A Report
to the
Montana
Legislature

Financial Audit

Montana Board of Housing

For the Fiscal Year Ended June 30, 2014

December 2014

Legislative Audit Division

13-07B

Legislative Audit Committee

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Members serve until a member's legislative term of office ends or until a successor is appointed, whichever occurs first.

§5-13-202(2), MCA

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Financial Audits

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

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

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

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

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Reports can be found in electronic format at:
http://leg.mt.gov/audit

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

December 2014

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, 2014. During the audit, we reviewed financial records related to the board's mortgages, loans, investments, and bonds. The report does not contain any recommendations to the board.

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

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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Figures and Tables

Tables

Appointed and Administrative Officials

			Term Expires
Montana Board of Housing	J.P. Crowley, Chair	Helena	2017
	Jeanette McKee, Vice Chair	Hamilton	2015
	Sheila Rice, Secretary	Great Falls	2015
	Ingrid Firemoon	Wolf Point	2017
	Bob Gauthier	Ronan	2015
	Doug Kaercher	Havre	2017
	Pat Melby	Helena	2017

Administrative Officials

Department of Commerce

Meg O'Leary, Director

Doug Mitchell, Deputy Director

Board of Housing

Bruce Brensdal, Executive Director

Cody Pearce, CPA, Accounting and Finance Manager

Mary Bair, Multifamily Program Manager

Stacy Collette, Operations Manager

Vicki Bauer, Single Family Program Manager

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

Bruce Brensdal, Executive Director
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Helena, MT 59620-0528

e-mail: bbrensdal@mt.gov

Montana Legislative Audit Division

Financial Audit
Montana Board of Housing
For the Fiscal Year Ended June 30, 2014

December 2014 13-07B Report Summary

In fiscal year 2013, the Montana Board of Housing began purchasing servicing rights from mortgage lenders. As of June 30, 2014, the Montana Board of Housing is servicing over 3,000 loans.

Context

The Montana Board of Housing (board) is allocated to the Department of Commerce for administrative purposes. The board is completely self-supporting and receives no general fund appropriation. Most of the funds for the board's operations and programs are provided by selling tax-exempt bonds in the private sector.

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 of Housing Programs. The programs the board evaluates are: the Single Family Program, Recycled Single Family Program, Multifamily Loan Program, Low Income Tax Credit Program and the Reverse Annuity Mortgage (RAM) Program.

The board began servicing loans in fiscal year 2013, which was primarily performed by banks. This means they collect mortgage payments from borrowers on approximately 3,430 loans. During the audit, we reviewed transactions related to the bond issuances, investment activity, and the mortgage activity.

The board issues bonds and uses those proceeds to purchase mortgages from banks that originate the loan. We examined the official documents and trustee records for the two bonds that were issued during the audit period. Our audit work also included reviewing loan documents and mortgage payments. Furthermore, we reviewed the instructions the board sends to the bank and compared the boards records to the bank statements.

Results

We determined the board implemented the prior audit recommendation related to following established review procedures over the Statement of Cash Flows. There are no recommendations to the board in the current audit.

For a complete copy of the report (13-07B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to **lad@mt.gov**; or check the web site at **http://leg.mt.gov/audit**
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Call toll-free 1-800-222-4446, or e-mail **ladhotline@mt.gov**.

Chapter I – Introduction

Audit Scope

We performed a financial audit of the Montana Board of Housing (board) for the fiscal year ended June 30, 2014. The objectives of our audit were to:

1. Determine whether the financial statements fairly present the board's financial position and changes in financial position and cash flows in conformity with generally accepted accounting principles, for the fiscal year ended June 30, 2014.
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 the implementation status of the prior audit recommendation.

To address objectives #1 and #2, we focused our audit effort primarily on the transactions related to the bond issuances, investment activity, and the mortgage activity. This included understanding the board's internal control policies and procedures, performing analytical procedures, and reviewing accounting transactions.

Background

The board is allocated to the Department of Commerce for administrative purposes. The board provides access to a 30-year, fixed rate mortgage, offers rental assistance to those who need it, and assists the public in locating affordable housing. The board issues tax-exempt bonds to provide funds to purchase home mortgages, making 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 home buyers.

The Homeownership Program offers a low interest rate, 30-year, fixed-rate mortgage to assist low and moderate income first-time home buyers in purchasing homes in the state of Montana under the federal Mortgage Revenue Bond Program.

The Montana Veterans' Home Loan Mortgage Program, established during the 2011 Legislative Session, was designed to assist Montana residents who are National Guard members, reservists, or federally qualified veterans to purchase their first home.

The Low Income Housing Tax Credit Program receives Montana's allocation of federal tax credits each year and distributes those credits to developers of multifamily housing according to a competitive application process. Generally, when a successful applicant is awarded credits they are sold to an investor or syndicated group of investors and the equity is used to reduce the amount of debt financing that the property owner will incur. This lowers the operating costs, and makes it economically feasible to operate the property at affordable rents. In exchange for the financing provided through the tax credit, owners agree to keep rents affordable for a minimum period of 15 years for families and individuals with incomes at or below 60 percent of the area median income.

The Reverse Annuity Mortgage Program enables senior Montana homeowners the ability to borrow the equity in their homes and use the additional monthly income. Lower income seniors who are 68 years old or older are eligible to apply.

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. Since June 30, 2013, the Delinquency and Foreclosure Rates have gone down at the board in all areas except 90 days delinquent.

Table 1

Delinquency and Foreclosure Rates

As of June 30, 2014	30 days delinquent	60 days delinquent	90 days delinquent	Foreclosure in process
Montana Board of Housing	1.94%	1.15%	1.71%	0.80%
Montana Mortgage Loans	1.67%	0.53%	1.00%	0.87%
Mountain Region	2.06%	0.71%	1.65%	1.36%
United States	2.69%	0.96%	2.31%	2.49%

Source: 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 underwriters 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.

Prior Audit Recommendation

The audit report for the fiscal year ended June 30, 2013, contained one audit recommendation related to following established review procedures over the Statement of Cash Flows. The board implemented this audit recommendation.

Independent Auditor's Report

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction
We have audited the accompanying Statement of Net Position of the Montana Board of Housing, a component unit of the state of Montana, as of June 30, 2014, the related Statement of Revenues, Expenses and Changes in Fund Net Position, and the Statement of Cash Flows for the fiscal year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Montana Board of Housing as of June 30, 2014, and the changes in net position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page A-5 and Schedule of Funding Progress on page A-33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Combining Statement of Net Position; Combining Statement of Revenues, Expenses, Changes in Fund Net Position; and Combining Statement of Cash Flows starting on page A-34 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 14, 2014

Montana Board of Housing
Management's Discussion and Analysis, Financial Statements, Notes, 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, 2014

The following information presents management's discussion and analysis of the Montana Board of Housing (MBOH) program and financial activity during the fiscal year (FY) ended June 30, 2014. Please read this section in conjunction with the financial statements and accompanying notes.

Summary

- 597 single-family mortgages were purchased for $81 million.
- 144 Mortgage Credit Certificates were issued on a total loan amount of $25 million.
- $2.7 million of Low Income Housing Tax Credits were allocated providing approximately $21.5 million of equity to produce or preserve 188 units of affordable rental housing.
- 8 Reverse Annuity Mortgage (RAM) Loans were originated in the amount of $776 thousand. Since its inception the RAM program has assisted 204 elderly households.
- The Board refinanced $65 million of existing debt and issued $66 million of new debt.
- Bond debt retired was $144 million from prepayments and regular debt service.
- Bond debt payable decreased from $536 million to $523 million in the Single Family Program.
- Net Position decreased by nearly $6 million during the 2014 fiscal year primarily due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities* (see Condensed Financial Information on the following page).

Fiscal Year 2014 Update

Homeownership Program:

Market rates for first mortgage loans have remained similar to the rate (4.0%) MBOH is able to offer for mortgage loans during fiscal year 2014. The result was the number of loans purchased was higher than the number purchased in fiscal year 2013, but still far less than the preceding years. However, approximately 42% less mortgage loans were paid off during fiscal year 2014 as compared to fiscal year 2013, thus our mortgage receivables increased during fiscal year 2014.

MBOH is continuing its loan servicing service and adding loans to the servicing portfolio. During fiscal year 2014 the Board serviced more than half of the mortgage loans it owns.

Finance:

Major economic changes continue affecting financial and mortgage markets and MBOH. Historically low investment returns continue limiting MBOH investment income. The prolonged period of 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, though we have made significant strides in closing that gap this fiscal year. The combined effects of these conditions have limited MBOH participation in the Montana mortgage market and affected financial operations. The fiscal year ended with an operating income of $435 thousand (see Condensed Financial Information on the following page).

Many economic and 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 thus limiting risk to capital. A result is that 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 continue to be less than favorable, 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 Board's fiscal year 2014 financial statements have changed. The Board implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which was required to be implemented and retroactively applied during fiscal year 2014. Whereas the Board formerly reported costs of issuances related to the issuing debt as an asset and amortized an expense over the life of the bond, bond issuance costs are now reported as expenses in the period incurred and prior year's unamortized bond issuance costs were reported as a prior period adjustment. Additionally, deferred refunding bond issuance costs were reclassified as Deferred Outflows of Resources and recalculated to exclude unamortized costs of bond issuances, thus creating an additional prior period adjustment. The implementation of GASB Statement No. 65 created nearly a $6 million decrease in net position during fiscal year 2014. Due to the complexity of implementing GASB statements retroactively and reporting restated prior year financial statements, which is required for comparative financial statement presentations, the Board has decided to present single year financial statements beginning with the fiscal year ending June 30, 2014.

Net Position – 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 Position and Operating Income
Years Ended June 30, 2014 and 2013

	2014		2013	
Assets:				
Current Assets	$ 162,650,644	**(A)**	$ 182,047,967	
Noncurrent Assets	525,383,230	**(B)**	518,243,448	
Total Assets	688,033,874		700,291,415	
Deferred Outflow of Resources:	703,810	**(C)**	2,327,705	*
Liabilities:				
Current Liabilities	19,825,704	**(D)**	15,058,659	
Noncurrent Liabilities	517,163,275	**(E)**	530,391,682	*
Total Liabilities	536,988,979		545,450,341	
Net Position:				
Invested in Capital Assets	5,519		1,217	
Restricted	151,743,186		157,167,562	
Total Net Position	151,748,705	**(K)**	157,168,779	
Operating Revenue:				
Interest on Loans	23,916,332	**(F)**	26,212,234	
Federal Financial Assistance	790,581		364,744	
Earnings from Investments	1,734,923	**(G)**	(798,221)	
Fees and Charges	1,227,635		1,205,247	
Total Operating Revenue	27,669,471		26,984,004	
Operating Expenses:				
Bond Expenses	21,676,043	**(H)**	24,798,943	
Servicing Fees	1,323,959	**(I)**	2,189,745	
General and Administrative	4,212,983	**(J)**	2,977,100	
Total Expenses	27,212,985		29,965,788	
Operating Income (Loss)	456,486		(2,981,784)	
Increase (Decrease) in Net Position	456,486		(2,981,784)	
Net Position, Beginning of Year	157,168,779		160,150,162	
Prior Period Adjustment	(5,876,560)		401	
Net Position, End of Year	$ 151,748,705	**(K)**	$ 157,168,779	

* Restated Statement of Net Position classification to be consistent with FY14 due to implementation of GASB Statement No. 65.

Discussion of Changes

(A) Current Assets decreased due to a decline of approximately $20 million in current investments.

(B) Noncurrent Assets increased due to a $12 million increase of Loan Mortgages Receivable. However, due to the implementation of GASB Statement No. 65 unamortized bond issuances costs of $4 million were removed and reported as prior period adjustments.

(C) Deferred Outflows of Resources related to refunding bond costs, previously reported as a contra liability, decreased $1.6 million due to the implementation of GASB Statement No. 65 which excluded unamortized bond issuance costs. The unamortized cost of bond issuances were removed and reported as a prior period adjustment.

(D) Current Liabilities increased $4 million due to an increase of accounts payable and funds held for others related to the operation of Mortgage Loan Servicing.

(E) Noncurrent Liabilities decreased by $13 million due to redemption of bond issuances funded by MBOH mortgage loans paid off or refinanced by homeowners.

(F) Interest income on loans decreased $2 million as MBOH mortgage loans with higher interest rates were paid off or refinanced by homeowners and new MBOH mortgage loans were originated with lower interest rates.

(G) Investment earnings increased $2.5 million as the investment market normalized eliminating large changes in investment appreciation/depreciation realized in the past few years.

(H) Bond expenses decreased $3 million due to less bond interest paid as bonds were redeemed with moneys received from MBOH mortgage loans paid off or refinanced by homeowners or refunded and replaced with bonds with lower interest rates

(I) Servicing fees decreased due to the elimination of interfund balances between Single Family Indentures and Mortgage Loan Servicing, as more MBOH mortgage loans are serviced in-house.

(J) General and administrative costs increased $1 million due to a change in recording foreclosure related costs and in federal funding received and distributed.

(K) Unamortized debt issuances and refunding debt related costs of issuances were removed and reported as prior period adjustments in order to retroactively implement GASB Statement No. 65 creating a decrease in net position of nearly $6 million.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET POSITION
AS OF JUNE 30, 2014

ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 73,546,951
Investments	71,818,171
Mortgage Loans Receivable	12,457,404
Interest Receivable	4,709,476
Due from Other Governments	5,522
Prepaid Expense	113,120
Total Current Assets	162,650,644
Noncurrent Assets	
Investments	27,368,378
Mortgage Loans Receivable	492,761,529
Mortgage Backed Securities	2,720,334
Acquisition Costs	2,527,470
Capital Assets, Net	5,519
Total Noncurrent Assets	525,383,230
TOTAL ASSETS	688,033,874
DEFERRED OUTFLOW OF RESOURCES	
Deferred Refunding Costs	703,810
LIABILITIES	
Current Liabilities	
Accounts Payable	3,300,304
Funds Held For Others	1,731,729
Accrued Interest - Bonds Payable	1,852,271
Bonds Payable, Net	12,845,000
Accrued Compensated Absences	96,400
Total Current Liabilities	19,825,704
Noncurrent Liabilities	
Bonds Payable, Net	516,134,487
Arbitrage Rebate Payable to U.S. Treasury Department	550,687
Accrued Compensated Absences	153,842
Other Postemployment Benefits	324,259
Total Noncurrent Liabilities	517,163,275
TOTAL LIABILITIES	536,988,979
NET POSITION	
Net Investment in Capital Assets	5,519
Restricted for Bondholders:	
Unrealized Gains (Losses) on Investments	5,839,775
Single Family Programs	114,036,910
Various Recycled Mortgage Programs	10,136,428
Multifamily Programs	10,937,317
Multifamily Project Commitments	157,502
Reverse Annuity Mortgage Program	7,853,424
Restricted for Affordable Revolving Loan Program	2,781,830
TOTAL NET POSITION	$ 151,748,705

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 FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

OPERATING REVENUES	
Interest Income - Mortgage Loans	$ 23,916,332
Interest Income - Investments	1,506,178
Fee Income	1,169,121
Federal Financial Assistance	790,581
Net Increase (Decrease) in Fair Value of Investments	228,745
Other Income	58,514
Total Operating Revenues	27,669,471
OPERATING EXPENSES	
Interest on Bonds	19,979,399
Servicer Fees	1,323,959
Contracted Services	1,413,934
Amortization of Refunding Costs	76,000
Bond Issuance Costs	1,405,513
General and Administrative	2,747,129
Arbitrage Rebate Expense	215,131
Other Post-Employment Benefits	51,920
Total Operating Expenses	27,212,985
Operating Income (Loss)	456,486
Increase (Decrease) in Net Position	456,486
Net Position, July 1 - as previously reported	157,168,779
Prior Period Adjustment	(5,876,560)
Net Position, July 1 - as restated	151,292,219
Net Position, End of Year	$ 151,748,705

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
AS OF JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITY:	
Receipts for Sales and Services	$ 1,178,910
Collections on Loans and Interest on Loans	92,634,920
Collection on Loan Escrow Accounts	1,790,528
Cash Payments for Loans	(81,251,187)
Federal Financial Assistance Receipts	778,032
Payments to Suppliers for Goods and Services	(1,083,978)
Payments to Employees	(1,625,525)
Other Operating Revenues	71,015
Net Cash Provided (Used) by Operating Activities	12,492,715
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Payment of Principal and Interest on Bonds and Notes	(165,388,594)
Proceeds from Issuance of Bonds and Notes	132,587,697
Payment of Bond Issuance Costs	(1,424,771)
Premium Paid on Refunding Bonds	(50,303)
Net Cash Provided (Used) by Noncapital Financing Activities	(34,275,971)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of Fixed Assets	(5,346)
Purchase of Mortgage Servicing Rights	(692,429)
Net Cash Provided (Used) by Capital and Related Financing Activities	(697,775)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of Investments	(495,468,182)
Proceeds from Sales or Maturities of Investments	536,198,957
Interest on Investments	1,672,428
Net Cash Provided (Used) by Investing Activities	42,403,203
Net Increase (Decrease) in Cash and Cash Equivalents	19,922,172
Cash and Cash Equivalents, July 1	53,624,779
Cash and Cash Equivalents, June 30	$ 73,546,951

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 YEAR ENDED JUNE 30, 2014

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	$ 456,486
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:	
Depreciation	1,027
Amortization	350,302
Interest Expense	21,168,114
Interest on Investments	(2,022,947)
Arbitrage Rebate Tax	97,853
Change in Assets and Liabilities:	
Decr (Incr) in Mortgage Loans Receivable	(12,574,361)
Decr (Incr) in Other Assets	282,843
Decr (Incr) in Fair Value of Investments	228,675
Incr (Decr) in Accounts Payable	2,640,222
Incr (Decr) Funds Held for Others	1,790,528
Incr (Decr) in Deferred Reservation & Disc. Fees	2,364
Incr (Decr) in Compensated Absences Payable	29,460
Incr (Decr) Other Postemployment Benefits	42,149
Net Cash Provided (Used) by Operating Activities	$ 12,492,715

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

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 financial statements of the Board are presented on a combined basis. Previously presented comparative financial statements are single year financial statements on a forward going basis, as comparative financial statements are not required. Summary comparative financial information is contained in the Management Discussion and Analysis section. The accompanying financial statements have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The Board has previously implemented GASB Statement no. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures*, and Statement No. 63, *Financial Reporting of Deferred Inflows of Resources, Deferred Outflows of Resources and Net Position.* In order to comply with the requirements of the statements noted, the Board's financial statements include a classified statement of net position, a statement of revenues, expenses, and changes in net position 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 position and revenues and expenses for the period. The Board follows GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement,* that incorporates certain private sector standards of accounting and financial reporting issued prior to December 1, 1989.

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 Comprehensive Annual Financial Statement. 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 position, revenues, and expenses.

The funds of the Board are classified as enterprise funds, that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, and other purposes.

Net Position – 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 Position: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. Due to 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 Position also includes funds reserved by participants and funds committed to specific projects under various programs established by the Board and restricted by enabling legislation.

Net Position:

Restricted Net Position - The Board implemented the provisions of GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation.* Net position is considered restricted if it is limited as to the manner in or purpose for which they may be used. The Combined Statement of Revenues, Expenses and Changes in Net Position reports $151,748,705 of restricted net position, all of which is restricted by enabling legislation and agreements with bond holders.

Prior Period Adjustments – The Board implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* during fiscal year 2014. This statement required that some items previously reported as assets or liabilities be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources or inflows of resources. Prior to the implementation of this statement the cost of issuance associated with issuing debt was recorded as an asset and amortized. Due to the implementation of GASB Statement No. 65, cost of issuance associated with issuing debt is now reported as an outflow of resources in the period incurred, thus the current fiscal year's bond issuances costs are reported as an expense and the remaining unamortized balance from previous years bond issuances are reported as a prior period adjustment. Additionally, the unamortized deferred refunding costs balance, which was previously reported as a contra liability, is now reported as a deferred outflow of resources. The unamortized deferred refunding costs balance was also recalculated to exclude previously included unamortized costs of issuances, thus creating prior period adjustment.

The retroactive implementation of this statement created a total prior period adjustment and reduction of net position in the amount of $5,951,090.

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 three 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 Single Family I, II and XI 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 do not require Federal Housing Administration insurance. The Multifamily Program Fund on the combining financial statements includes activity for both Indentures.

Housing Trust Fund - The Housing Trust Fund was established as a separate trust fund by a resolution of the Montana Board of Housing, adopted February 16, 1989. The Housing Trust Fund was created to finance in whole or in part future housing needs 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 revenues and expenses 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.

Federal Funds - The Board receives three federal grants: Emergency Homeowners' Loan Program and National Foreclosure Mitigation Counseling (both NeighborWorks America funded by the Congress of the United States) and Comprehensive Housing Counseling (Housing and Urban Development).

Cash and Cash Equivalents:

For the purposes of the combining statement of cash flows, cash and cash equivalents consist of cash held by the State of Montana Treasurer, cash and money market accounts held by trustees, and cash invested in the state's short term investment pool. Cash and equivalents are described in Note 2 of these financial statements.

Investments:

The Board follows the provisions of 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 Statement No. 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 or have loan-to-value less than 80%. Guidelines to minimize credit risk are established by FHA, VA, RD and Board policies.

Interest receivable is accrued on the amount of outstanding mortgage loan principal only if deemed collectible. Accrual on non-performing loans ceases at six months. Estimated losses are determined based on management's judgment, giving effect to numerous factors including, but not necessarily limited to, general economic conditions, loan portfolio composition, prior loss experience and independent appraisals. The reserve for anticipated loan losses represents amounts which are not expected to be fully reimbursed by certain guarantors or covered by the Board's operating funds.

The Board incurs mortgage loan service fees with 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; see Note 8 for details. The Board issued these bonds to finance the mortgage loans purchased by the Board's various programs. In accordance with GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, 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 Statement 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 expensed in the period incurred.

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 varies between $5,000 and $500,000 depending on type of asset purchased. Purchases under these thresholds are recorded as expenses in the current period.

Funds Held for Others:
The Board started to service Board loans during fiscal year 2012. This fund holds hazard insurance premiums and property taxes collected from mortgage loan borrowers' monthly payments until premiums and property taxes are due.

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

NOTE 2. CASH AND CASH EQUIVALENTS

The Board's cash and cash equivalents are 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, 2014, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

Program Funds:	
Cash Deposited with State Treasury	$ 6,750,280
Cash on Hand *	86,764
Short-Term Investments	66,709,907
	$73,546,951

* Cash on hand is a combination of cash held for customer change and cash or checks received but not deposited on June 30, 2014.

NOTE 3. SECURITIES LENDING

The Board invests in the State's Short-Term Investment Pool throughout the fiscal year. As part of the pool administered by the Board of Investments (BOI), the Board participates in securities lending transactions. Under GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, 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 year 2014, State Street lent, on behalf of BOI, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

BOI did not impose any restrictions during fiscal year 2014 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 year 2014. Moreover, there were no losses during fiscal year 2014 resulting from a default of the borrowers or State Street.

During fiscal year 2014, 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, 2014, BOI had no credit risk exposure to borrowers.

On June 30, 2014 there were no securities on loan.

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 GASB Statement No. 40. 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 with 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 the 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, Federal Farm Credit Bank and Federal Home Loan Mortgage Corporation

- 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. The Board's 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.

	Fair Value June 30, 2014	Moody's Rating	Standard & Poor's Rating	Effective Duration
Investment Contracts				
Société Générale	$ 5,400,000	NR	NR	NA
Government Sponsored Enterprises				
FNMA* Discount Notes	18,999,249	Aaa	AA+	0.42
Federal Home Loan Bank Discount Notes	46,133,093	Aaa	AA+	0.17
FNMA* Medium Term Notes	16,165,904	Aaa	AA+	8.83
FNMA* Mortgage Backed Securities	2,720,334	Aaa	AA+	13.74
Federal Farm Credit Bank Notes	1,339,298	Aaa	AA+	6.21
FHLMC** Bond	3,068,587	Aaa	AA+	10.67
FHLMC** Discount Notes	20,286,174	Aaa	AA+	0.23
	108,712,639			
U. S. Treasury Bonds	6,794,589	Aaa	AA+	7.67
Trustee Cash & Money Market Accounts	47,710,640	NR	NR	NA
State Cash & Short-term Pool Accounts***	6,837,044	NR	NR	NA
	54,547,684			
Total All Investments	$175,454,912			

* Federal National Mortgage Association
** Federal Home Loan Mortgage Corporation
***Includes cash on hand
NR Not Rated
NA Not Applicable

NOTE 5. MORTGAGE LOANS RECEIVABLE

The Board's mortgage loans receivable are pledged in accordance with individual program indentures as security for holders of the bonds.

All Board mortgage loans are made for properties located within Montana. Board loans are secured by first liens on real property and are insured by the Federal Housing Administration or private mortgage insurance (Single Family 1977 Indenture only); or are guaranteed by the Veterans' Administration or United States Department of Agriculture Rural Development program; or are uninsured if the mortgages have a loan to value of less than 80%.

In accordance with GASB Statement No. 48, the pledging of mortgage loans receivable is considered a collateralized borrowing. Mortgage loans receivable, as of June 30, 2014 consist of the following:

Single Family Program	$483,322,566
Multifamily Program	9,972,055
Housing Trust Program	3,722,287
Housing Montana Fund	2,081,673
	499,098,581
Net mortgage discounts and premiums	6,420,352
Allowance for losses and real estate owned (Note 6)	(300,000)
	$505,218,933

NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

Real estate owned property is property that is acquired through foreclosure or in satisfaction of loans and is reported as the outstanding loan balance.

The June 30, 2014 Allowances for Loan Losses include $100,000 for mortgage bad debt and $200,000 for future estimated losses on real estate owned property. The Board held 19 real estate owned properties as of June 30, 2014. The properties' combined loan amounts were $1,950,001 as of June 30, 2014. Since Board real estate owned properties are insured or guaranteed by external organizations, Board loan losses are limited by insurance claims or sale of foreclosed properties. Real estate owned by the Board is included in the mortgages receivable balance (Note 5).

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

Balance as of June 30, 2013	$300,000
Provision	-
Less: Net loans charged off	-
Balance as of June 30, 2014	$300,000

NOTE 7. CAPITAL ASSETS

Capital assets consist primarily of computer software and equipment and other office equipment.
Capital asset balances as of June 30, 2014 are as follows:

Capital Assets – Equipment	$11,320
Accumulated Depreciation	(5,801)
Net Capital Assets	$ 5,519

Depreciation expense included in general and administrative expense was $1,027 for the year ended June 30, 2014.

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 as of June 30, 2014:

Single Family I Mortgage Bonds:	Original Amount	Balance
2005 Series A bonds were refunded by Single Family II Series 2014A on May 20, 2014.	$93,785,000	$ 0
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	12,985,000
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	18,575,000
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	19,160,000
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	39,155,000
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	27,995,000
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	10,900,000
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	17,415,000

MONTANA BOARD OF HOUSING
(A Component Unit of the State of Montana)
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2014

Bonds outstanding Single Family I	$146,185,000
Unamortized bond premium	2,034,141
Total Bonds Payable Single Family I	**$148,219,141**

Single Family II Mortgage Bonds:	**Original Amount**	**Balance**
2004 Series A bonds were refunded by Single Family II Series 2013B on September 26, 2013.	$50,600,000	$ 0
2004 Series B bonds were refunded by Single Family II Series 2013B on September 26, 2013.	68,000,000	0
2005 RA Series A bonds were refunded by Single Family II Series 2014A on May 20, 2014.	30,280,000	0
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	12,905,000
2013 Series A-1 & A-2 serial bonds .20% to 3.35% Maturing in scheduled semi-annual installments To December 1, 2025, Series A-1, A-2 & A-3 term bonds 3.00% to 3.75% maturing December 1, 2028, 2033, 2037, 2038 and 2043.	73,000,000	65,550,000
2013 Series B-1 & B-2 serial bonds .45% to 4.20% Maturing in scheduled semi-annual installments To December 1, 2025, Series B-1 & B-2 term bonds 3.50% to 5.30% maturing December 1, 2028, 2033, 2038 and 2043.	59,980,000	57,280,000
2014 Series A-2 & A-3 serial bonds .25% to 3.375% Maturing in scheduled semi-annual installments To December 1, 2025, Series A-1, A-2 & A-3 term bonds 3.00% to 4.15% maturing December 1, 2029, June 1, 2032, December 1, 2035 and 2043.	71,500,000	71,500,000

Bonds outstanding Single Family II	$207,235,000
Unamortized bond premium / discount	2,026,484
Total Bonds Payable Single Family II	**$209,261,484**

Single Family XI Mortgage Bonds:	**Original Amount**	**Balance**
2009 Series B Term Bonds, 3.70% maturing December 1, 2041, with 2011 Series A. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	$ 24,600,000	$ 20,750,000
2009 Series C Term Bonds, 2.47% maturing December 1, 2041, converted from 2009 Series A and issued concurrently with 2011 Series B. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	20,000,000	15,875,000
2009 Series D Term Bonds, 2.79% maturing December 1, 2041, converted from 2009 Series A and issued concurrently with 2012 Series A. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	25,000,000	21,240,000
2009 Series E Term Bonds, 2.67% maturing December 1, 2041. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	25,000,000	24,200,000
2011 Series A serial and term bonds, 0.60% to 5.00%, Maturing in scheduled semi-annual installments to December 1, 2022 (serial bonds); December 1, 2026; June 1, 2028; and December 1, 2028 (term bonds).	16,400,000	12,235,000
2011 Series B-1 and B-2 serial and term bonds, 1.00% to 5.00%, maturing in scheduled semi-annual installments to December 1, 2019, 2022 (serial bonds); December 1, 2026, and December 1, 2027 (term bonds).	38,175,000	26,780,000
2012 Series A-1 and A-2 serial and term bonds, 0.375% to 4.00%, maturing in scheduled semi-annual installments to December 1, 2024 (serial bonds); December 1, 2027, 2030, 2038, and 2041 (term bonds).	56,280,000	43,050,000
Bonds outstanding Single Family XI		$164,130,000
Unamortized bond premium / discount		1,003,065
Total Bonds Payable Single Family XI		**$165,133,065**

Single Family General Obligation Bonds:	**Original Amount**	**Balance**
2008 Series A General Obligation Private Placement Bonds	$ 497,942	$ 414,042

Total Single Family Mortgage Bonds Payable, Net	**$523,027,732**

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, II and XI mortgage bonds are general obligation bonds of the Board of Housing within the individual bond indentures.

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, 2014, $497,942 of bonds have been issued.

Multifamily Mortgage Bonds:	**Original Amount**	**Balance**
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	$ 285,000
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	5,705,000
Bonds outstanding Multifamily		$5,990,000
Unamortized bond premium / discount		(38,245)
Total Multifamily Mortgage Bonds Payable, Net		**$5,951,755**

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.

Combined Total Single and Multifamily Bonds Payable, Net **$528,979,487**

The following is a summary of bond principal and interest requirements as of June 30, 2014:

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
2015	$ 32,211,405	$ 565,490	$ 12,845,000	$ 19,931,895
2016	33,087,585	549,671	14,075,000	19,562,256
2017	33,429,676	450,171	14,675,000	19,204,847
2018	33,778,784	453,744	15,440,000	18,792,528
2019	33,947,077	456,785	16,090,000	18,313,862
2020-24	172,158,041	2,308,620	91,905,000	82,561,661
2025-29	172,255,586	2,301,491	111,865,000	62,692,077
2030-34	154,710,860	2,087,177	117,685,000	39,113,037
2035-39	106,179,474	2,100,619	92,254,042	16,026,051
2040-44	38,871,623	893,229	36,965,000	2,799,852
2045-49	157,713	-	155,000	2,713
Total	$810,787,824	$12,166,997	$523,954,042	$299,000,779

Cash paid for interest expenses during the year ended June 30, 2014 was $21,895,085.

Changes in Bonds Payable

	6/30/2013 Balance	Additions	Reductions	6/30/2014 Balance
Single Family	$535,592,514	$131,971,298	$144,536,080	$523,027,732
Multi Family	6,209,391	-	257,636	5,951,755
Total	$541,801,905	$131,971,298	$144,793,716	$528,979,487

NOTE 9. BOND REDEMPTION

During the year ended June 30, 2014 the Board redeemed Single Family and Multi-Family mortgage program bonds prior to scheduled maturity as follows:

Single Family I	
December 1	$ 21,625,000
June 1	35,300,000
	56,925,000
Single Family II	
December 1	36,380,000
March 1	35,000
June 1	24,960,000
	61,375,000
Single Family XI	
December 1	7,865,000
June 1	5,855,000
	13,720,000
Total	$132,020,000

This note disclosure was titled "Loss on Redemption" in previous years' financial statements. Due to the implementation of GASB Statement No. 65 there are no longer unamortized cost of issuances, thus there is no loss on redemption for the year ended June 30, 2014.

NOTE 10. COMMITMENTS

Single Family Indentures - The Board is in the process of reserving and purchasing single family mortgages of approximately $2,117,466 in the Single Family II Indentures.

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

West End District IX Human Resource Council	$ 861,649
Foreclosure Prevention	45,635
Disabled Affordable Accessible Homeownership	1,001,568
Lot Refinance	726,440
Habitat for Humanity	1,215,000
80% Combined Program	5,000,000
Down Payment Assistance	1,207,712
Down Payment Pool	6,111,135
Total Single Family Commitments	$16,169,139

Single Family I - Reverse Annuity Mortgage Program Future Loan Amounts $2,283,831

Single Family I & II – $175,000 of funding for Homebuyer Education for fiscal year 2015

Multifamily Program:
Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD) $157,502

Housing Trust Fund Program:
Reverse Annuity Mortgage Program Existing Loans$5,617,028

These commitments will be funded through cash and investments held by the programs or indentures identified above.

NOTE 11. EMPLOYEE BENEFIT PLANS

The Board 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) was 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 which include financial statements and required supplemental information for the plans. Those reports may be obtained online (http://mpera.mt.gov) or by contacting 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 fiscal year 2014 are expressed as a percentage of covered payroll are as follows:

Employee	Employer	Total
7.90%	8.17%	16.07%

The amounts contributed to the plans during the years ended June 30, 2013 and 2014 were equal to the required contribution each year. The amounts contributed by the Board, as required by State law, were as follows:

Fiscal Year 2014 - $97,817
Fiscal Year 2013 - $73,638

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 $717 and $1,023 per month depending on the medical plan selected, family coverage, and eligibility. Administratively established premiums vary between $17.50 and $60.00 per month for dental and between $5.76 and $16.76 per month for an optional vision hardware 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

The Board has established an accrual for the liability for estimated arbitrage payments due to the United States 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 did not make any arbitrage rebate cash payments to The United States Treasury Department in fiscal year 2014. The related liability was $550,687 as of June 30, 2014.

Beginning Balance, July 1, 2013	$335,556
Additions	215,131
Reductions	-
Ending Balance, June 30, 2014	$550,687

NOTE 13. NO-COMMITMENT DEBT

The Board is authorized by the State of Montana to issue bonds in order to finance affordable housing for Montana residents. To meet this purpose, the Board may issue bonds (no-commitment debt) on behalf of third parties (borrower).

These 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 of the borrower. The Board is not obligated to make payment on the bonds from any of its assets. Accordingly, these bonds are not reflected in the accompanying financial statements.

The bonds are not a debt of the state and the state is not liable for the bonds. Neither the state's faith or credit or taxing power is pledged to the payment of bond principal or interest. The Board has no taxing power.

The outstanding balances of these bonds as of June 30, 2014 are as follows:

Bond Series	Original Amount	Balance
Multifamily Housing Revenue Bonds Series 2006A	$2,104,700	$1,846,622
Multifamily Housing Revenue Bonds Series 2007A	5,100,000	4,836,659
Multifamily Housing Revenue Bonds Series 2008A	2,413,600	2,055,290
Multifamily Housing Revenue Bonds Series 2012 A-1	857,000	790,149
Multifamily Housing Revenue Bonds Series 2012 A-2	4,032,000	3,991,692
Multifamily Housing Revenue Bonds Series 2012 B-1	857,000	848,326

NOTE 14. REFUNDING AND DEFERRED BOND COSTS

The Board may refund all or a portion of the Board's outstanding bonds when it is economically advantageous to do so. Refundings involve the issuance of new debt with the proceeds being used to repay previously issued debt.

GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, and GASB Statement No. 65, requires deferred costs to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds. Previous to the implementation of GASB Statement No. 65 deferred refunding costs included unamortized cost of issuance of the refunded bonds.

The following costs associated with the refunding were deferred and are being amortized under the GASB Statement No. 23 and GASB Statement No. 65 guidelines.

Refundings:
On September 26, 2013, the Board issued $59,980,000 of Single Family Program Bonds Series 2013 B (1979 Single Family II Indenture). Bond proceeds of $24,980,000 were used as replacement refunding of the following series:

2004 Series A and 2004 Series B

On May 20, 2014, the Board issued $71,500,000 of Single Family Program Bonds Series 2014A (1979 Single Family II Indenture). Bond proceeds of $40,500,000 were used as replacement refunding of the following series:

2005 Series A and 2005 Series RA

Premium paid of the refunded bonds	$260,633
Less current fiscal year amortization	2,489
Amount remaining to be amortized on the refunded issues	258,144
Unamortized deferred refunding costs from prior years' refundings*	445,666
Total unamortized	$703,810

* Recalculated to exclude unamortized cost of issuance due to the implementation of GASB Statement No. 65. Unamortized cost of issuances were removed from balance and reported as a prior period adjustment.

The refunding of these issues resulted in an economic gain of $7,485,059 and a difference in cash flows of $11,066,047.

NOTE 15. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The State of Montana provides optional postemployment health care benefits in accordance with Montana Code Annotated (MCA), Title 2, Chapter 18, Section 704, to employees and dependents that elect to continue coverage and pay administratively established premiums. Coverage is provided through the State Group Benefits Plan.

The Board follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement requires the following disclosure of employer liability for retiree medical subsidies and other post-employment benefits. For financial statement reporting purposes, 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. Each participating employer is required by GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, to disclose additional information regarding funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

The State Group Benefits Plan allows retirees to participate as a group, at a rate that does not cover all of the related costs. Retiree participation results in the reporting of an "implied rate" subsidy in the Board's financial statements and footnotes as OPEB liability. The OPEB liability is disclosed for financial statement purposes but does not represent a legal liability of the State Group Benefits Plan or the Board.

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.

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 $299 and $1,109 administratively established dental premiums vary between $17.50 and $60.00; vision hardware premiums vary between $5.76 and $16.76 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 up to $600 for

diagnostic/preventative and $1,800 for repair/reconstructive services annually. The State acts as secondary payer 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 Financial Services Division
Rm 255, Mitchell Bldg,
125 N Roberts St
PO Box 200102,
Helena, MT 59620-0102.

GASB Statement No. 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 No. 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 2014 ARC is calculated for all the plan's participants and then individually allocated to individual participants. The Board's 2014 ARC is estimated at $48,689 and is based on the plan's current ARC rate of 3.88% percent of participants' annual covered payroll. The Board's 2014 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 is determined in accordance with the GASB Statement No. 45, and liability is estimated at $324,259 for the Board. (The actuarial accrued liability is the present value of future retiree benefits and expenses.)

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

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

The actuarial valuation method used is the projected unit credit funding method. The actuarial assumptions did not include an investment rate of return since no assets meet the definition of plan assets under GASB Statement No. 43 or No. 45. Annual healthcare cost trend rates of 9.5 percent for medical and 9.0 percent for prescription claims are used for the 2014 plan year. The unfunded actuarial accrued liability is amortized following a 30-year level percentage of payroll amortization schedule on an open basis beginning for calendar year 2014.

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 plan assets made by the Board.

Annual OPEB Cost:
For 2014, the Board's allocated annual OPEB cost (expense) of $51,097, adjusted for amortization of the net OPEB obligation plus interest on the prior year obligation amount, less employer contributions. The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are as follows:

Fiscal Year Ended	**Annual OPEB Cost**	**Percentage of Annual OPEB Cost Contributed**	**Net OPEB Obligation**
6/30/2012*	$47,389	9%	$239,679
6/30/2013*	47,935	12%	282,110
6/30/2014	51,097	19%	324,259

* Restated due to change in calculation of annual OPEB costs, which did not previously include amortization adjustments or employer contributions.

Funded Status and Funding Progress:
The funded status of the Board's allocation of the plan as of June 30, 2014, was as follows:

Actuarial Accrued Liability (AAL)	$ 398,874
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	398,874
Funded Ratio (Actuarial Value of Plan Assets/AAL)	-
Covered Payroll (Active Plan Members)	1,201,965
UAAL as a Percentage of Covered Payroll	33.19%

NOTE 16. INTERFUND BALANCES

The following interfund balances have been eliminated from the Combining Statement of Net Position to report the Statement of Net Position for all programs net of interfund activity for June 30, 2014:

Fee Income and Servicers Fees related to in-house loan servicing	$1,109,433
Fee Income and General and Administrative costs related to administering federal grants	27,713
Total Interfund Balance Eliminations	$1,137,146

MONTANA BOARD OF HOUSING
(A Component Unit of the State of Montana)
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2014

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

As of June 30, 2014, the most recent actuarial valuation available that was completed by the State of Montana was as of January 1, 2013 for the year ending December 31, 2013. The State of Montana finances claims on a pay-as-you-go basis and does not advance fund the OPEB liability. Therefore, the funded ratio remains at 0% at June 30, 2014.

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)
1/1/2009	$0	$767,186	$767,186	0	$859,031	89.31%
1/1/2011	0	480,731	480,731	0	813,088	59.12%
1/1/2013	0	398,874	398,874	0	1,201,965	33.19%

* Projected unit credit funding method.
Note: 1/1/2009 and 1/1/2011 AAL and UAAL were restated due to a prorated reallocation of unaccounted for inactive participants.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF NET POSITION
AS OF JUNE 30, 2014

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL PROGRAMS	TOTAL
ASSETS										
Current Assets										
Cash and Cash Equivalents	$ 16,096,091	$ 43,001,455	$ 6,993,638	$ 66,091,184	$ 1,110,720	$ 5,021,881	$ 776,128	$ 547,038	$ -	$ 73,546,951
Investments	34,701,740	29,751,900	759,910	65,213,550	6,104,680	499,941	-	-	-	71,818,171
Mortgage Loans Receivable	3,514,515	4,683,348	4,021,826	12,219,689	231,705	-	-	6,010	-	12,457,404
Interest Receivable	1,112,166	922,378	904,179	2,938,723	45,322	470,866	1,101,074	153,491	-	4,709,476
Due from Other Governments	-	-	-	-	-	-	-	-	5,522	5,522
Prepaid Expense	40,796	40,796	-	81,592	5,360	12,655	13,513	-	-	113,120
Total Current Assets	55,465,308	78,399,877	12,679,553	146,544,738	7,497,787	6,005,343	1,890,715	706,539	5,522	162,650,644
Noncurrent Assets										
Investments	7,188,323	8,139,251	12,040,804	27,368,378	-	-	-	-	-	27,368,378
Mortgage Loans Receivable	145,115,898	182,232,414	149,874,917	477,223,229	9,740,350	-	3,722,287	2,075,663	-	492,761,529
Mortgage Backed Securities	-	2,720,334	-	2,720,334	-	-	-	-	-	2,720,334
Acquisition Costs	-	-	-	-	-	2,527,470	-	-	-	2,527,470
Capital Assets, Net	1,930	3,287	-	5,217	151	-	151	-	-	5,519
Total Noncurrent Assets	152,306,151	193,095,286	161,915,721	507,317,158	9,740,501	2,527,470	3,722,438	2,075,663	-	525,383,230
TOTAL ASSETS	207,771,459	271,495,163	174,595,274	653,861,896	17,238,288	8,532,813	5,613,153	2,782,202	5,522	688,033,874
DEFERRED OUTFLOW OF RESOURCES										
Deferred Refunding Costs	344,179	184,593	175,038	703,810	-	-	-	-	-	703,810
LIABILITIES										
Current Liabilities										
Accounts Payable	81,897	203,554	58,930	344,381	14,967	2,916,255	18,807	372	5,522	3,300,304
Funds Held For Others	-	-	-	-	-	1,731,729	-	-	-	1,731,729
Accrued Interest - Bonds Payable	599,666	650,254	446,648	1,696,568	155,703	-	-	-	-	1,852,271
Bonds Payable, Net	2,870,000	4,570,000	5,210,000	12,650,000	195,000	-	-	-	-	12,845,000
Accrued Compensated Absences	38,070	38,070	-	76,140	8,340	-	11,920	-	-	96,400
Total Current Liabilities	3,589,633	5,461,878	5,715,578	14,767,089	374,010	4,647,984	30,727	372	5,522	19,825,704
Noncurrent Liabilities										
Bonds Payable, Net	145,349,141	205,105,526	159,923,065	510,377,732	5,756,755	-	-	-	-	516,134,487
Arbitrage Rebate Payable to U.S.										
Treasury Department	346,997	-	203,690	550,687	-	-	-	-	-	550,687
Accrued Compensated Absences	53,251	53,251	-	106,502	12,553	22,105	12,682	-	-	153,842
OPEB Liability	156,053	156,053	-	312,106	-	12,153	-	-	-	324,259
Total Noncurrent Liabilities	145,905,442	205,314,830	160,126,755	511,347,027	5,769,308	34,258	12,682	-	-	517,163,275
TOTAL LIABILITIES	149,495,075	210,776,708	165,842,333	526,114,116	6,143,318	4,682,242	43,409	372	5,522	536,988,979
NET POSITION										
Net Investment in Capital Assets	1,930	3,287	-	5,217	151	-	151	-	-	5,519
Restricted for Bondholders:										
Unrealized Gains (Losses) on Investments	1,339,587	2,106,492	2,393,696	5,839,775	-	-	-	-	-	5,839,775
Single Family Programs	49,927,001	53,725,055	6,534,283	110,186,339	-	3,850,571	-	-	-	114,036,910
Various Recycled Mortgage Programs	5,068,214	5,068,214	-	10,136,428	-	-	-	-	-	10,136,428
Multifamily Programs	-	-	-	-	10,937,317	-	-	-	-	10,937,317
Multifamily Project Commitments	-	-	-	-	157,502	-	-	-	-	157,502
Reverse Annuity Mortgage Program	2,283,831	-	-	2,283,831	-	-	5,569,593	-	-	7,853,424
Restricted for Affordable Revolving Loan Program	-	-	-	-	-	-	-	2,781,830	-	2,781,830
TOTAL NET POSITION	$ 58,620,563	$ 60,903,048	$ 8,927,979	$ 128,451,590	$ 11,094,970	$ 3,850,571	$ 5,569,744	$ 2,781,830	$ -	$ 151,748,705

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL ASSISTANCE	TOTAL
OPERATING REVENUES										
Interest Income - Mortgage Loans	$ 8,822,593	$ 6,851,308	$ 7,438,326	$ 23,112,227	$ 549,070	$ -	$ 221,863	$ 33,172	$ -	$ 23,916,332
Interest Income - Investments	631,187	344,554	524,397	1,500,138	6,848	53	(861)	-	-	1,506,178
Fee Income	19,915	71,922	2,281	94,118	13,031	1,702,262	496,856	-	-	2,306,267
Federal Financial Assistance	-	27,713	-	27,713	126,846	-	-	-	636,022	790,581
Net Increase (Decrease)										
in Fair Value of Investments	19,824	(19,789)	228,710	228,745	-	-	-	-	-	228,745
Other Income	-	58,502	-	58,502	-	12	-	-	-	58,514
Total Operating Revenues	9,493,519	7,334,210	8,193,714	25,021,443	695,795	1,702,327	717,858	33,172	636,022	28,806,617
OPERATING EXPENSES										
Interest on Bonds	8,404,294	5,665,762	5,528,824	19,598,880	380,519	-	-	-	-	19,979,399
Servicer Fees	611,759	541,826	592,805	1,746,390	10,944	674,164	-	1,894	-	2,433,392
Contracted Services	292,621	366,132	-	658,753	28,006	45,481	73,378	7	608,309	1,413,934
Amortization of Deferred Refunding	37,096	1,775	37,129	76,000	-	-	-	-	-	76,000
Bond Issuance Costs	-	1,405,513	-	1,405,513	-	-	-	-	-	1,405,513
General and Administrative	846,390	824,719	2,616	1,673,725	183,332	612,949	277,123	-	27,713	2,774,842
Arbitrage Rebate Expense	97,853	-	117,278	215,131	-	-	-	-	-	215,131
Other Post-Employment Benefits	18,475	18,475	-	36,950	-	14,970	-	-	-	51,920
Total Operating Expenses	10,308,488	8,824,202	6,278,652	25,411,342	602,801	1,347,564	350,501	1,901	636,022	28,350,131
Operating Income (Loss) Before Transfers	(814,969)	(1,489,992)	1,915,062	(389,899)	92,994	354,763	367,357	31,271	-	456,486
Transfers In (Out)	1,944,240	(4,288,179)	(672,334)	(3,016,273)	-	3,016,273	-	-	-	-
Increase (Decrease) in Net Position	1,129,271	(5,778,171)	1,242,728	(3,406,172)	92,994	3,371,036	367,357	31,271	-	456,486
Net Position, July 1 - as previously reported	59,279,957	68,497,412	9,892,500	137,669,869	11,066,409	479,535	5,202,407	2,750,559	-	157,168,779
Prior Period Adjustment	(1,788,665)	(1,816,193)	(2,207,249)	(5,812,107)	(64,433)	-	(20)	-	-	(5,876,560)
Net Position, July 1 - as restated	57,491,292	66,681,219	7,685,251	131,857,762	11,001,976	479,535	5,202,387	2,750,559	-	151,292,219
Net Position, End of Year	$ 58,620,563	$ 60,903,048	$ 8,927,979	$ 128,451,590	$ 11,094,970	$ 3,850,571	$ 5,569,744	$ 2,781,830	$ -	$ 151,748,705

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL ASSISTANCE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:										
Receipts for Sales and Services	$ 19,915	$ 77,492	$ 2,281	$ 99,688	$ 17,251	$ 1,702,262	$ 496,855	$ -	$ -	$ 2,316,056
Collections on Loans and Interest on Loans	43,439,810	23,615,552	24,337,273	91,392,635	768,697	(782)	401,713	72,657	-	92,634,920
Collection on Loan Escrow Accounts	-	-	-	-	-	1,790,528	-	-	-	1,790,528
Cash Payments for Loans	(6,430,994)	(72,238,279)	(2,163,578)	(80,832,851)	-	-	(418,336)	-	-	(81,251,187)
Federal Financial Assistance Receipts	-	9,642	-	9,642	126,846	-	-	-	641,544	778,032
Payments to Suppliers for Goods and Services	(1,263,334)	(1,206,189)	(589,723)	(3,059,246)	(113,843)	1,789,465	(194,044)	(1,912)	(641,544)	(2,221,124)
Payments to Employees	(486,000)	(486,000)	-	(972,000)	(101,204)	(400,430)	(151,891)	-	-	(1,625,525)
Other Operating Revenues	-	71,003	-	71,003	-	12	-	-	-	71,015
Net Cash Provided (Used) by Operating Activities	35,279,397	(50,156,779)	21,586,253	6,708,871	697,747	4,881,055	134,297	70,745	-	12,492,715
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:										
Payment of Principal and Interest on Bonds and Notes	(70,048,722)	(70,038,528)	(24,657,022)	(164,744,272)	(644,322)	-	-	-	-	(165,388,594)
Proceeds from Issuance of Bonds and Notes	-	132,587,697	-	132,587,697	-	-	-	-	-	132,587,697
Payment of Bond Issuance Costs	-	(1,360,835)	(63,936)	(1,424,771)	-	-	-	-	-	(1,424,771)
Premium on Bonds	-	(50,303)	-	(50,303)	-	-	-	-	-	(50,303)
Transfers in (out)	20,678,972	(20,756,638)	(672,334)	(750,000)	-	750,000	-	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	(49,369,750)	40,381,393	(25,393,292)	(34,381,649)	(644,322)	750,000	-	-	-	(34,275,971)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:										
Purchase of Fixed Assets	(2,673)	(2,673)	-	(5,346)	-	-	-	-	-	(5,346)
Purchase of Mortgage Servicing Rights	-	-	-	-	-	(692,429)	-	-	-	(692,429)
Net Cash Provided (Used) in Capital and Related Financing Activities	(2,673)	(2,673)	-	(5,346)	-	(692,429)	-	-	-	(697,775)
CASH FLOWS FROM INVESTING ACTIVITIES:										
Purchase of Investments	(166,597,612)	(294,559,987)	(33,105,650)	(494,263,249)	(704,992)	(499,941)	-	-	-	(495,468,182)
Proceeds from Sales or Maturities of Investments	186,368,584	309,848,878	39,973,368	536,190,830	-	-	8,127	-	-	536,198,957
Interest on Investments	680,566	446,318	541,898	1,668,782	2,661	54	931	-	-	1,672,428
Net Cash Provided (Used) by Investing Activities	20,451,538	15,735,209	7,409,616	43,596,363	(702,331)	(499,887)	9,058	-	-	42,403,203
Net Increase (Decrease) in Cash and Cash Equivalents	6,358,512	5,957,150	3,602,577	15,918,239	(648,906)	4,438,739	143,355	70,745	-	19,922,172
Cash and Cash Equivalents, July 1	9,737,579	37,044,305	3,391,061	50,172,945	1,759,626	583,142	632,773	476,293	-	53,624,779
Cash and Cash Equivalents, June 30	$ 16,096,091	$ 43,001,455	$ 6,993,638	$ 66,091,184	$ 1,110,720	$ 5,021,881	$ 776,128	$ 547,038	$ -	$ 73,546,951

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL ASSISTANCE	TOTAL
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES										
Operating Income	$ (814,969)	$ (1,489,992)	$ 1,915,062	$ (389,899)	$ 92,994	$ 354,763	$ 367,357	$ 31,271	$ -	$ 456,486
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:										
Depreciation	435	576	-	1,011	16	-	-	-	-	1,027
Amortization	(906,171)	1,411,443	(153,355)	351,917	(1,615)	-	-	-	-	350,302
Interest Expense	9,403,142	5,665,762	5,721,055	20,789,959	378,155	-	-	-	-	21,168,114
Interest on Investments	(686,767)	(350,618)	(983,564)	(2,020,949)	(1,014)	(53)	(931)	-	-	(2,022,947)
Arbitrage Rebate Tax	97,853	-	-	97,853	-	-	-	-	-	97,853
Change in Assets and Liabilities:										
Decr (Incr) Mortgage Loans Receivable	27,839,385	(55,244,177)	14,695,376	(12,709,416)	219,627	(782)	(123,273)	39,483	-	(12,574,361)
Decr (Incr) Other Assets	417,913	(177,471)	49,370	289,812	(1,059)	112,983	(113,371)	-	(5,522)	282,843
Decr (Incr) Fair Value of Investments	(19,824)	19,789	228,710	228,675	-	-	-	-	-	228,675
Incr (Decr) Accounts Payable	(77,530)	(18,021)	113,599	18,048	6,229	2,608,968	1,464	(9)	5,522	2,640,222
Incr (Decr) Funds Held for Others	-	-	-	-	-	1,790,528	-	-	-	1,790,528
Incr (Decr) Deferred Reservation & Disc. Fees	-	-	-	-	2,364	-	-	-	-	2,364
Incr (Decr) Compensated Absences Payable	10,932	10,932	-	21,864	2,050	2,495	3,051	-	-	29,460
Incr (Decr) Other Postemployment Benefits	14,998	14,998	-	29,996	-	12,153	-	-	-	42,149
Net Cash Provided by (Used for) Operating Activities	$ 35,279,397	$ (50,156,779)	$ 21,586,253	$ 6,708,871	$ 697,747	$ 4,881,055	$ 134,297	$ 70,745	$ -	$ 12,492,715

MONTANA BOARD OF HOUSING

BOARD RESPONSE

MEG O'LEARY
DIRECTOR

MONTANA
DEPARTMENT OF COMMERCE

STEVE BULLOCK
GOVERNOR

HOUSING DIVISION – MONTANA BOARD OF HOUSING

November 24, 2014

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

Dear Ms. Hunthausen

We have received and reviewed the financial audit of the Montana Board of Housing for the fiscal year ended June 30, 2014. 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 business. We appreciate you and your staff's willingness to do all of the specialized work that is necessary for our bond issues and reporting to our investors.

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

Sincerely,

Bruce Brensdal
Executive Director