

# Legislative Audit Division

State of Montana



Report to the Legislature

November 2003

## Financial Audit

For the Fiscal Year Ended June 30, 2003

## Montana Board of Housing

Department of Commerce

A Component Unit of the State of Montana

This is our annual financial audit report on the Board of Housing (board) for the fiscal year ending June 30, 2003. The objectives of our financial audit included determining if the board's financial statements presented fairly its financial position and results of operations at and for the period ending June 30, 2003, with comparative combined totals at and for the period ending June 30, 2002.

The audit report contains no recommendations.

Direct comments/inquiries to:  
Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

03-07

Help eliminate fraud, waste, and abuse in state government. Call the Fraud Hotline at 1-800-222-4446 statewide or 444-4446 in Helena.

## FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. 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 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 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 can be obtained by contacting:

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

Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

### MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator John Cobb  
Senator Mike Cooney  
Senator Jim Elliott, Vice Chair  
Senator John Esp  
Senator Dan Harrington  
Senator Corey Stapleton

Representative Dee Brown  
Representative Tim Callahan  
Representative Hal Jacobson  
Representative John Musgrove  
Representative Jeff Pattison, Chair  
Representative Rick Ripley

# 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

November 2003

The Legislative Audit Committee  
of the Montana State Legislature:

This is our report on the financial audit of the Montana Board of Housing, a component unit of the state of Montana, for the two fiscal years ended June 30, 2003 and 2002. The objectives of our financial audit included determining if the board's financial statements presented fairly its financial position and results of operations at and for the periods ending June 30, 2003 and 2002. We tested compliance with state and federal laws that have a direct and material impact on the financial statements. Additional compliance testing for the program is included in our biennial financial-compliance audit of the Department of Commerce.

The Board of Housing was created by the Montana Housing Act of 1975. The board is attached to the Housing Division within the Department of Commerce. Montana Board of Housing's purpose is to provide decent, safe, sanitary and affordable housing for lower income individuals and families in the state of 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.

On page A-1, you will find the Independent Auditor's Report followed by the board's Management Discussion and Analysis, the financial statements and accompanying notes. We issued an unqualified opinion on those financial statements which means the reader can rely on the presented information.

In addition to the annual financial 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.

We thank the Board of Housing and its staff and the Department of Commerce staff for their cooperation and assistance during the audit. The board's response to our audit is on page B-1.

Respectfully submitted,

*Signature on File*

Scott A. Seacat  
Legislative Auditor



## Appointed and Administrative Officials

---

			<u>Term Expires</u>
<b>Montana Board of Housing</b>	Bob Thomas, Chair	Stevensville	2007
	Robert Savage, Vice Chair	Sidney	2005
	William Oser, Secretary	Billings	2005
	Judy Glendenning	Helena	2007
	Susan Moyer	Kalispell	2007
	Steve Redinger	Billings	2005
	Thomas Welch	Dillion	2005
<b>Administrative Officials: Department of Commerce Board of Housing</b>	Mark Simonich, Director		
	Bruce Brensdaal, Executive Director		
	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 Brensdaal, Executive Director, at:

PO Box 200528  
Helena MT 59620-0528  
(406) 841-2840  
e-mail: [bbrensdaal@state.mt.us](mailto:bbrensdaal@state.mt.us)

Members of the audit staff involved in this audit were Jeane Carstensen-Garrett, Melissa Heinert, GERALYN Hoffman, and Laura L. Norris.



# 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 Statement of Net Assets of the Montana Board of Housing, a component unit of the state of Montana, as of June 30, 2003, and 2002, 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, 2003, and 2002, and the results of its operations and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted 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, 2003, and the related Combining Statement of Revenues, Expenses, and Changes in Net Assets and Combining 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.

The accompanying Management Discussion and Analysis is not a required part of the 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.

Respectfully submitted,

*Signature on File*  
James Gillett, CPA  
Deputy Legislative Auditor

October 2, 2003



**The Board's Management Discussion and Analysis, financial statements and notes**

# MONTANA

*Department of Commerce*

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

## **Management Discussion and Analysis** Year Ended June 30, 2003

This section of the Montana Board of Housing's (MBOH's) annual financial report presents our discussion and analysis of the agency's financial performance during the fiscal year ended June 30, 2003. Please read this section in conjunction with the financial statements and accompanying notes.

### **Financial Highlights**

- 1,137 single-family mortgages were originated for \$85 million.
- 2,156 single-family mortgages prepaid for \$125 million.
- No multi family mortgages were originated.
- 1 multi family mortgage paid off.
- Total new debt issued was \$145.5 million.
- Total debt retired was \$211 million.
- Total outstanding debt decreased from \$691 million to \$625 million.
- \$2,030,000 of Low Income Tax Credits were allocated providing approximately \$15 million of equity to produce or preserve 244 units of affordable rental housing.
- 10 new Reverse Annuity Mortgage (RAM) Loans were originated bringing the total active RAM loans to 43. Since its inception the RAM program has assisted 81 elderly households.

### **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, 2002 and 2003

		<u>2003</u>		<u>2002</u>	<u>%</u> <u>inc (dec)</u>
<b>Assets:</b>					
Current Assets	(1)	\$ 56,233,674	\$	63,351,291	-11.24%
Noncurrent Assets	(2)	\$ 703,251,777	\$	754,645,740	-6.81%
Total Assets		<u>\$ 759,485,451</u>	<u>\$</u>	<u>817,997,031</u>	-7.15%
<b>Liabilities:</b>					
Current Liabilities	(3)	\$ 14,328,690	\$	43,522,411	-67.08%
Noncurrent Liabilities	(4)	\$ 615,626,922	\$	652,917,880	-5.71%
Total Liabilities		<u>\$ 629,955,612</u>	<u>\$</u>	<u>696,440,291</u>	-9.55%
<b>Net Assets:</b>					
Invested in Capital Assets		\$ 113,761	\$	153,883	-26.07%
Restricted		\$ 129,416,078	\$	121,402,857	6.60%
Total Net Assets		<u>\$ 129,529,839</u>	<u>\$</u>	<u>121,556,740</u>	6.56%
<b>Operating Revenue:</b>					
Interest on Loans		\$ 40,852,401	\$	41,605,273	-1.81%
Earnings from Investments	(5)	\$ 11,955,945	\$	10,815,722	10.54%
Fees and Charges		\$ 524,672	\$	479,811	9.35%
Total Operating Revenue		<u>\$ 53,333,018</u>	<u>\$</u>	<u>52,900,806</u>	0.82%
<b>Operating Expenses:</b>					
Bond Expenses		\$ 41,205,955	\$	42,274,661	-2.53%
Servicing Fees		\$ 2,301,388	\$	2,285,778	0.68%
General and Administrative		\$ 1,852,576	\$	1,835,248	0.94%
Total Expenses		<u>\$ 45,359,919</u>	<u>\$</u>	<u>46,395,687</u>	-2.23%
Operating Income		<u>\$ 7,973,099</u>	<u>\$</u>	<u>6,505,119</u>	22.57%
<b>Non-operating Income:</b>					
Transfer from Primary Government	(6)	\$ -	\$	500,000	-100.00%
Change in Net Assets		<u>\$ 7,973,099</u>	<u>\$</u>	<u>7,005,119</u>	13.82%

(1) Current assets decreased by \$7,117,617. This was due to investments being held as short term for the Draw Down bonds in 2002 but not in 2003.

(2) Noncurrent assets decreased by \$51,393,963. This is due to the prepayment of single family mortgages in 2003 being \$125 million compared to \$63 million in 2002.

(3) Current liabilities decreased by \$29,193,721. This is because we had \$26,960,000 of Draw Down bonds that were outstanding at 2002 year end and were paid off in July, 2002. No Draw Down bonds were outstanding for 2003.

(4) Noncurrent liabilities decreased by \$37,290,958. This was caused by increased prepayments on mortgages that resulted in increased bond calls reducing our liability.

(5) Earnings from investments increased by \$1,140,223. This was due to the unrealized net increase in the fair value of investments.

(6) House Bill 57 of the 2001 Montana Legislature directed the transfer of \$500,000 from the Section 8 reserve account. These funds are being used 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, 2003 AND 2002**

<b>ASSETS</b>	<u>FY 2003</u>	<u>FY 2002</u>
<b>Current Assets</b>		
Cash and Cash Equivalents (Note 2)	\$ 7,756,487	\$ 4,938,346
Investments (Note 4)	32,975,198	42,223,135
Mortgage Loans Receivable (Note 5)	10,296,404	10,754,012
Interest Receivable	5,028,326	5,260,307
Due from State Government	2,634	-
Prepaid Expense	174,625	175,491
<b>Total Current Assets</b>	<u>\$ 56,233,674</u>	<u>\$ 63,351,291</u>
<b>Noncurrent Assets</b>		
Investments (Note 4)	\$ 114,774,824	\$ 106,765,083
Mortgage Loans Receivable (Note 5)	582,059,142	641,024,258
Deferred Bond Issuance Costs, Net	6,304,050	6,702,516
Capital Assets, Net (Note 7)	113,761	153,883
<b>Total Noncurrent Assets</b>	<u>\$ 703,251,777</u>	<u>\$ 754,645,740</u>
 <b>TOTAL ASSETS</b>	 <u>\$ 759,485,451</u>	 <u>\$ 817,997,031</u>
 <b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 476,111	\$ 471,978
Due to State Government	27,733	68,659
Due to Other Component Units	3,648	-
Property Held in Trust	709,505	525,295
Accrued Interest - Bonds Payable	3,422,051	3,866,992
Bonds Payable, Net (Note 8)	9,168,966	37,972,760
Arbitrage Rebate Payable to U.S. Treasury Department (Note 12)	463,413	569,833
Accrued Compensated Absences	57,263	46,894
<b>Total Current Liabilities</b>	<u>\$ 14,328,690</u>	<u>\$ 43,522,411</u>
<b>Noncurrent Liabilities</b>		
Bonds Payable, Net (Note 8)	\$ 616,381,498	\$ 652,921,943
Deferred Refunding Costs	(1,461,389)	(971,600)
Arbitrage Rebate Payable to U.S. Treasury Department (Note 12)	673,315	933,115
Accrued Compensated Absences	33,498	34,422
<b>Total Noncurrent Liabilities</b>	<u>\$ 615,626,922</u>	<u>\$ 652,917,880</u>
 <b>TOTAL LIABILITIES</b>	 <u>\$ 629,955,612</u>	 <u>\$ 696,440,291</u>
 <b>NET ASSETS</b>		
Invested in Capital Assets, Net	\$ 113,761	\$ 153,883
Restricted for Bondholders (Note 1 & 10):		
Unrealized (losses) gains on investments	3,805,542	1,505,336
Single Family Programs	91,857,673	89,527,524
Various Recycled Mortgage Programs	21,898,843	18,706,508
Multifamily Programs	7,985,246	7,726,557
Multifamily Project Commitments	244,644	228,330
Reverse Annuity Mortgage Program	1,500,125	1,666,924
Restricted for Affordable Revolving Loan Program	1,759,005	1,898,678
Revolving Loan Program Commitments	365,000	143,000
<b>TOTAL NET ASSETS</b>	<u>\$ 129,529,839</u>	<u>\$ 121,556,740</u>

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, 2003 AND 2002

	<u>FY 2003</u>	<u>FY 2002</u>
<b>OPERATING REVENUES</b>		
Interest Income - Mortgage Loans	\$ 40,852,401	\$ 41,605,273
Interest Income - Investments	9,655,738	10,224,635
Fee Income	229,872	234,504
Federal Financial Assistance	242,171	240,140
Net Increase (Decrease) in Fair Value of Investments	2,300,207	589,650
Grants and Contributions	42,733	-
Other Income	9,896	5,167
Securities Lending Income	-	1,437
Total Operating Revenues	<u>\$ 53,333,018</u>	<u>\$ 52,900,806</u>
<b>OPERATING EXPENSES</b>		
Interest on Bonds	\$ 39,405,348	\$ 40,521,800
Servicer Fees	2,301,388	2,285,778
Contracted Services	551,173	556,904
Amortization of Bond Issuance Costs	462,583	391,443
General and Administrative	1,301,403	1,277,057
Securities Lending Expense	-	1,287
Arbitrage Rebate Expense	299,970	733,928
Loss on Redemption (Note 9)	1,038,054	627,490
Total Operating Expenses	<u>\$ 45,359,919</u>	<u>\$ 46,395,687</u>
 Operating Income (Loss) Before Transfers	 7,973,099	 6,505,119
Transfer from Primary Government (Note 1)	<u>-</u>	<u>500,000</u>
 Increase (Decrease) in Net Assets	 7,973,099	 7,005,119
Net Assets, Beginning of Year	<u>121,556,740</u>	<u>114,551,621</u>
Net Assets, End of Year	<u>\$ 129,529,839</u>	<u>\$ 121,556,740</u>

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, 2003 AND 2002

	<u>FY 2003</u>	<u>FY 2002</u>
<b>CASH FLOWS FROM OPERATING ACTIVITY</b>		
Receipts for Sales and Services	\$ 229,872	\$ 192,133
Collections on Loans and Interest on Loans	185,660,318	126,111,782
Cash payments for Loans	(85,189,678)	(132,645,941)
Federal Financial Assistance Receipts	242,171	240,140
Receipts for Grants and Contributions	42,733	-
Payments to Suppliers for Goods and Services	(3,374,901)	(3,142,506)
Payments to Employees	(756,678)	(654,733)
Other Operating Revenues	9,896	5,267
Net Cash Provided (Used) by Operating Activities	<u>\$ 96,863,733</u>	<u>\$ (9,893,858)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Payment of Principal and Interest on Bonds and Notes	\$ (249,731,928)	\$ (153,774,013)
Proceeds from Issuance of Bonds and Notes	144,015,500	89,180,000
Payment of Bond Issuance Costs	(1,200,881)	(591,555)
Premium Paid on Refunding Bonds	(399,700)	(421,700)
Good Faith Deposit being Held	707,000	521,900
Transfers in (out)	-	500,000
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ (106,610,009)</u>	<u>\$ (64,585,368)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of Capital Assets	\$ -	\$ (49,695)
Net Cash Used by Capital and Related Financing Activities	<u>\$ -</u>	<u>\$ (49,695)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Investments	\$ (649,003,025)	\$ (406,412,602)
Proceeds from Sales or Maturities of Investments	652,541,427	471,073,232
Interest on Investments	9,692,205	10,545,071
Arbitrage Rebate Tax (Note 12)	(666,190)	(172,914)
Net Cash Provided (Used) by Investing Activities	<u>\$ 12,564,417</u>	<u>\$ 75,032,787</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 2,818,141	\$ 503,866
Cash and Cash Equivalents, beginning bal.	\$ 4,938,346	\$ 4,434,480
Cash and Cash Equivalents, ending bal.	\$ 7,756,487	\$ 4,938,346

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, 2003 AND 2002

	FY 2003	FY 2002
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 7,973,099	\$ 6,505,119
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</b>		
Depreciation	40,123	51,467
Amortization	1,504,183	1,018,932
Interest Expense	39,401,802	40,521,800
Interest on Investments	(9,655,738)	(10,224,786)
Arbitrage Rebate Tax	299,970	733,928
Bad Debt Allowance	-	50,000
(Incr) Decr in Fair Value of Investments	(2,300,207)	(589,650)
Change in Assets and Liabilities:		
Decr (Incr) in Mortgage Loans Receivable	59,611,933	(48,449,705)
Decr (Incr) in Other Assets	196,312	(214,553)
Incr (Decr) in Accounts Payable	(27,980)	208,735
Incr (Decr) in Deferred Reservation & Disc. Fees	(189,209)	473,277
Incr (Decr) in Compensated Absences Payable	9,445	21,578
Net Cash Provided (Used) by Operating Activities	\$ 96,863,733	\$ (9,893,858)

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, 2003 and 2002**

**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 (\$1.5 billion effective October 1, 2003). 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 include a classified statement of net assets, a statement of revenues, expenses, and changes in net assets that reports operating and nonoperating revenues and expenses, and the statement of cash flows. In addition, the "Management Discussion and Analysis" precedes the financial statements as required supplementary information. 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

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**June 30, 2003 and 2002**

**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 to account 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 to account 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.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**June 30, 2003 and 2002**

**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. Senate Bill 243 of the 2003 Legislature moved the Revolving Loan Account to the enterprise fund effective July 1, 2003. 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

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
 June 30, 2003 and 2002

**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, 2003 and 2002, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

	Category			Totals	
	1	2	3	2003	2002
Program Funds*	\$ 7,598,440	\$ -	\$ -	\$ 7,598,440	\$ 4,788,934
Deposited with State Treasury	158,047	-	-	158,047	149,412
	<u>\$ 7,756,487</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,756,487</u>	<u>\$ 4,938,346</u>

\*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 may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements, and variable rate (floating rate) instruments.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2003 and 2002

**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 fair value of the loaned securities and maintain collateral equal to not less than 100% of the fair value of the loaned security. BOI retains all rights and risks of ownership during the loan period.

During fiscal years 2003 and 2002, 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 2003 and 2002 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 2003 and 2002. More over, there were no losses during fiscal years 2003 and 2002 resulting from a default of the borrowers or State Street.

During fiscal years 2003 and 2002, 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, 2003 and June 30, 2002, BOI had no credit risk exposure to borrowers.

On June 30, 2003 and June 30, 2002, 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, 2003 and 2002 consisted of Category 2 investments:

	2003		2002	
	Reported Amount	Fair Value	Reported Amount	Fair Value
U.S. Treasury	\$ 14,972,133	\$ 15,390,181	\$ 18,299,426	\$ 18,327,053
U.S. Agency	41,681,486	41,692,200	26,436,472	26,415,326
Repurchase Agreements and Investment Contracts – Collateralized	90,956,403	90,956,403	104,112,320	104,112,320
Total	<u>\$ 147,610,022</u>	<u>\$ 148,038,784</u>	<u>\$ 148,848,218</u>	<u>\$ 148,854,699</u>

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

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2003 and 2002

**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:

	2003		2002	
	Single Family Mortgage	Multifamily Mortgage	Single Family Mortgage	Multifamily Mortgage
	Program Funds	Program Funds	Program Funds	Program Funds
Debt Service Reserve Fund	\$ 39,042,375	\$ 1,368,067	\$ 39,582,664	\$ 1,370,191
Mortgage Reserve Fund	3,972,398	176,456	3,970,629	215,695
Total	<u>\$ 43,014,773</u>	<u>\$ 1,544,523</u>	<u>\$ 43,553,293</u>	<u>\$ 1,585,886</u>

As of June 30, 2003 original bond proceeds of \$13,524,109 were still on deposit in the 2002A, 2002B, and 2003A program acquisition funds to be used for the purchase of Single Family Mortgage loans. The proceeds of \$13,524,109 included \$12,463,984 in the 2003A bond issue that was closed on April 30, 2003.

As of June 30, 2003 there was \$32,959,939 in Single Family reservations outstanding in the 2003A and 2003B bond issues. The 2003B bond issue closed on August 14, 2003.

**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:

	2003	2002
Mortgage loan receivables:		
Single Family Program	\$576,062,023	\$635,411,574
Multifamily Program	19,571,681	20,112,660
Housing Trust Program	1,044,158	936,240
Affordable Revolving Loan Account	<u>1,670,679</u>	<u>1,500,000</u>
	598,348,541	657,960,474
Net mortgage discounts and deferred reservation fees	(5,692,995)	(5,882,204)
Allowance for loan losses and real estate owned (note 6)	<u>(300,000)</u>	<u>(300,000)</u>
	<u>\$592,355,546</u>	<u>\$651,778,270</u>

**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, 2001	\$250,000
Provision	93,923
Less: Net loans charged off	<u>(43,923)</u>
Balance, June 30, 2002	300,000
Provision	61,294
Less: Net loans charged off	<u>(61,294)</u>
Balance, June 30, 2003	<u>\$ 300,000</u>

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2003 and 2002

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

The allowance for loan losses includes \$200,000 at June 30, 2003 and 2002 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 twelve real estate owned properties as of June 30, 2003 and five as of June 30, 2002.

**NOTE 7. CAPITAL ASSETS**

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

	2003	2002
Furniture, fixtures, and equipment at cost	\$412,181	\$412,181
Accumulated depreciation	<u>(298,420)</u>	<u>(258,297)</u>
Net capital assets	<u>\$ 113,761</u>	<u>\$ 153,884</u>

Depreciation expense included in general and administrative expense was \$40,124 and \$51,467 for the years ended June 30, 2003 and 2002 respectively.

**NOTE 8. BONDS PAYABLE, NET**

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

	Original Amount	2003	2002
<b>Single Family I Mortgage Bonds:</b>			
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	\$62,405,000	\$72,280,000
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	41,425,000	50,120,000
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	52,075,000	74,300,000
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	61,145,000	68,745,000

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**June 30, 2003 and 2002**

**NOTE 8. BONDS PAYABLE, NET - continued**

	<u>Original Amount</u>	<u>2003</u>	<u>2002</u>
<b>2001</b>			
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	\$60,710,000	\$68,370,000
<b>2002</b>			
Series A-1 and A-2 serial and term bonds 1.70% to 5.60% maturing in scheduled semi-annual installments to December 1, 2022, December 1, 2032 and December 1, 2033.	39,000,000	36,095,000	39,000,000
Series B-1 and B-2 serial and term bonds 2.30% to 5.55% maturing in scheduled semi-annual installments to December 1, 2023, December 1, 2026, December 1, 2032, June 1, 2033, December 1, 2033, And June 1, 2034.	52,190,000	<u>51,540,000</u>	<u>                    -</u>
<b>Total bonds outstanding Single Family I</b>		<u>\$365,395,000</u>	<u>\$372,815,000</u>
<b>Single Family II Mortgage Bonds:</b>			
<b>1983 -</b>			
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	\$ 817,099	\$6,873,533
<b>1985 -</b>			
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	2,668,186	4,048,388
Series B, term bonds maturing in scheduled semi-annual installments to June 1, 2011.	74,996,862	1,080,000	2,200,000
<b>1992 -</b>			
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
<b>1994 -</b>			
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	\$5,040,000	\$7,000,000

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**June 30, 2003 and 2002**

**NOTE 8. BONDS PAYABLE, NET – continued**

	<u>Original Amount</u>	<u>2003</u>	<u>2002</u>
1994-			
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
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	3,840,000	10,870,000
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, 2008 and on December 1, 2014, December 1, 2021, December 1, 2027, and June 1, 2035.	88,000,000	64,680,000	75,000,000
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	28,175,000	40,595,000
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	35,635,000	42,605,000
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	48,700,000	56,945,000
2003-			
Series A-1 and A-2 serial and term bonds 1.20% to 4.90% maturing in scheduled semi-annual installments to December 1, 2024, June 1, 2033, December 1, 2033, June 1, 2034, June 1, 2035, June 1, 2042, and December 1, 2042.	52,520,000	<u>52,520,000</u>	-
Bonds outstanding Single Family II		243,155,285	269,576,921
Unamortized bond premiums		575,946	-
<b>Total bonds outstanding Single Family II</b>		<u>\$243,731,231</u>	<u>\$269,576,921</u>

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2003 and 2002

**NOTE 8. BONDS PAYABLE, NET - continued**

	<u>Original Amount</u>	<u>2003</u>	<u>2002</u>
<b>Single Family III Mortgage Bonds:</b>			
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	\$545,000	\$1,175,000
Subordinate Bonds	1,000,000	-	-
<b>Single Family Mortgage Drawdown Bonds:</b>			
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
<b>Total Single Family Mortgage bonds payable, net</b>		<u>\$609,671,231</u>	<u>\$671,526,921</u>

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 I and II mortgage bonds are general obligation bonds of the Board of Housing within the individual bond indenture. Single Family III mortgage senior bonds are special obligation bonds of the Board of Housing whereas subordinate bonds were general obligation bonds of the Board of Housing. The Single Family Mortgage Drawdown bonds were special obligation bonds of the Board of Housing.

	<u>Original Amount</u>	<u>2003</u>	<u>2002</u>
<b>Multifamily Mortgage Bonds:</b>			
1978 -			
Series A, 6.125% interest, maturing in scheduled annual installments to August 1, 2019.			
	\$4,865,000	\$955,000	\$980,000
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	3,520,000	6,740,000
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	800,000	815,000
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	1,355,000	1,425,000

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2003 and 2002

**NOTE 8. BONDS PAYABLE, NET - continued**

	<u>Original Amount</u>	<u>2003</u>	<u>2002</u>
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	<u>9,295,000</u>	<u>9,455,000</u>
Total bonds outstanding		15,925,000	19,415,000
Unamortized bond premiums		<u>(45,767)</u>	<u>(47,218)</u>
<b>Total Multifamily Mortgage bonds payable, net</b>		<u>\$15,879,233</u>	<u>\$19,367,782</u>
<b>Combined total bonds payable, net</b>		<u>\$625,550,464</u>	<u>\$690,894,703</u>

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.

The following is a primary summary of bond principal and interest requirements as of June 30, 2003:

Year Ending	Single Family	Multifamily	Principal Totals	Interest Totals
	Mortgage Program Funds	Mortgage Program Funds		
2004	\$ 42,538,307	\$ 1,464,355	\$ 9,168,966	\$ 34,833,696
2005	42,459,441	1,422,347	9,662,245	34,219,543
2006	42,337,698	1,424,888	10,040,780	33,721,806
2007	42,674,776	1,425,514	10,875,380	33,224,910
2008	42,811,846	1,423,000	11,558,440	32,676,406
2009-13	216,367,840	6,918,066	70,112,575	153,173,331
2014-18	220,655,553	4,577,602	90,146,899	135,086,256
2019-23	213,925,300	3,973,742	113,355,000	104,544,042
2024-28	209,127,735	3,419,312	144,635,000	67,912,047
2029-33	145,997,572	2,775,437	122,965,000	25,808,009
2034-38	27,178,203	2,743,731	25,065,000	4,856,934
2039-43	6,624,433	1,733,869	7,435,000	923,302
<b>Total</b>	<u>\$ 1,252,698,704</u>	<u>\$ 33,301,863</u>	<u>\$ 625,020,285</u>	<u>\$ 660,980,282</u>

Cash paid for interest expenses during the years ending June 30, 2003 and 2002 was \$38,786,637 and \$40,004,290, respectively.

Changes in Bonds Payable

	7/1/2002 Balance	Increases	Decreases	6/30/2003 Balance
Single Family	\$ 671,526,921	\$ 145,555,356	\$ 207,411,046	\$ 609,671,231
Multi Family	19,367,782	-	3,488,549	15,879,233
<b>Total</b>	<u>\$ 690,894,703</u>	<u>\$ 145,555,356</u>	<u>\$ 210,899,595</u>	<u>\$ 625,550,464</u>

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2003 and 2002

**NOTE 9. LOSS ON REDEMPTION**

During the years ended June 30, 2003 and 2002 the Board redeemed Single Family mortgage program bonds prior to scheduled maturity as follows:

	<u>2003</u>	<u>2002</u>
Single Family I		
December 1	\$17,665,000	\$10,065,000
June 1	<u>38,345,000</u>	<u>15,610,000</u>
	<u>56,010,000</u>	<u>25,675,000</u>
Single Family II		
October 1	-	3,000,000
November 1	950,000	-
December 1	25,396,567	14,039,529
June 1	<u>19,598,496</u>	<u>13,898,968</u>
	<u>45,945,063</u>	<u>30,938,497</u>
Single Family III		
October 1	310,000	280,000
April 1	<u>255,000</u>	<u>295,000</u>
	<u>565,000</u>	<u>575,000</u>
Single Family VIII		
July 1	-	135,000
	-	<u>135,000</u>
Single Family IX		
July 1	-	175,000
	-	<u>175,000</u>
Single Family X		
October 1	-	475,000
April 1	-	240,000
	-	<u>715,000</u>
Multifamily	<u>3,000,000</u>	<u>3,130,000</u>
Total	<u>\$105,520,063</u>	<u>\$61,343,497</u>

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 \$1,038,054 and \$627,490 in 2003 and 2002, respectively.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
June 30, 2003 and 2002

**NOTE 10. COMMITMENTS**

The Board has reserved and is in the process of purchasing Single Family Mortgages of approximately \$14,186,618 from the issuance of the 2003 Series A Bonds and \$18,773,321 from the issuance of the 2003 Series B bonds.

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

HUD Section 184-Indian Housing	\$ 368,695
Glacier Affordable Housing Program	1,700,429
City of Billings	2,056,685
Neighborhood Housing Services MT Home Ownership Network	3,504,662
Neighborhood Housing Services MT Home Ownership Network (Subordinate Loan)	1,616,172
Habitat for Humanity	1,245,122
City of Terry	89,510
City of Lewistown	420,000
City of Missoula	1,885,340
County of Missoula	1,885,340
First Time Homebuyers Savings Account	453,720
USDA Rural Housing Development	1,481,817
Native American Housing Loan Guarantee	986,240
Dream Montana Project	778,321
District XI Human Resource Council	600,000
Lot Refinance	1,000,000
Rocky Mountain Development Council – Great Hope	1,400,000
Disabled Affordable Accessible Homeownership Program	<u>426,790</u>
Total Single Family commitments	<u>\$21,898,843</u>
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)	\$244,644
Total Multifamily Commitments	
The Board has committed Housing Trust Funds as noted below:	
Reverse Annuity Mortgage Program	\$1,150,125
Affordable Revolving Loan Account funds committed by the Board:	
Franklin School	\$300,000
Main Street Apartments	<u>65,000</u>
Total AHRLA commitments	<u>\$365,000</u>

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.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**June 30, 2003 and 2002**

**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 2003 expressed as a percentage of covered payroll are as follows:

<u>Employee</u>	<u>Employer</u>	<u>Total</u>
6.90%	6.90%	13.80%

The amounts contributed to the plan during the years ended June 30, 2001, 2002, and 2003 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	2001 - \$28,107
Fiscal Year	2002 - \$35,328
Fiscal Year	2003 - \$40,152

**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 \$666,190 in arbitrage rebate cash payments to the Treasury Department in fiscal year 2003. During fiscal year ended June 30, 2002, there was \$172,914 in arbitrage rebate cash payments to the Treasury Department. The liabilities are \$1,136,728 and \$1,502,948 as of June 30, 2003 and 2002, respectively.

**NOTE 13. SUBSEQUENT EVENTS**

On August 14, 2003, the board issued \$70,700,000 in bonds under the Single Family II Indenture. \$20,000,000 of the proceeds were used for a replacement refunding of a portion of the Series 1995 B-1 bonds on September 1, 2003. In addition, \$16,695,000 of Single Family II Indenture bonds were redeemed with prepayments on mortgages on October 1, 2003.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**June 30, 2003 and 2002**

**NOTE 14. REFUNDING AND DEFERRED BOND ISSUANCE COSTS**

On April 30, 2003, Series 2003A was issued in the amount of \$52,520,000. In conjunction with the issuance of the 2003A bonds, the Board refunded the 1992RA bond issue on June 1, 2003.

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 2003 Refunding:**

Cost of Issuance related to the refunded bonds (92RA)	\$163,189
Premium paid on the refunded bonds (92RA)	<u>399,700</u>
Total deferred refunding costs	562,889
Less amortization FY 2003	<u>(11,037)</u>
Amount remaining to be amortized on FY 2003 issues	\$551,852

**Prior years' Refundings:**

Unamortized Deferred refunding costs from prior years' refunding	<u>\$909,537</u>
--	------------------

**Total unamortized** \$1,461,389

The refunding of the 1992RA bonds resulted in an economic gain of \$2,429,314 and a difference in cash flows of (\$18,358,053). The refunding issue is at a substantially lower interest rate, but a negative cash flow resulted because the debt service payments of the refunding debt were extended for 10 years beyond the debt service payments of the refunded debt.

**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, 2003 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2002)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture III	Single Family Drawdown
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and Cash Equivalents	\$ 3,039,163	\$ 2,484,535	\$ 22,425	\$ 3,356
Investments	2,619,505	27,208,963	-	-
Mortgage Loans Receivable	5,273,658	4,431,829	49,291	-
Interest Receivable	2,497,801	2,068,419	16,957	-
Due from State Government	1,283	1,283	-	-
Prepaid Expense	91,209	76,058	-	-
<b>Total Current Assets</b>	<b>\$ 13,522,619</b>	<b>\$ 36,271,087</b>	<b>\$ 88,673</b>	<b>\$ 3,356</b>
<b>Noncurrent Assets</b>				
Investments	\$ 49,362,179	\$ 63,783,919	\$ 388,239	\$ -
Mortgage Loans Receivable	337,029,007	222,434,520	924,549	-
Deferred Bond Issuance Costs, Net	3,677,127	2,376,340	4,945	-
Capital Assets, Net	49,205	61,764	-	-
<b>Total Noncurrent Assets</b>	<b>\$ 390,117,518</b>	<b>\$ 288,656,543</b>	<b>\$ 1,317,733</b>	<b>\$ -</b>
<b>TOTAL ASSETS</b>	<b>\$ 403,640,137</b>	<b>\$ 324,927,630</b>	<b>\$ 1,406,406</b>	<b>\$ 3,356</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts Payable	\$ 234,519	\$ 218,656	\$ 1,044	\$ -
Due to State Government	10,529	10,529	-	-
Due to Other Component Unit	1,824	1,824	-	-
Property Held in Trust	-	708,755	-	-
Accrued Interest - Bonds Payable	1,703,234	1,307,340	10,595	-
Bonds Payable, Net	4,315,000	4,313,966	30,000	-
Arbitrage Rebate Payable to U.S. Treasury Department	-	461,684	-	1,729
Accrued Compensated Absences	21,866	21,866	-	-
<b>Total Current Liabilities</b>	<b>\$ 6,286,972</b>	<b>\$ 7,044,620</b>	<b>\$ 41,639</b>	<b>\$ 1,729</b>
<b>Noncurrent Liabilities</b>				
Bonds Payable, Net	\$ 361,080,000	\$ 239,417,265	\$ 515,000	\$ -
Deferred Refunding Costs	(1,028,913)	(432,476)	-	-
Arbitrage Rebate Payable to U.S. Treasury Department	422,906	250,409	-	-
Accrued Compensated Absences	12,791	12,791	-	-
<b>Total Noncurrent Liabilities</b>	<b>\$ 360,486,784</b>	<b>\$ 239,247,989</b>	<b>\$ 515,000</b>	<b>\$ -</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 366,773,756</b>	<b>\$ 246,292,609</b>	<b>\$ 556,639</b>	<b>\$ 1,729</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net	\$ 49,205	\$ 61,764	\$ -	\$ -
<b>Restricted for Bondholders:</b>				
Unrealized (losses) gains on investments	-	3,862,207	-	-
Single Family Programs	29,114,980	60,164,403	849,767	1,627
Various Recycled Mortgage Programs	7,352,196	14,546,647	-	-
Multifamily Programs	-	-	-	-
Multifamily Project Commitments	-	-	-	-
Reverse Annuity Mortgage Program	350,000	-	-	-
Restricted for Affordable Revolving Loan Program	-	-	-	-
Revolving Loan Program Commitments	-	-	-	-
<b>TOTAL NET ASSETS</b>	<b>\$ 36,866,381</b>	<b>\$ 78,635,021</b>	<b>\$ 849,767</b>	<b>\$ 1,627</b>

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
COMBINING STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2003 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2002)

SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only)	
				FY 2003	FY 2002
\$ 5,549,479	\$ 169,142	\$ 1,626,899	\$ 410,967	\$ 7,756,487	\$ 4,938,346
29,828,468	3,146,730	-	-	32,975,198	42,223,135
9,754,778	541,626	-	-	10,296,404	10,754,012
4,583,177	178,744	224,046	42,359	5,028,326	5,260,307
2,566	36	32	-	2,634	-
167,267	4,103	3,255	-	174,625	175,491
<u>\$ 49,885,735</u>	<u>\$ 4,040,381</u>	<u>\$ 1,854,232</u>	<u>\$ 453,326</u>	<u>\$ 56,233,674</u>	<u>\$ 63,351,291</u>
\$ 113,534,337	\$ 1,240,487	\$ -	\$ -	\$ 114,774,824	\$ 106,765,083
560,388,076	18,956,229	1,044,158	1,670,679	582,059,142	641,024,258
6,058,412	245,638	-	-	6,304,050	6,702,516
110,969	1,396	1,396	-	113,761	153,883
<u>\$ 680,091,794</u>	<u>\$ 20,443,750</u>	<u>\$ 1,045,554</u>	<u>\$ 1,670,679</u>	<u>\$ 703,251,777</u>	<u>\$ 754,645,740</u>
\$ 729,977,529	\$ 24,484,131	\$ 2,899,786	\$ 2,124,005	\$ 759,485,451	\$ 817,997,031
\$ 454,219	\$ 11,349	\$ 10,543	\$ -	\$ 476,111	\$ 471,978
21,058	3,849	2,826	-	27,733	68,659
3,648	-	-	-	3,648	-
708,755	750	-	-	709,505	525,295
3,021,169	400,882	-	-	3,422,051	3,866,992
8,658,966	510,000	-	-	9,168,966	37,972,760
463,413	-	-	-	463,413	569,833
43,732	8,484	5,047	-	57,263	46,894
<u>\$ 13,374,960</u>	<u>\$ 935,314</u>	<u>\$ 18,416</u>	<u>\$ -</u>	<u>\$ 14,328,690</u>	<u>\$ 43,522,411</u>
\$ 601,012,265	\$ 15,369,233	\$ -	\$ -	\$ 616,381,498	\$ 652,921,943
(1,461,389)	-	-	-	(1,461,389)	(971,600)
673,315	-	-	-	673,315	933,115
25,582	4,963	2,953	-	33,498	34,422
<u>\$ 600,249,773</u>	<u>\$ 15,374,196</u>	<u>\$ 2,953</u>	<u>\$ -</u>	<u>\$ 615,626,922</u>	<u>\$ 652,917,880</u>
\$ 613,624,733	\$ 16,309,510	\$ 21,369	\$ -	\$ 629,955,612	\$ 696,440,291
\$ 110,969	\$ 1,396	\$ 1,396	\$ -	\$ 113,761	\$ 153,883
3,862,207	(56,665)	-	-	\$ 3,805,542	1,505,336
90,130,777	-	1,726,896	-	\$ 91,857,673	89,527,524
21,898,843	-	-	-	\$ 21,898,843	18,706,508
-	7,985,246	-	-	\$ 7,985,246	7,726,557
-	244,644	-	-	\$ 244,644	228,330
350,000	-	1,150,125	-	\$ 1,500,125	1,666,924
-	-	-	1,759,005	\$ 1,759,005	1,898,678
-	-	-	365,000	\$ 365,000	143,000
<u>\$ 116,352,796</u>	<u>\$ 8,174,621</u>	<u>\$ 2,878,417</u>	<u>\$ 2,124,005</u>	<u>\$ 129,529,839</u>	<u>\$ 121,556,740</u>

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, 2003 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2002)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture III	Single Family Drawdown	SINGLE FAMILY PROGRAM FUND TOTALS
<b>OPERATING REVENUES</b>					
Interest Income - Mortgage Loans	\$ 23,797,822	\$ 15,549,972	\$ 137,346	\$ -	\$ 39,485,140
Interest Income - Investments	3,711,455	5,379,685	25,526	341,990	9,458,656
Fee Income	22,903	9,855	-	-	32,758
Federal Financial Assistance	-	-	-	-	-
Net Increase (Decrease) in Fair Value of Investments	-	2,323,607	-	-	2,323,607
Grants and Contributions	750	750	-	-	1,500
Other Income	4,914	4,914	-	-	9,828
Securities Lending Income	-	-	-	-	-
Total Operating Revenues	<u>\$ 27,537,844</u>	<u>\$ 23,268,783</u>	<u>\$ 162,872</u>	<u>\$ 341,990</u>	<u>\$ 51,311,489</u>
<b>OPERATING EXPENSES</b>					
Interest on Bonds	\$ 22,623,582	\$ 15,280,672	\$ 65,678	\$ 341,858	\$ 38,311,790
Servicer Fees	1,377,985	897,014	5,896	-	2,280,895
Contracted Services	263,887	238,971	845	-	503,703
Amortization of Bond Issuance Costs	310,195	134,220	736	-	445,151
General and Administrative	483,914	489,688	-	-	973,602
Securities Lending Expense	-	-	-	-	-
Arbitrage Rebate Expense	48,013	250,228	-	1,729	299,970
Loss on Redemption	564,068	434,380	5,281	-	1,003,729
Total Operating Expenses	<u>\$ 25,671,644</u>	<u>\$ 17,725,173</u>	<u>\$ 78,436</u>	<u>\$ 343,587</u>	<u>\$ 43,818,840</u>
Operating Income (Loss) Before Transfers	1,866,200	5,543,610	84,436	(1,597)	7,492,649
Transfer from Primary Government	-	-	-	-	-
Increase (Decrease) in Net Assets	1,866,200	5,543,610	84,436	(1,597)	7,492,649
Net Assets, Beginning of Year	<u>35,000,181</u>	<u>73,091,411</u>	<u>765,331</u>	<u>3,224</u>	<u>108,860,147</u>
Net Assets, End of Year	<u>\$ 36,866,381</u>	<u>\$ 78,635,021</u>	<u>\$ 849,767</u>	<u>\$ 1,627</u>	<u>\$ 116,352,796</u>

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, 2003 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2002)

MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only)	
			FY 2003	FY 2002
\$ 1,277,367	\$ 58,207	\$ 31,687	\$ 40,852,401	\$ 41,605,273
168,572	20,681	7,829	9,655,738	10,224,635
-	197,114	-	229,872	234,504
239,355	-	2,816	242,171	240,140
(23,400)	-	-	2,300,207	589,650
-	-	41,233	42,733	-
36	32	-	9,896	5,167
-	-	-	-	1,437
<u>\$ 1,661,930</u>	<u>\$ 276,034</u>	<u>\$ 83,565</u>	<u>\$ 53,333,018</u>	<u>\$ 52,900,806</u>
\$ 1,093,558	\$ -	\$ -	\$ 39,405,348	\$ 40,521,800
20,493	-	-	2,301,388	2,285,778
39,016	7,216	1,238	551,173	556,904
17,432	-	-	462,583	391,443
205,832	121,969	-	1,301,403	1,277,057
-	-	-	-	1,287
-	-	-	299,970	733,928
34,325	-	-	1,038,054	627,490
<u>\$ 1,410,656</u>	<u>\$ 129,185</u>	<u>\$ 1,238</u>	<u>\$ 45,359,919</u>	<u>\$ 46,395,687</u>
251,274	146,849	82,327	7,973,099	6,505,119
-	-	-	-	500,000
251,274	146,849	82,327	7,973,099	7,005,119
<u>7,923,347</u>	<u>2,731,568</u>	<u>2,041,678</u>	<u>121,556,740</u>	<u>114,551,621</u>
<u>\$ 8,174,621</u>	<u>\$ 2,878,417</u>	<u>\$ 2,124,005</u>	<u>\$ 129,529,839</u>	<u>\$ 121,556,740</u>

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2003 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2002)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture III	Single Family Drawdown
<b>CASH FLOWS FROM OPERATING ACTIVITY</b>				
Receipts for Sales and Services	\$ 22,903	\$ 9,855	\$ -	\$ -
Collections on Loans and Interest on Loans	102,458,905	80,393,448	791,368	-
Cash payments for Loans	(61,420,505)	(23,311,675)	-	-
Federal Financial Assistance Receipts	-	-	-	-
Receipts for Grants and Contributions	750	750	-	-
Payments to Suppliers for Goods and Services	(1,837,551)	(1,320,380)	(6,914)	-
Payments to Employees	(287,328)	(287,328)	-	-
Other Operating Revenues	4,914	4,914	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 38,942,088</u>	<u>\$ 55,489,584</u>	<u>\$ 784,454</u>	<u>\$ -</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Payment of Principal and Interest on Bonds and Notes	\$ (82,628,198)	\$ (94,164,374)	\$ (707,910)	\$ (67,556,858)
Proceeds from Issuance of Bonds and Notes	51,668,100	53,092,400	-	39,255,000
Payment of Bond Issuance Costs	(585,154)	(615,727)	-	-
Premium Paid on Refunding Bonds	-	(399,700)	-	-
Good Faith Deposit being Held	-	707,000	-	-
Due to (from) Other Funds	(4,695,747)	4,695,747	-	-
Transfers in (out)	-	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ (36,240,999)</u>	<u>\$ (36,684,654)</u>	<u>\$ (707,910)</u>	<u>\$ (28,301,858)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition of Capital Assets	\$ -	\$ -	\$ -	\$ -
Net Cash Used by Capital and Related Financing Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of Investments	\$ (293,158,938)	\$ (308,020,783)	\$ (774,714)	\$ (39,259,590)
Proceeds from Sales or Maturities of Investments	288,575,116	285,642,184	674,225	67,219,590
Interest on Investments	3,735,646	5,377,741	24,757	341,990
Arbitrage Rebate Tax	(236,042)	(430,148)	-	-
Net Cash Provided (Used) by Investing Activities	<u>\$ (1,084,218)</u>	<u>\$ (17,431,006)</u>	<u>\$ (75,732)</u>	<u>\$ 28,301,990</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,616,871	\$ 1,373,924	\$ 812	\$ 132
Cash and Cash Equivalents, beginning bal.	\$ 1,422,292	\$ 1,110,611	\$ 21,613	\$ 3,224
Cash and Cash Equivalents, ending bal.	\$ 3,039,163	\$ 2,484,535	\$ 22,425	\$ 3,356

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2003 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2002)

SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only)	
				FY 2003	FY 2002
\$ 32,758	\$ -	\$ 197,114	\$ -	\$ 229,872	\$ 192,133
183,643,721	1,820,454	194,261	1,882	185,660,318	126,111,782
(84,732,180)	-	(274,265)	(183,233)	(85,189,678)	(132,645,941)
-	239,355	-	2,816	242,171	240,140
1,500	-	-	41,233	42,733	-
(3,164,845)	(150,557)	(58,261)	(1,238)	(3,374,901)	(3,142,506)
(574,656)	(114,846)	(67,176)	-	(756,678)	(654,733)
9,828	36	32	-	9,896	5,267
<u>\$ 95,216,126</u>	<u>\$ 1,794,442</u>	<u>\$ (8,295)</u>	<u>\$ (138,540)</u>	<u>\$ 96,863,733</u>	<u>\$ (9,893,858)</u>
\$ (245,057,340)	\$ (4,674,588)	\$ -	\$ -	\$ (249,731,928)	\$ (153,774,013)
144,015,500	-	-	-	144,015,500	89,180,000
(1,200,881)	-	-	-	(1,200,881)	(591,555)
(399,700)	-	-	-	(399,700)	(421,700)
707,000	-	-	-	707,000	521,900
-	-	-	-	-	-
-	-	-	-	-	500,000
<u>\$ (101,935,421)</u>	<u>\$ (4,674,588)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (106,610,009)</u>	<u>\$ (64,585,368)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ (49,695)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ (49,695)
\$ (641,214,025)	\$ (7,789,000)	\$ -	\$ -	\$ (649,003,025)	\$ (406,412,602)
642,111,115	10,430,312	-	-	652,541,427	471,073,232
9,480,134	183,561	20,681	7,829	9,692,205	10,545,071
(666,190)	-	-	-	(666,190)	(172,914)
<u>\$ 9,711,034</u>	<u>\$ 2,824,873</u>	<u>\$ 20,681</u>	<u>\$ 7,829</u>	<u>\$ 12,564,417</u>	<u>\$ 75,032,787</u>
\$ 2,991,739	\$ (55,273)	\$ 12,386	\$ (130,711)	\$ 2,818,141	\$ 503,866
\$ 2,557,740	\$ 224,415	\$ 1,614,513	\$ 541,678	\$ 4,938,346	\$ 4,434,480
\$ 5,549,479	\$ 169,142	\$ 1,626,899	\$ 410,967	\$ 7,756,487	\$ 4,938,346

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2003 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2002)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture III	Single Family Drawdown
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating Income	\$ 1,866,200	\$ 5,543,610	\$ 84,436	\$ (1,597)
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</b>				
Depreciation	17,897	21,570	-	-
Amortization	874,263	572,146	6,017	-
Interest Expense	22,623,582	15,277,126	65,678	341,858
Interest on Investments	(3,711,455)	(5,379,685)	(25,526)	(341,990)
Arbitrage Rebate Tax	48,013	250,228	-	1,729
Bad Debt Allowance	-	-	-	-
(Incr) Decr in Fair Value of Investments	-	(2,323,607)	-	-
Change in Assets and Liabilities:				
Decr (Incr) in Mortgage Loans Receivable	17,103,416	41,592,338	653,797	-
Decr (Incr) in Other Assets	(37,282)	298,913	3,924	-
Incr (Decr) in Accounts Payable	(18,767)	(7,439)	(173)	-
Incr (Decr) in Deferred Reservation & Disc. Fees	173,550	(358,287)	(3,699)	-
Incr (Decr) in Compensated Absences Payable	2,671	2,671	-	-
Net Cash Provided by (Used for) Operating Activities	<u>\$ 38,942,088</u>	<u>\$ 55,489,584</u>	<u>\$ 784,454</u>	<u>\$ -</u>

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2003 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2002)

SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	AFFORDABLE REVOLVING LOAN ACCT	Combined Totals (Memorandum Only)	
				FY 2003	FY 2002
\$ 7,492,649	\$ 251,274	\$ 146,849	\$ 82,327	\$ 7,973,099	\$ 6,505,119
39,467	328	328	-	40,123	51,467
1,452,426	51,757	-	-	1,504,183	1,018,932
38,308,244	1,093,558	-	-	39,401,802	40,521,800
(9,458,656)	(168,572)	(20,681)	(7,829)	(9,655,738)	(10,224,786)
299,970	-	-	-	299,970	733,928
-	-	-	-	-	50,000
(2,323,607)	23,400	-	-	(2,300,207)	(589,650)
59,349,551	540,979	(107,918)	(170,679)	59,611,933	(48,449,705)
265,555	2,372	(29,256)	(42,359)	196,312	(214,553)
(26,379)	(4,172)	2,571	-	(27,980)	208,735
(188,436)	(773)	-	-	(189,209)	473,277
5,342	4,291	(188)	-	9,445	21,578
<u>\$ 95,216,126</u>	<u>\$ 1,794,442</u>	<u>\$ (8,295)</u>	<u>\$ (138,540)</u>	<u>\$ 96,863,733</u>	<u>\$ (9,893,858)</u>

**MONTANA**  
*Department of Commerce*

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

**RECEIVED**  
NOV 03 2003  
**LEGISLATIVE AUDIT DIV.**

November 3, 2003

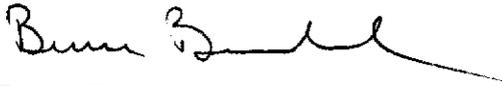
Scott A. Seacat  
Legislative Auditor  
Room 135, State Capitol  
PO Box 201705  
Helena MT 59620-1705

Dear Mr. Seacat:

Thank you for the opportunity to respond to the Audit Report on the 2002-2003 Board of Housing Financial Statements. We are pleased with the unqualified opinion. We appreciate the hard work the staff has put into the Board audit. We realize our audit is complicated due to the unique nature of our operation, and appreciate you and your staff's willingness to do all of the "special" work that goes along with our operation.

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

Sincerely,



Bruce Brensdaal  
Executive Director