, primarily due to increased revenues from the down payment assistance gift program. CHF also experienced an increase in operating expenses of \$7,791,249 (up 55.8%) for the same period, which correspond directly with gift housing program activity.

CALIFORNIA HOME FINANCE AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014

BUDGETARY COMPARISON

California Home Finance Authority Comparison of Budget and Actual Revenues, Expenses, and Change in Net Position Year Ended December 31, 2014

						Actu	al
						Over (Under	r) Budget
		Budget		Actual	-	\$	%
Operating revenues						-	
Housing program revenue	\$	15,979,106	\$	22,345,056	\$	6,365,950	39.8%
Administrative service fee revenue		0-		1,198,203		1,198,203	100%
Grant fees		410,400		468,958		58,558	14.3%
Total operating revenues	-	16,389,506	· •	24,012,217	_	7,622,711	46.5%
Operating expenses							
Housing expenses		16,537,021		21,365,046		4,828,025	29.2%
Grant costs		410,400		398,696		(11,704)	(2.9%)
Total operating expenses		16,947,421		21,763,742		4,816,321	28.4%
Operating income (loss)		(557,915)		2,248,475		2,806,390	503.0%
Non-operating revenues		93,928	_	149,982		56,054	59.7%
Change in net position	\$	(463,987)	\$	2,398,457	\$_	2,862,444	616.9%

Operating revenue exceeded budget by \$7,622,711 and CHF's change in net position of \$2,398,457 exceeded budget by \$2,862,444, an increase of 616.9%, due to increased housing program activity. CHF's operating expenses exceeded budget by \$4,816,321, an increase of 28.4%, due to costs associated with increased housing program activity.

FUTURE ECONOMIC OUTLOOK

Favorable down payment assistance gift program activity for CHF is expected to continue through 2015, generating increased revenues associated with housing programs. Further, CHF's Board has authorized the organization to further explore energy programs for various property types during 2015 while remaining focused on the affordability challenges of its constituents.

CALIFORNIA HOME FINANCE AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014

FUTURE ECONOMIC OUTLOOK (CONTINUED)

As of December 31, 2014, CHF has \$9.9 million of amortizing second mortgage loans in portfolio from prior years' second mortgage down payment assistance programs, the last of which was discontinued at the end of 2013. In addition to existing housing and energy programs, CHF is in the process of developing new programs that will include the use of existing resource commitments approved by the Board. CHFs down payment assistance gift program, implemented in late 2010, continued its success in 2014 and is budgeted to grow further in 2015. To remain competitive and continue to provide effective programs, it will be necessary for the organization to continue to be innovative in the development of such programs. In 2014, CHF programs assisted more than 2,100 families with the purchase of a home.

CHF revenues exceeded the projected levels for 2014. As of December 31, 2014, CHF had approximately \$68.4 million in net position available including \$71.8 million in cash which includes \$10.8 million held on behalf of the California Energy Commission and Pacific Gas & Electric (PG&E). We anticipate that continued investment in existing and new housing and energy programs will lead to strong operating revenues in 2015 and future years.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of CHF's finances for all those with an interest in CHF's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Chief Financial Officer, 1215 K Street, Suite 1650, Sacramento, CA 95814.

CALIFORNIA HOME FINANCE AUTHORITY STATEMENT OF NET POSITION DECEMBER 31, 2014

ASSETS

Current assets		
Cash and cash equivalents	\$	71,365,898
Accounts receivable, proceeds from sale of securities		146,155,469
Accounts receivable		269,252
Interest receivable		9,733
Prepaid expenses	_	41,700
Total current assets		217,842,052
Noncurrent assets		
Restricted cash		397,039
Energy grant loans receivable		16,223,219
Second mortgage loans receivable, net of allowance for loan losses of \$650,000	_	9,295,284
Total assets	\$_	243,757,594
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	\$	59,075
Accounts payable, securities sold, at fair value		147,249,844
Accounts payable to California Energy Commission		24,970,902
Accounts payable to affiliated entities		508,948
Unearned revenue	_	2,574,988
Total liabilities	_	175,363,757
Net position, unrestricted	_	68,393,837
Total liabilities and net position	\$_	243,757,594

The accompanying notes are an integral part of these financial statements

CALIFORNIA HOME FINANCE AUTHORITY STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION YEAR ENDED DECEMBER 31, 2014

Operating revenues		
Housing program revenue	\$	20,678,682
Administrative service fee revenue	*	1,198,203
Bond and program residual funds		706,688
Issuer fees		17,566
Mortgage interest		942,120
Grant fees		468,958
	_	
Total operating revenues	_	24,012,217
Operating expenses		
Contract support services		3,248,958
Accounting and auditing		42,314
Business development and expansion		74,730
Consultants		144,000
Contract performance fee		1,541,183
Grant costs		398,696
Insurance		54,875
Legal fees		76,266
Provision for loan losses		207,232
Gift program		15,846,334
Promotion and marketing		17,713
Rent		48,656
Travel		5,633
Miscellaneous	_	57,152
Total operating expenses	_	21,763,742
Operating income	_	2,248,475
Non-operating revenues (expenses)		
Interest income		169,128
Loss on investments	_	(19,146)
Total non-operating revenues	_	149,982
Change in net position		2,398,457
Net position, beginning of year	_	65,995,380
Net position, end of year	\$_	68,393,837

The accompanying notes are an integral part of these financial statements

CALIFORNIA HOME FINANCE AUTHORITY STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2014

Cash flows from operating activities	\$	31,056,110
Cash receipts from loan and grant programs Cash receipts from bond and residual funds	Φ	1,036,881
-		(4,790,141)
Cash paid for contract services		(16,083,934)
Cash paid for services and supplies	-	(10,003,934)
Net cash provided by operating activities	-	11,218,916
Cash flows from investing activities		
Interest received and loss on investments		148,230
Proceeds from related party advance repayment		5,500,000
Related party advance		(5,500,000)
	•	·
Net cash provided by investing activities		148,230
Cash flows used in financing activities		
Second mortgages purchased		(130,328)
	•	
Increase in cash and cash equivalents		11,236,818
-		
Cash and cash equivalents, beginning of year		60,526,119
		_
Cash and cash equivalents, end of year	\$	71,762,937
		· · · · · · · · · · · · · · · · · · ·
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$	2,248,475
Provision for loan losses		207,232
Adjustment to reconcile operating income to net cash		
provided by operating activities		
Decrease in accounts receivable and energy grant loans		2,702,937
Decrease in second mortgage loans receivable		2,860,808
Decrease in mortgage backed securities		1,639,347
Increase in accounts receivable, proceeds from sale of securities		(100,859,844)
Increase in prepaid expenses		(1,547)
Decrease in unearned revenue		(593,225)
Increase in accounts payable to affiliated entity		436,344
Increase in accounts payable securities sold, at fair value		102,289,082
Increase in accounts payable		289,307
Net cash provided by operating activities	\$	11,218,916

The accompanying notes are an integral part of these financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – California Home Finance Authority (CHF), a California joint powers authority, is an organization of certain political subdivisions of the state of California, engaged in the exercise of an essential government function and not required to file federal or state income tax returns. CHF was organized on July 1, 1993, under the provisions of the Government Code of the state of California, which authorized CHF to be created by the joint powers agreement entered into by counties for the purpose of assisting homebuyers with mortgage financing. CHF is governed by representatives of its member counties, each of which appoints an elected county supervisor which comprises the Board of Directors, which are counties in California having an interest in the general and specific purposes of CHF. Member counties of CHF are as follows: Alpine, Amador, Butte, Calaveras, Colusa, Del Norte, El Dorado, Glenn, Humboldt, Imperial, Inyo, Lake, Lassen, Madera, Mariposa, Mendocino, Merced, Modoc, Mono, Napa, Nevada, Placer, Plumas, San Benito, Shasta, Sierra, Siskiyou, Sutter, Tehama, Trinity, Tulare, Tuolumne, Yolo, and Yuba.

CHF programs are designed to provide assistance for adequate, safe, and sanitary residential housing. CHF makes available competitively priced financing opportunities for homebuyers for the purchase of residential housing and energy retrofits, with particular emphasis on assisting low and moderate income homebuyers. CHF works in cooperation with regional lenders to provide mortgage loan financing and down-payment assistance to families and individuals in the state of California who otherwise may not be able to afford to purchase a home.

CHF contracts for various administrative and support services with the Rural County Representatives of California (RCRC), a California nonprofit mutual benefit corporation. RCRC was organized to serve and strengthen county and local governments through definition, study, and actions relative to problems affecting the member counties and their resources to include but not be limited to those of social, economic, environmental, and ecological importance.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. The more significant of CHF's accounting policies are described below.

Basis of Accounting – CHF is accounted for as an enterprise fund and its financial statements are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows.

CHF distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with CHF's principal ongoing operations. The principal operating revenues of CHF are charges for services (i.e., loan program fees investment gains, bond issuance fees, on-going issuer fees, and bond residuals) associated with its affordable housing loan programs. Interest and capital gain income earned on second mortgage loans and mortgage-backed securities is also reported as operating income. Operating expenses of CHF include the cost of providing the services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenue and expense.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (continued) – When both restricted and unrestricted resources are available for use, it is CHF's policy to use unrestricted resources first, then restricted resources as they are needed.

Cash and Cash Equivalents – CHF considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents, including investments in the California Local Agency Investment Fund (LAIF) and CalTRUST.

California statutes and CHF's investment policy authorize the investment of idle or surplus funds in U.S. Treasury obligations, U.S. government agencies, bankers' acceptances, commercial paper, negotiable CD's, medium-term notes, repurchase agreements, time certificates of deposit, LAIF, and CalTRUST.

Second Mortgage Loans – Second mortgage loans receivable represent future principal payments on outstanding second mortgage loans purchased as part of various CHF down payment assistance programs. During 2014, CHF received \$942,120 in interest from these assets. As of December 31, 2014, \$9,295,284 in second mortgages remain outstanding net of the allowance for loan losses.

Allowance for Loan Losses – CHF maintains an allowance for loan losses at a level considered adequate to provide for probable losses on existing second mortgages receivable. The allowance for loan losses is based on estimates of historical loss trends and current exposure in the loan pools. Actual losses may vary from current estimates.

Mortgage Backed Securities Housing Program Revenue - Housing program revenue consists of program fees earned on CHF's down payment assistance gift program, including gains and losses on mortgage backed securities, second mortgage loans, and other administrative programs.

As part of the gift program, CHF purchases pools of government backed mortgage backed securities (MBS) for resale into the secondary market. To manage exposure to interest rate risk on the purchase and subsequent resale of MBS's into the secondary market, CHF enters into sales agreements of "to-be-announced" (TBA) GNMA & FNMA securities, in which CHF has committed to deliver securities at contracted prices at a future date. Realized and unrealized gains and losses on mortgage backed securities are reported in housing program revenue as the activity relates solely to the down payment assistance program (Note 5).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position - Net position is classified into the following categories:

- Invested in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets; CHF does not have any net position in this category as of December 31, 2014.
- Restricted non-expendable: Net position subject to externally imposed conditions that CHF retains in perpetuity; CHF does not have any net position in this category as of December 31, 2014.
- Restricted expendable: Net position subject to externally imposed conditions that can be fulfilled by
 the actions of CHF or by the passage of time; CHF does not have any net position in this category as
 of December 31, 2014.
- *Unrestricted:* All other categories of net position; in addition, unrestricted net position may be designated for use by management or the Board of Directors.

CHF has adopted a policy of generally utilizing restricted – expendable funds, prior to unrestricted funds, when an expenditure is incurred for purposes for which both are available.

Revenue Recognition – Operating revenue such as loan program, bond residual, and issuer fees are recognized as earned. Operating and non-operating interest and investment income is also recognized as earned. Grant revenue is recognized as allowable expenditures are incurred. Advances received are deferred until allowable expenses are incurred.

Income Taxes – Because CHF is a political subdivision of the state of California and engaged in the exercise of an essential government function, it is not required to file federal or state income tax returns.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 from these estimates. The allowance for loan losses and fair market value of financial instruments are particularly subject to change.

NOTE 2 - CASH AND CASH EQUIVALENTS

A summary of CHF's cash and cash equivalents as of December 31, 2014, is as follows:

Deposits with financial institutions	\$ 3,493,277
Money market funds	10,422,504
Brokerage account	38,540,502
LAIF	183,529
CalTRUST	19,123,125
Total cash and cash equivalents	\$ 71,762,937

Deposits–Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, CHF's deposits may not be returned to it. As of December 31, 2014, CHF's deposits with financial institutions are entirely insured or collateralized. Section 53652 of the California Governmental Code requires financial institutions to secure deposits made by governmental units in excess of insured amounts, by the pledging of governmental securities as collateral. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by governmental units.

Interest Rate and Credit Risk – Interest rate risk is the risk that changes in the market interest will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

CHF may own mortgage-backed securities that are secured by first mortgage loans. These are fixed rate securities backed by the Government National Mortgage Association or the Federal National Mortgage Association that were rated AAA by nationally recognized rating agencies. There were no mortgage-backed securities owned by CHF as of December 31, 2014.

CHF maintains money-market funds held with its banks and a securities firm. Bank money market funds are held in connection with its housing programs to provide the required deposit for the California Debt Limit Allocation Committee tax-exempt bond allocation to CHF. Money-market funds held at the securities firm are the accumulation of interest and principal from mortgage backed securities and proceeds from their sales. CHF's investment in money-market funds were rated at AAA by Standard & Poor's.

Highly Liquid Investments – As of December 31, 2014, CHF also maintains highly liquid investment accounts with CalTRUST in the amount of \$19,123,125. CalTRUST is a program established by local public agencies in California for the purpose of pooling and investing local agency funds. CalTRUST offers three investment accounts, of which CHF invests in two. The total amount invested by public agencies in CalTRUST as of December 31, 2014, exceeded \$2 billion.

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

Highly Liquid Investments (continued) – CalTRUST is a joint powers authority that was formed to pool and invest funds of public agencies. Three pools are offered and CHF is currently invested in the short term and medium term funds. Because CHF's deposits are maintained in a recognized Pooled Investment Fund (Fund) under the care of a third party and CHF's share of the pool does not represent specific identifiable investment securities owned by CHF, no disclosure of the individual deposits and investments and related custodial credit risk is required.

A Board of Trustees supervises and administers the investment program of CalTRUST. CalTRUST invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53602, et seq. and 53635, et seq. CalTRUST Short Term is rated AAf/S1+ by a credit rating agency. CHF's highly liquid investment in CalTRUST is reported at fair value.

CHF also places certain funds with LAIF. CHF is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of the CHF's investment in the pool is reported in the accompanying financial statements based upon CHF's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). Because CHF's deposits are maintained in a recognized Pooled Investment Fund under the care of a third party and CHF's share of the pool does not consist of specific, identifiable investment securities owned by CHF, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Funds are accessible and transferable to the master account within twenty-four hours notice. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by Federal agencies, government-sponsored enterprises and corporations. LAIF is administered by the State Treasurer.

LAIF investments are audited annually by the Pooled Money Investment Board and the state Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall; Sacramento, California 95814. Included in the Pooled Money Investment Account's investment portfolio are certain derivative securities or similar products in the form of structured notes and asset-backed securities which represent 1.08% of the portfolio.

The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of pool shares in LAIF that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of CHF's position in the pool. CHF's investment in LAIF is reported at fair value and is not rated by credit rating agencies.

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

Restricted Cash – Restricted cash includes funds held for projects and are restricted as to their use. These amounts are included in cash and cash equivalents in the statement of cash flows regardless of whether there are restrictions on their use. Restricted cash includes cash and cash equivalents with original maturity dates of three months or less. As of December 31, 2014 cash balances of \$397,039 were restricted.

NOTE 3 – SECOND MORTGAGE LOANS RECEIVABLE

Second mortgage loans receivable represent future principal payments on outstanding second mortgage loans purchased as part of various CHF down payment assistance programs.

Second mortgage loans receivable as of December 31, 2014, are as follows:

Second mortgages	\$ 9,945,284
Allowance for loan losses	 (650,000)
Total second mortgage loans receivable,	
net of allowance for loan losses	\$ 9,295,284

Activity in the allowance for loan losses for the year ended December 31, 2014, is as follows:

Balance, beginning of year	\$ 559,698
Charge-offs	(132,181)
Recoveries	15,251
Provision for loan losses	207,232
Balance, end of year	\$ 650,000

NOTE 4 - RELATED PARTY TRANSACTIONS

For the year ended December 31, 2014, CHF maintained a contract support services agreement with RCRC, an affiliated entity, that included support services payments and an agreed-upon performance fee. The contract performance fee calculation is based on housing program success and provides an incentive to RCRC. For the year ended December 31, 2014, CHF recorded a fee to RCRC of \$1,541,183. The support services agreement calls for a flat fee of \$146,726 a month to operate and administer CHF operations. For the year ended December 31, 2014, CHF also paid RCRC \$1,488,246 for reinstated 2004 administrative service contract fees previously written off due to inability to pay. At December 31, 2014, \$274,163 is payable to RCRC under this agreement.

NOTE 4 - RELATED PARTY TRANSACTIONS (CONTINUED)

Also for 2014, CHF entered into a service agreement with National Homebuyers Fund, Inc. (NHF) whereby NHF manages CHF's housing programs and residential energy loan servicing. For the year ended December 31, 2014, CHF incurred approximately \$2 million for such services, which are included in gift program expenses. Also, CHF charges a fee to NHF for administrative services related to one of its housing programs. Fees earned are reported as administrative service fee revenue in the statement of revenue, expenses, and change in net position. At December 31, 2014, \$234,785 is payable to NHF.

The support service agreements with both RCRC and NHF are annual agreements, expiring on December 31st of each year, with successive one year automatic renewals until terminated by either party.

In April 2014, CHF entered into a revolving debt obligation with NHF providing for a loan of up to \$10 million. Advances under the obligation could be made in minimum amounts of \$500,000 and were due one year from the date of the advance. Interest on all outstanding advances is due monthly. During, 2014, advances to NHF totaled \$5.5 million. As of December 31, 2014, the entire loan balance including interest has been repaid and the revolving debt obligation was terminated. During the year ended December 31, 2014, interest earned by CHF on the revolving debt is \$47,438.

NOTE 5 - GIFT HOUSING PROGRAM

CHF implemented the down payment assistance gift housing program in October 2010 targeting low to moderate income homebuyers. The gift program provides a down payment assistance grant. CHF has partnered with financial institutions to market the program to homebuyers.

As part of this program, CHF purchases pools of government backed mortgage backed securities (MBS) for resale into the secondary market. To manage exposure to interest rate risk on the purchase and subsequent resale of MBS's into the secondary market, CHF enters into sales agreements of "to-be-announced" (TBA) GNMA & FNMA securities, in which CHF has committed to deliver securities at contracted prices at a future date. The entity has recorded a receivable of \$146.2 million for the estimated proceeds from the sale. CHF has also recorded a liability of \$147.2 million to purchase the securities at prevailing prices at December 31, 2014 in order to fulfill the future obligation. As of December 31, 2014, there were no mortgage backed securities outstanding.

NOTE 6 - ENERGY PROGRAMS

California Energy Commission Grant – In September 2010, CHF was awarded a \$16.5 million grant from the California Energy Commission (CEC). The grant's purpose is to provide low interest loans and grants to low to moderate income homeowners to perform home energy retrofits. In April 2012, the CEC had amended the grant to award CHF an additional \$14.0 million. CEC had advanced \$26.7 million to CHF for the sole purpose of funding the loans. As of December 31, 2014, \$1.6 million of the advance had not been used for loans and is included in unearned revenue. Interest earned on the advances is due back to the CEC and is recorded as an account payable at December 31, 2014.

Under the original terms of the grant, CHF was allowed to recover its administrative costs to administer the program up to \$1.37 million. During 2014, CHF incurred legal, program, loan servicing, and staff expenses to operate the program; the majority of these expenses are reimbursable under the terms of the grant. CHF invoiced \$398,696 for reimbursement during the year for allowable expenses incurred.

Energy Contract – In December 2012, CHF entered into an Energy Upgrade California (EUC) contract with Pacific Gas & Electric (PG&E) to participate in the EUC related energy efficiency financing program. Under the terms of the contract, CHF utilized funds pursuant to the contract to leverage private financing to provide a residential energy retrofit program. CHF administers the program and funded a Loan Loss Reserve (LLR) with funds contributed by PG&E. PG&E customers' actual loans are financed by a bank. As of December 31, 2014, the LLR is \$397,039 and is included in restricted cash.

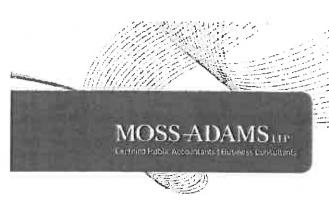
NOTE 7 - CONDUIT DEBT

CHF has conduit debt issued and outstanding as of December 31, 2014, for tax-exempt mortgage revenue bonds of \$19.04 million. These conduit debt financings are secured solely by the pledged assets, reserves, and insurance and do not constitute general obligations of CHF.

Bond residuals from a portion of the above mentioned debt resulted in approximately \$672,000 due to the sale of the related mortgage backed securities and is included in bond and program residual funds in the statement of revenue, expenses, and changes in net position.

NOTE 8 - RISK MANAGEMENT

CHF is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. RCRC purchases commercial insurance through an insurance agent who obtains the appropriate insurance coverage needed from insurance companies, which includes coverage for CHF. CHF reimbursed RCRC for its pro-rata portion of the insurance premiums. There have been no settlement amounts that have exceeded commercial insurance coverage for the last three years.



REPORT OF INDEPENDENT AUDITORS 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

To the Board of Directors
California Home Finance Authority

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 California Home Finance Authority (CHF) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise CHF's basic financial statements, and have issued our report thereon dated April 2, 2015.

Internal Control Over Financial Reporting

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



REPORT OF INDEPENDENT AUDITORS 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 (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CHF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and 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*.

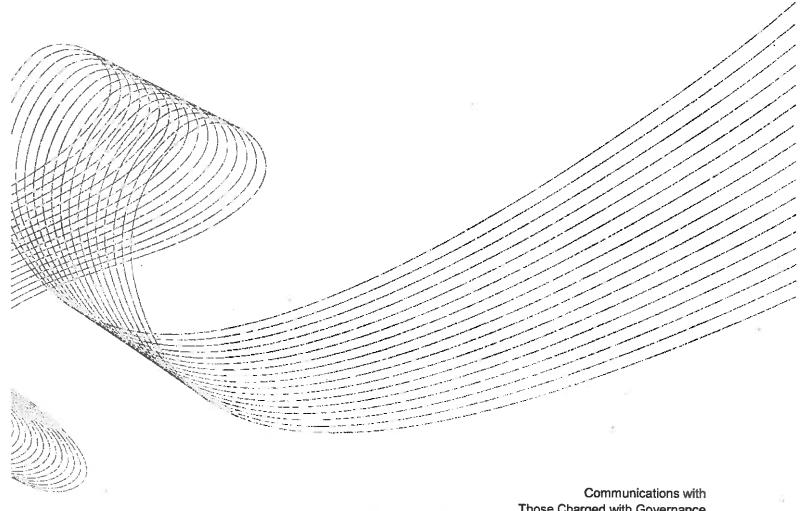
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sacramento, California

MOSS Adams, LLP

April 2, 2015



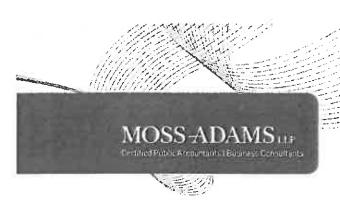
Those Charged with Governance

California Home Finance Authority

December 31, 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants



To the Board of Directors and Management California Home Finance Authority

We have audited the financial statements of California Home Finance Authority (CHF) as of and for the year ended December 31, 2014, and have issued our report thereon dated April 2, 2015. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND GOVERNMENT AUDITING STANDARDS

As stated in our engagement letter dated November 5, 2014, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit in accordance with auditing standards generally accepted in the United States of America as well as Government Auditing Standards, issued by the Comptroller General of the United States, and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. An audit of financial statements 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 CHF's internal control over financial reporting. Accordingly, we considered CHF's internal control solely for the purposes of determining our audit procedures and not to provide assurance concerning such internal control.

We are also responsible for communicating significant matters related to the financial statement audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in the engagement letter and during planning discussions conducted on January 21, 2015.



SIGNIFICANT AUDIT FINDINGS AND ISSUES

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by CHF are described in Note 1 to the financial statements. No new accounting policies were adopted and there were no changes in the application of existing policies during 2014. We noted no transactions entered into by CHF during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the allowance for loan loss on second mortgages receivable is based on estimates of historical loss trends and current exposure in the loan pools. We evaluated the key factors and assumptions used in the estimate in determining that it is reasonable in relation to the financial statements as a whole.

Financial Statement Disclosures

The disclosures in the financial statements are consistent, clear and understandable. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

Disclosure of the reporting entity and its operations, basis of accounting, and summary of significant accounting policies are described in Note 1.

Disclosure of cash and cash equivalents in Note 2, which describes the balances of cash, and cash equivalents at December 31, 2014, and the various types of risk associated with the cash balances.

Disclosure of mortgage backed securities and forward sales of "to-be-announced" (TBA) securities in Note 1 and Note 5. Mortgage backed securities sold, not yet purchased, represent obligations of CHF to deliver the specified security at a contract price, thereby creating a liability to purchase the security at quoted market prices. CHF also records a receivable as of the trade date for the estimated proceeds receivable. Realized and unrealized gains and losses on mortgage backed securities are reported in operating income as the activity relates solely to the gift housing program.

Significant Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all factual and judgmental misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements as of and for the year ended December 31, 2014.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 2, 2015.

Management Consultation with Other Independent Accountants

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

Other Significant Audit Findings or Issues

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

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

Sacramento, California

MOSS Adams, LLP

April 2, 2015

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