



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

# *Montana Board of Housing*

*For the Two Fiscal Years Ended  
June 30, 2008*

NOVEMBER 2008

LEGISLATIVE AUDIT  
DIVISION

08-07A

**LEGISLATIVE AUDIT  
COMMITTEE**

**REPRESENTATIVES**

BILL BECK  
BILL GLASER  
BETSY HANDS  
HAL JACOBSON, VICE CHAIR  
JOHN SINRUD  
BILL WILSON

**SENATORS**

JOE BALLYEAT, CHAIR  
GREG BARKUS  
STEVE GALLUS  
DAVE LEWIS  
LYNDA MOSS  
MITCH TROPILA

**AUDIT STAFF**

**FINANCIAL-COMPLIANCE**

JENNIFER ERDAHL  
JOHN FINE  
GERI HOFFMAN  
MELISSA SOLDANO  
LENA TAMCKE

**FRAUD HOTLINE  
HELP ELIMINATE FRAUD,  
WASTE, AND ABUSE IN  
STATE GOVERNMENT. CALL  
THE FRAUD HOTLINE AT:**

(STATEWIDE)  
1-800-222-4446  
(IN HELENA)  
444-4446

**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 Government Accountability 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, 2007, was issued January 23, 2008. The Single Audit Report for the two fiscal years ended June 30, 2009, will be issued by March 31, 2010. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
Room 277, State Capitol  
P.O. Box 200802  
Helena, MT 59620-0802

Legislative Audit Division  
Room 160, State Capitol  
P.O. Box 201705  
Helena, MT 59620-1705

Direct comments or inquiries to:

Legislative Audit Division  
Room 160, State Capitol  
P.O. Box 201705  
Helena, MT 59620-1705  
(406) 444-3122

Reports can be found in electronic format at:

<http://leg.mt.gov/audit>

# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

November 2008

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Board of Housing (board) for the two fiscal years ended June 30, 2008. The report contains one recommendation related to the internal control over financial statement preparation at the board.

The board's written response to the audit recommendation is included in the back of the audit report on page B-3. We thank the executive director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor



## TABLE OF CONTENTS

Figures and Tables .....	ii
Appointed and Administrative Officials .....	iii
Report Summary .....	S-1
<b>CHAPTER I – INTRODUCTION AND BACKGROUND.....</b>	<b>1</b>
Introduction .....	1
Background .....	1
<b>CHAPTER II – FINDINGS AND RECOMMENDATIONS .....</b>	<b>3</b>
Internal Control .....	3
<b>INDEPENDENT AUDITOR’S REPORT .....</b>	<b>A-1</b>
Independent Auditor’s Report .....	A-3
<b>MONTANA BOARD OF HOUSING MANAGEMENT’S DISCUSSION AND ANALYSIS, FINANCIAL STATEMENTS, NOTES, REQUIRED SUPPLEMENTARY INFORMATION, AND SUPPLEMENTAL INFORMATION</b>	
Management’s Discussion and Analysis .....	A-5
Statement of Net Assets As of June 30, 2008 and 2007 .....	A-7
Statement of Revenues, Expenses, and Changes in Net Assets For the Years Ended June 30, 2008 and 2007 .....	A-8
Statement of Cash Flows For the Years Ended June 30, 2008 and 2007 .....	A-10
Notes to the Financial Statements .....	A-12
Required Supplementary Information	
Schedule of Funding Progress for Board of Housing .....	A-32
Combining Statement of Net Assets As of June 30, 2008 .....	A-33
Combining Statement of Revenues, Expenses, and Changes in Net Assets For the Year Ended June 30, 2008 .....	A-34
Combining Statement of Cash Flows For the Year Ended June 30, 2008 .....	A-35
<b>BOARD RESPONSE .....</b>	<b>B-1</b>
Montana Board of Housing .....	B-3

## FIGURES AND TABLES

### Tables

Table 1	Delinquency and Foreclosure Rates .....	2
---------	---	---

## APPOINTED AND ADMINISTRATIVE OFFICIALS

<b>Montana Board of Housing</b>		<u>Term Expires</u>
J.P. Crowley, Chair	Helena	2009
Betsy Scanlin, Vice Chair	Red Lodge	2009
Susan Moyer, Secretary	Kalispell	2011
Audrey Black Eagle	Lodge Grass	2009
Robert Gauthier	Polson	2011
Jeanette McKee	Hamilton	2011
Jeff Rupp	Bozeman	2009

### **Administrative Officials:**

#### **Department of Commerce**

Anthony J. Preite, Director

Andrew Poole, Deputy Director

#### **Board of Housing**

Bruce Brensdal, Executive Director

Charles Nemece, Accounting and Finance Manager

Gerald Watne, Multifamily Program Manager

Nancy Leifer, Single Family Program Manager

For additional information concerning the Montana Board of Housing, contact:

Bruce Brensdal, Executive Director  
 P.O. Box 200528  
 Helena, MT 59620-0528  
 (406) 841-2840  
 e-mail: [bbrensdal@mt.gov](mailto:bbrensdal@mt.gov)



# REPORT SUMMARY

## **Montana Board of Housing**

This report documents the results of our financial-compliance audit of the Montana Board of Housing (board) for the two fiscal years ended June 30, 2008. The report contains one recommendation related to internal control over financial statement preparation. The previous audit report contained no recommendations.

Board personnel prepare the financial statements using the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) with adjustment. Adjustments are made to more accurately present financial activity to the readers of the statements. We issued an unqualified opinion on the financial statements presented in this report, which means the reader can rely on the financial information presented.

The listing below serves as a means of summarizing the recommendation contained in the report, the board’s response thereto, and a reference to the supporting comments.

<u>Recommendation #1</u> .....	3
We recommend the board enhance and implement written internal control procedures in accordance with state policy over the preparation and review of its financial statements and notes.	
Board Response: Concur .....	B-3.



# Chapter I – Introduction and Background

## **Introduction**

We performed a financial-compliance audit of the Montana Board of Housing (board) for the two fiscal years ended June 30, 2008. The objectives of our audit were to:

- ♦ Determine whether the board complied with selected laws and regulations.
- ♦ Obtain an understanding of the board’s control systems to the extent necessary to support our audit of the board’s financial statements and, if appropriate, make recommendations for improvement in management and internal controls of the board.
- ♦ Determine whether the financial statements prepared by board personnel fairly present the results of operations in conformity with generally accepted accounting principles, for the fiscal years ending June 30, 2008, and 2007.

The financial statements are prepared using the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) with adjustment. Adjustments are made to accurately present financial activity to the readers of the statements. As such, a reader should not expect these financial statements to agree in all instances to the state’s primary accounting records.

This report contains one recommendation to the board. Other areas of concern deemed not to have a significant effect on the successful operations 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 have disclosed the cost, if significant, of implementing this recommendation.

## **Background**

The Montana 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. The 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, make loans for rental housing projects, administering federal housing tax credit programs and working in partnership with other housing providers throughout Montana. Mortgage loans are primarily for first-time homebuyers. As of June 30, 2008, the maximum income limitations for homebuyers to qualify for a mortgage loan generally ranged from \$53,600 to \$77,560. The maximum purchase price for a qualifying property generally ranged from \$237,031 to \$289,705, with the maximum Federal Housing Administration (FHA) loan amount generally limited to \$200,160. During fiscal year 2007-08, the board made a total of 1,611 mortgage loans with an

average loan amount of \$125,734 to borrowers whose average income was \$40,480. The largest first mortgage loan made was for \$236,700 and the smallest was for \$15,225.

The board portfolio of loans has a low rate of default and potential foreclosure. The following table compares the delinquency and foreclosure rates of board loans to the averages of all mortgage loans in Montana, in the Mountain Region, and in the nation as a whole.

**Table 1**  
**Delinquency and Foreclosure Rates**

As of June 30, 2008	30 days delinquent	60 days delinquent	90 days delinquent	Foreclosure in process
MBOH	1.01%	.32%	.51%	.46%
Montana mortgage loans	1.88%	.63%	.54%	.93%
Mountain Region	2.62%	1.09%	1.49%	2.63%
United States	3.23%	1.24%	1.75%	2.75%

**Source: Compiled by the Montana Board of Housing.**

In addition to the annual financial audit of the board, our office performs special engagements for the board 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 loan servicers to assist the board in evaluation the mortgage receivable information provided by the board's loan servicers, and to determine compliance with contract requirements.

## Chapter II – Findings and Recommendations

### Internal Control

---

**The board does not have adequate written documentation explaining the process for preparing the financial statements and notes, and review of the information.**

---

According to state accounting policy, an entity's management is responsible for establishing and maintaining internal controls. Internal controls are policies and procedures used by managers to ensure that their programs operate efficiently and effectively. Internal control policies and procedures are designed to safeguard agency assets, check the accuracy and reliability of financial data, promote operational efficiency, and encourage adherence to prescribed managerial policies and compliance with applicable laws and regulations. Management is responsible for the extent of the efficiency and effectiveness of internal controls, as well as any deficiencies.

While reviewing the financial statement information, we noted an error between current and noncurrent investment amounts for fiscal year 2007-08 reported on the Statement of Net Assets. At the time of the financial statement preparation, board management did not have adequate written procedures in place outlining the process for preparing the financial statements and notes, and review of the information once prepared. By not having written procedures for the preparation and review of the financial statements, there is risk that errors could occur and not be detected by management. Had procedures been in place this error may have been detected by management. This error has been corrected by management in the financial statements included in this report.

According to board management, they were short-staffed during the preparation process, and drafted written procedures regarding the preparation and review of the financial statements and notes in October 2008.

---

#### **RECOMMENDATION #1**

*We recommend the board enhance and implement written internal control procedures in accordance with state policy over the preparation and review of its financial statements and notes.*

---



# Independent Auditor's Report



Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

## 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, 2008, and 2007, and the related Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows for each of 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, 2008, and 2007, and the results of its operations and cash flows for each of 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, and the Schedule of Funding Progress are not a required part of the financial statements, but supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires 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 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, 2008, with comparative totals as of June 30, 2007,

A-4

and the related Combining Statement of Revenues, Expenses, and Changes in Net Assets and Combining Statement of Cash Flows for the fiscal years 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,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

November 5, 2008

**Montana Board of Housing  
Management's Discussion and Analysis,  
Financial Statements, Notes, Required Supplementary  
Information, and Supplemental Information**



**Montana Board of Housing  
A Component Unit of the State of Montana  
Management's Discussion and Analysis  
Year Ended June 30, 2008**

The following information presents our discussion and analysis of the Board of Housing's financial performance during the fiscal year ended June 30, 2008. Please read this section in conjunction with the financial statements and accompanying notes.

**Financial Summary**

- 1,611 single-family mortgages were originated for \$202 million.
- \$2,325,000 of Low Income Tax Credits were allocated providing approximately \$21 million of equity to produce or preserve 204 units of affordable rental housing.
- 22 new Reverse Annuity Mortgage (RAM) Loans were originated bringing the total active RAM loans to 90. Since its inception the RAM program has assisted 166 elderly households.
- Total debt increased by \$109 million.
- Total debt retired was \$76 million.
- Total outstanding debt increased from \$917 million to \$949 million.
- Net Assets increased by \$7 million during the 2008 fiscal year (see Condensed Financial Information on the following page)

**Overview of the Financial Statements**

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

The Net Assets – Restricted for Bondholders represent bond program funds that are pledged as collateral for the bondholders and are restricted by federal tax law to costs directly related to carrying out qualifying housing programs, qualifying mortgages or paying off bonds. These funds are therefore not available for use for other activities.

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

Montana Board of Housing  
**Condensed Financial Information**  
 Change in Net Assets and Operating Income  
 Years ended June 30, 2008, 2007 and 2006

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Assets:</b>			
Current Assets	(1) \$ 158,944,697	\$ 233,646,575	\$ 203,133,566
Noncurrent Assets	(2) 947,175,785	833,539,558	745,299,548
Total Assets	\$ 1,106,120,482	\$ 1,067,186,133	\$ 948,433,114
<b>Liabilities:</b>			
Current Liabilities	\$ 19,858,301	\$ 17,139,993	\$ 15,034,303
Noncurrent Liabilities	(3) 933,167,058	903,808,300	793,399,678
Total Liabilities	\$ 953,025,359	\$ 920,948,293	\$ 808,433,981
<b>Net Assets:</b>			
Invested in Capital Assets	\$ 37,266	\$ 52,210	\$ 55,004
Restricted	(4) 153,057,857	146,185,630	139,944,129
Total Net Assets	\$ 153,095,123	\$ 146,237,840	\$ 139,999,133
<b>Operating Revenue:</b>			
Interest on Loans	(5) \$ 49,778,839	\$ 44,069,482	\$ 38,553,706
Earnings from Investments	10,463,665	10,523,898	6,620,427
Fees and Charges	808,702	759,513	980,177
Total Operating Revenue	\$ 61,051,206	\$ 55,352,893	\$ 46,154,310
<b>Operating Expenses:</b>			
Bond Expenses	(6) \$ 47,688,350	\$ 43,462,165	\$ 38,883,157
Servicing Fees	3,229,345	2,860,236	2,534,835
General and Administrative	3,276,228	2,791,514	2,685,985
Total Expenses	\$ 54,193,923	\$ 49,113,915	\$ 44,103,977
Operating Income	\$ 6,857,283	\$ 6,238,978	\$ 2,050,333
Payment to Primary Government	-	(271)	
Increase (Decrease) in Net Assets	\$ 6,857,283	\$ 6,238,707	\$ 2,050,333
Net Assets, Beginning of Year	146,237,840	139,999,133	137,960,360
Prior Period Adjustment	0	0	(11,560)
Net Assets, End of Year	\$ 153,095,123	\$ 146,237,840	\$ 139,999,133

Discussion of Changes between 2008 and 2007

- (1) Current assets decreased by \$59 million between 2008 and 2007 because in 2007 the Board was holding unexpended 2007B bond proceeds as current assets. The Board was not holding comparable amounts of bond proceeds in 2008.
- (2) Mortgages Receivable increased \$98 million between years causing the increase in noncurrent assets.
- (3) Noncurrent Liabilities increased \$29 million which is wholly attributable to increased Bonds Payable amount caused by the board issuing new bonds during the year. Financial Statement Note 8 contains details.
- (4) Restricted Net Assets increased \$5.7 million due to the value of mortgage loans and investments being greater than the associated bond debt.
- (5) Mortgage Loan Interest increased \$5.7 million primarily due to a larger loan portfolio than 2007.
- (6) Bond Expenses and Servicing Fees increased due the greater number of bonds issued and outstanding and the greater number of mortgages being serviced.

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2008 AND 2007

	FY 2008	FY 2007
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 4,878,306	\$ 13,817,978
Investments	128,050,708	198,334,275
Mortgage Loans Receivable	20,432,403	16,178,048
Interest Receivable	5,277,600	5,241,313
Due from Primary Government	-	8,232
Due from Other Governments	9,762	1,525
Security Lending Collateral	41,101	-
Prepaid Expense	254,817	65,204
Total Current Assets	\$ 158,944,697	\$ 233,646,575
Noncurrent Assets		
Investments	\$ 35,650,009	\$ 23,059,234
Mortgage Loans Receivable	898,951,454	799,347,698
Mortgage Backed Securities	3,763,459	2,361,544
Deferred Bond Issuance Costs, Net	8,773,597	8,718,872
Capital Assets, Net	37,266	52,210
Total Noncurrent Assets	\$ 947,175,785	\$ 833,539,558
<b>TOTAL ASSETS</b>	<b>\$ 1,106,120,482</b>	<b>\$ 1,067,186,133</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable	\$ 851,844	\$ 563,873
Due to Primary Government	9,210	19,158
Security Lending Liability	41,101	-
Property Held in Trust	-	-
Accrued Interest - Bonds Payable	4,124,429	4,165,248
Bonds Payable, Net	14,230,000	11,735,000
Arbitrage Rebate Payable to U.S. Treasury Department	544,044	590,054
Accrued Compensated Absences	57,673	66,660
Total Current Liabilities	\$ 19,858,301	\$ 17,139,993
Noncurrent Liabilities		
Bonds Payable, Net	\$ 935,170,970	\$ 905,594,144
Deferred Refunding Costs	(2,489,912)	(2,475,726)
Arbitrage Rebate Payable to U.S. Treasury Department	332,471	606,900
Accrued Compensated Absences	110,788	82,982
Other Post Employment Benefits	42,741	-
Total Noncurrent Liabilities	\$ 933,167,058	\$ 903,808,300
<b>TOTAL LIABILITIES</b>	<b>\$ 953,025,359</b>	<b>\$ 920,948,293</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net	\$ 37,266	\$ 52,210
Restricted for Bondholders:		
Unrealized (losses) gains on investments	1,617,070	583,279
Single Family Programs	113,239,850	101,362,438
Various Recycled Mortgage Programs	19,614,454	23,152,201
Multifamily Programs	10,366,037	10,339,931
Multifamily Project Commitments	210,834	216,412
Reverse Annuity Mortgage Program	5,394,658	7,658,025
Restricted for Housing Montana Program	2,614,954	2,873,344
<b>TOTAL NET ASSETS</b>	<b>\$ 153,095,123</b>	<b>\$ 146,237,840</b>

The accompanying notes are an integral part of these financial statements.

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, 2008 AND 2007

	<u>FY 2008</u>	<u>FY 2007</u>
<b>OPERATING REVENUES</b>		
Interest Income - Mortgage Loans	\$ 49,778,839	\$ 44,069,482
Interest Income - Investments	9,429,871	11,546,853
Fee Income	283,404	316,117
Federal Financial Assistance	522,926	379,045
Net Increase (Decrease) in Fair Value of Investments	1,033,793	(1,022,965)
Other Income	846	64,270
Securities Lending Gross Income	1,527	91
Total Operating Revenues	<u>\$ 61,051,206</u>	<u>\$ 55,352,893</u>
<b>OPERATING EXPENSES</b>		
Interest on Bonds	\$ 46,097,834	\$ 41,455,972
Servicer Fees	3,229,345	2,860,236
Contracted Services	1,297,006	1,144,148
Amortization of Bond Issuance Costs	766,051	1,058,667
General and Administrative	1,935,286	1,647,275
Arbitrage Rebate Expense	237,340	356,308
Loss on Redemption	587,125	591,218
Securities Lending Expense	1,195	91
Other Post-Employment Benefits	42,741	
Total Operating Expenses	<u>\$ 54,193,923</u>	<u>\$ 49,113,915</u>
Operating Income (Loss) Before Transfers	6,857,283	6,238,978
Payment to Primary Government		(271)
Increase (Decrease) in Net Assets	<u>\$ 6,857,283</u>	<u>6,238,707</u>
Net Assets, Beginning of Year	146,237,840	139,999,133
Prior Period Adjustment	-	-
Net Assets, End of Year	<u>\$ 153,095,123</u>	<u>\$ 146,237,840</u>

The accompanying notes are an integral part of these financial statements.

This page intentionally left blank

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITY</b>		
Receipts for Sales and Services	\$ 252,220	\$ 311,222
Collections on Loans and Interest on Loans	154,621,836	143,401,084
Cash payments for Loans	(207,449,016)	(191,659,532)
Federal Financial Assistance Receipts	522,029	377,519
Payments to Suppliers for Goods and Services	(4,954,533)	(4,454,975)
Payments to Employees	(1,171,435)	(954,809)
Other Operating Revenues	37,882	70,723
Net Cash Provided (Used) by Operating Activities	\$ (58,141,017)	\$ (52,908,768)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Payment of Principal and Interest on Bonds and Notes	\$ (124,054,624)	\$ (173,406,804)
Proceeds from Issuance of Bonds and Notes	107,632,987	239,910,000
Payment of Bond Issuance Costs	(646,059)	(2,565,797)
Premium Paid on Refunding Bonds	-	4,942,494
Net Cash Provided (Used) by Noncapital Financing Activities	\$ (17,067,696)	\$ 68,879,893
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>		
Purchase of fixed assets	\$ -	\$ (22,329)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Investments	\$ (882,825,414)	\$ (1,049,382,465)
Proceeds from Sales or Maturities of Investments	941,284,782	1,030,239,300
Interest on Investments	8,367,455	9,442,396
Arbitrage Rebate Tax (Note 12)	(557,782)	(300,485)
Net Cash Provided (Used) by Investing Activities	\$ 66,269,041	\$ (10,001,254)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (8,939,672)	\$ 5,947,542
Cash and Cash Equivalents, beginning bal.	\$ 13,817,978	\$ 7,870,436
Cash and Cash Equivalents, ending bal.	\$ 4,878,306	\$ 13,817,978

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, 2008 AND 2007

	FY 2008	FY 2007
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 6,857,283	\$ 6,238,978
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</b>		
Depreciation	20,920	23,855
Amortization	(2,635,723)	350,462
Interest Expense	47,985,302	42,749,511
Interest on Investments	(5,423,037)	(11,473,225)
Arbitrage Rebate Tax	(30,009)	356,308
Change in Assets and Liabilities:		
Decr (Incr) in Mortgage Loans Receivable	(102,666,036)	(87,367,047)
Decr (Incr) in Other Assets	(1,831,582)	(974,087)
(Incr) Decr in Fair Value of Investments	(1,033,792)	1,022,965
Incr (Decr) in Accounts Payable	(32,240)	168,594
Incr (Decr) in Deferred Reservation & Disc. Fees	586,337	(4,020,206)
Incr (Decr) in Compensated Absences Payable	61,560	15,124
Net Cash Provided (Used) by Operating Activities	\$ (58,141,017)	\$ (52,908,768)

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, 2008 and 2007**

**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 \$1,500,000,000. 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 for administrative purposes 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). 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 non-operating revenues and expenses, and the statement of cash flows. In addition, the "Management's 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. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed to the extent they do not conflict with or contradict GASB guidance. The Board has the option of following subsequent private sector guidance for business-type activities but has not elected to do so. 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 does 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.

Restricted Net Assets - The Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 46 – Net Assets Restricted by Enabling Legislation. Net Assets are considered restricted if they are limited as to the manner in or purpose for which they may be used. The Combined Statement of Revenues, Expenses and Changes In Net Assets reports \$153,095,123 of restricted net assets, of which \$153,095,123 is restricted by enabling legislation.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2008 and 2007**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Fund Accounting - continued:**

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 mortgage and debt service reserve requirements, restricting funds for these purposes. As disclosed in Note 5 to the financial statements, the mortgage loans receivable are pledged as security for 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 non-operating 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 non-operating 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 two 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 or Housing and Urban Development or private mortgage insurance.

The accompanying combining financial statements include the activity of both 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. The Federal Housing Administration must insure mortgage loans originated prior to December 1992.

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.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2008 and 2007

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Fund Structure - continued**

**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.

**Housing Montana** - Under MCA 90-6-133, a Revolving Loan Account was established. The account was established in the state special revenue fund in the state treasury. Senate Bill 243 of the 2003 Legislature moved the Revolving Loan Account to the enterprise fund effective July 1, 2003. For purposes of financial reporting, the Board has reclassified this account as an enterprise fund as allowed in GASB Statement No. 34. During the 2007 legislative session, the account was renamed "Housing Montana." The money in the loan account is allocated to the board for the purposes of providing loans to eligible applicants. Currently, the account holds loans and resources provided by the Federal Housing and Urban Development Section 8 administrative fee reserve account and the Temporary Assistance to Needy Families (TANF) block grant to the state.

**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. Cash and equivalents are described in Note 2 of these financial statements.

**Investments:**

Effective June 30, 2005, The Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The applicable investment risk disclosures are described in Note 4 of these financial statements.

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 trustees.

**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 private mortgage insurance or guaranteed by the VA (Veterans Administration) or RD (Rural Development) or Housing and Urban Development (HUD) or private mortgage insurers. Guidelines to minimize credit risk are established by FHA, VA, RD, HUD & 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 judgment, 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.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2008 and 2007**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Mortgage Loans Receivable - continued**

The Board incurs mortgage loan service fees with participating loan servicers based on outstanding monthly mortgage loan principal balances. The service fees are paid only when the mortgagee's full monthly payment is collected.

The Board has pledged future revenues collected from mortgages receivable accounts to bondholders for repayment of the mortgage revenue bonds issued by the Board (Note 8). The Board issued these bonds to finance the mortgage loans purchased by the Board's various programs. In accordance with GASB 48, the pledging of these revenues is considered a collateralized borrowing based on the Board retaining control of the receivables and evidenced by the Board's active management of these accounts.

**Mortgage-Backed Securities:**

Mortgage-backed securities reported in the Single Family Programs are pass-through securities created by the Federal National Mortgage Association (FNMA) and purchased by the board. FNMA pools and securitizes qualified Montana mortgage loans from the board's Single Family Programs. Consistent with GASB No. 31, these securities are reported at fair value which may vary from the value of the securities if held to maturity.

**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.

**Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These statements contain estimates for Arbitrage Rebate Liability and Allowance for Loan Losses.

**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.

**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.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

**NOTE 2. CASH AND CASH EQUIVALENTS**

The Board's cash and cash equivalents are held by trustees or by the State of Montana Treasury as cash or short-term investments. At June 30, 2008 and 2007, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

Program Funds	2008	2007
Short-Term Investments	\$ 3,181,230	\$ 11,227,962
State Short-Term Investment Pool*	849,124	1,648,371
Cash Deposited with Trustee Banks**	315,380	475,578
Cash Deposited with State Treasury	532,572	466,067
	<u>\$ 4,878,306</u>	<u>\$ 13,817,978</u>

\*The State's Short Term Investment Pool (STIP) is managed by the Montana Board of Investments. STIP balances are covered by federal depository insurance or collateralized by securities held by third parties in the Board of Investment's name. Net assets of the pool are equivalent to \$1 per share of the pool.

\*\*Cash deposits are held at the trustee banks. Net assets are equal to \$1 per share. 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.

**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 2008 and 2007, 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 years 2008 and 2007 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 2008 and 2007. More over, there were no losses during fiscal years 2008 and 2007 resulting from a default of the borrowers or State Street.

During fiscal years 2008 and 2007, 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, 2008 and June 30, 2007, BOI had no credit risk exposure to borrowers.

On June 30, 2008, there were \$41,101 of securities on loan.  
On June 30, 2007, there were no securities on loan.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2008 and 2007**

**NOTE 4. INVESTMENTS**

The Board invests the following funds; bond proceeds until the amounts are used to purchase mortgage loans, mortgage loan collections until debt service payment dates, and reserves and operating funds until needed. The Board follows Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The applicable investment risk disclosures are described in the following paragraphs.

Power to Invest & Investment Policy

Montana statute grants the Board the power to invest any funds not required for immediate use, subject to any agreements with its bondholders and note holders. The Board conducts its investing according to an investment policy which is annually reviewed and follows bond indenture, Internal Revenue Code, and state statutes. The policy prohibits the Board from investing in leveraged investments, including but not limited to derivatives. The Board's policy follows state law by limiting investments to following:

- Direct obligations or obligations guaranteed by the United States of America
- Indebtedness issued or guaranteed by Government Sponsored Entities such as Federal Home Loan Bank System, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation, for example.
- Certificates of Deposit insured by the Federal Deposit Insurance Corporation.
- Guaranteed Investment Agreements or Repurchase Agreements

Credit Risk

Credit risk is the risk that the other party to an investment will not fulfill its obligations. Board investment policy mitigates this risk by requiring financial institutions to be rated in either of the two highest rating categories by Standard & Poor's and Moody's Investors Services. The Board enters into guaranteed investment agreements and repurchase agreements as directed by bond indentures. The table included in this note identifies investment agreement participants and their ratings.

Credit Risk Concentration

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment with a single investment provider. Board investment policy follows the prudent expert principle as contained in Chapter 17, Part 6, Montana Code Annotated. This principle instructs investing entities to diversify investment holding to minimize the risk of loss. The table included in this note displays both investment provider and investment source diversity.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Board investment policy requires that investment contracts and repurchase agreements be fully collateralized with securities and cash held by the provider's agent and confirmed by the Board's trustee as required by the bond indentures. Securities underlying the investment contracts have a market value of at least 100% of the cost of the investment contract plus accrued interest. Securities underlying the repurchase agreements have a market value of at least 102% of the cost of repurchase agreement.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2008 and 2007**

**NOTE 4. INVESTMENTS - continued**Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board's investment policy does not explicitly address interest rate risk. However, the policy indirectly speaks about interest rate risk by stating that investments are to be held to maturity and not for the intention of generating investment return. Typically, long-term investments are only sold as a result of refunding a bond issue or to meet liquidity needs. The following table displays Effective Duration for appropriate investment types or NA (not applicable) to indicate interest rate risk. All funds and component units of the State of Montana are required to use the duration method to report interest rate risk.

<u>Investment Type &amp; Source</u>	<u>Fair Value</u> <u>June 30, 2008</u>	<u>Moody's</u> <u>Rating</u>	<u>Standard &amp;</u> <u>Poor's Rating</u>	<u>Effective</u> <u>Duration</u>
<u>Investment Contracts</u>				
AIG Matched Funding Corp	\$ 14,692,882	NR*	NR*	NA
Bayerische Landesbank	4,980,821	NR	NR	NA
Rabobank Nederland	2,229,232	NR	NR	NA
Société Générale	7,656,078	NR	NR	NA
Trinity Plus Funding Co.	7,429,186	NR	NR	NA
Westdeutsche Landesbank	<u>1,752,469</u>	NR	NR	NA
Contracts Total	\$ 38,740,668			
<u>Government Sponsored</u>				
<u>Enterprises</u>				
Federal Home Loan Bank	\$ 36,416,928	Aaa	AAA	0.89
Federal National Mortgage Assoc.	53,645,808	Aaa	AAA	3.46
Federal Home Loan Mortgage Corp.	<u>31,844,745</u>	Aaa	AAA	0.34
Total	\$ 121,907,481			
<u>U. S. Treasury</u>	\$ 6,654,772	NA	NA	9.50
Trustee Cash & Money Market Accounts	\$ 3,496,610	NA	NA	NA
<u>State Cash &amp; Short-term Pool Accounts</u>	<u>1,381,696</u>	NA**	NA**	NA
Total	\$ 4,878,306			
<b>Total All Investments</b>	<b>\$ 172,181,227</b>			

\*Investment Contracts are not rated (NR). However, the providers are required to meet ratings described in the Credit Risk section of this note.

\*\* The state's short-term pool is not rated.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2008 and 2007**

**NOTE 5. MORTGAGE LOANS RECEIVABLE**

The mortgage loans receivable are pledged in accordance with individual program indentures as security for holders of the bonds. In accordance with Governmental Accounting Standards Board (GASB) 48, the pledging of Mortgage Loans Receivable is considered a collateralized borrowing. Mortgage loans receivable consist of the following:

	<u>2008</u>	<u>2007</u>
Mortgage loan receivables:		
Single Family Program	\$889,708,910	\$789,769,860
Multifamily Program	13,863,923	14,631,567
Housing Trust Program	3,221,396	2,348,009
Housing Montana Fund	<u>2,451,410</u>	<u>2,578,574</u>
	909,245,639	809,328,010
Net mortgage discounts and deferred reservation fees	10,438,218	6,497,738
Allowance for loan losses and real estate owned (note 6)	<u>(300,000)</u>	<u>(300,000)</u>
	<u>\$919,383,857</u>	<u>\$815,525,748</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, 2006	\$ 300,000
Provision	0
Less: Net loans charged off	<u>0</u>
Balance, June 30, 2007	300,000
Provision	0
Less: Net loans charged off	<u>0</u>
Balance, June 30, 2008	<u>\$ 300,000</u>

The allowance for loan losses includes \$200,000 at June 30, 2008 and 2007 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 four real estate owned properties as of June 30, 2008 and two real estate owned properties as of June 30, 2007.

**NOTE 7. CAPITAL ASSETS**

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

	<u>2008</u>	<u>2007</u>
Capital Assets - Equipment	\$ 12,170	\$ 6,195
Capital Assets - Software	31,119	51,590
Accumulated depreciation	<u>(6,023)</u>	<u>(5,575)</u>
Net capital assets	<u>\$ 37,266</u>	<u>\$ 52,210</u>

Depreciation and amortization expense included in general and administrative expense was \$20,919 and \$22,015 for the years ended June 30, 2008 and 2007 respectively.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

**NOTE 8. BONDS PAYABLE, NET**

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

	<u>Original Amount</u>	<u>2008</u>	<u>2007</u>
<b>Single Family I Mortgage Bonds:</b>			
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	11,155,000	14,190,000
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	8,115,000	11,515,000
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	20,240,000	24,805,000
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	20,790,000	25,410,000
2002			
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	14,450,000	17,025,000
2002			
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	23,925,000	28,710,000
2005			
Series A serial and term bonds 2.80% to 5.60% maturing in scheduled semi-annual installments to December 1, 2013, December 1, 2030, December 1, 2035, and June 1, 2036.	93,785,000	78,660,000	86,590,000

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

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

	<u>Original Amount</u>	<u>2008</u>	<u>2007</u>
2006			
Series A serial and term bonds 3.40% to 5.25% maturing in scheduled semi-annual installments to June 1, 2016, December 1, 2016, December 1, 2025, December 1, 2036, and June 1, 2037.	50,560,000	46,200,000	50,045,000
2006			
Series B serial and term bonds 3.75% to 5.50% maturing in scheduled semi-annual installments to June 1, 2016, June 1, 2021, June 1, 2026, June 1, 2037, and December 1, 2037.	72,000,000	67,700,000	71,545,000
2006			
Series C serial and term bonds 3.50% to 5.75% maturing in scheduled semi-annual installments to June 1, 2009, December 1, 2016, December 1, 2021, December 1, 2026, December 1, 2031, June 1, 2037 and December 1, 2037.	70,805,000	66,860,000	69,930,000
2007			
Series A-1 and A-2 serial and term bonds 3.65% to 5.50% maturing in scheduled semi-annual installments to June 1, 2017, December 1, 2019, December 1, 2022, December 1, 2027, December 1, 2032, June 1, 2037, December 1, 2037, and December 1, 2039.	86,015,000	83,865,000	86,015,000
2007			
Series B serial and term bonds 3.75% to 5.50% maturing in scheduled semi-annual installments to December 1, 2017, December 1, 2022, December 1, 2027, December 1, 2032, December 1, 2037 and June 1, 2038.	83,090,000	82,750,000	83,090,000
2007			
Series C serial and term bonds 3.875% to 5.75% maturing in scheduled semi-annual installments to December 1, 2017, December 1, 2020, December 1, 2022, December 1, 2027, December 1, 2031, June 1, 2038 and December 1, 2038.	50,600,000	50,385,000	0
2007			
Series D serial and term bonds 3.75% to 5.50% maturing in scheduled semi-annual installments to December 1, 2014, December 1, 2015, December 1, 2016, December 1, 2017, December 1, 2022, December 1, 2027, June 1, 2038 and December 1, 2038.	56,600,000	56,580,000	0
Bonds outstanding Single Family I		\$ 631,675,000	\$ 568,870,000
Unamortized bond premium		<u>9,846,228</u>	<u>8,563,530</u>
<b>Total bonds payable Single Family I</b>		<b>\$ 641,521,228</b>	<b>\$ 577,433,530</b>

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

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

	<u>Original Amount</u>	<u>2008</u>	<u>2007</u>
<b>Single Family II Mortgage Bonds:</b>			
<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	\$ 950,853	\$ 1,063,518
1985 Series B Outstanding bonds were called June 1, 2008.	74,996,862	0	480,000
<b>1998</b>			
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	15,305,000	16,385,000
<b>1998</b>			
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	23,430,000	23,430,000
<b>2003</b>			
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	36,830,000	40,190,000
<b>2003</b>			
Series B-1 and B-2 serial and term bonds 1.10% to 4.50% maturing in scheduled semi-annual installments to December 1, 2023, December 1, 2024, December 1, 2025, December 1, 2026, December 1, 2027, December 1, 2028, December 1, 2032, December 1, 2033, December 1, 2034, December 1, 2041, and December 1, 2042.	70,700,000	47,275,000	51,600,000

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

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

	<u>Original Amount</u>	<u>2008</u>	<u>2007</u>
2003			
Series C serial and term bonds 1.45% to 5.05% maturing in scheduled semi-annual installments to June 1, 2023, December 1, 2023, December 1, 2028, and December 1, 2034.	40,500,000	25,400,000	28,885,000
2004			
Series A serial and term bonds 1.40% to 5.00% maturing in scheduled semi-annual installments to December 1, 2023, June 1, 2024, June 1, 2029, December 1, 2029, and June 1, 2035.	50,600,000	30,910,000	36,030,000
2004			
Series B serial and term bonds 1.85% to 5.75% maturing in scheduled semi-annual installments to December 1, 2014, June 1, 2015, December 1, 2024, December 1, 2030 and December 1, 2035.	68,000,000	46,580,000	52,390,000
2004			
Series C serial and term bonds 2.00% to 5.00% Maturing in scheduled semi-annual installments To December 1, 2016, December 1, 2025, December 1, 2030, June 1, 2035, and December 1, 2035.	54,600,000	41,050,000	46,470,000
2005 RA			
Series A serial and term bonds 4.10% to 4.75% maturing in scheduled semi-annual installments to December 1, 2016, December 1, 2017, December 1, 2021, December 1, 2026, December 1, 2027, and June 1, 2044.	30,280,000	25,725,000	27,675,000
Bonds outstanding Single Family II		\$ 293,455,853	\$ 324,598,518
Unamortized bond premium / discount		<u>3,408,450</u>	<u>3,992,747</u>
<b>Total bonds payable Single Family II</b>		<b><u>\$ 296,864,303</u></b>	<b><u>\$ 328,591,265</u></b>
<b>Total Single Family Mortgage bonds payable, net</b>		<b><u>\$ 938,385,531</u></b>	<b><u>\$ 906,024,795</u></b>

All single-family mortgage 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.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

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

Board of Housing Essential Workers' Program

The Board has authorized the issuance of \$1,000,000 of taxable general obligation bonds to finance second mortgage shared appreciation loans to provide assistance to Ravalli County teachers. As of June 30, 2008, no bonds have been issued.

The Board has authorized the issuance of \$ 250,000 of taxable general obligation bonds to finance second mortgage shared appreciation loans to provide assistance to essential employees in rural areas within fifteen miles of Manhattan, Three Forks, Amsterdam, Churchill and Willow Creek, Montana. As of June 30, 2008, no bonds have been issued.

	<u>Original Amount</u>	<u>2008</u>	<u>2007</u>
<b>Multifamily Mortgage Bonds:</b>			
1978 -			
Series A, 6.125% interest, maturing in scheduled annual installments to August 1, 2019.	\$4,865,000	\$790,000	\$830,000
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	700,000	720,000
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	1,200,000	1,225,000
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	<u>8,365,000</u>	<u>8,570,000</u>
Total bonds outstanding		11,055,000	11,345,000
Unamortized bond premium		<u>(39,561)</u>	<u>(40,651)</u>
<b>Total Multifamily Mortgage bonds payable, net</b>		<b><u>\$ 11,015,439</u></b>	<b><u>\$ 11,304,349</u></b>

All Multifamily mortgage 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 102%.

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

<b>Combined Total Single and Multifamily bonds payable, net</b>	<b><u>\$ 949,400,970</u></b>	<b><u>\$ 917,329,144</u></b>
---	------------------------------	------------------------------

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

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

The following is a summary of bond principal and interest requirements as of June 30, 2008:

Fiscal Year Ending	Single Family Principal and Interest Total	Multifamily Principal and Interest Total	Single and Multifamily Principal Only Total	Single and Multifamily Interest Only Total
2009	\$ 59,908,441	\$ 970,847	\$ 14,230,000	\$ 46,649,287
2010	60,325,678	973,768	15,255,000	46,044,447
2011	60,298,521	970,581	15,885,000	45,384,102
2012	60,296,318	965,753	16,585,000	44,677,071
2013	60,958,150	945,499	17,980,000	43,923,649
2013-18	309,410,640	4,130,063	107,739,201	205,801,502
2018-23	313,771,246	3,663,624	141,355,000	176,079,870
2023-28	322,658,174	3,414,148	191,540,000	134,532,322
2028-33	297,441,831	2,775,437	219,075,000	81,142,268
2033-38	200,741,260	2,743,731	176,165,000	27,319,991
2038-43	21,160,556	1,733,869	20,450,000	2,444,425
2043-48	1,004,675	-	970,000	34,675
<b>Total</b>	<b>\$1,767,975,490</b>	<b>\$ 23,287,319</b>	<b>\$ 937,229,201</b>	<b>\$ 854,033,608</b>

Cash paid for interest expenses during the years ending June 30, 2008 and 2007 was \$ 47,617,986 and \$ 43,297,738, respectively.

## Changes in Bonds Payable

	6/30/2007			6/30/2008
	Balance	Increases	Decreases	Balance
<b>Single Family</b>	\$ 906,024,795	108,577,930	(76,217,194)	\$ 938,385,531
<b>Multi Family</b>	11,304,349		(288,910)	11,015,439
<b>Total</b>	<b>\$ 917,329,144</b>	<b>108,577,930</b>	<b>(76,506,104)</b>	<b>\$ 949,400,970</b>

**NOTE 9. LOSS ON REDEMPTION**

During the years ended June 30, 2008 and 2007 the Board redeemed Single Family mortgage program bonds prior to scheduled maturity as follows:

	2008	2007
Single Family I		
December 1	\$24,890,000	\$21,050,000
June 1	<u>13,590,000</u>	<u>13,185,000</u>
	<u>38,480,000</u>	<u>34,235,000</u>
Single Family II		
December 1	18,064,219	22,809,829
June 1	<u>8,463,677</u>	<u>17,215,000</u>
	<u>26,527,896</u>	<u>40,024,829</u>
Multifamily	<u>0</u>	<u>0</u>
<b>Total</b>	<b><u>\$65,007,896</u></b>	<b><u>\$74,259,829</u></b>

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2008 and 2007**

**NOTE 9. LOSS ON REDEMPTION - continued**

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 expensed at time of redemption and are reported as losses on redemption of \$ 587,125 and \$ 591,218 in 2008 and 2007, respectively.

**NOTE 10. COMMITMENTS**

The Board has reserved and is in the process of purchasing Single Family Mortgages of approximately \$2,126,536 from the issuance of the 2007 Series D.

The Board committed the following amounts to the Single Family Programs as noted below:

Human Resource Council Superior Land Trust	\$ 780,000
Neighborhood Housing Services MT Home Ownership Network Lender Pool	1,037,218
MT Home Ownership Network Lender Pool	983,916
FNMA Home Ownership	706,705
District XI Human Resource Council Missoula	700,000
Burns Street Commons	1,740,000
Teachers Conventional Loans	177,951
Manhattan State Bank Essential Employees	1,600,000
Butte Housing Authority	750,000
GAP Financing Program	692,818
Foreclosure Prevention	45,635
Disabled Affordable Accessible Homeownership	487,501
Lot Refinance	869,252
Habitat for Humanity	925,115
HUD Section 184-Indian Housing	796,369
Chippewa Cree	2,000,000
USDA Rural Housing Development	314,284
Down Payment Pool	5,007,690
Total Single Family Commitments	<u>\$19,614,454</u>

## Other Commitments--Single Family I

Reverse Annuity Mortgage Program Future Loans	\$ 2,251,577
---	--------------

The Board has the following Multifamily commitments:

Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD)	
Total Multifamily Commitments	\$210,834

The Board has committed Housing Trust Funds as noted below:

Reverse Annuity Mortgage Program Existing Loans	\$3,143,083
---	-------------

These mortgage commitments will be funded through cash and investments.

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

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2008 and 2007**

**NOTE 11. EMPLOYEE BENEFIT PLANS**

The Board of Housing and its employees contribute to the Public Employees' Retirement System (PERS). PERS offers two types of retirement plans administered by the Montana Public Employees' Retirement Administration.

**Defined Benefit Retirement Plan:** The Defined Benefit Retirement Plan (DBRP) is a multiple-employer, cost-sharing plan that provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation. Vesting occurs once membership service totals five years. Benefits are established by state law and can only be amended by the legislature.

**Defined Contribution Retirement Plan:** The Defined Contribution Retirement Plan (DCRP), created by the 1999 legislature and available to all active PERS members effective July 1, 2002. This plan is a multiple-employer, cost-sharing plan that also provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on the balance in the member's account, which includes the total contributions made, the length of time the funds have remained in the plan, and the investment earnings less administrative costs.

The PERS 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 plans are required and determined by State law. The contribution rates for 2008 expressed as a percentage of covered payroll are as follows:

<u>Employee</u>	<u>Employer</u>	<u>Total</u>
6.900%	7.035%	13.935%

The amounts contributed to the plans during the years ended June 30, 2006, 2007 and 2008 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	2008 - \$ 57,093
Fiscal Year	2007 - \$ 49,120
Fiscal Year	2006 - \$ 49,514

**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.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2008 and 2007

**NOTE 11. EMPLOYEE BENEFIT PLANS - continued**

Board staff and dependents are eligible to receive medical and dental health care through the State Group Benefits Plan administered by the Montana Department of Administration Health Care & Benefits Division.

Montana Department of Administration established medical premiums vary between \$444 and \$776 per month depending on the medical plan selected, family coverage, and eligibility.

Administratively established premiums vary between \$31.00 and \$53.20 per month for dental and between \$7.64 and \$22.46 per month for vision depending on family coverage and eligibility.

The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs.

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

The Board has established an accrual for the 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.

Beginning Balance July 1, 2007	\$1,196,956
Additions	237,340
Reductions	(557,781)
Ending Balance June 30, 2008	\$ 876,515

**NOTE 13. NO-COMMITMENT DEBT**

The Board of Housing is authorized to issue its bonds and to make mortgage loans in order to finance housing which will provide decent, safe and sanitary housing for persons and families of lower income in the State of Montana.

The bonds are not general obligations, debts, liabilities or pledges of faith and credit of the Board but are special limited obligations payable solely from pledged revenues and assets. The Board is not obligated to make payment on the bonds from any of its assets other than those revenues and assets so pledged. The Board has no taxing power. Accordingly, these bonds are not reflected in the accompanying financial statements. The bonds are not a debt of the state and the state is not liable for the bonds. Neither the state's faith or credit or taxing power is pledged to the payment of bond principal or interest.

<u>Bond Series</u>	<u>Original Amount</u>	<u>Outstanding as of 6/30/2008</u>
Single Family Mortgage Revenue Bonds Series 2005A-1	\$ 516,000	\$ 159,000
Single Family Mortgage Revenue Bonds Series 2005A-2	\$ 500,000	\$ 454,000
Multifamily Housing Revenue Bonds Series 2006A	\$ 2,104,700	\$ 2,062,264
Multifamily Housing Revenue Bonds Series 2007A	\$ 5,100,000	\$ 5,100,000
Multifamily Housing Revenue Bonds Series 2008A	\$ 1,210,000	\$ 1,210,000

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2008 and 2007**

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

The Board periodically chooses to refund all or a portion of the Board's outstanding bonds when it is economically advantageous to do so. Refunding involves the issuance of new debt whose proceeds are used to repay previously issued debt. The Board performed no refunding during the period from July 1, 2007 to June 30, 2008.

Under Governmental Accounting Standards Board (GASB) Statement 23, Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities, deferred bond issuance 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 refunding were deferred and are being amortized under the GASB 23 guidelines:

**Prior years' Refundings:**

Unamortized Deferred refunding costs from prior years' refunding	<u>\$2,489,912</u>
--	--------------------

<b>Total unamortized</b>	<b><u>\$2,489,912</u></b>
--------------------------	---------------------------

**NOTE 15. OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

For the fiscal year ending June 30, 2008, the State of Montana and the Board implemented Governmental Accounting Standards Board (GASB) Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement requires the disclosure of employer liability for retiree medical subsidies and other post-employment benefits.

**Post-employment Healthcare Plan Description:**

Board staff and dependents are eligible to receive health care through the State Group Benefits Plan administered by the Montana Department of Administration. In accordance with MCA 2-18-704, the State provides optional postemployment medical, vision and dental health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. For GASB 45 reporting, the State Group Benefits Plan is considered an agent multiple-employer plan and the Board is considered to be a separate employer participating in the plan.

In addition to the employee benefits described in Note 11, Employee Benefit Plans, the following post-employment benefits are provided.

Montana Department of Administration established retiree medical premiums vary between \$160 and \$776 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$31.00 and \$53.20; vision premiums vary between \$7.64 and \$22.26; both premiums vary depending on the coverage selected. Basic life insurance in the amount of \$14,000 is provided until age 65 at a cost of \$1.90 per month to the retiree.

The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. The State acts as secondary payor for retired Medicare-eligible claimants.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2008 and 2007**

**NOTE 15. OTHER POST-EMPLOYMENT BENEFITS (OPEB) - continued**

Benefits Not Included in the Valuation:

Retirees pay 100 percent of dental premiums. Thus, there is no liability for dental valued in this valuation. The vision benefit is fully-insured and retirees pay 100 percent of the cost. Thus, there is no liability for vision valued in this valuation.

The life insurance benefit is a fully-insured benefit that is payable until age 65 with the retiree required to pay the full premium. There is no liability valued in this valuation for the retirees, though the required premium is an active/retiree blended premium. This liability would be insignificant to the overall results of this valuation.

Funding Policy:

GASB 45 requires the plan's participants, including the Board, to report each year the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year of retiree health care costs and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The 2008 ARC is calculated for all the plan's participants and then individually allocated to individual participants. The Board's 2008 ARC is estimated at \$42,741 and is based on the plan's current ARC rate of 7.99% percent of participants' annual covered payroll. The Board's 2008 ARC is equal to an annual amount required each year to fully fund the liability over 30 years.

The amount of the estimated OPEB actuarial accrued liability at transition was determined in accordance with the GASB Statement 45, and liability is estimated at \$418,727 for the Board.

(The actuarial accrued liability is the present value of future retiree benefits and expenses.)

The preceding estimates were prepared for the Department of Administration and the resulting State of Montana Actuarial Valuation of Other Post-Employment Benefits Plan (plan) contains the Board's data and is available through:

Montana Department of Administration,  
State Accounting Division  
Rm 255, Mitchell Bldg,  
125 N Roberts St  
PO Box 200102,  
Helena, MT 59620-0102.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information that shows the actuarial value of plan assets and liabilities.

In the December 31, 2007, actuarial valuation, the projected unit credit funding method is used. The actuarial assumptions did not include an investment rate of return since no assets meet the definition of plan assets under GASB 43 or 45. Annual healthcare cost trend rates of 8 percent for medical and 15 percent for prescription claims are used. The unfunded actuarial accrued liability is amortized following a 30-year level percentage of payroll amortization schedule on an open basis beginning January 1, 2007.

**MONTANA BOARD OF HOUSING**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2008 and 2007**

**NOTE 15. OTHER POST-EMPLOYMENT BENEFITS (OPEB) - continued**

The State finances claims on a pay-as-you-go basis and does not advance-fund the OPEB liability. Therefore the following cost information shows no cost contributions or plan assets made by the Board. Since 2008 is the OPEB reporting implementation year and year of transition, there is not two years' previous information available to report as required by GASB Statement 45 .

Annual OPEB Cost:

For 2008, the Board's allocated annual OPEB cost (expense) of \$42,741 was equal to the ARC. The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2008 are as follows:

Fiscal Year <u>Ended</u>	Percentage of Annual <u>OPEB Cost</u>	Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
6/30/08	0%	\$42,741	\$42,741

Funded Status and Funding Progress:

The funded status of the Board's allocation of the plan as of June 30, 2008, was as follows:

Actuarial accrued liability (AAL)	\$418,727
Actuarial value of plan assets	\$ 0
Unfunded actuarial accrued liability (UAAL)	\$418,727
Funded ratio (actuarial value of plan assets/AAL)	0
Covered payroll (active plan members)	\$484,582
UAAL as a percentage of covered payroll	86.41%

**NOTE 16. SUBSEQUENT EVENTS**

On October 14, 2008, American International Group, Inc. (AIG) elected to repay the principal and accrued but unpaid interest outstanding under two investment agreements with the Board. Upon payment to the Board of approximately \$ 15.5 million, AIG terminated both agreements. The Board has no additional investment agreements with AIG.

On September 11, 2008, the Board issued \$ 31,000,000 of Single Family Program Bonds Series 2008 A. The Bonds will mature on June 1, 2010, through December 1, 2039, with interest rates from 2.55% to 5.50 %. Bond proceeds will be used to purchase single family mortgage loans for the board's Homeownership Program. The 2008A bond series is not a debt of the state and the state is not liable for the bonds. Neither the state's faith or credit or taxing power is pledged to the payment of bond principal or interest.

On September 8, 2008, the Board passed a resolution granting preliminary approval to the issuance of its Multifamily Housing Revenue Bonds in one or more series in an aggregate principal amount not to exceed \$8,000,000. Bond proceeds will be used to finance a loan for the purpose of acquiring, rehabilitating, and equipping a 180-unit multi-site multifamily development project known as the Parkview Apartments and the Vista Villa Apartments, each located in Great Falls, Montana.

On September 7, 2008, the Federal National Mortgage Association and Federal Home Loan Mortgage Corp. were put into conservatorship.

Required Supplementary Information  
 Schedule of Funding Progress for Board of Housing  
 Other Post-Employment Benefits (Financial Statements Note 15)

The following table shows only information for the most recent, completed fiscal year which is the fiscal year ended June 30, 2008. Since 2008 is the OPEB reporting implementation year and year of transition, there is not two years' previous information available to report as required by Governmental Accounting Standards Board Statement 45 .

Date	Actuarial	Actuarial	Unfunded	Funded	Covered	UAAL as a
	Value of	Accrued	AAL			Ratio
	Assets	Liability*	(UAAL)	(A/B)	Payroll	of Covered
	(A)	(B)	(B-A)		(C)	((B-A)/C)
6/30/2008	\$0	\$418,727	\$418,727	0	\$484,582	0

\* Projected unit credit funding method

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
COMBINING STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2008 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2007)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	HOUSING MONTANA FUND	Combined Totals	
							FY 2008	FY 2007
<b>ASSETS</b>								
<b>Current Assets</b>								
Cash and Cash Equivalents	\$ 1,018,637	\$ 2,656,299	\$ 3,674,936	\$ 234,525	\$ 906,768	\$ 62,077	\$ 4,878,306	\$ 13,817,978
Investments	69,062,677	51,569,783	120,632,460	7,359,149	55,865	3,234	128,050,708	198,334,275
Mortgage Loans Receivable	12,106,368	7,991,307	20,097,675	327,309	-	7,419	20,432,403	16,178,048
Interest Receivable	3,044,724	1,601,625	4,646,349	72,505	460,513	98,233	5,277,600	5,241,313
Interfund Receivable *	497,942	-	497,942	-	-	-	497,942	309,377
Due from Primary Government	-	-	-	-	-	-	-	8,232
Due from Other Governments	-	9,762	9,762	-	-	-	9,762	1,525
Security Lending Collateral	-	13,319	13,319	-	26,281	1,501	41,101	-
Prepaid Expense	-	239,858	239,858	4,367	10,592	-	254,817	65,204
<b>Total Current Assets</b>	<b>\$ 85,730,348</b>	<b>\$ 64,081,953</b>	<b>\$ 149,812,301</b>	<b>\$ 7,997,855</b>	<b>\$ 1,460,019</b>	<b>\$ 172,464</b>	<b>\$ 159,442,639</b>	<b>\$ 233,955,952</b>
<b>Noncurrent Assets</b>								
Investments	\$ 5,656,922	\$ 29,967,626	35,624,548	\$ 25,461	\$ -	\$ -	\$ 35,650,009	\$ 23,059,234
Mortgage Loans Receivable	602,589,146	277,160,307	879,749,453	13,536,614	3,221,396	2,443,991	898,951,454	799,347,698
Mortgage Backed Securities	1,920,874	1,842,585	3,763,459	-	-	-	3,763,459	2,361,544
Deferred Bond Issuance Costs, Net	5,961,488	2,657,450	8,618,938	154,659	-	-	8,773,597	8,718,872
Capital Assets, Net	8,325	11,564	19,889	360	17,017	-	37,266	52,210
<b>Total Noncurrent Assets</b>	<b>\$ 616,136,755</b>	<b>\$ 311,639,532</b>	<b>\$ 927,776,287</b>	<b>\$ 13,717,094</b>	<b>\$ 3,238,413</b>	<b>\$ 2,443,991</b>	<b>\$ 947,175,785</b>	<b>\$ 833,539,558</b>
<b>TOTAL ASSETS</b>	<b>\$ 701,867,103</b>	<b>\$ 375,721,485</b>	<b>\$ 1,077,588,588</b>	<b>\$ 21,714,949</b>	<b>\$ 4,698,432</b>	<b>\$ 2,616,455</b>	<b>\$ 1,106,618,424</b>	<b>\$ 1,067,495,510</b>
<b>LIABILITIES</b>								
<b>Current Liabilities</b>								
Accounts Payable	\$ 232,146	\$ 578,681	\$ 810,827	\$ 13,174	\$ 27,843	\$ -	\$ 851,844	\$ 563,873
Interfund Payable *	0	497,942	497,942	-	-	-	497,942	309,377
Due to Primary Government	0	7,726	7,726	777	707	-	9,210	19,158
Security Lending Liability	0	13,319	13,319	-	26,281	1,501	41,101	-
Property Held in Trust	0	0	0	0	-	-	-	-
Accrued Interest - Bonds Payable	2,679,663	1,165,182	3,844,845	279,584	-	-	4,124,429	4,165,248
Bonds Payable, Net	9,520,000	4,405,000	13,925,000	305,000	-	-	14,230,000	11,735,000
Arbitrage Rebate Payable to U.S. Treasury Department	289,415	254,629	544,044	0	-	-	544,044	590,054
Accrued Compensated Absences	20,492	20,492	40,984	6,958	9,731	-	57,673	66,660
<b>Total Current Liabilities</b>	<b>\$ 12,741,716</b>	<b>\$ 6,942,971</b>	<b>\$ 19,684,687</b>	<b>\$ 605,493</b>	<b>\$ 64,562</b>	<b>\$ 1,501</b>	<b>\$ 20,356,243</b>	<b>\$ 17,449,370</b>
<b>Noncurrent Liabilities</b>								
Bonds Payable, Net	\$ 632,001,228	\$ 292,459,303	\$ 924,460,531	\$ 10,710,439	\$ -	\$ -	\$ 935,170,970	\$ 905,594,144
Deferred Refunding Costs	(1,494,060)	(995,852)	(2,489,912)	0	-	-	(2,489,912)	(2,475,726)
Arbitrage Rebate Payable to U.S. Treasury Department	176,865	155,606	332,471	0	-	-	332,471	606,900
Accrued Compensated Absences	39,365	39,364	78,729	13,366	18,693	-	110,788	82,982
OPEB Liability	21,370	21,371	42,741	-	-	-	42,741	-
<b>Total Noncurrent Liabilities</b>	<b>\$ 630,744,768</b>	<b>\$ 291,679,792</b>	<b>\$ 922,424,560</b>	<b>\$ 10,723,805</b>	<b>\$ 18,693</b>	<b>\$ -</b>	<b>\$ 933,167,058</b>	<b>\$ 903,808,300</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 643,486,484</b>	<b>\$ 298,622,763</b>	<b>\$ 942,109,247</b>	<b>\$ 11,329,298</b>	<b>\$ 83,255</b>	<b>\$ 1,501</b>	<b>\$ 953,523,301</b>	<b>\$ 921,257,670</b>
<b>NET ASSETS</b>								
Invested in Capital Assets, Net	\$ 8,325	\$ 11,564	\$ 19,889	\$ 360	\$ 17,017	\$ -	\$ 37,266	\$ 52,210
Restricted for Bondholders:								
Unrealized (losses) gains on investments	39,212	1,577,391	1,616,603	467	-	-	1,617,070	583,279
Single Family Programs	46,325,521	65,651,298	111,976,819	-	1,263,031	-	113,239,850	101,362,438
Various Recycled Mortgage Programs	9,755,985	9,858,469	19,614,454	-	-	-	19,614,454	23,152,201
Multifamily Programs	-	-	-	10,173,990	192,047	-	10,366,037	10,339,931
Multifamily Project Commitments	-	-	-	210,834	-	-	210,834	216,412
Reverse Annuity Mortgage Program	2,251,576	-	2,251,576	-	3,143,082	-	5,394,658	7,658,025
Restricted for Housing Montana Program	-	-	-	-	-	2,614,954	2,614,954	2,873,344
<b>TOTAL NET ASSETS</b>	<b>\$ 58,380,619</b>	<b>\$ 77,098,722</b>	<b>\$ 135,479,341</b>	<b>\$ 10,385,651</b>	<b>\$ 4,615,177</b>	<b>\$ 2,614,954</b>	<b>\$ 153,095,123</b>	<b>\$ 146,237,840</b>

\* Interfund Payable & Receivable records a temporary loan between Board program funds that is expected to be repaid within one year. The loan is excluded from the Board's Statement of Net Assets because it is not an obligation to an external entity. The Statement of Net Assets Current Assets and Current Liabilities balances therefore does not include the amount of this loan.

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, 2008 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007)

							Combined Totals	
	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	HOUSING MONTANA FUND	FY 2008	FY 2007
<b>OPERATING REVENUES</b>								
Interest Income - Mortgage Loans	\$ 33,821,705	\$ 14,977,362	\$ 48,799,067	\$ 800,985	\$ 153,515	\$ 25,272	\$ 49,778,839	\$ 44,069,482
Interest Income - Investments	5,328,330	4,122,319	9,450,649	221,014	41,908	(283,700)	9,429,871	11,546,853
Fee Income	7,434	39,980	47,414	12,513	223,477	-	283,404	316,117
Federal Financial Assistance	-	288,544	288,544	234,382	-	-	522,926	379,045
Net Increase (Decrease) in Fair Value of Investments	236,843	769,838	1,006,681	27,112	-	-	1,033,793	(1,022,965)
Other Income	-	846	846	-	-	-	846	64,270
Securities Lending Gross Income	-	132	132	-	1,350	45	1,527	91
Total Operating Revenues	<u>\$ 39,394,312</u>	<u>\$ 20,199,021</u>	<u>\$ 59,593,333</u>	<u>\$ 1,296,006</u>	<u>\$ 420,250</u>	<u>\$ (258,383)</u>	<u>\$ 61,051,206</u>	<u>\$ 55,352,893</u>
<b>OPERATING EXPENSES</b>								
Interest on Bonds	\$ 31,070,968	\$ 14,350,948	\$ 45,421,916	\$ 675,918	\$ -	\$ -	\$ 46,097,834	\$ 41,455,972
Servicer Fees	2,138,425	1,075,632	3,214,057	15,288	-	-	3,229,345	2,860,236
Contracted Services	30,699	1,179,551	1,210,250	30,790	55,991	(25)	1,297,006	1,144,148
Amortization of Bond Issuance Costs	477,444	278,215	755,659	10,392	-	-	766,051	1,058,667
General and Administrative	14,701	1,224,001	1,238,702	190,259	506,325	-	1,935,286	1,647,275
Arbitrage Rebate Expense	184,000	53,340	237,340	-	-	-	237,340	356,308
Loss on Redemption	342,070	245,055	587,125	-	-	-	587,125	591,218
Securities Lending Expense	-	103	103	-	1,057	35	1,195	91
Other Post-Employment Benefits	21,371	21,370	42,741	-	-	-	42,741	-
Total Operating Expenses	<u>\$ 34,279,678</u>	<u>\$ 18,428,215</u>	<u>\$ 52,707,893</u>	<u>\$ 922,647</u>	<u>\$ 563,373</u>	<u>\$ 10</u>	<u>\$ 54,193,923</u>	<u>\$ 49,113,915</u>
Operating Income (Loss) Before Transfers	5,114,634	1,770,806	6,885,440	373,359	(143,123)	(258,393)	6,857,283	6,238,978
Payment to Primary Government	-	-	-	-	-	-	-	(271)
Increase (Decrease) in Net Assets	<u>5,114,634</u>	<u>1,770,806</u>	<u>6,885,440</u>	<u>373,359</u>	<u>(143,123)</u>	<u>(258,393)</u>	<u>6,857,283</u>	<u>6,238,707</u>
Net Assets, Beginning of Year	50,101,013	78,492,891	128,593,904	10,012,291	4,758,300	2,873,345	146,237,840	139,999,133
Prior Period Adjustment	-	-	-	-	-	-	-	-
Net Assets, End of Year	<u>\$ 55,215,647</u>	<u>\$ 80,263,697</u>	<u>\$ 135,479,344</u>	<u>\$ 10,385,650</u>	<u>\$ 4,615,177</u>	<u>\$ 2,614,952</u>	<u>\$ 153,095,123</u>	<u>\$ 146,237,840</u>

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2008 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	HOUSING MONTANA FUND	Combined Totals	
							2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITY</b>								
Receipts for Sales and Services	\$ 7,434	\$ 4,200	\$ 11,634	\$ 17,365	\$ 223,221	\$ -	\$ 252,220	\$ 311,222
Collections on Loans and Interest on Loans	89,271,083	63,075,779	152,346,862	1,791,027	421,513	62,434	154,621,836	143,401,084
Cash payments for Loans	(189,002,502)	(16,793,020)	(205,795,522)	(219,000)	(1,242,553)	(191,941)	(207,449,016)	(191,659,532)
Federal Financial Assistance Receipts	0	287,647	287,647	234,382	-	-	522,029	377,519
Payments to Suppliers for Goods and Services	(2,087,088)	(2,499,250)	(4,586,338)	(109,432)	(258,787)	24	(4,954,533)	(4,454,975)
Payments to Employees	-	(724,021)	(724,021)	(130,372)	(317,042)	-	(1,171,435)	(954,809)
Other Operating Revenues	-	37,523	37,523	104	255	-	37,882	70,723
Net Cash Provided (Used) by Operating Activities	\$ (101,811,073)	\$ 43,388,858	\$ (58,422,215)	\$ 1,584,074	\$ (1,173,393)	\$ (129,483)	\$ (58,141,017)	\$ (52,908,768)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>								
Payment of Principal and Interest on Bonds and Notes	\$ (76,679,299)	\$ (46,404,640)	\$ (123,083,939)	\$ (970,685)	\$ -	\$ -	\$ (124,054,624)	\$ (173,406,804)
Proceeds from Issuance of Bonds and Notes	107,632,987	-	107,632,987	-	-	-	107,632,987	239,910,000
Payment of Bond Issuance Costs	(646,059)	-	(646,059)	-	-	-	(646,059)	(2,565,797)
Premium Paid on Refunding Bonds	-	-	-	-	-	-	-	4,942,494
Due From (To) Other Funds*	(188,563)	188,563	-	-	-	-	-	0
Net Cash Provided (Used) by Noncapital Financing Activities	\$ 30,119,066	\$ (46,216,077)	\$ (16,097,011)	\$ (970,685)	\$ -	\$ -	\$ (17,067,696)	\$ 68,879,893
<b>CASH FLOWS FROM CAPITAL ACTIVITIES</b>								
Purchase of fixed assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (22,329)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>								
Purchase of Investments	\$ (509,294,453)	\$ (367,140,861)	\$ (876,435,314)	\$ (6,331,000)	\$ (55,864)	(3,236)	\$ (882,825,414)	\$ (1,049,382,465)
Proceeds from Sales or Maturities of Investments	573,452,948	365,466,457	938,919,405	2,365,377	-	-	941,284,782	1,030,239,300
Interest on Investments	4,338,164	3,764,487	8,102,651	216,041	47,285	1,478	8,367,455	9,442,396
Arbitrage Rebate Tax	(267,314)	(290,468)	(557,782)	-	-	-	(557,782)	(300,485)
Net Cash Provided (Used) by Investing Activities	\$ 68,229,345	\$ 1,799,615	\$ 70,028,960	\$ (3,749,582)	\$ (8,579)	\$ (1,758)	\$ 66,269,041	\$ (10,001,254)
Net Increase (Decrease) in Cash and Cash Equivalent:	\$ (3,462,662)	\$ (1,027,604)	\$ (4,490,266)	\$ (3,136,193)	\$ (1,181,972)	\$ (131,241)	\$ (8,939,672)	\$ 5,947,542
Cash and Cash Equivalents, beginning bal.	\$ 4,481,299	\$ 3,683,903	\$ 8,165,202	\$ 3,370,718	\$ 2,088,740	193,318	\$ 13,817,978	\$ 7,870,436
Cash and Cash Equivalents, ending bal.	\$ 1,018,637	\$ 2,656,299	\$ 3,674,936	\$ 234,525	\$ 906,768	\$ 62,077	\$ 4,878,306	\$ 13,817,978

\* Interfund Payable & Receivable records a temporary loan between Board program funds that is expected to be repaid within one year. The loan is excluded from the Board's Statement of Net Assets because it is not an obligation to an external entity. The Statement of Net Assets Current Assets and Current Liabilities balances therefore does not include the amount of this loan.

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2008 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	HOUSING MONTANA FUND	Combined Totals (Memorandum Only)	
							FY 2008	FY 2007
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>								
Operating Income	\$ 5,114,634	\$ 1,770,806	\$ 6,885,440	\$ 373,359	\$ (143,123)	\$ (258,393)	\$ 6,857,283	\$ 6,238,978
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</b>								
Depreciation	\$ 7,507	\$ 7,666	\$ 15,173	\$ 18	\$ 5,729	\$ -	\$ 20,920	\$ 23,855
Amortization	(510,151)	(2,158,979)	(2,669,130)	33,407	-	-	(2,635,723)	350,462
Interest Expense	32,284,860	15,020,004	47,304,864	668,512	-	11,926	47,985,302	42,749,511
Interest on Investments	(3,907,472)	(1,286,100)	(5,193,572)	(183,568)	(47,285)	1,388	(5,423,037)	(11,473,225)
Arbitrage Rebate Tax	(83,349)	53,340	(30,009)	-	-	-	(30,009)	356,308
Change in Assets and Liabilities:								
Decr (Incr) in Mortgage Loans Receivable	(133,323,931)	30,921,789	(102,402,142)	767,417	(873,387)	(157,924)	(102,666,036)	(87,367,047)
Decr (Incr) in Other Assets	(1,791,034)	(223,729)	(2,014,763)	130	(90,467)	273,518	(1,831,582)	(974,087)
(Incr) Decr in Fair Value of Investments	(236,843)	(769,837)	(1,006,680)	(27,112)	-	-	(1,033,792)	1,022,965
Incr (Decr) in Accounts Payable	(68,780)	124,325	55,545	(49,026)	(38,759)	-	(32,240)	168,594
Incr (Decr) in Deferred Reservation & Disc. Fees	680,125	(93,788)	586,337	-	-	-	586,337	(4,020,206)
Incr (Decr) in Compensated Absences Payable	23,361	23,361	46,722	937	13,901	-	61,560	15,124
Net Cash Provided by (Used for) Operating Activities	<u>\$ (101,811,073)</u>	<u>\$ 43,388,858</u>	<u>\$ (58,422,215)</u>	<u>\$ 1,584,074</u>	<u>\$ (1,173,391)</u>	<u>\$ (129,485)</u>	<u>\$ (58,141,017)</u>	<u>\$ (52,908,768)</u>

MONTANA BOARD  
OF HOUSING

BOARD RESPONSE



**MONTANA**  
**Department of Commerce**

B-3

**MONTANA BOARD OF HOUSING**

P.O. Box 200528 \* Helena, Montana 59620-0528 \* www.housing.mt.gov  
Phone: 406-841-2840 \* 1-800-761-6264 \* Fax: 406-841-2841 \* TDD: 406-841-2702

November 17, 2008

Tori Hunthausen  
Legislative Auditor  
Room 160, State Capitol  
Helena MT 59620-1705

**RECEIVED**

NOV 19 2008

**LEGISLATIVE AUDIT DIV.**

Dear Ms. Hunthausen:

We have received and reviewed the financial audit of the Montana Board of Housing for the fiscal year ended June 30, 2008. We appreciate the professionalism and courtesy with which the audit was conducted. Our response to the audit recommendation follows:

**RECOMMENDATION #1**

We recommend the board enhance and implement written internal control procedures in accordance with state policy over the preparation and review of its financial statements and notes.

**Response:**

The board concurs. Board staff is expanding current financial statement documentation by adding written preparation and review procedures.

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

Sincerely,



Bruce Brensdal  
Executive Director