Legislative Audit Division

State of Montana

Report to the Legislature

December 2002

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2002

Montana Board of Housing

A component unit of the state of Montana

The audit report contains four recommendations concerning:

- **Controls over Investment Transactions.**
- **Affordable Housing Revolving Loan Fund.**
- **Unrecorded Activity.**
- **Fund Placement.**

Direct comments/inquiries to:
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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

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LEGISLATIVE AUDIT DIVISION

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Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

December 2002

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Board of Housing (board), a component unit of the state of Montana, for the two fiscal years ended June 30, 2002. Included in this report are four recommendations to the board concerning authorization of investment transactions, the Affordable Housing Revolving Loan Account, unrecorded activity on the State's accounting system, and fund placement. Our unqualified audit opinion on the board's financial statements is on page A-3. The written response to the audit recommendations is included at the end of the audit report. We thank the executive director and his staff for their assistance and cooperation.

Respectfully submitted,

(Signature on File)

Scott A. Seacat
Legislative Auditor

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Legislative Audit Division

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 2002

Montana Board of Housing

A component unit of the state of Montana

Members of the audit staff involved in this audit were Jeane Carstensen-Garrett, John Fine, and Laura L. Norris.

Table of Contents

Appointed and Administrative Officials

		Term Expires
Montana Board of Housing	Bob Thomas, Chairman	2003
	Robert Savage, Vice Chairman	2005
	William Oser, Secretary	2005
	Waneeta Farris	2003
	Teresa Lightbody	2003
	Steve Redinger	2005
	Thomas Welch	2005

Administrative Officials: Department of Commerce Board of Housing	Mark Simonich, Director, Department of Commerce
	Bruce Brensdal, Executive Director, Board of Housing
	Scott Hoversland, Accounting and Finance Manager
	Mat Rude, Multifamily Program Manager
	Bob Morgan, Single Family Program Manager

For further information on the Montana Board of Housing contact Bruce Brensdal, Executive Director, at:

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Montana Board of Housing

This report contains the results of our financial-compliance audit of the Montana Board of Housing (board) for the two fiscal years ended June 30, 2002. We issued an unqualified opinion on the financial statements presented in this report. This means the reader may rely on the financial information presented.

This report contains four recommendations. The recommendations address investment transactions, Affordable Housing Revolving Loan Account expenses, activity not recorded on the state's accounting records, and fund placement. The previous financial-compliance audit report contained no recommendations to the board.

The listing below serves as a means of summarizing the recommendations and the board's response.

Introduction

We performed a financial-compliance audit of the Montana Board of Housing (board) for the two fiscal years ended June 30, 2002. This report includes the financial statements of the board for the fiscal year ended June 30, 2002, and the comparative statements for the fiscal year ended June 30, 2001, reported upon in the financial audit for that year. The objectives of our audit were to:

1. Determine the board's compliance with applicable laws and regulations.

2. Recommend improvements in the board's management and internal controls.

3. Determine if the financial statements prepared by the board staff fairly present the board's financial position as of June 30, 2002, and the changes in its financial status for the two fiscal years then ended, in conformity with generally accepted accounting principles.

This report contains four recommendations to the board. Other areas of concern deemed not to have a significant effect on the successful operation of the board are not specifically included in the report, but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed the cost of implementing the recommendations contained in this report and determined it was not significant.

Background

The board was created by the Montana Housing Act of 1975. The board is attached to the Housing Division within the Department of Commerce. Under the Housing Act, the board does not receive any appropriations from the state's General Fund and is self supporting. The purpose of the board is to provide decent, safe, sanitary and affordable housing for lower income individuals and families in Montana. The board accomplishes this purpose by issuing tax-exempt bonds to provide funds to purchase home mortgages, administering federal housing programs, and working in partnership with other housing providers throughout Montana.

Introduction

In addition to the financial-compliance audit of the board, our office performs special engagements for the Board of Housing throughout the year. These include agreed-upon procedures for the board and its underwriter to evaluate revenue, expense, and fund equity information when selling bonds, and reviews of preliminary and official statements to allow inclusion of our Independent Auditor's Report with the financial statements when the board issues bonds. We have also performed agreed-upon procedures at selected Board of Housing loan servicers to assist the board in evaluating the mortgage receivable information provided by the board's loan servicers and to determine compliance with contract requirements.

Investment Controls

The Montana Board of Housing (board) has investments managed by an external trustee designated in the bond indentures. To ensure these investments are handled appropriately, the board has adopted an investment policy. This policy states that authority to manage the investment programs is granted to the Accounting and Finance Officer. The Executive Director, the Single Family Program Manager, and the Multi-family Program Manager are authorized to approve investments in the absence of the Accounting and Finance Officer.

During the audit, we found one instance where the external trustee processed an investment transaction that was not approved by one of the four authorized people. Through discussion with staff we were informed that there were other instances where transactions processed without an authorized signature. The fact that someone who is not authorized to approve investment transactions signs a form and a transaction is processed increases the risk that material investment transactions can take place without the knowledge or consent of management.

We noted that the signature list provided to the trustee included signatures of staff who did not have authorization power for investment transactions. The board should limit risk of unauthorized investment transactions by furnishing to the trustee an authorized signers list with only signatures of those who are authorized to make investment transactions.

Recommendation #1
We recommend the board send only the signatures of officials authorized to approve investment transactions to the trustee.

Affordable Housing Revolving Loan Account

The 1999 legislative session created the Affordable Housing Revolving Loan Account (AHRLA). The board has three sources of money for this fund. The first source consists of loans granted to the board from the Federal Home Loan Bank of Seattle totaling $1,500,000. The second is a transfer of $500,000 authorized by the legislature through Chapter 422, Laws of 2001, from the Section 8 administrative reserve account. The last funding source is an allocation of Temporary Assistance for Needy Family's (TANF) block grant funds. As of June 30, 2002 the board had not utilized the Section 8 or TANF funding. Through our review of the AHRLA, we found an instance where compliance with state laws could be improved.

According to section 90-6-133 (5), MCA, the board is required to pay the administrative costs of the loan fund from loan fund resources. During fiscal year 2001-02 the staff spent time on the program and the board contracted legal services to create Administrative Rules for the program. Staff recorded these AHRLA expenses in the multi-family program instead of to the AHRLA program. This is contrary to state law. It also understates the AHRLA expenses on the financial statements and overstates the multi-family expenses by approximately $6,000.

Board management staff stated that they did not charge the AHRLA fund for the salaries because they did not have appropriation authority in the account for personal services. Management also stated they thought the rules were only related to the TANF portion of the AHRLA. Since the board has not issued any loans from the TANF funding, they had not received a cash allocation for administrative expenses. Management felt they could not pay for the expenses in the AHRLA since they did not have a TANF cash balance. Therefore they decided that the expenses should be charged to the Multi-Family Program.

Recommendation #2
We recommend the board pay administrative costs from the Affordable Housing Revolving Loan Account in compliance with state law.

Unrecorded Activity

Section 17-1-102 (4), MCA, requires that all necessary transactions be input on the state's accounting system before the accounts are closed at the end of the fiscal year to present the financial activity in accordance with generally accepted accounting principles. The board of housing had $26,960,000 of bonds and investments that were not recorded on the state's accounting system when the accounts closed. The board had appropriately recorded this activity on its accounting sub-system, but did not update the state's records. Both assets and liabilities are understated by $26,960,000 as of June 30, 2002 on the state's accounting records, but are properly reported in the board's financial statements. There is no effect to fund balance since the assets and liabilities were understated by equal amounts. Board management stated that they used a preliminary trial balance that did not have all activity on it when they updated the state's records from the board's own accounting sub-system.

Recommendation #3
We recommend the board ensure it records all investment and bond liability activity on the state's accounting records by the end of the fiscal year as required by state law.

Affordable Housing Revolving Loan Account-Fund Placement

Section 90-6-107(1), MCA, requires the board to deposit moneys used by the board in the Housing Authority Enterprise Fund except as otherwise provided by law. In section 90-6-133, MCA, the legislature established the Affordable Housing Revolving Loan Account in the state special revenue fund. This law specifies that principal and interest on loans from this account and investment income on the principal of the loan account must be deposited in the loan account. In addition, the law requires the board to pay administrative costs of the revolving loan activity from the loan account.

State law describes the enterprise fund as the fund used to account for operations whenever it is the intent of the legislature that costs of providing goods and services on a continuing basis are to be financed or recovered primarily through user charges. We found that the activities of the Affordable Housing Revolving Loan Account met the description of an enterprise fund. The board reported financial activity of the loan account in the enterprise fund in its financial statements. Since the loan account meets the criteria for an enterprise fund set in the fund structure law and in generally accepted accounting principles, the law specifying that the account should be in the state special revenue fund conflicts with section 17-1-102(2), MCA, which requires state entities to report transactions in accordance with generally accepted accounting principles (GAAP).

Since section 90-6-133(1), MCA, places the Affordable Housing Revolving Loan Account in the special revenue fund, and GAAP does not require its activity to be placed elsewhere, reporting the net assets, changes in net assets, and cash flows of the Board of Housing in a single column presentation format, as if the loan account were part of the enterprise fund, is a departure from GAAP. We did not report this departure because the amounts in the loan account are immaterial to total Board of Housing operations.

To achieve compliance with state law and GAAP, the board should seek legislation to place the Affordable Housing Revolving Loan Account in the enterprise fund.

Recommendation #4
We recommend the board seek legislation to amend section 90-6-133(1), MCA, to place the Affordable Housing Revolving Loan Account in the enterprise fund.

Independent Auditor's Report & Board Financial Statements

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Combining Statement of Net Assets of the Montana Board of Housing, a component unit of the state of Montana, as of June 30, 2002 and 2001, and the related Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows for the fiscal years then ended. The information contained in these financial statements is the responsibility of the board's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 2002 and 2001, and the results of operations and its cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis on page A-5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The Combining Statement of Net Assets as of June 30, 2002, and the related Combining Statement of Revenues, Expenses and Changes in Net Assets and Combining

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Statement of Cash Flows for the fiscal year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements of the Montana Board of Housing. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

November 7, 2002

MONTANA
Department of Commerce

MONTANA BOARD OF HOUSING
P.O. Box 200528 ★ Helena, Montana 59620-0528 ★ http//commerce.state.mt.us
Phone: 406-841-2840 ★ Fax: 406-841-2841 ★ TDD: 406-841-2702

Management's Discussion and Analysis
Year Ended June 30, 2002

This section of the Montana Board of Housing's (MBOH's) annual financial report presents management's discussion and analysis of the board's financial performance during the fiscal year ended June 30, 2002. Please read this section in conjunction with the financial statements and accompanying notes.

Financial Highlights

- 1,655 single family mortgages were originated for $132 million.
- 1,218 single family mortgages prepaid for $63 million.
- No multi family mortgages were originated.
- 2 multi family mortgages prepaid for $1.9 million.
- Total new debt issued was $90 million.
- Total debt retired was $114 million.
- Total outstanding debt decreased from $714 million to $691 million.

Overview of the Financial Statements

The MBOH is a self-supporting entity using no general fund appropriations to operate. The MBOH is classified as an enterprise fund, that is, a fund that is financed and operated in a manner similar to a private business enterprise.

The financial statements are designed to provide the stakeholders of the MBOH, our citizens, taxpayers, legislatures, customers, clients, investors and creditors, with an overview of the finances of the organization and to demonstrate our accountability for the resources we are entrusted with.

Financial Analysis
Change in Net Assets and Operating Income
Years ending June 30, 2001 and 2002

		June 30, 2002	June 30, 2001	% change incr (decr)
Assets:				
Current Assets	(1)	$ 63,351,291	$ 81,121,755	-21.91%
Noncurrent Assets		$ 754,645,740	$ 753,389,250	0.17%
Total Assets		$ 817,997,031	$ 834,511,005	-1.98%
Liabilities:				
Current Liabilities	(2)	$ 43,522,411	$ 14,805,654	193.96%
Noncurrent Liabilities	(3)	$ 652,917,880	$ 705,153,730	-7.41%
Total Liabilities		$ 696,440,291	$ 719,959,384	-3.27%
Net Assets:				
Invested in Capital Assets		$ 153,883	$ 155,656	-1.14%
Restricted		$ 121,402,857	$ 114,395,965	6.13%
Total Net Assets		$ 121,556,740	$ 114,551,621	6.12%
Operating Revenue:				
Interest on Loans		$ 41,605,273	$ 39,697,844	4.80%
Earnings from Investments	(4)	$ 10,815,722	$ 13,547,988	-20.17%
Fee and Charges		$ 479,811	$ 457,410	4.90%
Total Operating Revenue		$ 52,900,806	$ 53,703,242	-1.49%
Operating Expenses:				
Bond Expenses		$ 42,274,661	$ 41,430,249	2.04%
Servicing Fees		$ 2,285,778	$ 2,138,753	6.87%
General and Administrative	(5)	$ 1,835,248	$ 1,572,152	16.73%
Total Expenses		$ 46,395,687	$ 45,141,154	2.78%
Operating Income		$ 6,505,119	$ 8,562,088	-24.02%
Non-operating Income:				
Transfer from Primary Government	(6)	$ 500,000	$ -	100.00%
Change in Net Assets		$ 7,005,119	$ 8,562,088	-18.18%

(1) Current assets decreased by $17,770,464. This was due to investments being held as short term in 2001 but not in 2002. It also occurred because the board had 3 investment agreements classified as short term in 2001 and only 2 being classifed as short term in 2002.

(2) Current liabilities increased by $28,716,757. This is because the board had $26,960,000 of Draw Down bonds that were outstanding at year end and were paid off in July, 2002.

(3) Noncurrent liabilities decreased by $52,235,850. This was caused by increased prepayments on mortgages that resulted in increased bond calls reducing our liability.

(4) Earning from investments decreased by $2,732,266. This was due to the fact that interest rates have decreased and funds not invested in Gauranteed Investment Contracts realized this reduction in earnings.

(5) General and Administrative Expenses increased $263,096. This was due to increases in staff, computer replacement, moving, foreclosure software, maintenance and indirect costs.

(6) House Bill 57 of the 2001 Montana Legislature directed the transfer of $500,000 from the Section 8 reserve account. These funds are in the Housing Revolving Loan Account.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2002 AND 2001

	FY 2002	FY 2001
ASSETS		
Current Assets		
Restricted Cash and Cash Equivalents (Note 2)	$ 4,938,346	$ 4,434,480
Restricted Investments (Note 4)	42,223,135	61,310,843
Restricted Mortgage Loans Receivable (Note 5)	10,754,012	9,834,901
Restricted Interest Receivable	5,260,307	5,375,321
Prepaid Expense	175,491	166,210
Total Current Assets	$ 63,351,291	$ 81,121,755
Noncurrent Assets		
Restricted Investments (Note 4)	$ 106,765,083	$ 151,524,766
Restricted Mortgage Loans Receivable (Note 5)	641,024,258	594,240,527
Deferred Bond Issuance Costs, Net	6,702,516	7,468,301
Capital Assets, Net (Note 7)	153,883	155,656
Total Noncurrent Assets	$ 754,645,740	$ 753,389,250
TOTAL ASSETS	$ 817,997,031	$ 834,511,005
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 471,978	$ 374,295
Due to State Government	68,659	59,394
Property Held in Trust	525,295	2,665
Accrued Interest - Bonds Payable	3,866,992	4,500,355
Bonds Payable, Net (Note 8)	37,972,760	9,735,500
Arbitrage Rebate Payable to U.S. Treasury Department (Note 12)	569,833	98,995
Accrued Compensated Absences	46,894	34,450
Total Current Liabilities	$ 43,522,411	$ 14,805,654
Noncurrent Liabilities		
Bonds Payable, Net (Note 8)	$ 652,921,943	$ 704,598,053
Deferred Refunding Costs	(971,600)	(312,551)
Arbitrage Rebate Payable to U.S. Treasury Department (Note 12)	933,115	842,940
Accrued Compensated Absences	34,422	25,288
Total Noncurrent Liabilities	$ 652,917,880	$ 705,153,730
TOTAL LIABILITIES	$ 696,440,291	$ 719,959,384
NET ASSETS		
Invested in Capital Assets, Net	$ 153,883	$ 155,656
Restricted for Bondholders (Note 1 & 10):		
Unrealized (losses) gains on investments	1,505,336	915,684
Single Family Programs	89,527,524	82,632,302
Various Recycled Mortgage Programs	18,706,508	20,582,785
Multifamily Programs	7,726,557	7,389,692
Multifamily Project Commitments	228,330	214,187
Reverse Annuity Mortgage Program	1,666,924	1,153,930
Cash Assistance Program	-	6,251
Restricted for Affordable Revolving Loan Program	1,898,678	1,501,134
Revolving Loan Program Commitments	143,000	-
TOTAL NET ASSETS	$ 121,556,740	$ 114,551,621

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

	FY 2002	FY 2001
OPERATING REVENUES		
Interest Income - Mortgage Loans	$ 41,605,273	$ 39,697,844
Interest Income - Investments	10,224,635	11,900,652
Fee Income	234,504	207,153
Federal Financial Assistance	240,140	240,866
Net Increase (Decrease) in Fair Value of Investments	589,650	1,646,547
Other Income	5,167	9,391
Securities Lending Income	1,437	789
Total Operating Revenues	$ 52,900,806	$ 53,703,242
OPERATING EXPENSES		
Interest on Bonds	$ 40,521,800	$ 40,091,169
Servicer Fees	2,285,778	2,138,753
Contracted Services	556,904	526,956
Amortization of Bond Issuance Costs	391,443	226,731
General and Administrative	1,277,057	1,044,429
Securities Lending Expense	1,287	767
Arbitrage Rebate Expense (Note 12)	733,928	714,845
Loss on Redemption (Note 9)	627,490	397,504
Total Operating Expenses	$ 46,395,687	$ 45,141,154
Operating Income (Loss) Before Transfers	6,505,119	8,562,088
Transfer from Primary Government (Note 1)	500,000	-
Increase (Decrease) in Net Assets	7,005,119	8,562,088
Net Assets, Beginning of Year	114,551,621	105,989,533
Net Assets, End of Year	$ 121,556,740	114,551,621

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

	FY 2002	FY 2001
CASH FLOWS FROM OPERATING ACTIVITY		
Receipts for Sales and Services	$ 192,133	$ 149,459
Collections on Loans and Interest on Loans	126,111,782	98,580,497
Cash payments for Loans	(132,645,941)	(114,764,179)
Federal Financial Assistance Receipts	240,140	240,866
Payments to Suppliers for Goods and Services	(3,142,506)	(3,275,215)
Payments to Employees	(654,733)	(532,665)
Other Operating Revenues	5,267	9,391
Net Cash Provided (Used) by Operating Activities	$ (9,893,858)	$ (19,591,846)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payment of Principal and Interest on Bonds and Notes	$ (153,774,013)	$ (92,509,632)
Proceeds from Issuance of Bonds and Notes	89,180,000	142,940,000
Payment of Bond Issuance Costs	(591,555)	(1,452,201)
Premium Paid on Refunding Bonds	(421,700)	(88,100)
Good Faith Deposit being Held	521,900	-
Transfers in (out)	500,000	-
Net Cash Provided (Used) by Noncapital Financing Activities	$ (64,585,368)	$ 48,890,067
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	$ (49,695)	$ -
Net Cash Used by Capital and Related Financing Activities	$ (49,695)	$ -
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	$ (406,412,602)	$ (402,993,977)
Proceeds from Sales or Maturities of Investments	471,073,232	361,964,918
Interest on Investments	10,545,071	13,142,433
Arbitrage Rebate Tax	(172,914)	-
Net Cash Provided (Used) by Investing Activities	$ 75,032,787	$ (27,886,626)
Net Increase (Decrease) in Cash and Cash Equivalents	$ 503,866	$ 1,411,595
Cash and Cash Equivalents,beginning bal.	$ 4,434,480	$ 3,022,885
Cash and Cash Equivalents, ending bal.	$ 4,938,346	$ 4,434,480

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

	FY 2002	FY 2001
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$ 6,505,119	$ 8,562,088
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation	51,467	46,810
Amortization	1,018,932	624,235
Interest Expense	40,521,800	40,091,169
Interest on Investments	(10,224,786)	(11,900,674)
Arbitrage Rebate Tax	733,928	714,845
Bad Debt Allowance	50,000	100,000
(Incr) Decr in Fair Value of Investments	(589,650)	(1,646,547)
Change in Assets and Liabilities:		
Decr (Incr) in Mortgage Loans Receivable	(48,449,705)	(55,617,200)
Decr (Incr) in Other Assets	(214,553)	(670,325)
Incr (Decr) in Accounts Payable	208,735	(118,605)
Incr (Decr) in Deferred Reservation & Disc. Fees	473,277	210,741
Incr (Decr) in Compensated Absences Payable	21,578	11,617
Net Cash Provided (Used) by Operating Activities	$ (9,893,858)	$ (19,591,846)

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA BOARD OF HOUSING
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2002 and 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:
The Montana Board of Housing (the Board) is a quasi-judicial board created in 1975, by the Legislative Assembly of the State of Montana to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income as determined in accordance with the Board policy in compliance with the Internal Revenue Code. The Board is authorized to issue negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $975,000,000. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for payment of amounts so issued. The Board of Housing is attached to the Housing Division, Department of Commerce.

Basis of Presentation:
The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). During fiscal year 2002 the Board implemented GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments", No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus" and No. 38, "Certain Financial Statement Note Disclosures". In order to comply with the requirements of the statements noted, the Board's financial statements have been modified to include a classified statement of net assets (prior balance sheet), a statement of revenues, expenses, and changes in net assets which reports operating and nonoperating revenues and expenses (prior statement of revenues, expenses, and changes in retained earnings), and the statement of cash flows (unchanged). In addition, the "Management Discussion and Analysis" precedes the financial statements as required supplementary information. The fiscal year 2001 amounts presented in the financial statements have been reclassified to meet the new reporting requirements. Revenues in the proprietary funds are recognized when earned and expenses are recognized when incurred. The financial activities of the Board are recorded in funds established under various bond resolutions and the Montana Code Annotated (MCA). In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net assets and revenues and expenses for the period. The financial statements of the Board are presented on a combined basis. The combining financial information can be found in other supplemental information.

Reporting Entity:
In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Board of Housing as a reporting entity. The financial statements of the Board of Housing are presented as a component unit in the State of Montana's Basic Financial Statements. The enterprise fund of the Board of Housing is part of but do not comprise the entire proprietary fund type of the State of Montana. The State of Montana directs and supervises budgeting, record keeping, reporting, and related administrative functions of the Board.

Fund Accounting:
To ensure observance of limitations and restrictions placed on the use of resources by the trust indentures, the Board of Housing accounts are organized in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose as described in the trust indentures. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, net assets, revenues, and expenses. The funds of the Board are classified as enterprise funds, that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, and other purposes. Net Assets – Restricted for Bondholders represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following describes the restrictions on the Net Assets: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. Because of the nature of the Board's bonds, these funds and accounts are pledged as collateral for the bonds under the individual program indentures. The individual indentures also set certain reserve requirements on cash and investments. These reserves are disclosed in Note 4 to the financial statements. Also, as disclosed in Note 5 to the financial statements, the mortgage loans receivable are pledged as security for

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fund Accounting – continued
holders of the bonds. Certain indentures also require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture.

Restricted Net Assets also include funds reserved by participants and funds committed to specific projects under various programs established by the Board.

Revenue and Expense Recognition:
Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The Board records all revenues and expenses related to mortgages, investments, and bonds as operating revenues and expenses.

Fund Structure:
The Board's program funds and other funds have been presented on a combined basis, as the Board is considered a single enterprise fund for financial reporting purposes. A description of the funds established by the Board follows:

Single Family Mortgage Program Funds - These funds, established under four separate trust indentures adopted on various dates, are established for accounting for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general, restricted to the purchase of eligible single family mortgage loans. The mortgage loans must be insured by the Federal Housing Administration or guaranteed by Veterans Administration or Rural Development.

The accompanying combining financial statements include the activity of several Single Family Mortgage Program Funds. The assets of each individual Single Family Mortgage Program Fund are restricted by the Fund's respective trust indenture; therefore, the total does not indicate that the Single Family Mortgage Program Funds' assets are available in any manner other than provided for in the individual trust indentures. The Board has reserved funds for specific loan programs. These loans will be originated from funds available in the Single Family I and II Indentures.

Multifamily Mortgage Program Funds - These funds, established under a trust indenture adopted February 23, 1978, as amended and restated as of December 29, 1992, are established for accounting for the proceeds from the sale of Multifamily Mortgage Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. Mortgage loans originated prior to December 1992 must be insured by the Federal Housing Administration.

On November 10, 1998, the Board issued $1,625,000 in Multifamily General Obligation Bonds. These bonds are payable out of any of the Board's moneys, assets or revenue. These funds, established under a trust indenture adopted November 1, 1998, are established for accounting for the proceeds from the sale of Multifamily Mortgage General Obligation Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. The mortgage loans originated under this Indenture are not required to be insured by the Federal Housing Administration.

The Multifamily Program Fund on the combining financial statements, includes activity for both Indentures.

Housing Trust Fund - the Housing Trust Fund was established as a separate trust fund by a resolution of the Montana Board of Housing, adopted February 16, 1989. The Housing Trust Fund was created to finance in whole or in part future housing needs and the establishment of new programs as deemed necessary by the Board and any loans or projects that will provide housing for lower income persons and families with special housing needs. Current programs include, but are not limited to, the Reverse Annuity Mortgage Program (RAM) for senior Montana homeowners and the Cash Assistance Program – Disabled (CAP) to assist disabled individuals and families in the purchase of a single family home. The Housing Trust Fund also includes all activity from the Low Income Housing Tax Credit Program.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fund Structure - continued

Affordable Housing Revolving Loan Account - Under MCA 90-6-133, a Revolving Loan Account was established. The affordable housing revolving loan account was established in the state special revenue fund in the state treasury. For purposes of financial reporting, the Board has reclassified this account as an enterprise fund as allowed in GASB Statement No. 34. The fiscal year 2001 statement of cash flows has been restated to include activity of the affordable revolving loan account. The money in the loan account is allocated to the board for the purposes of providing loans to eligible applicants. House Bill 57 of the 2001 Legislature authorized the transfer of $500,000 from the Federal Housing and Urban Development Section 8 administrative fee reserve account to this account. In addition, House Bill 273 of the 2001 Legislature transferred a $3,415,928 of the Temporary Assistance to Needy Families (TANF) block grant to the Board to be used for purposes authorized by the block grant. Senate Bill 6 of the 2002 Special Session limited the transfer to $700,000.

Cash and Cash Equivalents:

For the purposes of the combining statement of cash flows, cash and cash equivalents consist of cash held by the State of Montana Treasurer, cash and money market accounts held by trustees, and cash invested in the state's short term investment pool.

Investments:

Investment of the Board's monies is made in accordance with the Board's investment policy, effective April 13, 2000, (revised February 13, 2002) which is in accordance with the trust indentures and the laws of the State of Montana.

Permitted investments are U.S. treasury obligations, U.S. agency obligations, debentures, or notes, certificates of deposits or time deposits, insured by the FDIC or fully insured by U.S. treasury or agency obligations which have a market value at least equal to the amount of such deposits, and investment contracts fully collateralized in an amount equal to 102% of the principal and interest of the agreement.

In no case shall an investment result in a reduction of ratings by Standard & Poor's Rating Services or Moody's Investor Services.

From 1988 to 1992 the Board invested in guaranteed investment contracts that had underlying collateral equal to 100% of the principal and interest of the agreements.

Investments, which are generally intended to be held to maturity, are reported at "fair value", as required by GASB 31.

Mortgage Loans Receivable:

Mortgage loans receivable are carried at their uncollected principal balances, adjusted for unamortized mortgage discounts and deferred loan fees, less an allowance for loan losses. Mortgage discounts and loan fees earned after 1988 are amortized using the interest method over the life of the mortgage loans and are accreted to interest income on mortgages. Mortgage discounts for all other program funds are amortized using the straight-line method over the remaining life of the mortgage loans and accreted to interest income.

The Board purchases mortgage loans secured by residences located throughout the State of Montana. Loans must be insured by the FHA (Federal Housing Administration) or guaranteed by the VA (Veterans Administration) or RD (Rural Development). Guidelines to minimize credit risk are established by FHA, VA, RD & Board policies.

Interest receivable is accrued on the amount of outstanding mortgage loan principal only if deemed collectible. Accrual on non-performing loans ceases at six months.

Estimated losses are determined based on management's judgement, giving effect to numerous factors including, but not necessarily limited to, general economic conditions, loan portfolio composition, prior loss experience and independent appraisals. The reserve for anticipated loan losses represents amounts which are not expected to be fully reimbursed by certain guarantors.

The Board incurs mortgage loan service fees with participating loan servicers based on outstanding monthly

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Mortgage Loans Receivable – continued
mortgage loan principal balances. The service fees are paid only when the mortgagee's full monthly payment is collected.

Capital Assets:
Capital assets are recorded at cost and depreciation is computed using the straight-line method over estimated useful lives of 5 to 10 years. The majority of capital assets consist of computers and software. The capitalization threshold for recording capital assets is $5,000. Purchases under this threshold are recorded as expenses in the current period.

Bonds Payable:
Bonds payable is adjusted for amortized bond premiums and discounts. Bond premiums and discounts are amortized or accreted to interest expenses using the interest method, as an adjustment to yield, over the life of the bonds to which they relate or are expensed upon early redemption of the bonds.

Bond issuance costs, including underwriter discounts, are amortized using the bonds outstanding method over the life of the bonds or are expensed upon redemption of the bonds.

Compensated Absences:
The Board's employees earn vacation leave ranging from 15 to 24 days per year depending on the employee's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

NOTE 2. CASH AND CASH EQUIVALENTS

The Board's cash and cash equivalents are categorized below to give an indication of the level of risk assumed by the Board. Category 1 includes investments which are insured, registered, or held by the Board or its agent in the Board's name. Category 2 includes uninsured and unregistered investments that are held by the counter party's trust department or agent in the Board's name. Category 3 includes uninsured and unregistered investments that are held by the counter party, or by its trust department or agent but not in the Board's name. All cash held by trustees and cash balances maintained by the State of Montana Treasury and held in the State's Short Term Investment Pool (STIP) were covered by federal depository insurance or collateralized by securities held by third parties in the Board's name. At June 30, 2002 and 2001, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

	Category			Totals	
	1	2	3	2002	2001
Program Funds*	$ 4,788,934	$ -	$ -	$ 4,788,934	$ 4,402,705
Deposited with State Treasury	149,412	-	-	149,412	31,775
	$ 4,938,346	$ -	$ -	$ 4,938,346	$ 4,434,480

*Cash deposits are held at the trustee bank. Based on the opinion of the Board's bond counsel, these funds are insured by the FDIC on a pass-through basis to the owners of mortgage bonds. Thus, each individual bondholder is entitled to $100,000 of insurance coverage.

The units held in the State's Short Term Investment Pool (STIP) are valued at $1 per unit. Although STIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, the Montana Board of Investments (BOI) has a policy that STIP will, and does, operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair market value to report net assets to compute unit values. The STIP portfolio includes asset-backed securities, commercial paper, corporate and government securities, repurchase agreements, and variable rate instruments.

NOTE 3. SECURITIES LENDING

The Board of Housing invests in the State's Short-Term Investment Pool. As part of the pool administered by the Board of Investments (BOI), the Board participates in securities lending transactions. Under GASB 28, the following disclosures are required:

Under the provisions of state statutes, the BOI has, via a Securities Lending Authorization Agreement, authorized a custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, BOI receives a fee and the custodial bank must initially receive collateral equal to 102% of the market value of the loaned securities and maintain collateral equal to not less than 100% of the market value of the loaned security. BOI retains all rights and risks of ownership during the loan period.

During fiscal years 2002 and 2001, State Street lent, on behalf of BOI, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

BOI did not impose any restrictions during fiscal year 2002 and 2001 on the amount of loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2002 and 2001. More over, there were no losses during fiscal years 2002 and 2001 resulting from a default of the borrowers or State Street.

During fiscal years 2002 and 2001, BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which BOI could not determine. On June 30, 2002 and June 30, 2001, BOI had no credit risk exposure to borrowers.

On June 30, 2002 and June 30, 2001, there were no securities on loan.

NOTE 4. INVESTMENTS

The Board's investments are categorized below to give an indication of the level of risk assumed by the Board. Category 2 includes uninsured and unregistered investments that are held by the counter party's trust department or agent in the Board's name. The Board's investments at June 30, 2002 and 2001 consisted of Category 2 investments:

	2002		2001	
	Reported Amount	Fair Value	Reported Amount	Fair Value
U.S. Treasury	$ 18,299,426	$ 18,327,053	$ 20,021,755	$ 20,021,755
U.S. Agency	26,436,472	26,415,326	38,293,266	38,295,374
Repurchase Agreements and Investment Contracts – Collateralized	104,112,320	104,112,320	154,520,588	154,520,587
Total	$ 148,848,218	$ 148,854,699	$ 212,835,609	$ 212,837,716

In addition, investments in the Multi-Family program include a property being held as an investment that was returned to the Board via a deed in-lieu of foreclosure. It is currently being reported at its fair market value estimate of $140,000. The fair value of the property is based on a market analysis of the property. Consideration was given to the income potential of the property as well as the economy and recent sales of similar property.

All repurchase agreements and investment contracts were fully collateralized with securities and cash held by the provider's agent and confirmed by the trustee as required by the bond indentures. Securities underlying the repurchase agreements have a market value of at least 102% of the cost of repurchase agreement. Securities underlying the investment contracts have a market value of at least 100% of the cost of the investment contract

NOTE 4. INVESTMENTS-Continued

plus accrued interest.

Under GASB 31, certain investments are to be reported at fair value. The Board values all of its investments that have a maturity date of over one year at fair value. Those investments that have a maturity date of less than one year are valued at amortized cost. The fair values were based on market prices provided by the Board's trustee.

Portions of cash and investments, valued at amortized cost, are restricted to uses specified by applicable bond indentures. Amounts are restricted as follows:

	2002		2001	
	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds
Debt Service Reserve Fund	$ 39,582,664	$ 1,370,191	$ 43,523,767	$ 1,390,558
Mortgage Reserve Fund	3,970,629	215,695	3,972,851	235,200
Total	$ 43,553,293	$ 1,585,886	$ 47,496,618	$ 1,625,758

As of June 30, 2002 original bond proceeds of $11,908,705 were still on deposit in the 2000A, 2000B, 2001A, and 2002A program acquisition funds to be used for the purchase of Single Family Mortgage loans. The proceeds of $11,908,705 included $8,356,552 in the 2002A bond issue that was closed on March 19, 2002.

As of June 30, 2002 there was $20,505,040 in Single Family reservations outstanding in the 2002A and 2002B bond issues. The 2002B bond issue closed on July 9, 2002.

NOTE 5. MORTGAGE LOANS RECEIVABLE

The mortgage loans receivable are pledged in accordance with individual program indentures as security for holders of the bonds. Mortgage loans receivable consist of the following:

	2002	2001
Mortgage loan receivables:		
Single Family Program	$635,411,574	$584,447,054
Multifamily Program	20,112,660	22,796,968
Housing Trust Program	936,240	990,334
Affordable Revolving Loan Account	1,500,000	1,500,000
	657,960,474	609,734,356
Net mortgage discounts and deferred reservation fees	(5,882,204)	(5,408,928)
Allowance for loan losses and real estate owned (note 6)	(300,000)	(250,000)
	$651,778,270	$604,075,428

NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

The following summarizes activity in the allowance for loan losses and real estate owned:

Balance, June 30, 2000	$150,000
Provision	176,986
Less: Net loans charged off	(76,986)
Balance, June 30, 2001	250,000
Provision	93,923
Less: Net loans charged off	(43,923)
Balance, June 30, 2002	$ 300,000

NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED - continued

The allowance for loan losses includes $200,000 at June 30, 2002 and $150,000 at June 30, 2001 for future estimated losses on real estate owned. Real estate owned property is property that is acquired through foreclosure or in satisfaction of loans and is initially recorded at the lower of the related loan balance, less any specific allowance for loss, or fair market value minus estimated costs to sell. The Board held five real estate owned properties as of June 30, 2002 and four as of June 30, 2001.

NOTE 7. CAPITAL ASSETS

Capital assets consist primarily of computer hardware, peripherals, software and other office equipment. Balances are as follows:

	2002	2001
Furniture, fixtures, and equipment at cost	$412,181	$362,485
Accumulated depreciation	(258,297)	(206,829)
Net capital assets	$ 153,884	$ 155,656

Depreciation expense included in general and administrative expense was $51,467 and $46,810 for the years ended June 30, 2002 and 2001 respectively.

NOTE 8. BONDS PAYABLE, NET

Bonds payable, net of premium or discount, consists of the following:

	Original Amount	2002	2001
Single Family I Mortgage Bonds:			
1997 Series A-1 and A-2 serial and term bonds 4.00% to 6.15% maturing in scheduled semi-annual installments to December 1, 2011, and on December 1, 2016, December 1, 2017, December 1, 2027, December 1, 2029 June 1, 2030 and December 1, 2037	$91,360,000	$72,280,000	$78,210,000
1999 Series A-1 and A-2 serial and term bonds 4.35% to 5.75% maturing in scheduled semi-annual installments to December 1, 2012, and on December 1, 2014, December 1, 2020, June 1, 2030 and December 1, 2030 and December 1, 2031	60,000,000	50,120,000	56,885,000
2000 Series A-1 and A-2 serial and term bonds 4.15% to 6.45% maturing in scheduled semi-annual installments to December 1, 2012, and on June 1, 2016, June 1, 2019, December 1, 2020, June 1, 2029 December 1, 2031 and June 1, 2032	87,695,000	74,300,000	83,630,000
2000 Series B-1 and B-2 serial and term bonds 4.40% to 7.95% maturing in scheduled semi-annual installments to June 1, 2015, and on June 1, 2020, December 1, 2020, December 1, 2029, June 1, 2032 December 1, 2031	71,940,000	68,745,000	71,355,000

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	2002	2001
2001 Series A-1 and A-2 serial and term bonds 4.30% to 5.70% maturing in scheduled semi-annual installments to December 1, 2020, December 1, 2023 December 1, 2031, June 1, 2032 and December 1, 2032	$71,000,000	$68,370,000	$71,000,000
2002 Series A-1 and A-2 serial and term bonds 1.70% to 5.20% maturing in scheduled semi-annual installments to December 1, 2022, December 1, 2032 and December 1, 2033.	39,000,000	39,000,000	-
Total bonds outstanding Single Family I		$372,815,000	$361,080,000
Single Family II Mortgage Bonds:			
1983 - Series C, serial, term and Capital Appreciation Bonds (CAB), 5.75% to 10.7% interest. Serial and term bonds, refunded April 15, 1994. CABS are reported at accreted value, and are scheduled for redemption, in part, in semi-annual installments commencing June 1, 2003 to June 1, 2010.	$114,998,229	$6,873,533	$6,590,019
1984 - Series A, serial, term and CABS, 7.0% to 11.5% interest. Serial and term bonds refunded August 1, 1994. CABS are reported at accreted value, and are scheduled for redemption, in whole, in an annual installment on June 1, 2010	75,002,290	-	1,845
1985 - Series A, serial, term, Postponed Revenue on Future Income Tax(PROFITS), all redeemed. CABS are reported at accreted value, and scheduled for redemption, in part, in semi-annual installments to December 1, 2004 and December 1, 2015 to June 1, 2016.	39,999,625	4,048,388	5,112,148
Series B, term bonds maturing in scheduled semi-annual installments to June 1, 2011.	74,996,862	2,200,000	2,375,000
1992 - Series RA, serial and term, 5.65% to 6.5% interest, serial and term bonds maturing to December 1, 2007, and on December 1, 2012, December 1, 2022, and December 1, 2032.	22,520,000	22,520,000	22,520,000

NOTE 8. BONDS PAYABLE, NET – continued

	Original Amount	2002	2001
1994 -			
Series A-1 and A-2, serial and term bonds, 3.1% to 6.1% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1,2015 and December 1, 2024.	$25,725,000	$7,000,000	$9,570,000
Series B-1 and B-2, serial and term bonds, 3.8% to 6.9% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1, 2008, December 1, 2014 and June 1, 2025.	40,815,000	920,000	3,515,000
Series C-1 and C-2, serial and term bonds 4.5% to 6.8% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2008 and on December 1, 2016, June 1, 2020, and December 1, 2026.	20,000,000	-	1,360,000
1995 -			
Series A-1 and A-2 serial and term bonds 4.75% to 6.55% maturing in scheduled semi-annual installments to December 1, 2009, and on December 1, 2012, December 1, 2017, December 1, 2025, and June 1, 2027.	33,580,000	10,870,000	16,445,000
Series B-1 and B-2 serial and term bonds 4.20% to 6.40% maturing in scheduled semi-annual installments to December 1, 2008, June 1, 2006 to December 1, 2008and on December 1, 2014, December 1, 2021, December 1, 2027, and June 1, 2035.	88,000,000	75,000,000	82,315,000
1996-			
Series A-1 and A-2 serial and term bonds 4.70% to 6.375% maturing in scheduled semi-annual installments to December 1, 2009, and on December 1, 2012, June 1, 2016, June 1, 2024, and December 1, 2028.	65,000,000	40,595,000	47,630,000
1998			
Series A-1 and A-2 serial and term bonds 4.00% to 5.45% maturing in scheduled semi-annual installments to December 1, 2012, and on December 1, 2016, June 1, 2019, June 1, 2027, December 1, 2030 and June 1, 2031.	51,780,000	42,605,000	47,060,000
Series B-1 and B-2 serial and term bonds 4.65% to 5.35% maturing in scheduled semi-annual installments to December 1, 2005 and on December 1, 2013, and on December 1, 2005, December 1, 2016, June 1, 2021, December 1, 2022, December 1, 2030 and , June 1, 2031.	65,000,000	56,945,000	61,515,000
Total bonds outstanding Single Family II		$269,576,921	$306,009,012

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	2002	2001
Single Family III Mortgage Bonds:			
1988 -			
Series B-1 and B-2, serial and term senior bonds and subordinate bonds, 6.2% to 8.9% interest, maturing in scheduled semi-annual installments to October 1, 2008, and on October 1, 2014 and October 1, 2020.			
Senior Bonds	$24,000,000	$1,175,000	$1,825,000
Subordinate Bonds	1,000,000	-	-
Single Family VIII Mortgage Bonds:			
1991 -			
Series A-1 and A-2, serial and term bonds and subordinate bonds, 5.2% to 8.275% interest, maturing in semi-annual installments to October 1, 2006, and on October 1, 2017, October 1, 2019, and October 1, 2022.			
Senior Bonds	24,000,000	-	6,315,000
Subordinate Bonds	1,000,000	-	135,000
Single Family IX Mortgage Bonds:			
1991 -			
Series B-1 and B-2, serial and term bonds and subordinate bonds, 5.50% to 8.4% interest, maturing in semi-annual installments to October 1, 2004, and on October 1, 2006, October 1, 2017, October 1, 2022 and April 1, 2023.			
Senior Bonds	24,000,000	-	6,770,000
Subordinate Bonds	1,000,000	-	175,000
Single Family X Mortgage Bonds:			
1992 -			
Series A-1 and A-2, serial and term bonds and subordinate bonds, 4.45% to 7.85% interest, maturing in scheduled semi-annual installments to October 1, 2006, and on October 1, 2016, October 1, 2022 and October 1, 2023.			
Senior Bonds	24,000,000	-	8,675,000
Subordinate Bonds	1,000,000	-	345,000
Single Family Mortgage Drawdown Bonds:			
2001			
Drawdown Series – available as needed, not to exceed $50,000,000, interest at BMA Index + .5% but not less 85% of 1 month LIBOR and not greater than 94% of 1 month LIBOR.	23,220,000	27,960,000	-
Total Single Family Mortgage bonds payable, net		$671,526,921	$691,329,012

All single family mortgage bonds, except the drawdown bonds, are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 103%.

Single Family III through X mortgage senior bonds are special obligation bonds of the Board of Housing whereas subordinate bonds are general obligation bonds of the Board of Housing.

NOTE 8. BONDS PAYABLE, NET - continued

Single Family I and II mortgage bonds are general obligation bonds of the Board of Housing within the individual bond indenture.

The Single Family Mortgage Drawdown bonds are special obligation bonds of the Board of Housing.

	Original Amount	2002	2001
Multifamily Mortgage Bonds:			
1978 -			
Series A, 6.125% interest, maturing in scheduled annual installments to August 1, 2019.	$4,865,000	$980,000	$2,540,000
1992 -			
Series A, 2.95% to 6.55% interest, serial and term Bonds, maturing in scheduled semi-annual installments to August 1, 2006, and on August 1, 2012, and August 1, 2023.	9,725,000	6,740,000	8,400,000
1996			
Series A, 4.10% to 6.15% interest, serial and term Bonds, maturing in scheduled annual installments to August 1 2011, and on August 1, 2016, and August 1, 2026.	890,000	815,000	830,000
1998			
Series A 3.5% to 4.70% interest, serial and term Bonds, maturing in scheduled annual installments to August 1, 2014 and on August 1, 2029.	1,625,000	1,425,000	1,495,000
1999			
Series A 4.95% to 8.45% interest, term Bonds, maturing in scheduled semi annual installments to August 1, 2008, August 1, 2010, August 1, 2016, August 1, 2025, August 1, 2030, August 1, 2037, August 1, 2041 and August 1, 2039	9,860,000	9,455,000	9,790,000
Total bonds outstanding		19,415,000	23,055,000
Unamortized bond premiums		(47,218)	(50,459)
Total Multifamily Mortgage bonds payable, net		$19,367,782	$23,004,541
Combined total bonds payable, net		$690,894,703	$714,333,553

All multifamily bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption after various dates at prices ranging from 100% to 105%.

The 1998A Multifamily bonds are general obligations of the Board.

NOTE 8. BONDS PAYABLE, NET - continued

The following is a primary summary of bond principal and interest requirements as of June 30, 2002:

Year Ending	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Principal Totals	Interest Totals
2003	$ 74,124,924	$ 1,666,639	$ 37,972,760	$ 37,818,803
2004	48,157,806	1,660,855	12,400,952	37,417,709
2005	48,093,189	1,618,847	12,771,605	36,940,431
2006	47,889,897	1,621,387	13,163,818	36,347,466
2007	48,521,557	1,622,013	14,362,354	35,781,216
2008-12	237,079,751	8,101,990	79,372,003	165,809,738
2013-17	233,411,486	7,046,051	95,928,429	144,529,108
2018-22	219,723,927	6,008,725	114,205,000	111,527,652
2023-27	215,641,127	3,648,382	145,575,000	73,714,509
2028-32	166,193,354	2,874,110	140,205,000	28,862,464
2033-37	23,201,369	2,719,755	22,120,000	3,801,124
2038-42	901,469	2,286,474	2,865,000	322,943
Total	$ 1,362,939,856	$ 40,875,228	$ 690,941,921	$ 712,873,163

Cash paid for interest expenses during the years ending June 30, 2002 and 2001 was $40,004,290 and $40,018,177, respectively.

Changes in Bonds Payable

	7/1/2001 Balance	Increases	Decreases	6/30/2002 Balance
Single Family	$ 691,329,012	$ 90,327,632	$ 110,129,723	$ 671,526,921
Multi Family	23,004,541	-	3,636,759	19,367,782
Total	$ 714,333,553	$ 90,327,632	$ 113,766,482	$ 690,894,703

NOTE 9. LOSS ON REDEMPTION

During the years ended June 30, 2002 and 2001 the Board redeemed Single Family mortgage program bonds prior to scheduled maturity as follows:

	2002	2001
Single Family I		
December 1	$10,065,000	$ 3,300,000
February 1	-	170,000
June 1	15,610,000	7,410,000
	25,675,000	10,880,000
Single Family II		
October 1	3,000,000	-
December 1	14,039,529	13,530,365
June 1	13,898,968	11,984,073
	30,938,497	25,514,438
Single Family III		
October 1	280,000	270,000
April 1	295,000	220,000
	575,000	490,000
Single Family VII		
October 1	-	175,000
April 1	-	-
	-	175,000
Single Family VIII		
July 1	135,000	-
October 1	-	355,000
April 1	-	135,000
	135,000	490,000
Single Family IX		
July 1	175,000	-
October 1	-	310,000
April 1	-	230,000
	175,000	540,000
Single Family X		
October 1	475,000	535,000
April 1	240,000	530,000
	715,000	1,065,000
Multifamily	3,130,000	-
Total	$61,343,497	$39,154,438

All such Bonds were redeemed at par or 100% of their compounded value to date of redemption. Unamortized discounts and cost of issuance associated with the bonds redeemed were expended at time of redemption and are reported as losses on redemption of $627,490 and $397,504 in 2002 and 2001 respectively.

NOTE 10. COMMITMENTS

The Board has reserved and is in the process of purchasing Single Family Mortgages of approximately $5,498,134 from the issuance of the 2002 Series A Bonds and $15,006,906 from the issuance of the 2002 Series B bonds.

The Board has committed to purchase Single Family Mortgages as noted below:

HUD Section 184-Indian Housing	$ 250,000
Glacier Affordable Housing Program	2,323,378
City of Billings	3,188,115
Neighborhood Housing Services MT Home Ownership Network	5,013,839
Neighborhood Housing Services MT Home Ownership Network (Subordinate Loan)	360,633
Habitat for Humanity	344,816
City of Red Lodge	383,196
First Time Homebuyers Savings Account	595,471
USDA Rural Housing Development	1,120,543
Native American Housing Loan Guarantee	986,240
Dream Montana Project	1,500,000
District XI Human Resource Council	1,347,929
Helena Housing Development Corporation	938,659
Disabled Affordable Accessible Homeownership Program	353,689
Total Single Family commitments	$18,706,508

Other Commitments--Single Family I	
Reverse Annuity Mortgage Program	$350,000

The Board has the following Multifamily commitments:

Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD)	$228,330
Total Multifamily Commitments	

The Board has committed Housing Trust Funds as noted below:

Reverse Annuity Mortgage Program	$1,316,924

Affordable Revolving Loan Account funds committed by the Board:

homeWORD	$143,000

These mortgage commitments will be funded through cash and investments.

During the ordinary course of business, the Board incurs expenses under various cancelable leases for rental of equipment and maintenance contracts.

NOTE 11. EMPLOYEE BENEFIT PLANS

The Board of Housing participates in the Public Employees' Retirement System plan. The plan is a statewide, cost-sharing multiple employer defined benefit retirement plan that covers full-time permanent employees. Part-time employees have an option to belong to the retirement plan, depending upon hours worked. The plan is established under State law and is administered by the State of Montana. The plan provides retirement, disability and death benefits to plan members and beneficiaries.

NOTE 11. EMPLOYEE BENEFIT PLANS – continued

The plan issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from the following:

Public Employees' Retirement Administration
P.O. Box 200131
100 North Park Suite 220
Helena, MT 59620-0131
406-444-3154

Contribution rates for the plan are required and determined by State law.

The contribution rates for 2002 expressed as a percentage of covered payroll are as follows:

Employee	Employer	Total
6.90%	6.90%	13.80%

The amounts contributed to the plan during the years ended June 30, 2000, 2001, and 2002 were equal to the required contribution each year. The amounts contributed by both the Board and by employees, as required by State law, were as follows:

Fiscal Year 2000 - $29,149
Fiscal Year 2001 - $28,107
Fiscal Year 2002 - $35,328

Deferred Compensation Plan: The Board's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, Chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance was required by January 1, 1999.

NOTE 12. CONTINGENT ARBITRAGE REBATE LIABILITY PAYABLE TO U.S. TREASURY DEPARTMENT

The Board has established an accrual for the contingent liability for estimated arbitrage payments due to the Treasury Department in accordance with the Internal Revenue Code. The amount of the rebate in general terms is the difference between the actual interest earned on investments and "allowable" interest as defined by Treasury Department Regulations. Ninety percent of the estimated rebate will be paid to the United States Treasury within 60 days of the end of every fifth bond year until the bonds are retired, at which time 100% of the remaining rebate amount is due.

There was $172,914 in arbitrage rebate cash payments to the Treasury Department in fiscal year 2002. During fiscal year ended June 30, 2001, no arbitrage rebate cash payments were paid to the Treasury Department. The liabilities are $1,502,948 and $941,935 as of June 30, 2002 and 2001, respectively.

NOTE 13. SUBSEQUENT EVENTS

On July 9, 2002, the board issued $52,190,000 in bonds under the Single Family I Indenture.

NOTE 14. REFUNDING AND DEFERRED BOND ISSUANCE COSTS

On May 31, 2001, Series 2001A was issued in the amount of $71,000,000. In conjunction with the issuance of the 2001A bonds, the Board refunded the 1991A and 1991B bond issues on July 1, 2001.

In addition, on March 19, 2002, Series 2002A was issued in the amount of $39,000,000. In conjunction with the issuance of the 2002A bonds, the Board refunded the 1992A bond issue on April 1, 2002.

Under GASB 23, deferred costs are required to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds.

The following costs associated with the refunding were deferred and are being amortized under the GASB 23 guidelines:

FY 2002 Refunding:	
Cost of Issuance related to the refunded bonds (91A, 91B & 92A)	$237,103
Premium paid on the refunded bonds (91A, 91B & 92A)	421,700
Total deferred refunding costs	658,803
Less amortization FY 2002	(32,261)
Amount remaining to be amortized on FY 2002 issues	$626,542
Prior years' Refundings:	
Unamortized Deferred refunding costs from prior years' refunding	$345,058
Total unamortized	$971,600

NOTE 15. RELATED PARTY TRANSACTIONS

Employees, officers and stockholders of certain approved originator and servicing financial institutions of the Board also serve as directors of the Board of Housing.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF NET ASSETS
AS OF JUNE 30, 2002 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2001)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture III	Single Family Drawdown
ASSETS				
Current Assets				
Restricted Cash and Cash Equivalents	$ 1,422,292	$ 1,110,611	$ 21,613	$ 3,224
Restricted Investments	5,936,265	2,937,363	-	27,960,000
Restricted Mortgage Loans Receivable	5,191,038	4,969,718	53,328	-
Restricted Interest Receivable	2,485,604	2,364,225	20,112	-
Due from Other Funds	-	4,695,747	-	-
Prepaid Expense	90,315	77,221	-	-
Total Current Assets	$ 15,125,514	$ 16,154,885	$ 95,053	$ 27,963,224
Noncurrent Assets				
Restricted Investments	$ 41,461,597	$ 63,353,313	$ 287,751	$ -
Restricted Mortgage Loans Receivable	354,388,593	263,130,683	1,570,609	-
Deferred Bond Issuance Costs, Net	3,887,663	2,506,497	10,962	-
Capital Assets, Net	67,101	83,334	-	-
Total Noncurrent Assets	$ 399,804,954	$ 329,073,827	$ 1,869,322	$ -
TOTAL ASSETS	$ 414,930,468	$ 345,228,712	$ 1,964,375	$ 27,963,224
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 247,625	$ 211,813	$ 1,217	$ -
Due to Other Funds	4,695,747	-	-	-
Due to State Government	25,352	25,352	-	-
Property Held in Trust	521,900	1,755	-	-
Accrued Interest - Bonds Payable	2,097,851	1,252,952	22,827	-
Bonds Payable, Net	3,640,000	5,817,760	65,000	27,960,000
Arbitrage Rebate Payable to U.S. Treasury Department	262,269	307,564	-	-
Accrued Compensated Absences	18,446	18,446	-	-
Total Current Liabilities	$ 11,509,190	$ 7,635,642	$ 89,044	$ 27,960,000
Noncurrent Liabilities				
Bonds Payable, Net	$ 369,175,000	$ 263,759,161	$ 1,110,000	$ -
Deferred Refunding Costs	(1,116,108)	144,508	-	-
Arbitrage Rebate Payable to U.S. Treasury Department	348,667	584,448	-	-
Accrued Compensated Absences	13,540	13,540	-	-
Total Noncurrent Liabilities	$ 368,421,099	$ 264,501,657	$ 1,110,000	$ -
TOTAL LIABILITIES	$ 379,930,289	$ 272,137,299	$ 1,199,044	$ 27,960,000
NET ASSETS				
Invested in Capital Assets, Net	$ 67,101	$ 83,334	$ -	$ -
Restricted for Bondholders (Note 1 & 10):				
Unrealized (losses) gains on investments	-	1,538,600	-	-
Single Family Programs	32,986,205	54,359,844	765,331	3,224
Various Recycled Mortgage Programs	1,596,873	17,109,635	-	-
Multifamily Programs	-	-	-	-
Multifamily Project Commitments	-	-	-	-
Reverse Annuity Mortgage Program	350,000	-	-	-
Cash Assistance Program	-	-	-	-
Restricted for Affordable Revolving Loan Program	-	-	-	-
Revolving Loan Program Commitments	-	-	-	-
TOTAL NET ASSETS	$ 35,000,179	$ 73,091,413	$ 765,331	$ 3,224

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF NET ASSETS
AS OF JUNE 30, 2002 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2001)

					Combined Totals (Memorandum Only)	
Single Family Eliminations	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	FY 2002	FY 2001
$ -	$ 2,557,740	$ 224,415	$ 1,614,513	$ 541,678	$ 4,938,346	$ 4,434,480
-	36,833,628	5,389,507	-	-	42,223,135	61,310,843
-	10,214,084	539,928	-	-	10,754,012	9,834,901
-	4,869,941	196,613	193,753	-	5,260,307	5,375,321
(4,695,747)	-	-	-	-	-	-
-	167,536	3,631	4,324	-	175,491	166,210
$ (4,695,747)	$ 54,642,929	$ 6,354,094	$ 1,812,590	$ 541,678	$ 63,351,291	$ 81,121,755
$ -	$ 105,102,661	$ 1,662,422	$ -	$ -	$ 106,765,083	$ 151,524,766
-	619,089,885	19,498,133	936,240	1,500,000	641,024,258	594,240,527
-	6,405,122	297,394	-	-	6,702,516	7,468,301
-	150,435	1,724	1,724	-	153,883	155,656
$ -	$ 730,748,103	$ 21,459,673	$ 937,964	$ 1,500,000	$ 754,645,740	$ 753,389,250
$ (4,695,747)	$ 785,391,032	$ 27,813,767	$ 2,750,554	$ 2,041,678	$ 817,997,031	$ 834,511,005
$ -	$ 460,655	$ 8,653	$ 2,670	$ -	$ 471,978	$ 374,295
(4,695,747)	-	-	-	-	-	-
-	50,704	10,967	6,988	-	68,659	59,394
-	523,655	500	1,140	-	525,295	2,665
-	3,373,630	493,362	-	-	3,866,992	4,500,355
-	37,482,760	490,000	-	-	37,972,760	9,735,500
-	569,833	-	-	-	569,833	98,995
-	36,892	5,280	4,722	-	46,894	34,450
$ (4,695,747)	$ 42,498,129	$ 1,008,762	$ 15,520	$ -	$ 43,522,411	$ 14,805,654
$ -	$ 634,044,161	$ 18,877,782	$ -	$ -	$ 652,921,943	$ 704,598,053
-	(971,600)	-	-	-	(971,600)	(312,551)
-	933,115	-	-	-	933,115	842,940
-	27,080	3,876	3,466	-	34,422	25,288
$ -	$ 634,032,756	$ 18,881,658	$ 3,466	$ -	$ 652,917,880	$ 705,153,730
$ (4,695,747)	$ 676,530,885	$ 19,890,420	$ 18,986	$ -	$ 696,440,291	$ 719,959,384
$ -	$ 150,435	$ 1,724	$ 1,724	$ -	$ 153,883	$ 155,656
-	1,538,600	(33,264)	-	-	$ 1,505,336	915,684
-	88,114,604	-	1,412,920	-	$ 89,527,524	82,632,302
-	18,706,508	-	-	-	$ 18,706,508	20,582,785
-	-	7,726,557	-	-	$ 7,726,557	7,389,692
-	-	228,330	-	-	$ 228,330	214,187
-	350,000	-	1,316,924	-	$ 1,666,924	1,153,930
-	-	-	-	-	$ -	6,251
-	-	-	-	1,898,678	$ 1,898,678	1,501,134
-	-	-	-	143,000	$ 143,000	-
$ -	$ 108,860,147	$ 7,923,347	$ 2,731,568	$ 2,041,678	$ 121,556,740	$ 114,551,621

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2001)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture III	Single Family Indenture VIII	Single Family Indenture IX
OPERATING REVENUES					
Interest Income - Mortgage Loans	$ 21,369,484	$ 18,574,982	$ 195,542	$ -	$ -
Interest Income - Investments	4,696,124	5,008,139	27,418	-	-
Fee Income	21,187	21,184	-	-	-
Federal Financial Assistance	-	-	-	-	-
Net Increase (Decrease) in Fair Value of Investments	-	651,929	-	-	-
Other Income	6	6	-	-	-
Securities Lending Income	270	270	-	-	-
Total Operating Revenues	$ 26,087,071	$ 24,256,510	$ 222,960	$ -	$ -
OPERATING EXPENSES					
Interest on Bonds	$ 21,484,444	$ 17,464,586	$ 116,729	$ -	$ -
Servicer Fees	1,193,006	1,062,999	7,995	-	-
Contracted Services	271,552	239,717	1,502	-	-
Amortization of Bond Issuance Costs	282,186	89,617	1,289	-	-
General and Administrative	524,033	487,938	-	-	-
Securities Lending Expense	242	242	-	-	-
Arbitrage Rebate Expense	356,222	377,706	-	-	-
Loss on Redemption	267,165	317,535	5,547	-	-
Total Operating Expenses	$ 24,378,850	$ 20,040,340	$ 133,062	$ -	$ -
Operating Income (Loss) Before Transfers	1,708,221	4,216,170	89,898	-	-
Transfer from Primary Government	-	-	-	-	-
Operating Transfers (Out) In	905,360	-	-	(498,043)	(406,664)
Increase (Decrease) in Net Assets	2,613,581	4,216,170	89,898	(498,043)	(406,664)
Net Assets, Beginning of Year	32,386,600	68,875,241	675,433	498,043	406,664
Net Assets, End of Year	$ 35,000,181	$ 73,091,411	$ 765,331	$ -	$ -

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2001)

						Combined Totals (Memorandum Only)	
Single Family Indenture X	Single Family Drawdown	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	FY 2002	FY 2001
$ -	$ -	$ 40,140,008	$ 1,387,783	$ 51,771	$ 25,711	$ 41,605,273	$ 39,697,844
-	147,357	9,879,038	289,385	42,405	13,807	10,224,635	11,900,652
-	-	42,371	-	192,133	-	234,504	207,153
-	-	-	240,140	-	-	240,140	240,866
-	-	651,929	(62,279)	-	-	589,650	1,646,547
-	-	12	3,874	281	1,000	5,167	9,391
-	-	540	-	648	249	1,437	789
$ -	$ 147,357	$ 50,713,898	$ 1,858,903	$ 287,238	$ 40,767	$ 52,900,806	$ 53,703,242
$ -	$ 144,133	$ 39,209,892	$ 1,311,908	$ -	$ -	$ 40,521,800	$ 40,091,169
-	-	2,264,000	21,778	-	-	2,285,778	2,138,753
-	-	512,771	36,067	8,066	-	556,904	526,956
-	-	373,092	18,351	-	-	391,443	226,731
-	-	1,011,971	145,122	119,964	-	1,277,057	1,044,429
-	-	484	-	580	223	1,287	767
-	-	733,928	-	-	-	733,928	714,845
-	-	590,247	37,243	-	-	627,490	397,504
$ -	$ 144,133	$ 44,696,385	$ 1,570,469	$ 128,610	$ 223	$ 46,395,687	$ 45,141,154
-	3,224	6,017,513	288,434	158,628	40,544	6,505,119	8,562,088
-	-	-	-	-	500,000	500,000	-
(653)	-	-	-	-	-	-	-
(653)	3,224	6,017,513	288,434	158,628	540,544	7,005,119	8,562,088
653	-	102,842,634	7,634,913	2,572,940	1,501,134	114,551,621	105,989,533
$ -	$ 3,224	$ 108,860,147	$ 7,923,347	$ 2,731,568	$ 2,041,678	$ 121,556,740	114,551,621

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2001)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture III	Single Family Drawdown
CASH FLOWS FROM OPERATING ACTIVITY				
Receipts for Sales and Services	$ -	$ -	$ -	$ -
Collections on Loans and Interest on Loans	56,988,097	64,434,310	557,837	-
Cash payments for Loans	(123,718,247)	(8,790,385)	-	-
Federal Financial Assistance Receipts	-	-	-	-
Payments to Suppliers for Goods and Services	(1,528,429)	(1,422,858)	(9,653)	-
Payments to Employees	(258,369)	(258,370)	-	-
Other Operating Revenues	56	56	-	-
Net Cash Provided (Used) by Operating Activities	$ (68,516,892)	$ 53,962,753	$ 548,184	$ -
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Payment of Principal and Interest on Bonds and Notes	$ (71,520,469)	$ (54,066,993)	$ (779,339)	$ (22,364,133)
Proceeds from Issuance of Bonds and Notes	39,000,000	-	-	50,180,000
Payment of Bond Issuance Costs	(591,555)		-	-
Premium Paid on Refunding Bonds	(421,700)	-	-	-
Good Faith Deposit being Held	521,900	-	-	-
Due to (from) Other Funds	4,695,747	(4,695,747)	-	-
Transfers in (out)	-	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	$ (28,316,077)	$ (58,762,740)	$ (779,339)	$ 27,815,867
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of Capital Assets	$ (24,847)	$ (24,848)	$ -	$ -
Net Cash Used by Capital and Related Financing Activities	$ (24,847)	$ (24,848)	$ -	$ -
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investments	$ (205,067,233)	$ (140,879,148)	$ (551,221)	$ (50,180,000)
Proceeds from Sales or Maturities of Investments	297,384,097	140,969,055	743,561	22,220,000
Interest on Investments	5,006,776	5,044,151	30,780	147,357
Arbitrage Rebate Tax	(2,300)	(170,614)	-	-
Net Cash Provided (Used) by Investing Activities	$ 97,321,340	$ 4,963,444	$ 223,120	$ (27,812,643)
Net Increase (Decrease) in Cash and Cash Equivalents	$ 463,524	$ 138,609	$ (8,035)	$ 3,224
Cash and Cash Equivalents,beginning bal.	$ 958,768	$ 972,002	$ 29,648	$ -
Cash and Cash Equivalents, ending bal.	$ 1,422,292	$ 1,110,611	$ 21,613	$ 3,224

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2001)

	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only) FY 2002	FY 2001
	$ -	$ -	$ 192,133	$ -	$ 192,133	$ 149,459
	121,980,244	3,859,177	246,650	25,711	126,111,782	98,580,497
	(132,508,632)	-	(137,309)	-	(132,645,941)	(114,764,179)
	-	240,140	-	-	240,140	240,866
	(2,960,940)	(123,469)	(58,097)	-	(3,142,506)	(3,275,215)
	(516,739)	(72,190)	(65,804)	-	(654,733)	(532,665)
	112	3,874	281	1,000	5,267	9,391
	$ (14,005,955)	$ 3,907,532	$ 177,854	$ 26,711	$ (9,893,858)	$ (19,591,846)
	$ (148,730,934)	$ (5,043,079)	$ -	$ -	$ (153,774,013)	$ (92,509,632)
	89,180,000	-	-	-	89,180,000	142,940,000
	(591,555)	-	-	-	(591,555)	(1,452,201)
	(421,700)	-	-	-	(421,700)	(88,100)
	521,900	-	-	-	521,900	-
	-	-	-	-	-	-
	-	-	-	500,000	500,000	-
	$ (60,042,289)	$ (5,043,079)	$ -	$ 500,000	$ (64,585,368)	$ 48,890,067
	$ (49,695)	$ -	$ -	$ -	$ (49,695)	$ -
	$ (49,695)	$ -	$ -	$ -	$ (49,695)	$ -
	$ (396,677,602)	$ (9,735,000)	$ -	$ -	$ (406,412,602)	$ (402,993,977)
	461,316,713	9,756,519	-	-	471,073,232	361,964,918
	10,229,064	259,701	42,473	13,833	10,545,071	13,142,433
	(172,914)	-	-	-	(172,914)	-
	$ 74,695,261	$ 281,220	$ 42,473	$ 13,833	$ 75,032,787	$ (27,886,626)
	$ 597,322	$ (854,327)	$ 220,327	$ 540,544	$ 503,866	$ 1,411,595
	$ 1,960,418	$ 1,078,742	$ 1,394,186	$ 1,134	$ 4,434,480	$ 3,022,885
	$ 2,557,740	$ 224,415	$ 1,614,513	$ 541,678	$ 4,938,346	$ 4,434,480

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2001)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture III	Single Family Drawdown
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income	$ 1,708,221	$ 4,216,170	$ 89,898	$ 3,224
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Depreciation	19,794	31,081	-	-
Amortization	549,351	407,151	6,836	-
Interest Expense	21,484,444	17,464,586	116,729	144,133
Interest on Investments	(4,696,152)	(5,008,167)	(27,419)	(147,357)
Arbitrage Rebate Tax	356,222	377,706	-	-
Bad Debt Allowance	50,000	-	-	-
(Incr) Decr in Fair Value of Investments	-	(651,929)	-	-
Change in Assets and Liabilities:				
Decr (Incr) in Mortgage Loans Receivable	(88,250,606)	36,913,002	373,084	-
Decr (Incr) in Other Assets	(454,365)	223,764	3,539	-
Incr (Decr) in Accounts Payable	128,339	66,687	(156)	-
Incr (Decr) in Deferred Reservation & Disc. Fees	576,782	(88,376)	(14,327)	-
Incr (Decr) in Compensated Absences Payable	11,078	11,078	-	-
Net Cash Provided by (Used for) Operating Activities	$ (68,516,892)	$ 53,962,753	$ 548,184	$ -

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2001)

				Combined Totals (Memorandum Only)	
SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	FY 2002	FY 2001
$ 6,017,513	$ 288,434	$ 158,628	$ 40,544	$ 6,505,119	$ 8,562,088
50,875	296	296	-	51,467	46,810
963,338	55,594	-	-	1,018,932	624,235
39,209,892	1,311,908	-	-	40,521,800	40,091,169
(9,879,095)	(289,385)	(42,473)	(13,833)	(10,224,786)	(11,900,674)
733,928	-	-	-	733,928	714,845
50,000	-	-	-	50,000	100,000
(651,929)	62,279	-	-	(589,650)	(1,646,547)
(50,964,520)	2,460,721	54,094	-	(48,449,705)	(55,617,200)
(227,062)	9,793	2,716	-	(214,553)	(670,325)
194,870	7,902	5,963	-	208,735	(118,605)
474,079	(802)	-	-	473,277	210,741
22,156	792	(1,370)	-	21,578	11,617
$ (14,005,955)	$ 3,907,532	$ 177,854	$ 26,711	$ (9,893,858)	$ (19,591,846)

Board Response

MONTANA
Department of Commerce

MONTANA BOARD OF HOUSING
P.O. Box 200528 ★ Helena, Montana 59620-0528 ★ http//commerce.state.mt.us
Phone: 406-841-2840 ★ Fax: 406-841-2841 ★ TDD: 406-841-2702

December 19, 2002

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DEC 2 0 2002
LEGISLATIVE AUDIT DIV.

Scott A. Seacat
Legislative Auditor
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

Dear Mr. Seacat:

Thank you for the opportunity to respond to the financial-compliance audit report of the Montana Board of Housing. We are pleased with the unqualified opinion. We appreciate the hard work the staff has put into the audit.

We have reviewed the recommendations contained in the audit report. Our response to each of the recommendations is as follows:

Recommendation #1 - We recommend the board send only the signatures of officials authorized to approve investment transactions to the trustee.

Response: We concur. To alleviate the confusion of having multiple authorizations on one signature list we have created separate lists for authorization of investment transactions with the trustees. The new lists were sent to the trustees on November 20, 2002.

Recommendation #2 – We recommend the board pay administrative costs from the Affordable Housing Revolving Loan Account in compliance with state law.

Response: We concur. The placement of the Affordable Housing Revolving Loan Account into the enterprise fund as discussed in recommendation #4 will allow the board to properly record all expenses to the account in compliance with state law.

Recommendation #3 – We recommend the board ensure it records all investment and bond liability activity on the state's accounting records by the end of the fiscal year as required by state law.

Response: We concur. The activity related to the drawdown bond issue was new to the board in fiscal year 2001-2002. Fiscal year-end procedures will be adjusted to ensure all new activity is recorded on the state's accounting system.

Recommendation #4: We recommend the board seek legislation to amend section 90-6-133(1), MCA, to place the Affordable Housing Revolving Loan Account in the enterprise fund.

Response: We concur. Legislation has been drafted to place the Affordable Housing Revolving Loan Account into the enterprise fund. The Legislative Audit Committee has agreed to sponsor this legislation.

We realize our audit is complicated due to the unique nature of our operation, and appreciate you and your staff's willingness to do the special engagements that go along with our operation.

I am looking forward to speaking with the Audit Committee regarding the operations of the Board of Housing.

Sincerely,

Bruce Brensdal
Executive Director