



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL AUDIT

# *Montana Board of Housing*

*For the Fiscal Year Ended  
June 30, 2010*

NOVEMBER 2010

LEGISLATIVE AUDIT  
DIVISION

10-07

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# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

November 2010

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial audit report on the Montana Board of Housing (board) for the fiscal year ended June 30, 2010. The report contains no recommendations to the board.

We thank the executive director and his staff for their cooperation and assistance throughout the audit. The boards response to our audit is on Page B-1.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor



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## APPOINTED AND ADMINISTRATIVE OFFICIALS

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

### **Administrative Officials**

#### **Department of Commerce**

Dore Schwinden, Director  
Andrew Poole, Deputy Director

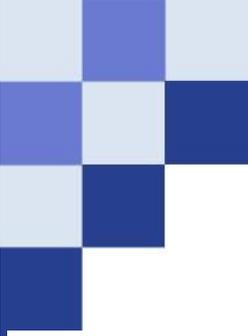
#### **Board of Housing**

Bruce Brensdal, Executive Director  
Charles Nemecek, Accounting and Finance Manager  
Gerald Watne, Multifamily Program Manager  
Nancy Leifer, Single Family Program Manager

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

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





# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL AUDIT

# Montana Board of Housing

Fiscal Year Ended June 30, 2010

NOVEMBER 2010

10-07

REPORT SUMMARY

The Montana Board of Housing's public purpose is to provide decent, safe, sanitary and affordable housing for lower income individuals and families in the state of Montana. BOH accomplishes this purpose by issuing tax exempt bonds, administering federal housing programs and working in partnership with many other housing programs and providers throughout Montana.

### Context

The Montana Board of Housing was created by the Montana Housing Act of 1975. The Board is an agency of the State and operates within the Department of Commerce for administrative purposes. Under the Housing Act the Board does not receive appropriations from the State's general fund and is completely self-supporting. Substantially all of the funds for the Board's operations and programs are provided by the private sector through the sale of tax-exempt bonds.

The powers of the Board are vested in a seven member Board, appointed by the Governor, subject to the confirmation of the State Senate. The Board provides policy direction to the agency staff, authorizes bond issues, approves development financing and evaluates Board Housing Programs. These programs include the Single Family Program, Recycled Single Family Program, Multifamily Loan Programs, Low Income Housing Tax Credit Program and the Reverse Annuity Mortgage (RAM) Program.

In fiscal year 2010 the Board of Housing purchased 272 single family mortgages for \$31 million. Low Income Tax Credits totaling \$2.9 million were allocated providing approximately \$20 million of equity to produce or preserve 238 units of affordable rental housing. In total, the board retired \$140 million of bond debt while bond debt outstanding increased from \$875 million to \$885 million.

### Results

Our audit report did not contain any recommendations to the board.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

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# Chapter I – Introduction

## **Introduction**

We performed a financial audit of the Montana Board of Housing (board) for the fiscal year ended June 30, 2010. The objectives of our audit were to:

1. Determine whether the board complied with laws having a direct and material effect on the financial statements.
2. Obtain an understanding of the board's control systems to the extent necessary to support our audit of the board's financial statements and, if appropriate, make recommendations for improvement in management and internal controls of the board.
3. Determine whether the financial statements prepared by board personnel fairly present the results of operations in conformity with generally accepted accounting principles, for the fiscal year ending June 30, 2010.

This report contains no recommendations to the board. Other areas of concern deemed not to have a significant effect on the operations of the board have been discussed with management.

## **Background**

The Montana Board of Housing was created by the Montana Housing Act of 1975. The board is attached to the Housing Division within the Department of Commerce. The 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, make loans for rental housing projects, administering federal housing tax credit programs and working in partnership with other housing providers throughout Montana. Mortgage loans are primarily for first-time homebuyers. As of June 30, 2010, the maximum income limitations for homebuyers to qualify for a mortgage loan generally ranged from \$65,040 to \$95,060. The maximum purchase price for a qualifying property generally ranged from \$236,840 to \$337,500. During fiscal year 2009-10, the board made a total of 272 mortgage loans with an average loan amount of \$114,367 to borrowers whose average income was \$41,294.

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

Table 1  
**Delinquency and Foreclosure Rates**

As of June 30, 2008	30 days delinquent	60 days delinquent	90 days delinquent	Foreclosure in process
MBOH	1.81%	.74%	.99%	.79%
Montana mortgage loans	2.26%	.87%	1.98%	1.92%
Mountain Region	2.89%	1.36%	4.67%	4.78%
United States	3.51%	1.52%	4.82%	NA

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

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

# Independent Auditor's Report and Board Financial Statements



## LEGISLATIVE AUDIT DIVISION

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, 2010, and the related Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows for the fiscal year then ended. The information contained in these financial statements is the responsibility of the board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 2010, and the results of its operations and cash flows for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis, and the Schedule of Funding Progress are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding 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 that collectively comprise the Montana Board of Housing's basic financial statements. The Combining Statement of Net Assets, Combining Statement of Revenues, Expenses, and Changes in Net Assets, and Combining Statement of Cash Flows have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

November 8, 2010

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



**Montana Board of Housing  
A Component Unit of the State of Montana  
Management's Discussion and Analysis  
Year Ended June 30, 2010**

The following information presents management's discussion and analysis of the Montana Board of Housing (MBOH) program and financial activity during the fiscal year ended June 30, 2010. Please read this section in conjunction with the financial statements and accompanying notes.

**Summary**

- 272 single-family mortgages were purchased for \$31 million.
- 92 Mortgage Credit Certificates were issued on a total loan amount of \$14 million.
- \$2.9 million of Low Income Housing Tax Credits were allocated providing approximately \$20 million of equity to produce or preserve 238 units of affordable rental housing.
- 8 new Reverse Annuity Mortgage (RAM) Loans were originated bringing the total active RAM loans to 83. Since its inception the RAM program has assisted 182 elderly households.
- Bond debt increased by \$150 million of New Issue Bond Program bonds issued to the U.S. Treasury.
- Bond debt retired was \$140 million from prepayments and regular debt service.
- Bond debt outstanding increased from \$875 million to \$885 million.
- Net Assets increased by \$1.7 million during the 2010 fiscal year (see Condensed Financial Information on the following page)

**Fiscal Year 2010 Update**

**Homeownership Program:** Market rates for first mortgage loans continued to be at or below the rate MBOH was able to offer during FY 2010. As a result, the loan volume was about 20% of the annual average number of loans. In September of 2009, the U.S. Treasury released the New Issue Bond Program (NIBP) to assist state housing finance agencies in offering more competitive rates by locking in a low rate for long term bonds. The funds in these escrow bonds were to be re-issued at a 60/40 ratio with shorter term market bonds to allow MBOH to offer a competitive rate on its mortgage loans. Any escrow bonds not re-issued by December 31, 2010, were to be returned to Treasury at no cost, reducing the risk on the escrow bonds to essentially nothing. Under the program, Montana issued its full allotment of \$150,000,000 of escrow bonds in December, 2009. However, shortly after the beginning of 2010, the market rate declined further, again hitting a level below the mortgage rate MBOH could offer even with the NIBP program assistance.

**Multifamily Program:** American Recovery and Reinvestment Act of 2009 provided \$7.8 million of Tax Credit Assistant Program (TCAP) funding and allowed the exchange of \$17.8 million of Low Income Housing Tax Credits for cash through the Tax Credit Exchange Program (TCEP). These two programs provided cash for gap financing to 13 MBOH approved 2007 and 2009 projects that were stalled, unable to engage investors or projects, or experienced equity shortfalls for construction and/or completion.

**Finance:** Major economic changes continue affecting financial markets and MBOH. Historically low investment returns continue limiting MBOH investment income and fewer loans reduce mortgage income. Unusually low mortgage rates continue reducing MBOH's number of loans as borrowers refinance out of existing MBOH loans and MBOH is unable to replace these loans with an equal number of new loans. The combined effects of these conditions have limited MBOH participation in the Montana mortgage market and affected financial operations (see Condensed Financial Information on the following page).

However, other financial changes have limited effect since MBOH does not issue variable rate bonds or swap interest rates; mortgages are insured largely through federal programs; and MBOH investment policy emphasizes capital preservation over return limiting investment risk. A result is MBOH continues to maintain stable ratings; the Single Family I & II Indentures are rated Aa1 by Moody's and AA+ by Standard & Poor's; the new Single Family XI Indenture is rated Aa3 by Moody's.

Even though financial circumstances are unfavorable, they have not prevented MBOH and its programs from continuing to operate and help Montanans achieve affordable homeownership.

### **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.

This discussion and analysis, the financial statements, notes and supplemental information are designed to provide the stakeholders of the MBOH, citizens, taxpayers, legislatures, customers, clients, investors and creditors, with an overview of the MBOH operations and to demonstrate accountability for the resources with which MBOH is entrusted.

Montana Board of Housing  
**Condensed Financial Information**  
 Change in Net Assets and Operating Income  
 Years ended June 30, 2010, 2009 and 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Assets:</b>			
Current Assets	(1) \$ 269,941,212	\$ 181,487,498	\$ 158,944,697
Noncurrent Assets	(2) 777,820,036	852,032,790	947,175,785
Total Assets	\$ 1,047,761,248	\$ 1,033,520,288	\$ 1,106,120,482
<b>Liabilities:</b>			
Current Liabilities	(3) \$ 168,653,639	\$ 18,970,821	\$ 19,858,301
Noncurrent Liabilities	(4) 721,905,097	859,173,873	933,167,058
Total Liabilities	\$ 890,558,737	\$ 878,144,694	\$ 953,025,359
<b>Net Assets:</b>			
Invested in Capital Assets	\$ 9,231	\$ 19,235	\$ 37,266
Restricted	157,193,280	155,356,359	153,057,857
Total Net Assets	\$ 157,202,512	\$ 155,375,594	\$ 153,095,123
<b>Operating Revenue:</b>			
Interest on Loans	(5) \$ 41,632,175	\$ 48,356,479	\$ 49,778,839
Federal Financial Assistance	(6) 14,741,879		
Earnings from Investments	5,432,371	5,580,521	10,463,665
Fees and Charges	512,237	1,083,875	808,702
Total Operating Revenue	\$ 62,318,661	\$ 55,020,875	\$ 61,051,206
<b>Operating Expenses:</b>			
Bond Expenses	(7) \$ 40,472,908	\$ 46,064,287	\$ 47,688,350
Federal Grants to Local Communities	(8) 14,023,480		
Servicing Fees	2,750,613	3,215,362	3,229,345
General and Administrative	3,355,835	3,460,755	3,276,228
Total Expenses	\$ 60,602,836	\$ 52,740,404	\$ 54,193,923
Operating Income	\$ 1,715,825	\$ 2,280,471	\$ 6,857,283
Increase (Decrease) in Net Assets	\$ 1,715,825	\$ 2,280,471	\$ 6,857,283
Net Assets, Beginning of Year	155,375,594	153,095,123	146,237,840
Prior Period Adjustment	111,093	0	0
Net Assets, End of Year	\$ 157,202,512	\$ 155,375,594	\$ 153,095,123

Discussion of Changes between 2010 and 2009

- (1) Current Assets increased by \$88 million because \$150 million of 2009 Series A bond proceeds increased cash equivalents; decreases of \$46 million of prepayments, mortgage receipts; and \$20 million moved from short-term investments to long-term investments.
- (2) Non Current Assets decreased by \$74 million because Mortgages Receivable decreased by \$92 million between years due to the Board's limited ability purchase new mortgages and many existing borrowers refinancing loans. NonCurrent Assets increased by moving \$20 million of investments from short-term to long-term.
- (3) Current Liabilities increased by \$150 million because the 2009 Series A bonds are redeemable before December 31, 2010. (See Financial Statements Note 16 Subsequent Events as the redemption date is extended to December 31, 2011.)
- (4) Noncurrent Liabilities decreased by \$137 million. Borrowers responded to historically low interest rates by refinancing their mortgages. As they paid off their MBOH loans, the moneys were returned to bond holders and the bonds retired.
- (5) Interest on mortgage loans decreased by \$6.7 million due to declining numbers of mortgages held by the MBOH.
- (6) MBOH is participating in two America Recovery and Reinvestment Act Programs: Tax Credit Assistance Program and Tax Credit Exchange Program. Federal funds from Housing and Urban Development and U.S. Treasury are received by MBOH Multifamily Program and passed on to local Montana community housing projects.
- (7) Bond Expenses fell by \$5.5 million because loan payoffs [4] reduced the bond principal and interest MBOH paid.
- (8) American Recovery and Reinvestment Act funds are passed on to local community housing projects [6]. Project details can be found on the Department of Commerce website: [commerce.mt.gov](http://commerce.mt.gov) Look for "Reinvestment Act Programs" Tax Credit Assistance or Tax Credit Exchange Programs on the web page.

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2010 AND 2009

	FY 2010	FY 2009
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 159,578,296	\$ 15,252,836
Investments	88,434,678	144,207,567
Mortgage Loans Receivable	14,621,590	16,384,286
Interest Receivable	5,229,340	5,318,108
Due from Primary Government	-	9,109
Due from Other Governments	1,826,649	6,909
Security Lending Collateral	13,926	39,621
Prepaid Expense	236,733	269,062
Total Current Assets	\$ 269,941,212	\$ 181,487,498
Noncurrent Assets		
Investments	\$ 39,267,871	\$ 20,762,405
Mortgage Loans Receivable	723,966,545	815,684,706
Mortgage Backed Securities	8,049,808	7,715,987
Deferred Bond Issuance Costs, Net	6,526,581	7,850,457
Capital Assets, Net	9,231	19,235
Total Noncurrent Assets	\$ 777,820,036	\$ 852,032,790
<b>TOTAL ASSETS</b>	<b>\$ 1,047,761,248</b>	<b>\$ 1,033,520,288</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable	\$ 2,737,013	\$ 888,207
Due to Primary Government	-	9,789
Security Lending Liability	13,926	39,621
Property Held in Trust	-	-
Accrued Interest - Bonds Payable	3,279,443	3,820,025
Bonds Payable, Net	162,525,000	14,065,000
Arbitrage Rebate Payable to U.S.		
Treasury Department	30,481	72,004
Accrued Compensated Absences	67,776	76,176
Total Current Liabilities	\$ 168,653,639	\$ 18,970,822
Noncurrent Liabilities		
Bonds Payable, Net	\$ 722,785,804	\$ 860,553,395
Deferred Refunding Costs	(1,925,194)	(2,207,553)
Arbitrage Rebate Payable to U.S.		
Treasury Department	778,229	655,582
Accrued Compensated Absences	101,708	85,149
Other Post-Employment Benefits	164,550	87,299
Total Noncurrent Liabilities	\$ 721,905,097	\$ 859,173,872
<b>TOTAL LIABILITIES</b>	<b>\$ 890,558,736</b>	<b>\$ 878,144,694</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net	\$ 9,231	\$ 19,235
Restricted for Bondholders:		
Unrealized (losses) gains on investments	4,752,657	2,672,041
Single Family Programs	115,303,979	110,993,436
Various Recycled Mortgage Programs	16,809,553	21,585,320
Multifamily Programs	10,586,295	10,564,558
Multifamily Project Commitments	193,539	203,510
Reverse Annuity Mortgage Program	6,873,282	6,684,662
Restricted for Affordable Revolving Loan Program	2,673,976	2,652,832
<b>TOTAL NET ASSETS</b>	<b>\$ 157,202,512</b>	<b>\$ 155,375,594</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, 2010 AND 2009

	FY 2010	FY 2009
<b>OPERATING REVENUES</b>		
Interest Income - Mortgage Loans	\$ 41,632,175	\$ 48,356,479
Interest Income - Investments	3,351,458	4,590,306
Fee Income	408,418	374,426
Federal Financial Assistance	14,741,879	709,449
Net Increase (Decrease) in Fair Value of Investments	2,080,616	943,235
Other Income	103,819	45,130
Securities Lending Gross Income	296	1,850
Total Operating Revenues	\$ 62,318,661	\$ 55,020,875
<b>OPERATING EXPENSES</b>		
Interest on Bonds	\$ 38,362,826	\$ 44,293,878
Servicer Fees	2,750,613	3,215,362
Contracted Services	1,508,713	1,515,277
Amortization of Bond Issuance Costs	892,015	777,770
General and Administrative	1,769,872	1,900,920
Arbitrage Rebate Expense	140,184	183,542
Loss on Redemption	1,077,782	808,475
Securities Lending Expense	100	622
Other Post-Employment Benefits	77,252	44,558
Grants to Local Community	14,023,480	
Total Operating Expenses	\$ 60,602,836	\$ 52,740,404
Operating Income (Loss) Before Transfers	1,715,825	2,280,471
Increase (Decrease) in Net Assets	\$ 1,715,825	\$ 2,280,471
Net Assets, Beginning of Year	155,375,594	153,095,123
Prior Period Adjustment	111,093	-
Net Assets, End of Year	\$ 157,202,512	\$ 155,375,594

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 CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITY</b>		
Receipts for Sales and Services	\$ 510,316	\$ 353,342
Collections on Loans and Interest on Loans	167,849,043	189,923,728
Cash payments for Loans	(32,147,486)	(59,127,724)
Federal Financial Assistance Receipts	12,880,499	693,264
Payments to Suppliers for Goods and Services	(17,554,363)	(4,848,870)
Payments to Employees	(1,168,902)	(1,130,606)
Other Operating Revenues	51,448	102,894
Net Cash Provided (Used) by Operating Activities	\$ 130,420,555	\$ 125,966,028
<b>CASH FLOWS FROM NONCAPITAL</b>		
<b>FINANCING ACTIVITIES:</b>		
Payment of Principal and Interest on Bonds and Notes	\$ (178,210,998)	\$ (150,269,035)
Proceeds from Issuance of Bonds and Notes	150,000,000	31,497,942
Payment of Bond Issuance Costs	(355,227)	(415,515)
Premium Paid on Refunding Bonds	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	\$ (28,566,225)	\$ (119,186,608)
<b>CASH FLOWS FROM CAPITAL</b>		
<b>FINANCING ACTIVITIES:</b>		
Purchase of fixed assets	\$ -	\$ -
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Investments	\$ (1,410,012,153)	\$ (713,395,876)
Proceeds from Sales or Maturities of Investments	1,449,138,108	713,804,094
Interest on Investments	3,371,507	3,519,362
Arbitrage Rebate Tax (Note 12)	(59,061)	(332,470)
Net Cash Provided (Used) by Investing Activities	\$ 42,438,401	\$ 3,595,110
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 144,325,459	\$ 10,374,530
Cash and Cash Equivalents, beginning bal.	\$ 15,252,836	\$ 4,878,306
Cash and Cash Equivalents, ending bal.	\$ 159,578,295	\$ 15,252,836

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, 2010 AND 2009

	FY 2010	FY 2009
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 1,715,825	\$ 2,280,471
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</b>		
Depreciation	10,004	\$ 18,031
Amortization	1,240,744	\$ (836,569)
Interest Expense	40,649,529	\$ 46,154,055
Interest on Investments	(3,269,199)	\$ (4,039,853)
Arbitrage Rebate Tax	140,184	\$ 325,555
Change in Assets and Liabilities:		
Decr (Incr) in Mortgage Loans Receivable	92,199,184	\$ 82,434,236
Decr (Incr) in Other Assets	(1,757,170)	\$ 118,918
(Incr) Decr in Fair Value of Investments	(2,080,616)	\$ (943,236)
Incr (Decr) in Accounts Payable	1,836,940	\$ 410,902
Incr (Decr) in Deferred Reservation & Disc. Fees	(316,907)	\$ 3,520
Incr (Decr) in Compensated Absences Payable	84,766	\$ 39,998
Net Cash Provided (Used) by Operating Activities	\$ 130,453,282	\$ 125,966,028

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, 2010 and 2009**

**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. 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 Net Assets reports \$157,202,512 of restricted net assets, of which \$157,202,512 is restricted by enabling legislation.

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**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.

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**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 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, 2010 and 2009**

**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, 2010 and 2009**

**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 having maturities of less than 90 days. At June 30, 2010 and 2009, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

Program Funds	2010	2009
Cash Deposited with Trustee Banks	0	51,084
Cash Deposited with State Treasury	715,922	748,651
State Short-Term Investment Pool*	339,582	553,591
Short-Term Investments**	158,522,790	13,899,510
	\$ 159,578,294	\$ 15,252,836

\* 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.

\*\* Short-Term Investments include \$150,052,000 of U.S. Treasury 28 day "T-Bills" held in the Single Family XI Indenture Bond Series 2009A Program Escrow Account. The Board is required by the U.S. Treasury to invest these funds in U.S. Treasury securities having maturities of less than 28 days at the time of purchase.

**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 2010 and 2009, 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 2010 and 2009 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 2010 and 2009. Moreover, there were no losses during fiscal years 2010 and 2009 resulting from a default of the borrowers or State Street.

During fiscal years 2010 and 2009, 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, 2010 and June 30, 2009, BOI had no credit risk exposure to borrowers.

On June 30, 2010, there were \$13,926 of securities on loan.

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

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**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, 2010 and 2009**

**NOTE 4. INVESTMENTS – continued**

Investment Type & Source	Fair Value June 30, 2010	Moody's Rating	Standard & Poor's Rating	Effective Duration
<u>Investment Contracts</u>				
Trinity Plus Funding Co.	\$6,480,789	NR**	NR**	NA
Société Générale	5,951,928	NR**	NR**	NA
Bayerische Landesbank	1,628,085	NR**	NR**	NA
Westdeutsche Landesbank	1,378,851	NR**	NR**	NA
Total	\$15,439,653			
<u>Government Sponsored Enterprises</u>				
FNMA* Discount Notes	\$73,336,073	Aaa	AAA	0.40
FNMA* Medium Term Notes	15,507,596	Aaa	AAA	10.63
FNMA* Mortgage Backed Securities	8,572,475	Aaa	AAA	10.86
Federal Farm Credit Bank Notes	13,766,442	Aaa	AAA	2.42
Federal Home Loan Mortgage Corp. Notes	2,816,716	Aaa	AAA	12.63
Total	\$113,999,302			
U. S. Treasury Bills	\$150,052,000	NA	NA	0.00
U. S. Treasury Bonds	6,654,450	NA	NA	9.45
Total	\$156,706,450			
Trustee Cash & Money Market Accounts	\$8,099,835	NA	NA	NA
State Cash & Short-term Pool Accounts	1,077,295	NA***	NA***	NA
Total	\$9,177,130			
Total All Investments	\$295,322,535			

\* Federal National Mortgage Association

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

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

**MONTANA BOARD OF HOUSING**  
(A Component Unit of the State of Montana)  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2010 and 2009

**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>2010</u>	<u>2009</u>
Mortgage loan receivables:		
Single Family Program	\$711,922,674	\$803,318,604
Multifamily Program	12,320,879	13,545,508
Housing Trust Program	3,505,766	3,321,792
Housing Montana Fund	<u>2,275,957</u>	<u>2,268,527</u>
	730,025,276	822,454,431
Net mortgage discounts and deferred reservation fees	8,862,858	9,914,561
Allowance for loan losses and real estate owned (note 6)	<u>(300,000)</u>	<u>(300,000)</u>
	<u>\$738,588,134</u>	<u>\$832,068,992</u>

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

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

Balance, June 30, 2008	\$ 300,000
Provision	0
Less: Net loans charged off	<u>0</u>
Balance, June 30, 2009	300,000
Provision	0
Less: Net loans charged off	<u>0</u>
Balance, June 30, 2010	<u>\$ 300,000</u>

The June 30, 2010 and 2009 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 16 real estate owned properties as of June 30, 2010, and seven real estate owned properties as of June 30, 2009.

**NOTE 7. CAPITAL ASSETS**

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

	<u>2010</u>	<u>2009</u>
Capital Assets - Equipment	\$ 12,170	\$ 12,170
Capital Assets - Software	5,235	14,164
Accumulated depreciation	<u>(8,175)</u>	<u>(7,099)</u>
Net capital assets	<u>\$ 9,230</u>	<u>\$ 19,235</u>

Depreciation and amortization expense included in general and administrative expense was \$10,004 and \$18,030 for the years ended June 30, 2010 and 2009 respectively.

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**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:

	<u>Original Amount</u>	<u>2010</u>	<u>2009</u>
<b>Single Family I Mortgage Bonds:</b>			
1999			
Series A-1 and A-2 serial and term bonds 4.35% to 5.75% maturing in scheduled semi-annual installments to December 1, 2012, and on December 1, 2014, December 1, 2020, June 1, 2030 and December 1, 2030 and December 1, 2031.	60,000,000	7,335,000	9,600,000
2000			
Series A-1 and A-2 serial and term bonds 4.15% to 6.45% maturing in scheduled semi-annual installments to December 1, 2012, and on June 1, 2016, June 1, 2019, December 1, 2020, June 1, 2029 December 1, 2031 and June 1, 2032.	87,695,000	3,870,000	6,475,000
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	14,315,000	17,660,000
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	13,200,000	17,060,000
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	10,580,000	12,765,000
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	16,120,000	20,115,000
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	56,765,000	68,775,000

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

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

	<u>Original Amount</u>	<u>2010</u>	<u>2009</u>
2006			
Series A serial and term bonds 3.40% to 5.25% maturing in scheduled semi-annual installments to June 1, 2016, December 1, 2016, December 1, 2025, December 1, 2036, and June 1, 2037.	50,560,000	33,220,000	39,115,000
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	46,530,000	58,410,000
2006			
Series C serial and term bonds 3.50% to 5.75% maturing in scheduled semi-annual installments to June 1, 2009, December 1, 2016, December 1, 2021, December 1, 2026, December 1, 2031, June 1, 2037 and December 1, 2037.	70,805,000	46,685,000	58,315,000
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	64,365,000	74,635,000
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	65,900,000	77,075,000
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	36,680,000	47,125,000
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	44,065,000	53,510,000
Bonds outstanding Single Family I		\$ 459,630,000	\$ 560,635,000
Unamortized bond premium		<u>6,702,160</u>	<u>8,455,741</u>
<b>Total bonds payable Single Family I</b>		<b>\$ 466,332,160</b>	<b>\$ 569,090,741</b>

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

	<u>Original Amount</u>	<u>2010</u>	<u>2009</u>
<b>Single Family II Mortgage Bonds:</b>			
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	\$ 694,721	\$ 820,609
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	10,640,000	13,215,000
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	16,785,000	20,255,000
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	33,180,000	35,095,000
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	38,735,000	43,130,000
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	18,470,000	22,245,000
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	23,365,000	27,455,000

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<b>NOTE 8. <u>BONDS PAYABLE, NET – continued</u></b>	<u>Original Amount</u>	<u>2010</u>	<u>2009</u>
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	32,285,000	39,085,000
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	29,175,000	34,900,000
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	22,855,000	24,250,000
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	30,280,000	31,000,000
Bonds outstanding Single Family II		\$ 256,464,721	\$291,450,609
Unamortized bond premium / discount		<u>2,354,107</u>	<u>2,867,655</u>
<b>Total bonds payable Single Family II</b>		<u>\$ 258,818,828</u>	<u>\$ 294,318,264</u>
<b>Single Family XI Bonds:</b>			
2009 Series A variable rate bonds. Interest is payable on release date and each redemption date. Bonds are issued to the U.S. Treasury as part of the New Issue Bond Program.	150,000,000	150,000,000	0
Bonds outstanding Single Family XI		\$ 150,000,000	0
Unamortized bond premium / discount		<u>0</u>	<u>0</u>
<b>Total bonds payable Single Family XI</b>		<u>\$ 150,000,000</u>	<u>\$ 0</u>
2008 Series A General Obligation Private Placement Bonds	\$497,942	\$497,942	\$497,942
<b>Total Single Family Mortgage bonds payable, net</b>		<u>\$ 875,648,930</u>	<u>\$863,906,947</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.

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

Board of Housing Essential Workers' Program

The Board has authorized the issuance of \$1,000,000 of taxable general obligation bonds to finance second mortgage shared appreciation loans to provide assistance to Ravalli County teachers. As of June 30, 2010, \$497,942 of bonds have been issued.

	<u>Original Amount</u>	<u>2010</u>	<u>2009</u>
<b>Multifamily Mortgage Bonds:</b>			
1978 -			
Series A, 6.125% interest, maturing in scheduled annual installments to August 1, 2019.	\$4,865,000	\$0	\$750,000
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	660,000	680,000
1998			
Series A 3.5% to 4.70% interest, serial and term bonds, maturing in scheduled annual installments to August 1, 2014 and on August 1, 2029.	1,625,000	1,140,000	1,170,000
1999			
Series A 4.95% to 8.45% interest, term Bonds, maturing in scheduled semi annual installments to August 1, 2008, August 1, 2010, August 1, 2016, August 1, 2025, August 1, 2030, August 1, 2037, August 1, 2041 and August 1, 2039.	9,860,000	<u>7,920,000</u>	<u>8,150,000</u>
Total bonds outstanding		<u>9,720,000</u>	<u>10,750,000</u>
Unamortized bond premium		<u>(58,126)</u>	<u>(38,551)</u>
<b>Total Multifamily Mortgage bonds payable, net</b>		<u>\$9,661,874</u>	<u>\$ 10,711,449</u>

All Multifamily mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 102%.

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

<b>Combined Total Single and Multifamily bonds payable, net</b>	<u>\$ 885,310,804</u>	<u>\$ 874,618,396</u>
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**MONTANA BOARD OF HOUSING**  
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**NOTE 8. BONDS PAYABLE, NET - continued**

The following is a summary of bond principal and interest requirements as of June 30, 2010:

Fiscal Year Ending	Single Family Principal and Interest Total	Multifamily Principal and Interest Total	Single and Multi- family Principal Only Total	Single and Multi- family Interest Only Total
2011	\$ 197,971,133	\$ 883,778	\$ 162,525,000	\$ 36,329,910
2012	\$ 47,716,773	876,859	\$ 12,935,000	\$ 35,658,632
2013	\$ 48,208,460	854,821	\$ 13,980,000	\$ 35,083,281
2014	\$ 48,743,624	837,606	\$ 15,145,000	\$ 34,436,230
2015	\$ 48,899,776	756,489	\$ 15,920,000	\$ 33,736,265
2016-20	\$ 248,624,685	3,463,990	\$ 95,865,936	\$ 156,222,739
2021-25	\$ 254,608,120	3,431,125	\$ 128,910,000	\$ 129,129,245
2026-30	\$ 253,773,515	3,202,680	\$ 165,090,000	\$ 91,886,195
2031-35	\$ 211,280,719	2,677,164	\$ 165,255,000	\$ 48,702,883
2036-40	\$ 99,064,153	2,734,135	\$ 90,135,000	\$ 11,663,288
2041-45	\$ 10,787,915	661,350	\$ 10,570,000	\$ 879,265
Total	<u>\$ 1,469,678,873</u>	<u>\$ 20,379,996</u>	<u>\$ 876,330,936</u>	<u>\$ 613,727,933</u>

Cash paid for interest expenses during the years ending June 30, 2010 and 2009 was \$41,038,117 and \$45,836,975 respectively.

Changes in Bonds Payable

	6/30/2009			6/30/2010
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Single Family	\$ 863,906,947	150,070,831	(138,328,848)	\$ 875,648,930
Multi Family	<u>10,711,449</u>	_____	<u>(1,049,575)</u>	<u>9,661,874</u>
Total	<u>\$ 874,618,396</u>	<u>150,070,831</u>	<u>(139,378,422)</u>	<u>\$ 885,310,804</u>

**MONTANA BOARD OF HOUSING**  
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**NOTE 9. LOSS ON REDEMPTION**

During the years ended June 30, 2010 and 2009 the Board redeemed Single Family mortgage program bonds prior to scheduled maturity as follows:

Single Family I	<u>2010</u>	<u>2009</u>
December 1	\$ 59,445,000	\$ 33,110,000
June 1	<u>32,630,000</u>	<u>28,650,000</u>
	<u>92,075,000</u>	<u>61,760,000</u>
Single Family II		
December 1	17,153,895	20,198,015
June 1	<u>13,662,824</u>	<u>8,635,000</u>
	<u>30,816,720</u>	<u>28,833,015</u>
Single Family XI		
December 1	0	
June 1	<u>0</u>	
	<u>0</u>	
Multifamily	<u>0</u>	<u>0</u>
Total	<u>\$ 122,891,720</u>	<u>\$ 90,593,015</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 \$ 1,077,782 and \$ 808,475 in 2010 and 2009, respectively.

**NOTE 10. COMMITMENTS**

The Board is in the process of reserving and purchasing single family mortgages of approximately \$3,807,878 in the Single Family XI Indenture and \$692,762 in the Single Family I Indenture.

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

District XI Human Resource Council Missoula	700,000
Burns Street Commons	1,740,000
Butte Housing Authority	750,000
Foreclosure Prevention	45,635
Disabled Affordable Accessible Homeownership	832,522
Lot Refinance	869,252
Habitat for Humanity Fiscal Year 2010	692,841
Habitat for Humanity Fiscal Year 2011	1,000,000
HUD Section 184-Indian Housing	1,066,482
Chippewa Cree	2,000,000
USDA Rural Housing Development	729,975
Down Payment Pool	<u>6,382,846</u>
Total Single Family Commitments	<u>\$16,809,553</u>

Other Commitments--Single Family I

Reverse Annuity Mortgage Program Future Loans	\$ 2,280,807
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**MONTANA BOARD OF HOUSING**  
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**NOTE 10. COMMITMENTS - continued**

The Board has the following Multifamily commitments:

Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD)	
Total Multifamily Commitments	\$193,539

The Board has committed Housing Trust Funds as noted below:

Reverse Annuity Mortgage Program Existing Loans	\$4,592,474
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These mortgage commitments will be funded through cash and investments.

**NOTE 11. EMPLOYEE BENEFIT PLANS**

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

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

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

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

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

Contribution rates for the plans are required and determined by State law. The contribution rates for 2010 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, 2008, 2009 and 2010 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	2010 - \$ 59,060
Fiscal Year	2009 - \$ 60,429
Fiscal Year	2008 - \$ 57,093

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

**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.

**Health Care:** 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 \$622 and \$849 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 \$22.26 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 \$ 59,061 in arbitrage rebate cash payments to The United States Treasury Department in fiscal year 2010 and \$ 332,471 during the fiscal year ended June 30, 2009. The related liabilities were \$ 808,079 and \$ 727,586 as of June 30, 2010 and 2009, respectively.

Beginning Balance July 1, 2009	\$727,586
Additions	140,184
Reductions	<u>(59,061)</u>
Ending Balance June 30, 2010	\$808,709

**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.

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**NOTE 13. NO-COMMITMENT DEBT - continued**

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 6/30/2010</u>
Single Family Mortgage Revenue Bonds Series 2005A-1	\$ 516,000	\$ 69,000
Single Family Mortgage Revenue Bonds Series 2005A-2	\$ 500,000	\$ 325,000
Single Family Mortgage Revenue Bonds Series 2005A-3	\$ 984,000	\$ 941,000
Multifamily Housing Revenue Bonds Series 2006A	\$ 2,104,700	\$ 1,996,725
Multifamily Housing Revenue Bonds Series 2007A	\$ 5,100,000	\$ 5,053,186
Multifamily Housing Revenue Bonds Series 2008A	\$ 2,413,600	\$ 2,377,024

**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, 2009 to June 30, 2010.

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      \$1,925,194

**Total Unamortized**      \$1,925,194

**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.

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

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 \$268 and \$916 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.

The 2010 ARC is calculated for all the plan's participants and then individually allocated to individual participants. The Board's 2010 ARC is estimated at \$46,451 and is based on the plan's current ARC rate of 7.99% percent of participants' annual covered payroll. The Board's 2010 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.

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

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.

Annual OPEB Cost:

For 2010, the Board's allocated annual OPEB cost (expense) of \$77,251 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
6/30/10	\$77,251	0%	\$164,550

Funded Status and Funding Progress:

The funded status of the Board's allocation of the plan as of June 30, 2010, was as follows:

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

**NOTE 16. SUBSEQUENT EVENTS**

On July 1, 2010, the Board called all of the outstanding Montana Board of Housing Multi-family Mortgage Bonds 1996 Series A. The bonds, in the principal amount of \$660,000, were redeemed at 100.00% together with interest accrued to the redemption date.

On December 9, 2009, the Board agreed to participate in the U.S. Treasury New Issue Bond Program (NIBP) of the Housing Finance Agency Initiative and created a new indenture, Single Family XI Homeownership, for that purpose. The Board issued \$150,000,000.00 of bonds, 2009 Series A, and escrowed the proceeds as required by the agreement with U.S. Treasury. Originally, the program was to expire on December 31, 2010, and any remaining 2009 Series A bonds not converted to NIBP mortgage revenue bonds were to be redeemed by December 31, 2009. However, on September 1, 2010, the U.S. Department of Treasury extended the NIBP escrow draw period to December 31, 2011 from December 31, 2010 which extends the period these funds are available to the Board by one calendar year.

As part of the NIBP, the Board is purchasing eligible Montana single family residential mortgages. The Board is financing these mortgage purchases with the participation of the Federal Home Loan Bank (FHLB) of Seattle through a short-term financing agreement. On August 17, 2010, the Board drew \$8,000,000 from FHLB of Seattle for the purpose of funding mortgage purchases.

**MONTANA BOARD OF HOUSING**  
**(A Component Unit of the State of Montana)**

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

The following table shows OPEB information for the most recent, completed three fiscal years which are the fiscal years ended June 30, 2008, 2009 and 2010, as required by Governmental Accounting Standards Board Statement 45.

Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability* (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
6/30/2008	\$0	\$418,727	\$418,727	0	\$484,582	86.41%
6/30/2009	\$0	\$418,727	\$418,727	0	\$484,582	86.41%
6/30/2010	\$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, 2010 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2009)**

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL PROGRAMS	Combined Totals	
									FY 2010	FY 2009
<b>ASSETS</b>										
<b>Current Assets</b>										
Cash and Cash Equivalents	\$ 4,365,401	\$ 2,315,189	\$ 150,074,293	\$ 156,754,883	\$ 2,128,947	\$ 368,710	\$ 291,155	\$ 34,601	\$ 159,578,296	\$ 15,252,836
Investments	47,288,858	35,010,355	37,971	82,337,184	6,075,704	21,790	-	-	88,434,678	144,207,567
Mortgage Loans Receivable	7,879,812	6,296,666	149,840	14,326,318	289,942	-	5,330	-	14,621,590	16,384,286
Interest Receivable	2,719,944	1,602,842	31,038	4,353,824	57,315	710,987	107,214	-	5,229,340	5,318,108
Interfund Receivable	10,202,761	-	(10,202,761)	0	-	-	-	-	0	-
Due from Primary Government	-	-	-	0	-	-	-	-	0	12,609
Due from Other Governments	-	-	-	0	-	-	-	1,826,649	1,826,649	6,909
Security Lending Collateral	-	0	-	0	-	13,926	-	-	13,926	39,621
Prepaid Expense	-	221,812	-	221,812	5,307	9,614	-	-	236,733	269,062
<b>Total Current Assets</b>	<b>\$ 72,456,776</b>	<b>\$ 45,446,864</b>	<b>\$ 140,090,381</b>	<b>\$ 257,994,021</b>	<b>\$ 8,557,215</b>	<b>\$ 1,125,027</b>	<b>\$ 403,699</b>	<b>\$ 1,861,250</b>	<b>\$ 269,941,212</b>	<b>\$ 181,490,998</b>
<b>Noncurrent Assets</b>										
Investments	\$ 11,107,813	\$ 28,160,058	\$ -	\$ 39,267,871	\$ -	\$ -	\$ -	\$ -	\$ 39,267,871	\$ 20,762,405
Mortgage Loans Receivable	440,876,054	255,257,623	10,025,538	706,159,215	12,030,937	3,505,766	2,270,627	-	723,966,545	815,684,706
Mortgage Backed Securities	1,765,571	6,284,237	-	8,049,808	-	-	-	-	8,049,808	7,715,987
Deferred Bond Issuance Costs, Net	3,997,679	2,219,379	178,369	6,395,427	131,154	-	-	-	6,526,581	7,850,457
Capital Assets, Net	482	2,962	-	3,444	276	5,511	-	-	9,231	19,235
<b>Total Noncurrent Assets</b>	<b>\$ 457,747,599</b>	<b>\$ 291,924,259</b>	<b>\$ 10,203,907</b>	<b>\$ 759,875,765</b>	<b>\$ 12,162,367</b>	<b>\$ 3,511,277</b>	<b>\$ 2,270,627</b>	<b>\$ -</b>	<b>\$ 777,820,036</b>	<b>\$ 852,032,790</b>
<b>TOTAL ASSETS</b>	<b>\$ 530,204,375</b>	<b>\$ 337,371,123</b>	<b>\$ 150,294,288</b>	<b>\$ 1,017,869,786</b>	<b>\$ 20,719,582</b>	<b>\$ 4,636,304</b>	<b>\$ 2,674,326</b>	<b>\$ 1,861,250</b>	<b>\$ 1,047,761,248</b>	<b>\$ 1,033,523,788</b>
<b>LIABILITIES</b>										
<b>Current Liabilities</b>										
Accounts Payable	\$ 395,194	\$ 450,758	\$ 10,679	\$ 856,631	\$ 9,675	\$ 9,107	\$ 350	\$ 1,861,250	\$ 2,737,013	\$ 888,207
Interfund Payable	0	0	0	0	0	0	-	-	0	-
Due to Primary Government	0	0	0	0	0	-	-	-	0	13,289
Security Lending Liability	0	0	0	0	0	13,926	-	-	13,926	39,621
Accrued Interest - Bonds Payable	1,953,196	1,026,842	52,157	3,032,195	247,248	-	-	-	3,279,443	3,820,025
Bonds Payable, Net	7,905,000	4,325,000	150,000,000	162,230,000	295,000	-	-	-	162,525,000	14,065,000
Arbitrage Rebate Payable to U.S. Treasury Department	30,481	0	0	30,481	0	-	-	-	30,481	72,004
Accrued Compensated Absences	67,776	0	0	67,776	0	-	-	-	67,776	76,176
<b>Total Current Liabilities</b>	<b>\$ 10,351,647</b>	<b>\$ 5,802,600</b>	<b>\$ 150,062,836</b>	<b>\$ 166,217,083</b>	<b>\$ 551,923</b>	<b>\$ 23,033</b>	<b>\$ 350</b>	<b>\$ 1,861,250</b>	<b>\$ 168,653,639</b>	<b>\$ 18,974,322</b>
<b>Noncurrent Liabilities</b>										
Bonds Payable, Net	\$ 458,427,160	\$ 254,991,770	\$ -	\$ 713,418,930	\$ 9,366,874	\$ -	\$ -	\$ -	\$ 722,785,804	\$ 860,553,395
Deferred Refunding Costs	(1,201,986)	(723,208)	0	(1,925,194)	0	-	-	-	(1,925,194)	(2,207,553)
Arbitrage Rebate Payable to U.S. Treasury Department	532,622	245,607	0	778,229	0	-	-	-	778,229	655,582
Accrued Compensated Absences	(1,014)	66,762	0	65,748	16,130	19,830	-	-	101,708	85,149
OPEB Liability	82,275	82,275	0	164,550	0	-	-	-	164,550	87,299
<b>Total Noncurrent Liabilities</b>	<b>\$ 457,839,057</b>	<b>\$ 254,663,206</b>	<b>\$ -</b>	<b>\$ 712,502,263</b>	<b>\$ 9,383,004</b>	<b>\$ 19,830</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 721,905,097</b>	<b>\$ 859,173,872</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 468,190,704</b>	<b>\$ 260,465,806</b>	<b>\$ 150,062,836</b>	<b>\$ 878,719,346</b>	<b>\$ 9,934,927</b>	<b>\$ 42,863</b>	<b>\$ 350</b>	<b>\$ 1,861,250</b>	<b>\$ 890,558,736</b>	<b>\$ 878,148,194</b>
<b>NET ASSETS</b>										
Invested in Capital Assets, Net	\$ 482	\$ 2,962	\$ -	\$ 3,444	\$ 276	\$ 5,511	\$ -	\$ -	\$ 9,231	\$ 19,235
Restricted for Bondholders:										
Unrealized (losses) gains on investments	1,047,321	3,705,336	-	4,752,657	-	-	-	-	4,752,657	2,672,041
Single Family Programs	48,258,354	66,814,173	231,452	115,303,979	-	-	-	-	115,303,979	110,993,436
Various Recycled Mortgage Programs	10,426,707	6,382,846	-	16,809,553	-	-	-	-	16,809,553	21,585,320
Multifamily Programs	-	-	-	-	10,590,840	(4,545)	-	-	10,586,295	10,564,557
Multifamily Project Commitments	-	-	-	-	193,539	-	-	-	193,539	203,510
Reverse Annuity Mortgage Program	2,280,807	-	-	2,280,807	-	4,592,475	-	-	6,873,282	6,684,662
Restricted for Affordable Revolving Loan Program	-	-	-	-	-	-	2,673,976	-	2,673,976	2,652,833
<b>TOTAL NET ASSETS</b>	<b>\$ 62,013,671</b>	<b>\$ 76,905,317</b>	<b>\$ 231,452</b>	<b>\$ 139,150,440</b>	<b>\$ 10,784,655</b>	<b>\$ 4,593,441</b>	<b>\$ 2,673,976</b>	<b>\$ -</b>	<b>\$ 157,202,512</b>	<b>\$ 155,375,594</b>
<b>Assets - Liabilities WITHOUT THE CAPITAL AS:</b>	<b>\$ 62,013,671</b>	<b>\$ 76,905,317</b>	<b>\$ 231,452</b>	<b>\$ 139,150,440</b>	<b>\$ 10,784,655</b>	<b>\$ 4,593,441</b>	<b>\$ 2,673,976</b>	<b>\$ -</b>	<b>\$ 157,202,512</b>	<b>\$ 155,375,594</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, 2010 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)**

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL ASSISTANCE	Combined Totals	
									FY 2010	FY 2009
<b>OPERATING REVENUES</b>										
Interest Income - Mortgage Loans	\$ 26,349,127	\$ 14,237,124	\$ 56,303	\$ 40,642,555	\$ 753,785	\$ 199,400	\$ 36,435	\$ -	\$ 41,632,175	\$ 48,356,479
Interest Income - Investments	1,664,212	1,629,263	51,581	3,345,056	18,600	180	(12,377)	-	3,351,458	4,590,306
Fee Income	1,278	63,808	350	65,437	6,418	352,927	-	-	424,782	374,426
Federal Financial Assistance	-	28,129	-	28,129	231,866	-	-	14,481,884	14,741,879	709,449
Net Increase (Decrease) in Fair Value of Investments	555,943	1,524,673	-	2,080,616	-	-	-	-	2,080,616	943,235
Other Income	-	103,819	-	103,819	-	-	-	-	103,819	45,130
Securities Lending Gross Income	-	68	-	68	-	213	15	-	296	1,850
<b>Total Operating Revenues</b>	<b>\$ 28,570,561</b>	<b>\$ 17,586,883</b>	<b>\$ 108,234</b>	<b>\$ 46,265,678</b>	<b>\$ 1,010,669</b>	<b>\$ 552,721</b>	<b>\$ 24,072</b>	<b>\$ 14,481,884</b>	<b>\$ 62,335,025</b>	<b>\$ 55,020,875</b>
<b>OPERATING EXPENSES</b>										
Interest on Bonds	\$ 24,758,524	\$ 12,948,452	\$ 52,158	\$ 37,759,134	\$ 603,692	\$ -	\$ -	\$ -	\$ 38,362,826	\$ 44,293,878
Servicer Fees	1,737,278	991,709	4,180	2,733,168	14,691	-	2,754	-	2,750,613	3,215,362
Contracted Services	96,065	856,762	-	952,827	36,327	77,350	168	442,040	1,508,713	1,515,277
Amortization of Bond Issuance Costs	419,212	278,072	185,193	882,477	9,538	-	-	-	892,015	777,770
General and Administrative	20,118	1,124,228	-	1,144,346	184,840	440,686	-	16,364.04	1,786,236	19,000,920
Arbitrage Rebate Expense	67,571	72,614	-	140,184	-	-	-	-	140,184	183,542
Loss on Redemption	812,370	261,551	-	1,073,921	3,861	-	-	-	1,077,782	808,475
Securities Lending Expense	-	23	-	23	-	72	5	-	100	622
Other Post-Employment Benefits	38,626	38,626	-	77,252	-	-	-	-	77,252	44,558
Grants to Local Community	-	-	-	-	-	-	-	14,023,480	14,023,480	-
<b>Total Operating Expenses</b>	<b>\$ 27,949,764</b>	<b>\$ 16,572,037</b>	<b>\$ 241,531</b>	<b>\$ 44,763,332</b>	<b>\$ 852,949</b>	<b>\$ 518,108</b>	<b>\$ 2,927</b>	<b>\$ 14,481,884</b>	<b>\$ 60,619,200</b>	<b>\$ 52,740,404</b>
Operating Income (Loss) Before Transfers	620,797	1,014,847	(133,297)	1,502,348	157,720	34,613	21,145	-	1,715,824	2,280,471
Transfers In(Out)	1,045,005	(1,409,754)	364,749	-	-	-	-	-	-	-
Increase (Decrease) in Net Assets	1,665,802	(394,907)	231,452	1,502,348	157,720	34,613	21,145	-	1,715,824	2,280,471
Net Assets, Beginning of Year	60,347,868	77,189,131	-	137,536,999	10,626,934	4,558,828	2,652,833	-	155,375,594	153,095,123
Prior Period Adjustment	-	111,093	-	111,093	-	-	-	-	111,093	-
<b>Net Assets, End of Year</b>	<b>\$ 62,013,670</b>	<b>\$ 76,905,317</b>	<b>\$ 231,452</b>	<b>\$ 139,150,440</b>	<b>\$ 10,784,654</b>	<b>\$ 4,593,441</b>	<b>\$ 2,673,978</b>	<b>\$ -</b>	<b>\$ 157,202,512</b>	<b>\$ 155,375,594</b>

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL ASSISTANCE	Combined Totals	
									2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITY</b>										
Receipts for Sales and Services	\$ 1,278	\$ 144,506	\$ 350	\$ 146,134	\$ 11,395	\$ 352,787	\$ -	\$ -	\$ 510,316	\$ 353,342
Collections on Loans and Interest on Loans	109,026,800	56,139,409	26,377	165,192,586	1,984,730	583,485	88,242	-	167,849,043	189,923,728
Cash payments for Loans	(5,690,238)	(15,492,078)	(10,176,489)	(31,358,805)	-	(708,681)	(80,000)	-	(32,147,486)	(59,127,724)
Federal Financial Assistance Receipts			-	0	231,866	-	-	12,664,997	12,896,863	693,264
Payments to Suppliers for Goods and Services	(2,179,720)	(2,426,466)	(1,837)	(4,608,023)	(119,138)	(194,232)	(2,573)	(12,630,397)	(17,554,363)	(4,848,870)
Payments to Employees		(708,534)	-	(708,534)	(116,969)	(327,036)	-	-	(1,152,538)	(1,130,606)
Other Operating Revenues		51,250	-	51,250	57	140	-	-	51,448	102,894
Net Cash Provided (Used) by Operating Activities	\$ 101,158,121	\$ 37,708,087	\$ (10,151,600)	\$ 128,714,609	\$ 1,991,941	\$ (293,536)	\$ 5,670	\$ 34,601	\$ 130,453,283	\$ 125,966,028
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>										
Payment of Principal and Interest on Bonds and Nol	\$ (127,944,863)	\$ (48,587,367)	\$ -	\$ (176,532,230)	\$ (1,678,768)	\$ -	\$ -	\$ -	\$ (178,210,998)	\$ (150,269,035)
Proceeds from Issuance of Bonds and Notes	0	-	150,000,000	150,000,000	-	-	-	-	150,000,000	31,497,942
Payment of Bond Issuance Costs		-	(355,227)	(355,227)	-	-	-	-	(355,227)	(415,515)
Premium Paid on Refunding Bonds		-	-	-	-	-	-	-	-	-
Due From (To) Other Funds*	(10,202,761)	-	10,202,761	-	-	-	-	-	-	-
Transfers in (out)	0	(364,749)	364,749	-	-	-	-	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	\$ (138,147,624)	\$ (48,952,116)	\$ 160,212,283	\$ (26,887,457)	\$ (1,678,768)	\$ -	\$ -	\$ -	\$ (28,566,225)	\$ (119,186,608)
<b>CASH FLOWS FROM CAPITAL ACTIVITIES</b>										
Purchase of fixed assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>										
Purchase of Investments	\$ (194,870,503)	\$ (146,811,492)	\$ (1,050,476,059)	\$ (1,392,158,053)	\$ (17,832,310)	\$ (21,790)	-	-	\$ (1,410,012,153)	\$ (713,395,876)
Proceeds from Sales or Maturities of Investments	230,166,673	150,462,682	1,050,438,088	1,431,067,443	18,021,214	46,554	2,897	-	1,449,138,108	713,804,094
Interest on Investments	1,651,091	1,651,499	51,580	3,354,171	15,408	1,802	126	-	3,371,507	3,519,362
Arbitrage Rebate Tax	(59,061)	-	-	(59,061)	-	-	-	-	(59,061)	(332,470)
Net Cash Provided (Used) by Investing Activities	\$ 36,888,201	\$ 5,302,689	\$ 13,609	\$ 42,204,500	\$ 204,312	\$ 26,566	\$ 3,023	\$ -	\$ 42,438,401	\$ 3,595,110
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (101,303)	\$ (5,941,339)	\$ 150,074,293	\$ 144,031,651	\$ 517,485	\$ (266,970)	\$ 8,692	\$ 34,601	\$ 144,325,459	\$ 10,374,530
Cash and Cash Equivalents, beginning bal.	\$ 4,466,704	\$ 8,256,528	\$ -	\$ 12,723,232	\$ 1,611,462	\$ 635,679	282,463	0	\$ 15,252,836	\$ 4,878,306
Cash and Cash Equivalents, ending bal.	\$ 4,365,401	\$ 2,315,189	\$ 150,074,293	\$ 156,754,883	\$ 2,128,947	\$ 368,710	\$ 291,155	\$ 34,601	\$ 159,578,295	\$ 15,252,836

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

MONTANA BOARD OF HOUSING  
A COMPONENT UNIT OF THE STATE OF MONTANA  
COMBINING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL ASSISTANCE	Combined Totals (Memorandum Only)	
									FY 2010	FY 2009
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>										
Operating Income	\$ 620,798	\$ 1,014,847	\$ (133,297)	\$ 1,502,348	\$ 157,720	\$ 34,613	\$ 21,145	\$ -	\$ 1,715,825	\$ 2,280,471
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</b>										
Depreciation	\$ 1,914	\$ 2,294		\$ 4,209	\$ 42	\$ 5,753	\$ -	\$ -	\$ 10,004	\$ 18,031
Amortization	929,247	371,421	(51,578)	1,249,090	(8,347)	-	-	-	1,240,744	(836,569)
Interest Expense	26,512,105	13,461,999	52,158	40,026,262	623,267	-	-	-	40,649,529	46,154,055
Interest on Investments	(1,638,664)	(1,623,402)	(3)	(3,262,069)	(5,218)	(1,802)	(109)	-	(3,269,199)	(4,039,853)
Arbitrage Rebate Tax	67,571	72,614		140,184	-	-	-	-	140,184	325,555
Change in Assets and Liabilities:										
Decr (Incr) in Mortgage Loans Receivable	75,615,363	25,898,123	(10,206,416)	91,307,070	1,230,944	(323,115)	(15,716)	-	\$ 92,199,184	\$ 82,434,236
Decr (Incr) in Other Assets	21,957	39,121		61,078	(473)	(887)	-	(1,816,887)	\$ (1,757,170)	\$ 118,918
(Incr) Decr in Fair Value of Investments	(555,943)	(1,524,673)		(2,080,616)			0	-	\$ (2,080,616)	\$ (943,236)
Incr (Decr) in Accounts Payable	65,644	(70,462)	2,343	(2,475)	(4,448)	(7,974)	350	1,851,488	\$ 1,836,940	\$ 410,902
Incr (Decr) in Deferred Reservation & Disc. Fees	(522,000)	26,076	185,193	(310,730)	(6,176)	-	-	-	\$ (316,907)	\$ 3,520
Incr (Decr) in Compensated Absences Payable	40,130	40,130		80,259	4,631	(124)	-	-	\$ 84,766	\$ 39,998
Net Cash Provided by (Used for) Operating Activities	\$ 101,158,121	\$ 37,708,087	\$ (10,151,600)	\$ 128,714,609	\$ 1,991,941	\$ (293,536)	\$ 5,670	\$ 34,601	\$ 130,453,283	\$ 125,966,028

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 17, 2010

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

**RECEIVED**

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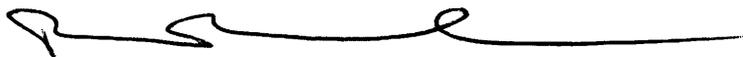
**LEGISLATIVE AUDIT DIV.**

Dear Ms. Hunthausen:

We have received and reviewed the financial audit of the Montana Board of Housing for the fiscal year ended June 30, 2010. 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 Brensda  
Executive Director