



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL AUDIT

# *Montana Board of Housing*

*For the Two Fiscal Years Ended  
June 30, 2009*

NOVEMBER 2009

LEGISLATIVE AUDIT  
DIVISION

*08-07B*

**LEGISLATIVE AUDIT  
COMMITTEE**

**REPRESENTATIVES**

DEE BROWN, VICE CHAIR  
BETSY HANDS  
SCOTT MENDENHALL  
CAROLYN PEASE-LOPEZ  
WAYNE STAHL  
BILL WILSON

**SENATORS**

MITCH TROPILA, CHAIR  
GREG BARKUS  
JOHN BRENDEN  
TAYLOR BROWN  
MIKE COONEY  
CLIFF LARSEN

**AUDIT STAFF**

**FINANCIAL-COMPLIANCE**

JEANE  
CARSTENSEN-GARRETT  
JOHN FINE  
VICKIE RAUSER  
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 AUDITS**

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 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 2009

The Legislative Audit Committee  
of the Montana State Legislature:

This is our report on the financial audit of the Montana Board of Housing (board), a component unit of the state of Montana, for the two fiscal years ended June 30, 2009. The objectives of this audit include determining whether the financial statements for fiscal years 2008-09 and 2007-08 present fairly the board's financial position at June 30 for each fiscal year and the results of its operations for the fiscal years then ended. We also tested compliance with laws having a direct and material effect on the financial statements. The board implemented the recommendation from our prior audit regarding enhanced control procedures over preparation of financial statements and notes.

On page A-1, you will find the Independent Auditor's Report followed by the Management's Discussion and Analysis, the financial statements and accompanying notes. The Management's Discussion and Analysis is supplementary information required by the Governmental Accounting Standards Board. As disclosed in the Independent Auditor's Report, we did not audit the supplementary information and express no opinion on it. We issued an unqualified opinion on the financial statements, which means the reader can rely on the information presented.

The Board of Housing was created by the Montana Housing Act of 1975 and is attached to the Housing Division within the Department of Commerce. The board's purpose is to provide decent, safe, sanitary and affordable housing for lower income individuals and families in the state of Montana. The board accomplishes this purpose by issuing tax-exempt bonds to provide funds to purchase home mortgages, administering federal housing programs and working in partnership with other housing providers throughout Montana. The board's current bonding cap is \$1.5 billion. As of June 30, 2009, the maximum income limitations for qualifying for a loan ranged between \$58,159 to \$90,020 depending on the location and the number of people in the household. The maximum qualifying purchase price and loan amount for a home was \$237,031 until February 2009, when it was reduced to \$236,840. Qualifying mortgage loans made during the year ranged from \$23,500 to \$237,000.

In addition to the annual financial audit of the board, we perform special engagements for the Board of Housing throughout the year. These include reviews of preliminary and official statements to allow inclusion of our Independent Auditor's Report with the financial statements when the board issues bonds; agreed-upon procedures to evaluate revenue, expense, and fund equity information for the board and its underwriters when they are planning to sell bonds; and agreed-upon procedures at

selected loan servicers to assist the board in evaluating the mortgage receivable information provided by the board's loan servicers and in determining the servicers' compliance with contract requirements.

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

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor

## APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
<b>Montana Board of Housing</b>	J.P. Crowley, Chair	Helena	2013
	Betsy Scanlin, Vice Chair	Red Lodge	2013
	Jeff Rupp, Secretary	Bozeman	2013
	Audrey Black Eagle	Lodge Grass	2013
	Robert Gauthier	Polson	2011
	Jeanette McKee	Hamilton	2011
	Susan Moyer	Kalispell	2011

### **Administrative Officials: Department of Commerce**

Anthony J. Preite, Director

### **Board of Housing**

Bruce Brensdal, Executive Director

Charles Nemec, 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 200258  
Helena, MT 59620-0528  
(406) 841-2840  
e-mail: [bbrensdal@mt.gov](mailto:bbrensdal@mt.gov)



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, 2009, and 2008, 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 Board of Housing as of June 30, 2009, and 2008, and the results of its operations and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis and the Schedule of Funding Progress for Other Post Employment Benefits 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 inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was 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, 2009, with comparative totals as of

A-2

June 30, 2008, 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 2, 2009

**Montana Board of Housing  
Management's Discussion and Analysis,  
Financial Statements, Notes,  
Required Supplemental 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, 2009**

The following information presents our discussion and analysis of the Board of Housing's financial performance during the fiscal year ended June 30, 2009. Please read this section in conjunction with the financial statements and accompanying notes.

**Financial Summary**

- 472 single-family mortgages were purchased for \$55 million.
- \$2,950,492 of Low Income Tax Credits were allocated providing approximately \$29 million of equity to produce or preserve 150 units of affordable rental housing.
- 7 new Reverse Annuity Mortgage (RAM) Loans were originated bringing the total active RAM loans to 89. Since its inception the RAM program has assisted 175 elderly households.
- Bond debt increased by \$34 million.
- Bond debt retired was \$109 million.
- Bond debt outstanding debt decreased from \$949 million to \$875 million.
- Net Assets increased by \$2 million during the 2009 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.

**Financial Update**

Major economic changes continue affecting financial markets and MBOH. The current financial turmoil has affected MBOH but to a limited extent because MBOH does not issue variable rate bonds or swap interest rates; mortgages are insured largely through federal programs; MBOH investment policy emphasizes capital preservation over return limiting investment risk; loan delinquency rates, although higher, are less than regional and national rates. During the past year, MBOH has been affected in the following ways. Significant investment interest rate declines have reduced MBOH income. Mortgage interest rate declines have spurred borrowers into refinancing and paying off MBOH loans. The bond market, the source of MBOH lending capital, has offered unfavorable interest rates preventing MBOH from accessing capital and lending at competitive rates. The combined effects of these conditions have limited MBOH participation in the Montana mortgage market and affected financial operations (next page). Even though these circumstances are unfavorable, they have not prevented MBOH and its programs from continuing to operate and help Montanans achieve affordable homeownership.

Montana Board of Housing  
**Condensed Financial Information**  
 Change in Net Assets and Operating Income  
 Years ended June 30, 2009, 2008 and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Assets:</b>			
Current Assets	(1) \$ 181,487,498	\$ 158,944,697	\$ 233,646,575
Noncurrent Assets	(2) 852,032,790	947,175,785	833,539,558
Total Assets	<u>\$ 1,033,520,288</u>	<u>\$ 1,106,120,482</u>	<u>\$ 1,067,186,133</u>
<b>Liabilities:</b>			
Current Liabilities	\$ 18,970,821	\$ 19,858,301	\$ 17,139,993
Noncurrent Liabilities	(3) 859,173,873	933,167,058	903,808,300
Total Liabilities	<u>\$ 878,144,694</u>	<u>\$ 953,025,359</u>	<u>\$ 920,948,293</u>
<b>Net Assets:</b>			
Invested in Capital Assets	\$ 19,235	\$ 37,266	\$ 52,210
Restricted	155,356,359	153,057,857	146,185,630
Total Net Assets	<u>\$ 155,375,594</u>	<u>\$ 153,095,123</u>	<u>\$ 146,237,840</u>
<b>Operating Revenue:</b>			
Interest on Loans	(4) \$ 48,356,479	\$ 49,778,839	\$ 44,069,482
Earnings from Investments	(5) 5,580,521	10,463,665	10,523,898
Fees and Charges	(6) 1,083,875	808,702	759,513
Total Operating Revenue	<u>\$ 55,020,875</u>	<u>\$ 61,051,206</u>	<u>\$ 55,352,893</u>
<b>Operating Expenses:</b>			
Bond Expenses	\$ 46,064,287	\$ 47,688,350	\$ 43,462,165
Servicing Fees	3,215,362	3,229,345	2,860,236
General and Administrative	(7) 3,460,755	3,276,228	2,791,514
Total Expenses	<u>\$ 52,740,404</u>	<u>\$ 54,193,923</u>	<u>\$ 49,113,915</u>
Operating Income	(8) \$ 2,280,471	\$ 6,857,283	\$ 6,238,978
Payment to Primary Government	-	-	(271)
Increase (Decrease) in Net Assets	<u>\$ 2,280,471</u>	<u>\$ 6,857,283</u>	<u>\$ 6,238,707</u>
Net Assets, Beginning of Year	153,095,123	146,237,840	139,999,133
Net Assets, End of Year	<u>\$ 155,375,594</u>	<u>\$ 153,095,123</u>	<u>\$ 146,237,840</u>

Discussion of Changes between 2009 and 2008

- (1) Current assets increased by \$22 million between 2009 and 2008 because of increased loan payoffs and moneys formerly held in an investment contract were held in money market accounts at year-end.
- (2) Non Current Assets: Mortgages Receivable decreased \$95 million between years.  
Higher bond interest rates limited the Board's ability to issue bonds and purchase new mortgages.  
Lower mortgage interest rates increased the number of loans refinanced and paid off.
- (3) Noncurrent Liabilities: Bonds Payable decreased \$74 million.  
As homeowners refinanced their mortgages and paid off their Board loans, the moneys were returned to bond holders and the bonds retired.
- (4) Interest on mortgage loans decreased by \$1.4 million due to declining numbers of mortgages held by the Board.  
The change resulted from decreased new loan purchasing and increased payoffs of existing mortgage loans.
- (5) The steep decline of investment interest rates is responsible for the Board's interest earnings drop of \$4.9 million.
- (6) Board's foreclosure counseling program expanded due to a \$280,000 Federal grant funding increase.
- (7) General & Administrative costs are largely fixed and did not follow other changes. The slight increase is caused by higher foreclosure counseling expenses due to a greater need for this service.
- (8) Operating Income decreased \$4.6 million because of investment interest and mortgage interest earnings declines.

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2009 AND 2008

	FY 2009	FY 2008
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 15,252,836	\$ 4,878,306
Investments	144,207,567	128,050,708
Mortgage Loans Receivable	16,384,286	20,432,403
Interest Receivable	5,318,108	5,277,600
Due from Primary Government	9,109	-
Due from Other Governments	6,909	9,762
Security Lending Collateral	39,621	41,101
Prepaid Expense	269,062	254,817
Total Current Assets	\$ 181,487,498	\$ 158,944,697
Noncurrent Assets		
Investments	\$ 20,762,405	\$ 35,650,009
Mortgage Loans Receivable	815,684,706	898,951,454
Mortgage Backed Securities	7,715,987	3,763,459
Deferred Bond Issuance Costs, Net	7,850,457	8,773,597
Capital Assets, Net	19,235	37,266
Total Noncurrent Assets	\$ 852,032,790	\$ 947,175,785
<b>TOTAL ASSETS</b>	<b>\$ 1,033,520,288</b>	<b>\$ 1,106,120,482</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable	\$ 888,207	\$ 851,844
Due to Primary Government	9,789	9,210
Security Lending Liability	39,621	41,101
Accrued Interest - Bonds Payable	3,820,025	4,124,429
Bonds Payable, Net	14,065,000	14,230,000
Arbitrage Rebate Payable to U.S. Treasury Department	72,004	544,044
Accrued Compensated Absences	76,176	57,673
Total Current Liabilities	\$ 18,970,822	\$ 19,858,301
Noncurrent Liabilities		
Bonds Payable, Net	\$ 860,553,395	\$ 935,170,970
Deferred Refunding Costs	(2,207,553)	(2,489,912)
Arbitrage Rebate Payable to U.S. Treasury Department	655,582	332,471
Accrued Compensated Absences	85,149	110,788
Other Post-Employment Benefits	87,299	42,741
Total Noncurrent Liabilities	\$ 859,173,872	\$ 933,167,058
<b>TOTAL LIABILITIES</b>	<b>\$ 878,144,694</b>	<b>\$ 953,025,359</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net	\$ 19,235	\$ 37,266
Restricted for Bondholders:		
Unrealized (losses) gains on investments	2,672,041	1,617,070
Single Family Programs	110,993,436	113,239,850
Various Recycled Mortgage Programs	21,585,320	19,614,454
Multifamily Programs	10,564,558	10,366,037
Multifamily Project Commitments	203,510	210,834
Reverse Annuity Mortgage Program	6,684,662	5,394,658
Restricted for Affordable Revolving Loan Program	2,652,832	2,614,954
<b>TOTAL NET ASSETS</b>	<b>\$ 155,375,594</b>	<b>\$ 153,095,123</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, 2009 AND 2008

	FY 2009	FY 2008
<b>OPERATING REVENUES</b>		
Interest Income - Mortgage Loans	\$ 48,356,479	\$ 49,778,839
Interest Income - Investments	4,590,306	9,429,871
Fee Income	374,426	283,404
Federal Financial Assistance	709,449	522,926
Net Increase (Decrease) in Fair Value of Investments	943,235	1,033,793
Other Income	45,130	846
Securities Lending Gross Income	1,850	1,527
Total Operating Revenues	\$ 55,020,875	\$ 61,051,206
 <b>OPERATING EXPENSES</b>		
Interest on Bonds	\$ 44,293,878	\$ 46,097,834
Servicer Fees	3,215,362	3,229,345
Contracted Services	1,515,277	1,297,006
Amortization of Bond Issuance Costs	777,770	766,051
General and Administrative	1,900,920	1,935,286
Arbitrage Rebate Expense	183,542	237,340
Loss on Redemption	808,475	587,125
Securities Lending Expense	622	1,195
Other Post-Employment Benefits	44,558	42,741
Total Operating Expenses	\$ 52,740,404	\$ 54,193,923
 Operating Income (Loss) Before Transfers	2,280,471	6,857,283
 Increase (Decrease) in Net Assets	\$ 2,280,471	\$ 6,857,283
 Net Assets, Beginning of Year	153,095,123	146,237,840
 Net Assets, End of Year	\$ 155,375,594	\$ 153,095,123

The accompanying notes are an intergral 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, 2009 AND 2008**

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITY</b>		
Receipts for Sales and Services	\$ 353,342	\$ 252,220
Collections on Loans and Interest on Loans	189,923,728	154,621,836
Cash payments for Loans	(59,127,724)	(207,449,016)
Federal Financial Assistance Receipts	693,264	522,029
Payments to Suppliers for Goods and Services	(4,848,870)	(4,954,533)
Payments to Employees	(1,130,606)	(1,171,435)
Other Operating Revenues	102,894	37,882
Net Cash Provided (Used) by Operating Activities	\$ 125,966,028	\$ (58,141,017)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Payment of Principal and Interest on Bonds and Notes	\$ (150,269,035)	\$ (124,054,624)
Proceeds from Issuance of Bonds and Notes	31,497,942	107,632,987
Payment of Bond Issuance Costs	(415,515)	(646,059)
Premium Paid on Refunding Bonds	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	\$ (119,186,608)	\$ (17,067,696)
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>		
Purchase of fixed assets	\$ -	\$ -
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Investments	\$ (713,395,876)	\$ (882,825,414)
Proceeds from Sales or Maturities of Investments	713,804,094	941,284,782
Interest on Investments	3,519,362	8,367,455
Arbitrage Rebate Tax (Note 12)	(332,470)	(557,782)
Net Cash Provided (Used) by Investing Activities	\$ 3,595,110	\$ 66,269,041
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 10,374,530	\$ (8,939,672)
Cash and Cash Equivalents, beginning bal.	\$ 4,878,306	\$ 13,817,978
Cash and Cash Equivalents, ending bal.	\$ 15,252,836	\$ 4,878,306

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, 2009 AND 2008

	FY 2009	FY 2008
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 2,280,471	\$ 6,857,283
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</b>		
Depreciation	\$ 18,031	20,920
Amortization	(836,569)	(2,635,723)
Interest Expense	46,154,055	47,985,302
Interest on Investments	(4,039,853)	(5,423,037)
Arbitrage Rebate Tax	325,555	(30,009)
Change in Assets and Liabilities:		
Decr (Incr) in Mortgage Loans Receivable	82,434,236	(102,666,036)
Decr (Incr) in Other Assets	118,918	(1,831,582)
(Incr) Decr in Fair Value of Investments	(943,236)	(1,033,792)
Incr (Decr) in Accounts Payable	410,902	(32,240)
Incr (Decr) in Deferred Reservation & Disc. Fees	3,520	586,337
Incr (Decr) in Compensated Absences Payable	39,998	61,560
Net Cash Provided (Used) by Operating Activities	\$ 125,966,028	\$ (58,141,017)

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)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

**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. 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 financial statements of the Board are presented on a combined basis.

**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 \$155,374,950 of restricted net assets, of which \$155,374,950 is restricted by enabling legislation.

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

A-11

**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 private mortgage insurance.

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**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

**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 including 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. Housing Trust Fund accounts are held in the state treasury. 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 includes all activity for 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 resources and loans provided by the Federal Housing and Urban Development Section 8 administrative fee reserve account, the Temporary Assistance to Needy Families (TANF) block grant to the state and the Affordable Housing Program.

**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:**

The Board follows 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 & 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.

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

A-13

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

**Mortgage Loans Receivable - continued**

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.

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**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

**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, 2009 and 2008, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

Program Funds	2009	2008
Short-Term Investments	\$ 13,899,510	\$ 3,181,230
State Short-Term Investment Pool*	553,591	849,124
Cash Deposited with Trustee Banks**	51,084	315,380
Cash Deposited with State Treasury	748,651	532,572
	\$ 15,252,836	\$ 4,878,306

\*The State's Short Term Investment Pool (STIP) is managed by the Montana Board of Investments. 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 \$250,000 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 2009 and 2008, 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 2009 and 2008 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 2009 and 2008. More over, there were no losses during fiscal years 2009 and 2008 resulting from a default of the borrowers or State Street.

During fiscal years 2009 and 2008, 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, 2009 and June 30, 2008, BOI had no credit risk exposure to borrowers.

On June 30, 2009, there were \$39,621 of securities on loan.  
On June 30, 2008, there were \$41,101 of securities on loan.

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

A-15

**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 Title 17, Chapter 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.

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.

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

**NOTE 4. INVESTMENTS - continued**

Investment Type & Source	Fair Value <u>June 30, 2009</u>	Moody's Rating	Standard & Poor's Rating	Effective Duration
<u>Investment Contracts</u>				
Bayerische Landesbank	\$ 6,398,088	NR*	NR*	NA
Société Générale	6,574,949	NR*	NR*	NA
Trinity Plus Funding Co.	7,279,940	NR*	NR*	NA
Westdeutsche Landesbank	<u>1,641,054</u>	NR*	NR*	NA
Contracts Total	\$21,894,031			
<u>Government Sponsored Enterprises</u>				
Federal Home Loan Bank	\$ 74,433,126	Aaa	AAA	0.82
Federal National Mortgage Assoc.	40,239,307	Aaa	AAA	7.73
Federal Home Loan Mortgage Corp.	<u>30,208,734</u>	Aaa	AAA	0.42
	\$144,881,167			
U. S. Treasury	\$6,293,938	NA	NA	11.13
Trustee Cash & Money Market Accounts	\$13,950,594	NA	NA	NA
State Cash & Short-term Pool Accounts	<u>1,302,242</u>	NA**	NA**	NA
	\$15,252,836			
Total All Investments	<u>\$188,321,972</u>			

\*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.

**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>2009</u>	<u>2008</u>
Mortgage loan receivables:		
Single Family Program	\$803,318,604	\$889,708,910
Multifamily Program	13,545,508	13,863,923
Housing Trust Program	3,321,792	3,221,396
Housing Montana Fund	<u>2,268,527</u>	<u>2,451,410</u>
	822,454,431	909,245,639
Net mortgage discounts and deferred reservation fees	9,914,561	10,438,218
Allowance for loan losses and real estate owned (note 6)	<u>(300,000)</u>	<u>(300,000)</u>
	<u>\$832,068,992</u>	<u>\$919,383,857</u>

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

**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, 2007	\$ 300,000
Provision	0
Less: Net loans charged off	<u>0</u>
Balance, June 30, 2008	300,000
Provision	0
Less: Net loans charged off	<u>0</u>
Balance, June 30, 2009	<u>\$ 300,000</u>

The June 30, 2009 and 2008 Allowances For Loan Losses include \$100,000 for mortgage bad debt and \$200,000 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 seven real estate owned properties as of June 30, 2009, and four real estate owned properties as of June 30, 2008.

**NOTE 7. CAPITAL ASSETS**

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

	<u>2009</u>	<u>2008</u>
Capital Assets - Equipment	\$ 12,170	\$ 12,170
Capital Assets - Software	14,164	31,119
Accumulated depreciation	<u>(7,099)</u>	<u>(6,023)</u>
Net capital assets	<u>\$ 19,235</u>	<u>\$ 37,266</u>

Depreciation and amortization expense included in general and administrative expense was \$18,030 and \$20,919 for the years ended June 30, 2009 and 2008 respectively.

**NOTE 8. BONDS PAYABLE, NET**

The Board has no variable interest rate debt obligations and does not swap interest rates. The following bonds are fixed rate mortgage revenue or general obligation bonds.

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

<b>Single Family I Mortgage Bonds:</b>	<u>Original Amount</u>	<u>2009</u>	<u>2008</u>
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	9,600,000	11,155,000

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

<b><u>NOTE 8. BONDS PAYABLE, NET - continued</u></b>	<u>Original</u> <u>Amount</u>	<u>2009</u>	<u>2008</u>
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	6,475,000	8,115,000
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	17,660,000	20,240,000
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	17,060,000	20,790,000
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	12,765,000	14,450,000
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	20,115,000	23,925,000
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	68,775,000	78,660,000
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	39,115,000	46,200,000
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	58,410,000	67,700,000

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

A-19

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

	<u>Original Amount</u>	<u>2009</u>	<u>2008</u>
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	58,315,000	66,860,000
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	74,635,000	83,865,000
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	77,075,000	82,750,000
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	47,125,000	50,385,000
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	53,510,000	56,580,000
Bonds outstanding Single Family I		\$ 560,635,000	\$ 631,675,000
Unamortized bond premium		<u>8,455,741</u>	<u>9,846,228</u>
<b>Total bonds payable Single Family I</b>		<b>\$ 569,090,741</b>	<b>\$ 641,521,228</b>

**Single Family II Mortgage Bonds:**

1985			
Series A, serial, term, Postponed Revenue On Future Income Tax(PROFITS), all redeemed. CABS are reported at accreted value, and scheduled for redemption, in part, in semi-annual installments to December 1, 2004 and December 1, 2015 to June 1, 2016.	\$ 39,999,625	\$ 820,609	\$ 950,854
1998			
Series A-1 and A-2 serial and term bonds 4.00% to 5.45% maturing in scheduled semi-annual installments to December 1, 2012, and on December 1, 2016, June 1, 2019, June 1, 2027, December 1, 2030 and June 1, 2031.	51,780,000	13,215,000	15,305,000

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

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

	<u>Original Amount</u>	<u>2009</u>	<u>2008</u>
1998			
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	20,255,000	23,430,000
2003			
Series A-1 and A-2 serial and term bonds 1.20% to 4.90% maturing in scheduled semi-annual installments to December 1, 2024, June 1, 2033, December 1, 2033, June 1, 2034, June 1, 2035, June 1, 2042, and December 1, 2042.	52,520,000	35,095,000	36,830,000
2003			
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	43,130,000	47,275,000
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	22,245,000	25,400,000
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	27,455,000	30,910,000
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	39,085,000	46,580,000
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	34,900,000	41,050,000
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	24,250,000	25,725,000

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2009 and 2008

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

	<u>Original Amount</u>	<u>2009</u>	<u>2008</u>
2008			
Series A serial and term bonds 2.55% to 5.50% Maturing in scheduled semi-annual installments To December 1, 2019, December 1, 2024, December 1, 2029, December 1, 2033, December 1, 2039	31,000,000	31,000,000	0
Bonds outstanding Single Family II		\$ 291,450,609	\$293,455,854
Unamortized bond premium / discount		<u>2,867,655</u>	<u>3,408,450</u>
<b>Total bonds payable Single Family II</b>		<u>\$ 294,318,264</u>	<u>\$ 296,864,304</u>
2008 Series A General Obligation Private Placement Bonds	<u>\$497,942</u>	<u>\$497,942</u>	<u>\$ 0</u>
<b>Total Single Family Mortgage bonds payable, net</b>		<u>\$ 863,906,947</u>	<u>\$938,385,532</u>

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.

**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, 2009, \$497,942 of 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, 2009, no bonds have been issued.

	<u>Original Amount</u>	<u>2009</u>	<u>2008</u>
<b>Multifamily Mortgage Bonds:</b>			
1978 -			
Series A, 6.125% interest, maturing in scheduled annual installments to August 1, 2019.	\$4,865,000	\$750,000	\$790,000
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	680,000	700,000



**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

**NOTE 9. LOSS ON REDEMPTION**

During the years ended June 30, 2009 and 2008 the Board redeemed Single Family mortgage program bonds prior to scheduled maturity as follows:

	<u>2009</u>	<u>2008</u>
Single Family I		
December 1	\$33,110,000	\$24,890,000
June 1	<u>28,650,000</u>	<u>13,590,000</u>
	<u>61,760,000</u>	<u>38,480,000</u>
Single Family II		
December 1	20,198,015	18,064,219
June 1	<u>8,635,000</u>	<u>8,463,677</u>
	<u>28,833,015</u>	<u>26,527,896</u>
Multifamily	<u>0</u>	<u>0</u>
Total	<u>\$90,593,015</u>	<u>\$65,007,896</u>

All such Bonds were redeemed at par or 100% of their compounded value to date of redemption. Unamortized discounts and cost of issuance associated with the bonds redeemed were expensed at time of redemption and are reported as losses on redemption of \$ 808,475 and \$ 587,125 in 2009 and 2008, respectively.

**NOTE 10. COMMITMENTS**

The Board is in the process of reserving and purchasing single family mortgages of approximately \$ 4,115,694 from the issuance of the 2008 Series A bonds and \$1,717,755 from the issuance of the 2007 A-2 bonds.

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

Human Resource Council Superior Land Trust	\$ 780,000
Neighborhood Housing Services MT Home Ownership	
Network Mortgage Setaside	1,032,218
MT Home Ownership Network Lender Pool	983,916
FNMA Home Ownership	589,052
District XI Human Resource Council Missoula	700,000
Burns Street Commons	1,740,000
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	685,383
Lot Refinance	869,252
Habitat for Humanity	31,722
HUD Section 184-Indian Housing	1,806,601
Chippewa Cree	2,000,000
USDA Rural Housing Development	229,744
Down Payment Pool	7,048,979
Total Single Family Commitments	<u>\$21,585,320</u>

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

**NOTE 10. COMMITMENTS - continued**

Other Commitments--Single Family I	
Reverse Annuity Mortgage Program Future Loans	\$ 2,278,548

The Board has the following Multifamily commitments:

Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD)	
Total Multifamily Commitments	\$203,510

The Board has committed Housing Trust Funds as noted below:

Reverse Annuity Mortgage Program Existing Loans	\$4,406,114
---	-------------

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.

**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

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

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

Contribution rates for the plans are required and determined by State law. The contribution rates for 2009 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, 2007, 2008 and 2009 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	2009 - \$	60,429
Fiscal Year	2008 - \$	57,093
Fiscal Year	2007 - \$	49,120

**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.

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 \$590 and \$836 per month depending on the medical plan selected, family coverage, and eligibility. Administratively established premiums vary between \$34.10 and \$58.00 per month for dental and between \$7.64 and \$22.46 per month for an optional vision plan 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). Eligible 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.

The Board made \$ 332,471 in arbitrage rebate cash payments to The United States Treasury Department in fiscal year 2009 and \$ 557,781 during the fiscal year ended June 30, 2008. The related liabilities were \$ 727,586 and \$ 876,515 as of June 30, 2009 and 2008, respectively.

Beginning Balance July 1, 2008	\$ 876,515
Additions	183,542
Reductions	<u>(332,471)</u>
Ending Balance June 30, 2009	\$727,586

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

**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 6/30/2009</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	\$ 2,033,078
Multifamily Housing Revenue Bonds Series 2007A	\$ 5,100,000	\$ 5,100,000
Multifamily Housing Revenue Bonds Series 2008A	\$ 2,413,600	\$ 2,413,600

**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 and those proceeds are used to repay previously issued debt. The Board performed no refunding during the period from July 1, 2008 to June 30, 2009.

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 \$2,207,553

**Total Unamortized** \$2,207,553

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

A-27

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

Beginning with 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 \$218 and \$836 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$34.10 and \$58.00; 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.

**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:**

The following 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.

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.

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

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

The 2009 ARC is calculated for all the plan's participants and then individually allocated to individual participants. The Board's 2009 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.)

**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.

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 2009, the Board's allocated annual OPEB cost (expense) of \$42,741 was equal to the ARC plus \$1,817 of interest on the prior year obligation amount. The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2009 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/08	\$42,741	0%	\$42,741
6/30/09	\$44,558	0%	\$87,299

**Funded Status and Funding Progress:**

The funded status of the Board's allocation of the plan as of June 30, 2009, 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%

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

A-29

**NOTE 16. SUBSEQUENT EVENTS**

The Board is participating in two American Recovery and Reinvestment Act of 2009 (ARRA) programs: Housing and Urban Development Tax Credit Assistance Program and U.S. Treasury Housing Credit Exchange Program. Both programs provide additional funding for capital investment in low-income housing tax credit projects. Funding and project details are available through the Montana Reinvestment Act Home page: <http://www.recovery.mt.gov>. As of September 30, 2009, MBOH has not drawn any ARRA funds from the Federal government.

On October 19, 2009, Standard and Poor's (S&P) withdrew its credit ratings on Bayerische Landesbank (bank) at the bank's request. Because the bank is no longer rated by S&P, S&P does not take into account any investment agreements with the bank as eligible investments for the Board's Single Family I (1977) Indenture. On October 29, 2009, S&P placed the Board's Single Family I Indenture on credit watch negative, following the withdrawal of the bank's ratings, while S&P evaluates whether to affirm the Board's current Single Family I Indenture bond ratings. As described in Notes to the Financial Statements, Note 4 Investments, repurchase agreements are collateralized by federal or federal agency securities at 102% of the principal amount invested with the bank. In addition, Board investment agreements with the bank are guaranteed by the State of Bavaria which is currently rated AAA by S&P.

**Required Supplemental Information:  
Schedule of Funding Progress for Board of Housing  
Other Post-Employment Benefits**

The following table shows only information for the most recent, completed two fiscal years which are the fiscal years ended June 30, 2008 and 2009. 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			
	Assets	Liability*	(UAAL)		Payroll	of Covered
	(A)	(B)	(B-A)	(A/B)	(C)	((B-A)/C)
12/31/2007	\$0	\$418,727	\$418,727	0	\$484,582	86.41%

\* 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, 2009 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2008)

	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 2009	FY 2008
<b>ASSETS</b>								
<b>Current Assets</b>								
Cash and Cash Equivalents	\$ 4,466,704	\$ 8,256,528	\$ 12,723,232	\$ 1,611,462	\$ 635,679	\$ 282,463	\$ 15,252,836	\$ 4,878,306
Investments	86,960,856	50,932,652	137,893,508	6,264,608	46,554	2,897	144,207,567	128,050,708
Mortgage Loans Receivable	8,900,959	7,129,875	16,030,834	348,270	-	5,182	16,384,286	20,432,403
Interest Receivable	2,950,761	1,631,081	4,581,842	65,473	571,848	98,945	5,318,108	5,277,600
Interfund Receivable	-	-	-	-	-	-	-	497,942
Due from Primary Government	-	12,609	12,609	-	-	-	12,609	-
Due from Other Governments	-	6,909	6,909	-	-	-	6,909	9,762
Security Lending Collateral	-	619	619	-	36,717	2,285	39,621	41,101
Prepaid Expense	-	255,500	255,500	4,834	8,728	-	269,062	254,817
<b>Total Current Assets</b>	<b>\$ 103,279,280</b>	<b>\$ 68,225,773</b>	<b>\$ 171,505,053</b>	<b>\$ 8,294,647</b>	<b>\$ 1,299,526</b>	<b>\$ 391,772</b>	<b>\$ 181,490,998</b>	<b>\$ 159,442,639</b>
<b>Noncurrent Assets</b>								
Investments	\$ 5,973,209	\$ 14,789,196	20,762,405	\$ -	\$ -	\$ -	\$ 20,762,405	\$ 35,650,009
Mortgage Loans Receivable	515,158,078	281,744,253	796,902,331	13,197,238	3,321,791	2,263,346	815,684,706	898,951,454
Mortgage Backed Securities	1,968,404	5,747,583	7,715,987	-	-	-	7,715,987	3,763,459
Deferred Bond Issuance Costs, Net	5,083,223	2,622,681	7,705,904	144,553	-	-	7,850,457	8,773,597
Capital Assets, Net	2,397	5,256	7,653	318	11,264	-	19,235	37,266
<b>Total Noncurrent Assets</b>	<b>\$ 528,185,311</b>	<b>\$ 304,908,969</b>	<b>\$ 833,094,280</b>	<b>\$ 13,342,109</b>	<b>\$ 3,333,055</b>	<b>\$ 2,263,346</b>	<b>\$ 852,032,790</b>	<b>\$ 947,175,785</b>
<b>TOTAL ASSETS</b>	<b>\$ 631,464,591</b>	<b>\$ 373,134,742</b>	<b>\$ 1,004,599,333</b>	<b>\$ 21,636,756</b>	<b>\$ 4,632,581</b>	<b>\$ 2,655,118</b>	<b>\$ 1,033,523,788</b>	<b>\$ 1,106,618,424</b>
<b>LIABILITIES</b>								
<b>Current Liabilities</b>								
Accounts Payable	329,550	\$ 532,267	\$ 861,817	\$ 13,435	\$ 12,955	\$ -	\$ 888,207	\$ 851,844
Interfund Payable	-	-	-	-	-	-	-	497,942
Due to Primary Government	-	8,472	8,472	690	4,127	-	13,289	9,210
Security Lending Liability	-	619	619	-	36,717	2,285	39,621	41,101
Accrued Interest - Bonds Payable	2,380,955	1,166,321	3,547,276	272,749	-	-	3,820,025	4,124,429
Bonds Payable, Net	9,365,000	4,375,000	13,740,000	325,000	-	-	14,065,000	14,230,000
Arbitrage Rebate Payable to U.S. Treasury Department	72,004	-	72,004	-	-	-	72,004	544,044
Accrued Compensated Absences	30,910	29,837	60,747	6,164	9,265	-	76,176	57,673
<b>Total Current Liabilities</b>	<b>\$ 12,178,419</b>	<b>\$ 6,112,516</b>	<b>\$ 18,290,935</b>	<b>\$ 618,038</b>	<b>\$ 63,064</b>	<b>\$ 2,285</b>	<b>\$ 18,974,322</b>	<b>\$ 20,356,243</b>
<b>Noncurrent Liabilities</b>								
Bonds Payable, Net	\$ 559,725,741	\$ 290,441,206	\$ 850,166,947	\$ 10,386,448	\$ -	\$ -	\$ 860,553,395	\$ 935,170,970
Deferred Refunding Costs	(1,348,023)	(859,530)	(2,207,553)	-	-	-	(2,207,553)	(2,489,912)
Arbitrage Rebate Payable to U.S. Treasury Department	482,589	172,993	655,582	-	-	-	655,582	332,471
Accrued Compensated Absences	34,348	34,778	69,126	5,335	10,688	-	85,149	110,788
OPEB Liability	43,650	43,649	87,299	-	-	-	87,299	42,741
<b>Total Noncurrent Liabilities</b>	<b>\$ 558,938,305</b>	<b>\$ 289,833,096</b>	<b>\$ 848,771,401</b>	<b>\$ 10,391,783</b>	<b>\$ 10,688</b>	<b>\$ -</b>	<b>\$ 859,173,872</b>	<b>\$ 933,167,058</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 571,116,724</b>	<b>\$ 295,945,612</b>	<b>\$ 867,062,336</b>	<b>\$ 11,009,821</b>	<b>\$ 73,752</b>	<b>\$ 2,285</b>	<b>\$ 878,148,194</b>	<b>\$ 953,523,301</b>
<b>NET ASSETS</b>								
Invested in Capital Assets, Net	\$ 2,397	\$ 5,256	\$ 7,653	\$ 318	\$ 11,264	\$ -	\$ 19,235	\$ 37,266
<b>Restricted for Bondholders:</b>								
Unrealized (losses) gains on investments	491,378	2,180,663	2,672,041	-	-	-	2,672,041	1,617,070
Single Family Programs	44,263,609	66,729,827	110,993,436	-	-	-	110,993,436	113,239,850
Various Recycled Mortgage Programs	13,311,936	8,273,384	21,585,320	-	-	-	21,585,320	19,614,454
Multifamily Programs	-	-	-	10,423,107	141,450	-	10,564,557	10,366,037
Multifamily Project Commitments	-	-	-	203,510	-	-	203,510	210,834
Reverse Annuity Mortgage Program	2,278,547	-	2,278,547	-	4,406,115	-	6,684,662	5,394,658
Restricted for Affordable Revolving Loan Program	-	-	-	-	-	2,652,833	2,652,833	2,614,954
<b>TOTAL NET ASSETS</b>	<b>\$ 60,347,867</b>	<b>\$ 77,189,130</b>	<b>\$ 137,536,997</b>	<b>\$ 10,626,935</b>	<b>\$ 4,558,829</b>	<b>\$ 2,652,833</b>	<b>\$ 155,375,594</b>	<b>\$ 153,095,123</b>

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, 2009 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2008)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	HOUSING MONTNANA FUND	Combined Totals	
							FY 2009	FY 2008
<b>OPERATING REVENUES</b>								
Interest Income - Mortgage Loans	\$ 32,197,909	\$ 15,158,289	\$ 47,356,198	\$ 781,162	\$ 179,565	\$ 39,554	\$ 48,356,479	\$ 49,778,839
Interest Income - Investments	2,213,245	2,231,304	4,444,549	138,289	9,147	(1,679)	4,590,306	9,429,871
Fee Income	2,482	63,072	65,554	2,721	306,151		374,426	283,404
Federal Financial Assistance		476,237	476,237	233,212			709,449	522,926
Net Increase (Decrease) in Fair Value of Investments	452,167	491,536	943,703	(468)			943,235	1,033,793
Other Income		45,130	45,130				45,130	846
Securities Lending Gross Income		617	617		1,166	67	1,850	1,527
<b>Total Operating Revenues</b>	<b>\$ 34,865,803</b>	<b>\$ 18,466,185</b>	<b>\$ 53,331,988</b>	<b>\$ 1,154,916</b>	<b>\$ 496,029</b>	<b>\$ 37,942</b>	<b>\$ 55,020,875</b>	<b>\$ 61,051,206</b>
<b>OPERATING EXPENSES</b>								
Interest on Bonds	\$ 29,502,071	\$ 14,131,787	\$ 43,633,858	\$ 660,020	\$ -	\$ -	\$ 44,293,878	\$ 46,097,834
Servicer Fees	2,129,876	1,070,404	3,200,280	15,082			3,215,362	3,229,345
Contracted Services	92,985	1,330,743	1,423,728	26,646	64,863	40	1,515,277	1,297,006
Amortization of Bond Issuance Costs	460,462	307,202	767,664	10,106			777,770	766,051
General and Administrative	38,729	1,173,290	1,212,019	201,778	487,123		1,900,920	1,935,286
Arbitrage Rebate Expense	88,313	95,229	183,542				183,542	237,340
Loss on Redemption	563,840	244,635	808,475				808,475	587,125
Securities Lending Expense		207	207		393	22	622	1,195
Other Post-Employment Benefits	22,279	22,279	44,558				44,558	42,741
<b>Total Operating Expenses</b>	<b>\$ 32,898,555</b>	<b>\$ 18,375,776</b>	<b>\$ 51,274,331</b>	<b>\$ 913,632</b>	<b>\$ 552,379</b>	<b>\$ 62</b>	<b>\$ 52,740,404</b>	<b>\$ 54,193,923</b>
Operating Income (Loss) Before Transfers	1,967,248	90,409	2,057,657	241,284	(56,350)	37,880	2,280,471	6,857,283
Increase (Decrease) in Net Assets	1,967,248	90,409	2,057,657	241,284	(56,350)	37,880	2,280,471	6,857,283
Net Assets, Beginning of Year	58,380,620	77,098,722	135,479,342	10,385,650	4,615,178	2,614,953	153,095,123	146,237,840
<b>Net Assets, End of Year</b>	<b>\$ 60,347,868</b>	<b>\$ 77,189,131</b>	<b>\$ 137,536,999</b>	<b>\$ 10,626,934</b>	<b>\$ 4,558,828</b>	<b>\$ 2,652,833</b>	<b>\$ 155,375,594</b>	<b>\$ 153,095,123</b>

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2009 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2008)

	Single Family Indenture I	Single Family Indenture II	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	HOUSING MONTANA FUND	Combined Totals	
							2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITY</b>								
Receipts for Sales and Services	\$ -	\$ 40,065	\$ 40,065	\$ 7,299	\$ 305,978	\$ -	\$ 353,342	\$ 252,220
Collections on Loans and Interest on Loans	133,315,555	54,776,820	188,092,375	1,154,577	438,218	238,558	189,923,728	154,621,836
Cash payments for Loans	(11,417,924)	(47,165,318)	(58,583,242)	(55,000)	(470,401)	(19,081)	(59,127,724)	(207,449,016)
Federal Financial Assistance Receipts		460,052	460,052	233,212		-	693,264	522,029
Payments to Suppliers for Goods and Services	(1,628,578)	(2,826,144)	(4,454,722)	(136,750)	(257,358)	(40)	(4,848,870)	(4,954,533)
Payments to Employees		(699,491)	(699,491)	(124,166)	(306,949)	-	(1,130,606)	(1,171,435)
Other Operating Revenues		102,650	102,650	71	173	-	102,894	37,882
Net Cash Provided (Used) by Operating Activities	\$ 120,269,053	\$ 4,688,634	\$ 124,957,687	\$ 1,079,243	\$ (290,339)	\$ 219,437	\$ 125,966,028	\$ (58,141,017)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>								
Payment of Principal and Interest on Bonds and Notes	\$ (101,633,849)	\$ (47,678,965)	\$ (149,312,814)	\$ (956,221)	\$ -	\$ -	\$ (150,269,035)	\$ (124,054,624)
Proceeds from Issuance of Bonds and Notes		31,497,942	31,497,942	-	-	-	31,497,942	107,632,987
Payment of Bond Issuance Costs		(415,515)	(415,515)	-	-	-	(415,515)	(646,059)
Transfers in (out)	497,942	(497,942)	-	-	-	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	\$ (101,135,907)	\$ (17,094,480)	\$ (118,230,387)	\$ (956,221)	\$ -	\$ -	\$ (119,186,608)	\$ (17,067,696)
<b>CASH FLOWS FROM CAPITAL ACTIVITIES</b>								
Purchase of fixed assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>								
Purchase of Investments	\$ (427,121,346)	\$ (269,521,116)	\$ (696,642,462)	\$ (16,753,414)	\$ -	\$ -	\$ (713,395,876)	\$ (882,825,414)
Proceeds from Sales or Maturities of Investments	409,935,272	285,995,404	695,930,676	17,873,418			713,804,094	941,284,782
Interest on Investments	1,500,995	1,864,257	3,365,252	133,911	19,250	949	3,519,362	8,367,455
Arbitrage Rebate Tax	-	(332,470)	(332,470)	-	-	-	(332,470)	(557,782)
Net Cash Provided (Used) by Investing Activities	\$ (15,685,079)	\$ 18,006,075	\$ 2,320,996	\$ 1,253,915	\$ 19,250	\$ 949	\$ 3,595,110	\$ 66,269,041
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 3,448,067	\$ 5,600,229	\$ 9,048,296	\$ 1,376,937	\$ (271,089)	\$ 220,386	\$ 10,374,530	\$ (8,939,672)
Cash and Cash Equivalents, beginning bal.	\$ 1,018,637	\$ 2,656,299	\$ 3,674,936	\$ 234,525	\$ 906,768	\$ 62,077	\$ 4,878,306	\$ 13,817,978
Cash and Cash Equivalents, ending bal.	\$ 4,466,704	\$ 8,256,528	\$ 12,723,232	\$ 1,611,462	\$ 635,679	\$ 282,463	\$ 15,252,836	\$ 4,878,306

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2009 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2008)

	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 2009	FY 2008
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>								
Operating Income	\$ 1,967,248	\$ 90,409	\$ 2,057,657	\$ 241,284	\$ (56,350)	\$ 37,880	\$ 2,280,471	\$ 6,857,283
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</b>								
Depreciation	\$ 5,928	\$ 6,308	\$ 12,236	\$ 42	\$ 5,753	\$ -	\$ 18,031	\$ 20,920
Amortization	(344,423)	(423,745)	(768,168)	(68,401)	-	-	(836,569)	(2,635,723)
Interest Expense	30,919,958	14,581,359	45,501,317	652,738	-	-	46,154,055	47,985,302
Interest on Investments	(1,693,369)	(2,291,637)	(3,985,006)	(54,847)	-	-	(4,039,853)	(5,423,037)
Arbitrage Rebate Tax	88,313	237,242	325,555	-	-	-	325,555	(30,009)
Change in Assets and Liabilities:								
Decr (Incr) in Mortgage Loans Receivable	89,719,560	(7,684,156)	82,035,404	318,547	(100,395)	180,680	82,434,236	(102,666,036)
Decr (Incr) in Other Assets	597,832	(369,395)	228,437	5,962	(116,358)	877	118,918	(1,831,582)
(Incr) Decr in Fair Value of Investments	(452,167)	(491,536)	(943,703)	467	-	-	(943,236)	(1,033,792)
Incr (Decr) in Accounts Payable	(201,324)	634,752	433,428	(7,726)	(14,800)	-	410,902	(32,240)
Incr (Decr) in Deferred Reservation & Disc. Fees	(366,184)	369,704	3,520	-	-	-	3,520	586,337
Incr (Decr) in Compensated Absences Payable	27,681	29,329	57,010	(8,823)	(8,189)	-	39,998	61,560
Net Cash Provided by (Used for) Operating Activities	<u>\$ 120,269,053</u>	<u>\$ 4,688,634</u>	<u>\$ 124,957,687</u>	<u>\$ 1,079,243</u>	<u>\$ (290,339)</u>	<u>\$ 219,437</u>	<u>\$ 125,966,028</u>	<u>\$ (58,141,017)</u>

MONTANA BOARD OF  
HOUSING

BOARD RESPONSE



**MONTANA**  
*Department of Commerce*

**MONTANA BOARD OF HOUSING**

P.O. Box 200528 • Helena, Montana 59620-0528 • [www.housing.mt.gov](http://www.housing.mt.gov)  
Phone: 406-841-2840 • 1-800-761-6264 • Fax: 406-841-2841 • TDD: 406-841-2702

November 9, 2009

Tori Hunthausen  
Legislative Auditor  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

**RECEIVED**

NOV 10 2009

**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, 2009. We appreciate the professionalism and courtesy with which the audit was conducted. We realize our audit is complicated due to the unique nature of our operation, and appreciate you and your staff's willingness to do all of the "special" work that goes along with our operation.

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

Sincerely,



Bruce Brensdal  
Executive Director