ABAG
FINANCE AUTHORITY
FOR NONPROFIT CORPORATIONS

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
ABAG Finance Authority for Nonprofit Corporations
Oakland, California

We have audited the basic financial statements of the ABAG Finance Authority for Nonprofit Corporations (the "Authority") for the year ended June 30, 2005. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects the financial position of the Authority at June 30, 2005, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis is supplementary information required by the Government Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Maze & Associates

December 2, 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The ABAG Finance Authority for Nonprofit Corporations (the "Authority") has issued its financial reports for the fiscal year ended June 30, 2005 based on the provisions of Government Accounting Standards Board Statement 34, "Basic Financial Statement and Management's Discussion & Analysis—for State and Local Governments," (GASB 34). One of the most significant requirements of GASB 34 is for government entities to prepare financial reports using the full accrual basis of accounting. Since the Authority has already been using this method of accounting, changes in its financial reports are primarily in format of presentation.

GASB 34 requires the Authority to provide an overview of financial activities in the fiscal year. Such overview herein should be read in conjunction with the accompanying financial statements.

BASIC FINANCIAL STATEMENTS

The Basic Financial Statements required under GASB 34 include:

(1) Statement of Net Assets—provides information about the financial position of the Authority, including assets, liabilities and net assets. Net assets are presented as the difference between total assets and total liabilities.

(2) Statement of Activities—presents revenues, expenses and changes in net assets for the fiscal year. GASB 34 requires that revenues and expenses directly attributable to operating programs are presented separately from investment income and financing costs.

(3) Statement of Cash Flows—provides itemized categories of cash flows. GASB 34 requires itemized categories of cash in flows and out flows instead of computing the net cash flows from operation by backing out non-cash revenues and expenses from net operating income as in the previous traditional format. In addition, cash flows related to investments and financing activities are presented separately.

The Basic Financial Statements above provide information about the financial activities of the Authority's two programs, Financing Program and Homeownership Lease Purchase Program, in separate columns. As described in Note 1, the Homeownership Lease Purchase Program is tracked by two separate funds, Home Operation and Home Administration.

FISCAL YEAR 2005 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- At June 30, 2005, the Authority's total assets were $65.7 million of which $64.0 million were attributable to the Homeownership Lease Purchase Program. At June 30, 2004, total assets were $61.1 million.
- The Authority's total revenues, including program and general revenues, were $3.8 million in FY 2005, while total expenses were $3.6 million.

- The Authority's total net assets were $1.3 million at June 30, 2005. $1.3 million of this amount is attributable to the Financing Program, and $10 thousand is attributable to the Homeownership Lease Purchase Program (carried in the Home Administration Fund). Net assets in the Home Operation Fund are always maintained at zero throughout the duration of the Homeownership Lease Purchase Program, as a result of a guarantee by the Forward Purchaser. The Home Administration Fund may carry minor amounts of net assets representing timing differences between the receipts of revenues generated through home closings and planned expenditures for marketing and administration. See Note 1 for a description of programs offered by the Authority.
- FY 2005 Program operating revenues were $950 thousand, $1.4 million and $320 thousand respectively for the Financing, Home Operation and Home Administration funds. The $1.4 million in the Home Operation Fund represents interest earnings from the Guaranteed Investment Agreement as described in Note 2.
- FY 2005 Program Operating Expenses were $715 thousand, $2.5 million and $314 thousand respectively for the Financing, Home Operation and Home Administration funds.
- General revenues were $28 thousand and $1.1 million respectively for the Financing and Home Operation funds (none in the Home Administration Fund). As described in Note 4, the solvency of the Home Operation Fund is guaranteed by the Forward Purchaser. The Forward Purchaser has a contractual obligation to pay the principal and interest of the Pass Through Obligations in the event of a shortfall in cash held by the program trustee. Based on this contractual relationship, any operating loss in the Home Operation Fund is offset by the commitment for reimbursement from the Forward Purchaser. As of June 30, 2005, the cumulative amount of such reimbursement from the Forward Purchaser amounted to $2.2 million which was recorded as a receivable under non-current assets.

MAJOR PROGRAM INITIATIVES IN FY 2005

Financing Program

Currently, local governments are facing rising interest rates and tight budgets. In this uncertain economic environment, ABAG Financial Services present convenient, cost effective, and secure means to meet the broad array of capital financing needs of public agencies and their nonprofit partners.

Since April of 1990 the Authority has offered its Financing Program to assist eligible entities in obtaining financing through the delivery of tax-exempt securities. Eligible entities with projects located within the jurisdictions of the California city and county members of the Authority may request assistance from the Authority in obtaining conduit financing. Eligible entities include nonprofit corporations organized under Internal Revenue Code Section 501(c)(3), and other borrowers which operate for the benefit of the public. All conduit financings delivered through the Authority's Financing Program are obligations of the borrowing entities and are not obligations of the Authority. As a result, the financing obligations are not recorded in the Authority's financing statements. As of June 30, 2005 the Authority had delivered $2.96 billion in such conduit financing. Please see Note 3 for current outstanding amounts of each types of conduit financing issued through the Authority.

Homeownership Lease Purchase Program

In March 2003, the Authority issued variable rate Pass Through Obligations in the amount of $53.8 million to finance the Homeownership Lease Purchase Program. This program is designed to assist California residents who otherwise could not qualify for homeownership financing from other lenders. As of June 30, 2005, 34 homes were purchased under this program, 20 of this total in FY 2005. A detailed description of the program is presented in Note 4.

OUTLOOK FOR FY 2006

The Authority will continue to provide efficient and economical financing for affordable multi-family housing, independent schools, hospitals, healthcare providers through its various programs specially designed for local government jurisdictions and other borrowers in the municipal capital market.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This Financial Report is intended to provide citizens, taxpayers, and creditors with a general overview of the Authority's finances. Questions about this Report should be directed to the ABAG Finance Department, at 101 Eighth Street, Oakland, California 94607.

ABAG
FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Financing Program	Home Operation (Note 4)	Home Administration (Note 4)	Total
CURRENT ASSETS				
Cash and Cash Equivalents (Note 2)	$1,475,428		$92,406	$1,567,834
Guaranteed Investment Agreement (Note 2)		$40,876,974		40,876,974
Investments held by Trustee (Note 2)		2,396,546		2,396,546
Mortgages Receivable (Note 4)		7,324,589		7,324,589
Interest and Other Receivables	122,247			122,247
Receivables from Lease-Purchasers (Note 4)		204,017		204,017
Total Current Assets	1,597,675	50,802,126	92,406	52,492,207
NON CURRENT ASSETS				
Homes Purchased, at Cost (Note 4)			10,047,621	10,047,621
Prepaid Expenses	63,344			63,344
Unamortized Issuance Costs (Note 4B)		847,643		847,643
Accrued operating loss reimbursement from Forward Purchaser (Note 4C)		2,221,754		2,221,754
Total Non Current Assets	63,344	3,069,397	10,047,621	13,180,362
Total Assets	1,661,019	53,871,523	10,140,027	65,672,569
CURRENT LIABILITIES				
Due to ABAG	57,702			57,702
Accounts Payable		26,523	17,226	43,749
Refundable Deposits	233,182			233,182
Deferred Service Fee Revenue	60,576		64,685	125,261
Total Current Liabilities	351,460	26,523	81,911	459,894
NON CURRENT LIABILITIES				
Purchase Mortgage Liabilities (Note 4)			10,047,621	10,047,621
Lease Revenue Pass-Through Obligations (Note 4)		53,845,000		53,845,000
Total Non Current Liabilities		53,845,000	10,047,621	63,892,621
Total Liabilities	351,460	53,871,523	10,129,532	64,352,515
NET ASSETS				
Unrestricted	1,309,559		10,495	1,320,054
Total Net Assets	$1,309,559		$10,495	$1,320,054

See accompanying notes to financial statements

ABAG
FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

	Financing Program	Home Operation (Note 4)	Home Administration (Note 4)	Totals
PROGRAM OPERATING REVENUES				
Financial Service Fees	$949,457		$16,779	$966,236
Lease Program Fees			302,931	302,931
Lease Program Interest		$1,385,158	263	1,385,421
Total Program Operating Revenues	949,457	1,385,158	319,973	2,654,588
PROGRAM OPERATING EXPENSES				
Home Closing Costs		274,136	213,105	487,241
Consultant Services	714,978		80,729	795,707
Remarketing Agent Fees		53,411		53,411
Program Interest Expense		967,461		967,461
Trustee Fee		5,000		5,000
Forward Purchaser Fees		942,318		942,318
Debt Issuance Cost Amortization (Note 4B)		282,548		282,548
Computer Processing			18,644	18,644
Printing			419	419
Miscellaneous			678	678
Total Program Operating Expenses	714,978	2,524,874	313,575	3,553,427
Program Operating Income (Loss)	234,479	(1,139,716)	6,398	(898,839)
GENERAL REVENUES				
Interest Income	28,354			28,354
Forward Purchaser current year operating loss reimbursement accrual (Note 4C)		1,139,716		1,139,716
Total General Revenues	28,354	1,139,716		1,168,070
Change in Net Assets	262,833		6,398	269,231
Beginning Net Assets	1,046,726		4,097	1,050,823
Ending Net Assets	$1,309,559		$10,495	$1,320,054

See accompanying notes to financial statements

ABAG
FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

	Financing Program	Home Operation (Note 4)	Home Administration (Note 4)	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Fees	$1,043,106		$327,119	$1,370,225
Lease Program Interest		$1,385,158		1,385,158
Payment of Consultant Costs	(714,978)		(92,736)	(807,714)
Payment for Home Closing Costs		(274,136)	(213,105)	(487,241)
Payment for Remarketing Fees		(53,411)		(53,411)
Forward Purchaser Fee		(1,051,198)		(1,051,198)
Trustees Fees		(5,000)		(5,000)
Interest Expense		(967,461)		(967,461)
Net Cash Provided (Used) by Operating Activities	328,128	(966,048)	21,278	(616,642)
CASH FLOWS FROM INVESTING ACTIVITIES				
Draw on Guaranteed Investment Agreement		7,088,239		7,088,239
Purchase of Investments		(2,396,546)		(2,396,546)
Purchase of Mortgages		(3,725,645)		(3,725,645)
Interest Income	28,354			28,354
Net Cash Provided by Investing Activities	28,354	966,048		994,402
Net Increase in Cash and Cash Equivalents	356,482		21,278	377,760
Cash and Cash Equivalents- Beginning of Year	1,118,946		71,128	1,190,074
Cash and Cash Equivalents - End of Year	$1,475,428		$92,406	$1,567,834

	Financing Program	Home Operation (Note 4)	Home Administration (Note 4)	Totals
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating Income (Loss)	$234,479	($1,139,716)	$6,398	($898,839)
Change in Assets and Liabilities:				
Interest and Other Receivables	(88,821)		9,577	(79,244)
Prepaid Expense	21,115			21,115
Debt issuance costs		282,548		282,548
Due to the ABAG	(4,136)			(4,136)
Accounts Payable		(108,880)	7,734	(101,146)
Refundable Deposits	185,682			185,682
Deferred Service Fee Revenue	(20,191)		(2,431)	(22,622)
Net Cash Provided (Used) by Operating Activities	$328,128	($966,048)	$21,278	($616,642)

See accompanying notes to financial statements

NOTE 1 - DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

A. *Description*

Description of Reporting Entity -- The ABAG Finance Authority for Nonprofit Corporations (Authority) is a joint powers authority comprising California municipalities. The Authority is governed by a board appointed by its members.

The Authority assists eligible non-profit entities and other borrowers in obtaining tax-exempt financing. Eligible entities include non-profit corporations exempt from taxation under Internal Revenue Code 501(c)(3) and other qualified borrowers financing projects in the public interest. The Authority acts as a conduit for eligible entities, which issue debt that is pooled by the Authority; payments by these borrowers are used to repay the debt. As a conduit, the Authority is not liable for the repayment of debt in the event of a default by a borrower.

The Association of Bay Area Governments (ABAG) assists the Authority in enabling non-profit corporations and other borrowers serving the public interest to issue tax-exempt debt; it also provides administrative, accounting and clerical support. The Authority paid ABAG $693,637 for these services in the fiscal year ended June 30, 2005.

Any California County or City can be a member of the Authority. However, since not all ABAG members are members of the Authority, it is not a component unit of ABAG and its financial resources and results of operations are not blended with those reported by ABAG.

Reporting Entity –The accompanying basic financial statements present the financial activity of the Authority, which is the primary government presented, along with the financial activities of its component unit, the California Regional Mortgage Assistance Corporation (Cal-MAC), for which the Authority is financially accountable. Although Cal-MAC is a separate legal entity, *blended* component units are in substance part of the Authority's operations and are reported as an integral part of the Authority's financial statements.

Cal-MAC is a nonprofit public-benefit corporation organized under the laws of the State of California. Its board of directors consists of the members of the Executive Committee of the Board of the Authority. Cal-MAC was established to facilitate the Lease-Purchase Homeownership Program operated by the Authority and described in Note 4.

Programs – The accompanying basic financial statements of the Authority consist of reports for three Major Funds—Financing Program, Home Operation, and Home Administration. Financing Program presents all conduit financing activities of the Authority other than the Homeownership Lease Purchase Program described in Note 4. The Home Operation Fund presents the Pass-Through Obligations and their proceeds, as well as investment revenues and financial expenses of the Homeownership Lease Purchase program. The Home Administration Fund presents the marketing and administrative activities of the Homeownership Lease Purchase Program, including revenues and expenses resulting from the purchase of homes. Effective July 1, 2003, the purchase cost of homes and related purchase mortgage obligations are also accounted for in this Fund.

NOTE 1 - DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. *Basis of Presentation*

The Authority's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

C. *Basis of Accounting*

The Authority accounts for all transactions in three enterprise funds, as described in Note 1A. Each of these funds is a separate set of self-balancing accounts that comprise assets, liabilities, net assets, revenues and expenses. All transactions are accounted for on the accrual basis, which means that expenses are recorded when the liability is incurred and revenues are recorded when earned, rather than when cash changes hands.

The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

D. *Revenue Recognition*

Revenues comprise application fees, closing fees, housing monitoring fees, interest, and annual administration fees earned by assisting other governments to issue conduit debt issues on behalf of eligible borrowers. Application and closing fees are recognized in the period in which the related financing package is completed. Monitoring and administration fees are recognized as the service is provided.

Home Ownership Lease Purchase Program revenues are recognized as escrows are closed on each home. Deferred service fee revenues in the Program are recognized ratably over the sixty-nine-month life of the program.

E. *Refundable Deposits*

The California Debt Limit Allocation Committee (CDLAC) establishes procedures to be followed for multifamily housing projects in the State of California financed with tax-exempt private activity revenue bonds.

F. *Unamortized Issuance Costs and Service Fee Revenues*

The costs of issuing the long-term debt to fund the Authority's Lease/Purchase Homeownership Program, comprising underwriter's fees, legal and other costs, and the Authority's service fees, were paid immediately out of the proceeds of the debt issue. However, since these costs are of benefit for the duration of the debt issue, they are capitalized and amortized on a straight-line basis as an operating cost or revenue over the sixty-four month term of the debt issue.

NOTE 2 - CASH AND INVESTMENTS

A. *Authorized Investments by the Authority*

The Authority Investment Policy and the California Government Code allow the Authority to invest in the following, provided the credit ratings of the issuers are acceptable to the Authority. The following also identifies certain provisions of the Authority and California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	1 year	N/A	None	None
U.S. Agency Securities (A)	1 year	N/A	None	None
Bankers Acceptances	270 days	N/A	40%	30%
Commercial Paper	270 days	A1/P1	10%	10%
Investment Agreements	On Demand	N/A	None	None
Repurchase Agreements	15 days	N/A	10%	None
Certificates of Deposit	1 year	N/A	10%	None
Negotiable Certificates of Deposit	1 year	N/A	30%	None
Money Market Mutual Funds	On Demand	Top rating category	None	10%
California Local Agency Investment Fund	On Demand	N/A	None	None

(A) Securities issued by agencies of the federal government such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC).

B. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates 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 to changes in market interest rates.

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution to Authority's investments by maturity:

	12 Months or less	25 to 60 Months	More than 60 Months	Total
U.S. Agency Obligations:				
Federal Home Loan Mortgage Corporation			$2,396,546	$2,396,546
Guaranteed Investment Agreement		$40,876,974		40,876,974
Local Agency Investment Fund	$1,287,918			1,287,918
Total Investments	$1,287,918	$40,876,974	$2,396,546	44,561,438
Cash in Banks				279,916
Total Cash and Investments				$44,841,354

NOTE 2 - CASH AND INVESTMENTS (Continued)

C. *Credit Risk*

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Presented below are the actual credit ratings of the Authority's Investment, as of June 30, 2005.

	Not Rated	AAA	AA-	Total
U.S. Agency Obligations		$2,396,546		$2,396,546
Guaranteed Investment Agreement			$40,876,974	40,876,974
Local Agency Investment Fund	$1,287,918			1,287,918
Total	$1,287,918	$2,396,546	$40,876,974	$44,561,438

D. *Concentration of Credit Risk*

The Authority's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total Entity-wide investments are as follows at June 30, 2005:

Issuer	Investment Type	Reported Amount
Federal Home Loan Mortgage Corporation	Federal agency securities	$2,396,546
Societe Generale	Guaranteed Investment Agreement	40,876,974

E. *Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the Authority's cash on deposit. All of the Authority's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions in the Authority's name.

NOTE 2 - CASH AND INVESTMENTS (Continued)

F. *Local Agency Investment Fund*

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

G. *Guaranteed Investment Contract*

Net proceeds from the Pass-Through Obligations have been invested in a Guaranteed Investment Contract (Contract) issued by the forward purchaser (liquidity provider) discussed in Note 4; these proceeds may only be used for the Home Lease Purchase Program and therefore are excluded from operating cash for purposes of cash flows. The Contract bears interest at 2.36% annually.

NOTE 3 - CONDUIT FINANCE PROGRAMS FOR ELIGIBLE ORGANIZATIONS

In its Financing Program, the Authority assists eligible organizations in obtaining financing through the issuance of tax-exempt debt.

The underlying liability for the repayment of each of these issues rests with the organization participating in that issue, and not with the Authority, which acts only as a conduit in each issue. For that reason, the Authority has not recorded a liability for these issues, which had the following outstanding balances at June 30:

Type of Financing	2005	2004
Revenue Bonds	$1,828,381,243	$1,691,410,523
Certificates of Participation	561,400,500	576,135,000
Qualified Zone Academy Bond	1,000,000	
Equipment leases	72,460,161	28,905,158
Total	$2,463,241,904	$2,296,450,681

NOTE 4 – HOMEOWNERSHIP LEASE PURCHASE PROGRAM

A. *Program Description*

This Program was designed by the forward purchaser discussed below. The Program is similar to other Programs sponsored by the forward purchaser. As its part of the Program, the Authority issued the debt discussed below, purchased the homes and performs certain marketing functions.

In March 2003, the Authority and Cal-MAC began a Homeownership Lease Purchase Program designed to encourage home ownership by people who could not otherwise qualify for home loans from other lenders. Under the Program, the Authority issued $53,845,000 in Variable Rate Lease Revenue Pass-Through Obligations, the proceeds from which are used to finance the purchase of homes for participants in the Program.

Program participants qualify for the Program and these participants identify homes, which Cal-MAC purchases and leases to the participants under a thirty-nine month lease with an option to purchase the home. Substantially all the cost of the home, including closing costs, is financed by the Program's lenders; participants must assume this debt on exercising their purchase option, but are not required to pay for any appreciation. Homes must be located in the jurisdiction of an Authority member entity.

The Authority has agreements with lenders, a lease servicer, a master servicer, the forward purchaser, a trustee, and commitments from the Federal Home Loan Mortgage Corporation ("FHLMC" or Freddie Mac") and the California Housing Finance Agency to purchase or insure conforming loans made under the Program.

Lenders provide initial mortgage loan funds. These mortgages are sold to the master servicer. The master servicer accumulates these mortgages and is to exchange conforming loans with FHLMC for insured Collateralized Mortgage Obligations. Conforming loans that exceed Freddie Mac limits are insured by CalHFA and are to be purchased by the forward purchaser.

The lease servicer collects lease payments, manages the properties, pays property taxes and other costs of home ownership and remits the net amount of the lease payments to the master servicer. The master servicer remits available funds to the trustee for the debt service on the Pass-Through Obligations.

The forward purchaser is a major international bank that is responsible for ensuring the trustee has sufficient funds to make all principal and interest payments on the Pass-Through Obligations, and for purchasing these Obligations as discussed below. The forward purchaser has also issued a Guaranteed Investment Agreement covering all unspent proceeds of the Pass-Through Obligations.

Homes owned by Cal-MAC under the Program must be covered by home warranties, homeowners insurance, flood insurance, and earthquake insurance if available. The Program has also purchased business interruption insurance against payment defaults by lessees.

NOTE 4 – HOMEOWNERSHIP LEASE PURCHASE PROGRAM (Continued)

The Authority is not responsible for collection of lease revenues, payment of recurring ownership costs including mortgages, taxes, etc. These transactions are the responsibility of the lease servicer. To the extent that lease-purchasers are delinquent in their rent, the Trustee advances the amount of such delinquencies; at June 30, 2005, advances of $204,017 were outstanding.

Homes purchased under the Program are carried at original cost since the Authority acts as their custodian during the Lease-Purchase period. Purchase mortgage obligations, which provide 100% of the financing of the costs of these homes, are maintained at their original value since the Authority is not responsible for making repayments on these obligations.

Except as noted below, security for the Pass-Through Obligations is limited to amounts received from the lessees and, if necessary, from the forward purchaser. Pass-Through Obligations are due July 1, 2008, but are subject to mandatory redemption when title to a home covered by the Program is transferred to the program participant under the terms of the lease purchase agreement.

Interest rates on Pass-Through Obligations are set weekly, and were 2.4% at June 30, 2005. Pass-Through Obligations may be tendered for redemption at any time; the forward purchaser is responsible for purchasing at par any that are not resold on the open market.

B. Unamortized Issuance Costs

As required by generally accepted accounting principles applicable to proprietary funds, the costs of issuing the Pass-Through Obligations have been capitalized and are being amortized over the sixty-four month life of the Obligations.

C. Program Operations and Accounting

The Program is designed to have a limited life. The program has been extended from the original due date of April 5, 2005 until September 30, 2005. All mortgages are to be converted or repaid by July 1, 2008, the final due date of the Pass-Through Obligations.

In the event the Program is terminated early, the forward purchaser is obligated to assume the liability for repayment of the unpaid Pass-Through Obligations then outstanding, and has the right to retain the amount of the Guaranteed Investment Contract representing the unexpended portion of the proceeds from these Obligations. In the event of termination, the Authority would not be obligated for any difference between these two amounts, nor would it have any obligation to reimburse the forward purchaser. At June 30, 2005 that difference amounted to $3,246,891, computed as follows:

NOTE 4 – HOMEOWNERSHIP LEASE PURCHASE PROGRAM (Continued)

Authority liability assumed (asset retained) by forward purchaser:

Balance due Lease Revenue Pass-Through Obligations	$53,845,000
Balance in Guaranteed Investment Contract	(40,876,974)
Investments held by Trustee (Note 2)	(2,396,546)
Balance in Mortgage Receivables	(7,324,589)
Net obligation of liquidity provider in the event of program termination	$3,246,891

At June 30, 2005 the forward purchaser's net obligation was sufficient to liquidate the following Authority assets and (liabilities):

Unamortized issuance costs		$847,643
Accounts payable		(26,523)
Receivables from Lease-Purchasers		204,017
Accumulated Program Operating Loss:		
Fiscal 2005 operating loss	$1,139,716	
Prior years operating loss	1,082,038	2,221,754
Net obligation of liquidity provider		$3,246,891

In order to provide useful information about the results of program operations, they are accounted for on the going-concern basis; that is, each period's operating revenues are reported as earned and each period's operating expenses are reported as incurred, following the accounting principles set forth in Note 1. An accrual is then made for the forward purchaser's agreement to in effect reimburse the Authority for any operating loss, by recording a General Revenue and an asset termed Operating Loss Reimbursement, which amounted to $1,139,716 for the fiscal year ended June 30, 2005.

NOTE 5 – WINDEMERE RANCH COMMUNITY FACILITIES DISTRICT FINANCING

On June 25, 2004, the Authority issued $30,000,000 in principal amount of Community Facilities District No. 2004-02 (CFD) Bonds to fund infrastructure improvements as part of the development of residential housing in the Windemere Ranch Development Area of Southern Contra Costa County.

The CFD Bonds are repayable out of special assessments on the parcels in the District, and are secured by liens on each parcel. The Authority has no liability for the repayment of the District's assessment debt. Accordingly, the Authority has not recorded this debt in its financial statements.

At June 30, 2005, the outstanding balance of District's debt was $30,000,000.