A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

Montana Board of Housing

For the Two Fiscal Years Ended June 30, 2012

NOVEMBER 2012

LEGISLATIVE AUDIT DIVISION

11-07B

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

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. 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

November 2012

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the Montana Board of Housing (board) for the two fiscal years ended June 30, 2012. Our audit included work over the financial records related to the board's mortgages, loans, investments, and bonds.

We thank the board and their 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

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Appointed and Administrative Officials

			Term Expires
Montana Board of Housing	J.P. Crowley, Chair	Helena	2013
	Betsy Scanlin, Vice Chair	Red Lodge	2013
	Jeff Rupp, Secretary	Bozeman	2013
	Audrey Black Eagle	Lodge Grass	2013
	Bob Gauthier	Ronan	2015
	Jeanette McKee	Hamilton	2015
	Sheila Rice	Great Falls	2015

Administrative Officials
Department of Commerce

Dore Schwinden, Director

Andrew Poole, Deputy Director

Board of Housing

Bruce Brensdal, Executive Director

Charles Nemec, Accounting and Finance Manager

Mary Bair, Multifamily Program Manager

Vicki Bauer, Single Family Program Manager

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

Bruce Brensdal, Executive Director
P.O. Box 200528
Helena, MT 59620-0528

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Montana Legislative Audit Division

Financial Audit
Montana Board of Housing
For the Two Fiscal Years Ended June 30, 2012

November 2012 11-07B Report Summary

In fiscal year 2012, the Montana Board of Housing (board) purchased a total of 281 mortgage loans with an average loan amount of $128,303 to borrowers whose average income was $45,988. The board maintains a portfolio of loans that have a low rate of default and potential foreclosure.

Context

There are seven members of the board that are appointed by the Governor. The board provides policy direction to the agency staff, authorizes bond issues, approves development financing and evaluates Board of Housing programs. These programs include the Single Family Program, Recycled Single Family Program, Multifamily Loan Programs, Low Income Housing Tax Credit Program and the Reverse Annuity Mortgage (RAM) Program.

Under the Housing Act the board does not receive appropriations from the State's General Fund and is completely self-supporting. Substantially all of the funds for the board's operations and programs are provided by the private sector through the sale of tax-exempt bonds.

In fiscal year 2012, the board issued $58 million in bonds and $50 million of bond escrow proceeds were redeemed. Low Income Tax Credits totaling $2.8 million were allocated providing approximately $21 million of equity to produce or preserve 165 units of affordable rental housing. Between 2011 and 2012, mortgages decreased by $80 million due to the board's limited ability to purchase new mortgages and many existing borrower's refinancing loans due to low interest rates.

In fiscal year 2011, the board purchased 251 single family mortgages for $33 million. Low Income Tax Credits totaling $2.6 million were allocated providing approximately $20 million of equity to produce or preserve 164 units of affordable rental housing. In total, the board retired $142 million of bond debt while bond debt outstanding decreased from $878 million to $777 million.

Results

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

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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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 two fiscal years ended June 30, 2012. The objectives of our audit were to:

1. Determine whether the financial statements fairly present the financial position and results of operations and cash flows in conformity with generally accepted accounting principles, for each of the two fiscal years ended June 30, 2012.
2. Obtain an understanding of the board's control systems to the extent necessary to support our audit of the board's financial statements and, if appropriate, make recommendations for improvement in management and internal controls of the board.
3. Determine whether the board is in compliance with selected state laws and regulations.

Background

The board is administratively attached to the Housing Division within the Department of Commerce. The Housing Division's purpose is to create affordable housing opportunities for Montanans whose needs are not met by the market. This is accomplished by partnering with local housing organizations across the state to leverage the federal funding that is made available to Montana. The board provides access to an affordable 30-year fixed rate mortgage, offers rental assistance to those who need it, and assists the public in locating affordable housing. The board accomplishes this purpose by issuing 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. As of June 26, 2012, the maximum income limitations for home buyers to qualify for a mortgage loan generally ranged from $67,920 to $96,600. The maximum purchase price for a qualifying property generally ranged from $250,200 to $356,539. During fiscal year 2011-2012, the board made a total of 281 mortgage loans with an average loan amount of $128,303 to borrowers whose average income was $45,988. The board administers and monitors the compliance standards for programs designed to assist those who have low to moderate incomes in obtaining affordable housing.

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 (MRB) 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 board administers the purchasing and servicing of these loans, which began in January 2012. The board began and will continue to purchase and service other loans in fiscal year 2013.

The Low Income Housing Tax Credit Program receives Montana's allocation of 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 board monitors the properties during the compliance period to ensure that rents and residents' incomes do not exceed federal limits and that the properties are well maintained.

The Reverse Annuity Mortgage (RAM) 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.

Table 1
Delinquency and Foreclosure Rates

As of June 30, 2012	30 days delinquent	60 days delinquent	90 days delinquent	Foreclosure in process
Montana Board of Housing	1.71%	0.90%	1.06%	1.09%
Montana Mortgage Loans	2.10%	0.70%	1.25%	1.65%
Mountain Region	2.54%	0.95%	2.76%	3.06%
United States	3.14%	1.17%	3.04%	4.27%

Source: Compiled by the Montana Board of Housing.

In addition to the annual financial audit of the board, our office performs special engagements for the board throughout the year. These include agreed-upon procedures for the board and its 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. We have also performed agreed-upon procedures at selected board loan servicers. The results are used by the board in evaluating the mortgage receivable information provided by the board's loan servicers, and in determining compliance with contract requirements.

Independent Auditor's Report and Montana Board of Housing Financial Statements

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:

We have audited the accompanying Statement of Net Assets of the Montana Board of Housing, a component unit of the state of Montana, as of June 30, 2012, and 2011, the related Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows for the fiscal years then ended. The information contained in these financial statements is the responsibility of the board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 2012, and 2011, and the results of its operations and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Funding Progress on page A-34 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.

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Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Combining Statement of Net Assets, Combining Statement of Revenues, Expenses, and Changes in Net Assets, and Combining Statement of Cash Flows starting on page A-35 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

October 3, 2012

Montana Board of Housing
A Component Unit of the State of Montana
Management's Discussion and Analysis
Year Ended June 30, 2012

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, 2012. Please read this section in conjunction with the financial statements and accompanying notes.

Summary

- 281 single-family mortgages were purchased for $36 million.
- 83 Mortgage Credit Certificates were issued on a total loan amount of $13 million.
- $2.68 million of Low Income Housing Tax Credits were allocated providing approximately $21 million of equity to produce or preserve 165 units of affordable rental housing.
- 4 new Reverse Annuity Mortgage (RAM) Loans were originated bringing the total active RAM loans to 86. Since its inception the RAM program has assisted 191 elderly households.
- The Board refinanced $38 million of existing debt, converted $25 million of New Issue Bond Program (NIBP) escrow bonds to mortgage revenue bonds and redeemed $50 million of NIBP bonds.
- Bond debt retired was $147 million from prepayments and regular debt service.
- Bond debt payable decreased from $777 million to $630 million.
- Net Assets increased by $3.6 million during the 2012 fiscal year (see Condensed Financial Information on the following page)

Fiscal Year 2012 Update

Homeownership Program: Market rates for first mortgage loans continued to be at or below the rate MBOH was able to offer during FY 2012. The result was the number of loans purchased was slightly higher than the number purchased in FY2011 and FY2010, but still far less than the preceding years. The New Issue Bond Program (NIBP) was extended to December 31, 2012 allowing the Board another year of financing mortgage purchases through the program. Given the decline in production due to non competitive rates, MBOH chose to turn back $55 million of the original $150 million of NIBP funds. The Board expects to issue the remaining $50 million before December, 2012.
In November of 2011 MBOH implemented the Veteran Home Loan Program (VHLP) and added the loan servicing function to its business process. The VHLP program was established during the 2011 Legislative Session, following introduction of the bill by Senator Larsen from Missoula. The Montana Board of Investments pays for Montana Veteran Home Loans using Montana Coal Tax Trust Fund moneys and holds the loans in a permanent Revolving Loan fund. The legislature designated MBOH to administer purchasing and servicing these loans. In January of 2012 MBOH began servicing its first loans.

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. The combined effects of these conditions have limited MBOH participation in the Montana mortgage market and affected financial operations. (see Condensed Financial Information on the following page).
However, other financial changes have limited effect since MBOH does not issue variable rate bonds or swap interest rates; mortgages are insured largely through federal programs; and MBOH investment policy emphasizes capital preservation over return thus limiting risk to capital. A result is MBOH continues to maintain stable ratings; the Single Family I & II Indentures are rated Aa1 by Moody's and AA+ by Standard & Poor's; the new Single Family XI Indenture is rated Aa3 by Moody's.
Even though financial circumstances continue to be unfavorable, they have not prevented MBOH and its programs from continuing to operate and help Montanans achieve affordable homeownership.

Overview of the Financial Statements

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

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

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

Montana Board of Housing
Condensed Financial Information
Change in Net Assets and Operating Income
Years ended June 30, 2012, 2011 and 2010

		2012			2011			2010
Assets:								
Current Assets	$	201,400,946	**(A)**	$	269,804,765		$	269,941,212
Noncurrent Assets		597,679,157	**(B)**		674,858,455	**(1)**		777,820,036
Total Assets	$	799,080,103		$	944,663,220		$	1,047,761,248
Liabilities:								
Current Liabilities	$	65,349,231	**(C)**	$	141,462,186	**(2)**	$	168,653,639
Noncurrent Liabilities		573,580,710	**(D)**		646,674,734	**(3)**		721,905,097
Total Liabilities	$	638,929,941		$	788,136,920		$	890,558,737
Net Assets:								
Invested in Capital Assets	$	1,844		$	2,920		$	9,231
Restricted		160,148,318			156,523,380			157,193,280
Total Net Assets	$	160,150,162	**(G)**	$	156,526,300	**(4)**	$	157,202,512
Operating Revenue:								
Interest on Loans	$	31,672,728	**(E)**	$	36,289,260	**(5)**	$	41,632,175
Federal Financial Assistance		2,360,278	**(F)**		10,435,166	**(6)**		14,741,879
Earnings from Investments		6,180,941	**(G)**		2,229,263	**(7)**		5,432,371
Fees and Charges		1,092,776			430,955			512,237
Total Operating Revenue	$	41,306,723		$	49,384,644		$	62,318,661
Operating Expenses:								
Bond Expenses	$	30,388,410	**(H)**	$	34,447,122	**(8)**	$	40,472,908
Federal Grants to Local Communities		1,723,357	**(I)**		9,897,196	**(9)**		14,023,480
Servicing Fees		2,142,323			2,412,602			2,750,613
General and Administrative		3,425,646			3,303,936			3,355,835
Total Expenses	$	37,679,736		$	50,060,856		$	60,602,836
Operating Income (Loss)	$	3,626,987	**(G)**	$	(676,212)	**(10)**	$	1,715,825
								-
Increase (Decrease) in Net Assets	$	3,626,987		$	(676,212)		$	1,715,825
Net Assets, Beginning of Year		156,526,300			157,202,512			155,375,594
Prior Period Adjustment		(3,125)						111,093
Net Assets, End of Year	$	160,150,162	**(G)**	$	156,526,300		$	157,202,512

Discussion of Changes between 2012 and 2011

(A) Current Assets decreased because $25 million of 2009 Series A bond escrow proceeds converted to long-term debt and $50 million of 2009 Series A bond escrow proceeds redeemed the same amount of 2009A bonds outstanding.

(B) Non Current Assets decreased because Mortgages Receivable decreased by $80 million between years due to the Board's limited ability purchase new mortgages and many existing borrowers refinancing loans.

(C) Current Liabilities decreased by $75 million because the 2009 Series A bonds redeemed or converted to long-term debt. See [A].

(D) Noncurrent Liabilities decreased by $70 million. Borrowers responded to historically low interest rates by refinancing their mortgages. As they paid off their MBOH loans, the moneys were returned to bond holders and the bonds retired.

(E) Interest on mortgage loans decreased by $5 million due to declining numbers of mortgages held by the MBOH and lower mortgage rates of new loans.

(F) Federal assistance declined by $8million as MBOH closed the America Recovery and Reinvestment Act Programs: Tax Credit Assistance Program and Tax Credit Exchange Program.

(G) Earning from investments increased $4 million of which $3.8million resulted from valuation changes required by GASB 31 (see Financial Statements Note 1 - Investments). Long-term investments appreciated by $3.8 million due to record low interest rate returns on long-term notes and bonds, increasing operating income and net assets.

(H) Bond Expenses fell by $4 million because loan payoffs [E] reduced the bond principal and interest MBOH paid.

(I) American Recovery and Reinvestment Act funds declined as local community housing projects were completed.

Discussion of Changes between 2011 and 2010

(1) Non Current Assets decreased by $104 million. Mortgages Receivable balances declined $87 million. The decrease is due to existing borrowers refinancing Board loans and the general housing downturn limiting the Board's purchase of new mortgages to replace paid-off loans. Also, $15 million of investments moved to current assets.

(2) Current Liabilities decreased by $27 million. The 2011A/2009B bond issue converted $26 million of short-term bonds to long-term bonds as part of the financing of the series through the Federal New Issue Bond Program.

(3) Noncurrent Liabilities decreased by $76 million. Borrowers responded to historically low interest rates by refinancing their mortgages. As they paid off their MBOH loans, the moneys were returned to bond holders and the bonds retired.

(4) Net Assets decreased $2 million. Net decreases in Assets combined with an Operating Loss reduced Net Assets.

(5) Interest on mortgage loans decreased by $5 million due to declining numbers of mortgages held by the MBOH.

(6) MBOH is participating in two American Recovery and Reinvestment Act Programs: Tax Credit Assistance Program and Tax Credit Exchange Program. Federal funds from Housing and Urban Development and U.S. Treasury are received by MBOH Multifamily Program and passed on to local Montana community housing projects.
ARRA program expenses decreased as projects started in 2010 were completed and no new projects were funded.

(7) Investment Earnings declined by $3 million. Unusually low investment interest rates resulted in less earnings.

(8) Bond Expenses fell by $6 million because loan payoffs [4] reduced the bond principal and interest MBOH paid.

(9) American Recovery and Reinvestment Act funds are passed on to local community housing projects [6].

(10) Operations resulted in a net loss of $679,337 primarily due to the steep decline of investment earnings.

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MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012 AND 2011

	FY 2012	FY 2011
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 128,636,332	$ 145,369,388
Investments	53,945,475	103,988,802
Mortgage Loans Receivable	13,580,252	14,919,954
Interest Receivable	4,919,192	5,191,922
Due from Other Governments	112,769	102,500
Security Lending Collateral	-	4,824
Prepaid Expense	206,926	227,375
Total Current Assets	$ 201,400,946	$ 269,804,765
Noncurrent Assets		
Investments	$ 30,001,116	$ 26,065,075
Mortgage Loans Receivable	556,914,449	636,550,548
Mortgage Backed Securities	5,106,741	6,669,504
Deferred Issuance and Servicing Costs	5,655,007	5,570,408
Capital Assets, Net	1,844	2,920
Total Noncurrent Assets	$ 597,679,157	$ 674,858,455
TOTAL ASSETS	$ 799,080,103	$ 944,663,220
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 1,098,923	$ 1,231,860
Security Lending Liability	-	4,824
Funds Held For Others	18,109	-
Accrued Interest - Bonds Payable	2,500,609	2,923,421
Bonds Payable, Net	61,665,000	136,705,000
Arbitrage Rebate Payable to U.S.		
Treasury Department	-	518,213
Accrued Compensated Absences	66,590	78,868
Total Current Liabilities	$ 65,349,231	$ 141,462,186
Noncurrent Liabilities		
Bonds Payable, Net	$ 574,571,291	$ 647,653,114
Deferred Refunding Costs	(1,701,775)	(1,642,835)
Arbitrage Rebate Payable to U.S.		
Treasury Department	296,385	327,240
Accrued Compensated Absences	115,109	92,133
Other Post_Employment Benefits	299,700	245,082
Total Noncurrent Liabilities	$ 573,580,710	$ 646,674,734
TOTAL LIABILITIES	$ 638,929,941	$ 788,136,920
NET ASSETS		
Invested in Capital Assets, Net	$ 1,844	$ 2,920
Restricted for Bondholders:		
Unrealized (losses) gains on investments	7,936,190	4,136,692
Single Family Programs	112,079,782	113,826,304
Various Recycled Mortgage Programs	19,030,492	17,890,497
Multifamily Programs	10,911,318	10,708,823
Multifamily Project Commitments	174,656	182,787
Reverse Annuity Mortgage Program	7,274,658	7,070,784
Restricted for Affordable Revolving Loan Program	2,741,222	2,707,493
TOTAL NET ASSETS	$ 160,150,162	$ 156,526,300

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	FY 2012	FY 2011
OPERATING REVENUES		
Interest Income - Mortgage Loans	$ 31,672,728	$36,289,259
Interest Income - Investments	2,381,341	2,845,047
Fee Income	483,382	389,501
Federal Financial Assistance	2,360,278	10,435,166
Net Increase (Decrease)		
in Fair Value of Investments	3,799,498	(615,965)
Other Income	609,394	41,454
Securities Lending Gross Income	102	181
Total Operating Revenues	$ 41,306,723	$49,384,644
OPERATING EXPENSES		
Interest on Bonds	$ 28,949,228	$32,741,511
Servicer Fees	2,142,323	2,412,602
Contracted Services	1,345,816	1,262,284
Amortization of Bond Issuance Costs	307,873	560,605
General and Administrative	2,028,316	1,961,080
Arbitrage Rebate Expense	210,993	67,224
Loss on Redemption	920,316	1,077,782
Securities Lending Expense	20	38
Other Post-Employment Benefits	51,494	80,534
Grants to Local Community	1,723,357	9,897,196
Total Operating Expenses	$ 37,679,736	$50,060,856
Operating Income (Loss) Before Transfers	3,626,987	(676,212)
Increase (Decrease) in Net Assets	$ 3,626,987	$ (676,212)
Net Assets, Beginning of Year	$156,526,300	157,202,512
Prior Period Adjustment	(3,125)	-
Net Assets, End of Year	$ 160,150,162	$156,526,300

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITY		
Receipts for Sales and Services	$ 486,191	$ 394,622
Collections on Loans and Interest on Loans	178,627,251	154,228,242
Cash payments for Loans	(65,151,299)	(29,906,672)
Federal Financial Assistance Receipts	2,352,027	12,147,097
Payments to Suppliers for Goods and Services	(7,081,872)	(16,063,213)
Payments to Employees	(1,105,796)	(1,106,793)
Other Operating Revenues	729,496	52,771
Net Cash Provided (Used) by Operating Activities	$ 108,855,998	$ 119,746,054
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payment of Principal and Interest on Bonds and Notes	$ (236,462,953)	$ (150,715,699)
Proceeds from Issuance of Bonds and Notes	58,588,168	16,665,475
Payment of Bond Issuance Costs	(240,564)	(325,582)
Net Cash Provided (Used) by Noncapital Financing Activities	$ (178,115,349)	$ (134,375,806)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	$ (199,107,822)	$ (2,295,521,529)
Proceeds from Sales or Maturities of Investments	249,844,417	2,293,109,709
Interest on Investments	2,549,760	2,863,147
Arbitrage Rebate Tax (Note 12)	(760,060)	(30,481)
Net Cash Provided (Used) by Investing Activities	$ 52,526,294	$ 420,846
Net Increase (Decrease) in Cash and Cash Equivalents	$ (16,733,057)	$ (14,208,906)
Cash and Cash Equivalents,beginning bal.	$ 145,369,389	$ 159,578,295
Cash and Cash Equivalents, ending bal.	$ 128,636,332	$ 145,369,389

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	FY 2012	FY 2011
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$ 3,626,987	$ (676,212)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation	1,033	1,033
Amortization	173,157	811,930
Interest Expense	30,088,300	34,574,956
Interest on Investments	(5,583,693)	(2,736,414)
Arbitrage Rebate Tax	210,993	67,224
Change in Assets and Liabilities:		
Decr (Incr) in Mortgage Loans Receivable	81,697,954	86,779,037
Decr (Incr) in Other Assets	(507,755)	1,780,542
(Incr) Decr in Fair Value of Investments	(845,378)	615,966
Incr (Decr) in Accounts Payable	(76,957)	(1,588,527)
Incr (Decr) in Deferred Reservation & Disc. Fees	9,166	34,468
Incr (Decr) in Compensated Absences Payable	62,191	82,050
Net Cash Provided (Used) by Operating Activities	$ 108,855,998	$ 119,746,054

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

MONTANA BOARD OF HOUSING
(A Component Unit of the State of Montana)
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:
The Montana Board of Housing (the Board) is a quasi-judicial board created in 1975, by the Legislative Assembly of the State of Montana to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income as determined in accordance with the Board policy in compliance with the Internal Revenue Code. The Board is authorized to issue negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $1,500,000,000. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for payment of amounts so issued. The Board of Housing is attached for administrative purposes to the Housing Division, Department of Commerce.

Basis of Presentation:
The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The Board implemented GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments", No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus" and No. 38, "Certain Financial Statement Note Disclosures". In order to comply with the requirements of the statements noted, the Board's financial statements include a classified statement of net assets, a statement of revenues, expenses, and changes in net assets that reports operating and non-operating revenues and expenses, and the statement of cash flows. Revenues in the proprietary funds are recognized when earned and expenses are recognized when incurred. The financial activities of the Board are recorded in funds established under various bond resolutions and the Montana Code Annotated (MCA). In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net assets and revenues and expenses for the period. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed to the extent they do not conflict with or contradict GASB guidance. The financial statements of the Board are presented on a combined basis.

Reporting Entity:
In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Board of Housing as a reporting entity. The financial statements of the Board of Housing are presented as a component unit in the State of Montana's Basic Financial Statements. The enterprise fund of the Board of Housing is part of but does not comprise the entire proprietary fund type of the State of Montana. The State of Montana directs and supervises budgeting, record keeping, reporting, and related administrative functions of the Board.

Fund Accounting:
To ensure observance of limitations and restrictions placed on the use of resources by the trust indentures, the Board of Housing accounts are organized in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose as described in the trust indentures. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, net assets, revenues, and expenses.
The funds of the Board are classified as enterprise funds, that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, and other purposes.

Restricted Net Assets - The Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 46 – Net Assets Restricted by Enabling Legislation. Net Assets are considered restricted if they are limited as to the manner in or purpose for which they may be used. The Combined Statement of Revenues, Expenses and Changes In Net Assets reports $160,150,162 of restricted net assets, of which $160,150,162 is restricted by enabling legislation.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting - continued:
Net Assets – Restricted for Bondholders represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following describes the restrictions on the Net Assets: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. Because of the nature of the Board's bonds, these funds and accounts are pledged as collateral for the bonds under the individual program indentures. The individual indentures also set certain mortgage and debt service reserve requirements, restricting funds for these purposes. As disclosed in Note 5 to the financial statements, the mortgage loans receivable are pledged as security for holders of the bonds. Certain indentures also require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture.

Restricted Net Assets also include funds reserved by participants and funds committed to specific projects under various programs established by the Board.

Revenue and Expense Recognition:
Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The Board records all revenues and expenses related to mortgages, investments, and bonds as operating revenues and expenses.

Fund Structure:
The Board's program funds and other funds have been presented on a combined basis, as the Board is considered a single enterprise fund for financial reporting purposes. A description of the funds established by the Board follows:

Single Family Mortgage Program Funds - These funds, established under 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 are not required to be insured by the Federal Housing Administration.

The Multifamily Program Fund on the combining financial statements includes activity for both Indentures.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Structure - continued

Housing Trust Fund - the Housing Trust Fund was established as a separate trust fund by a resolution of the Montana Board of Housing, adopted February 16, 1989. The Housing Trust Fund was created to finance in whole or in part future housing needs including the establishment of new programs as deemed necessary by the Board and any loans or projects that will provide housing for lower income persons and families with special housing needs. Housing Trust Fund accounts are held in the state treasury. Current programs include, but are not limited to, the Reverse Annuity Mortgage Program (RAM) for senior Montana homeowners and the Cash Assistance Program – Disabled (CAP) to assist disabled individuals and families in the purchase of a single family home. The Housing Trust Fund includes all activity for the Low Income Housing Tax Credit Program.

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

Federal Funds - The Board is participating in two American Recovery and Reinvestment Act of 2009 (ARRA) programs: Housing and Urban Development Tax Credit Assistance Program and U.S. Treasury Housing Credit Exchange Program. Both programs provide additional funding for capital investment in low-income housing tax credit projects. The Board also receives two grants for Foreclosure Mitigation Counseling (NeighborWorks America as funded by the Congress of the United States) and Housing Counseling (Housing and Urban Development Tax Credit Assistance Program).

Cash and Cash Equivalents:

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

Investments:

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

Under GASB 31, certain investments are to be reported at fair value. The Board values all of its investments that have a maturity date of over one year at fair value. Those investments that have a maturity date of less than one year are valued at amortized cost. The fair values were based on market prices provided by the Board's trustees.

Mortgage Loans Receivable:

Mortgage loans receivable are carried at their uncollected principal balances, adjusted for unamortized mortgage discounts and deferred loan fees, less an allowance for loan losses. Mortgage discounts and loan fees earned after 1988 are amortized using the interest method over the life of the mortgage loans and are accreted to interest income on mortgages. Mortgage discounts for all other program funds are amortized using the straight-line method over the remaining life of the mortgage loans and accreted to interest income.

The Board purchases mortgage loans secured by residences located throughout the State of Montana. Loans must be insured by the FHA (Federal Housing Administration) or private mortgage insurance or guaranteed by the VA (Veterans Administration) or RD (Rural Development) or Housing and Urban Development (HUD) or private mortgage insurers. Guidelines to minimize credit risk are established by FHA, VA, RD & Board policies.

Interest receivable is accrued on the amount of outstanding mortgage loan principal only if deemed collectible. Accrual on non-performing loans ceases at six months.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mortgage Loans Receivable - continued

Estimated losses are determined based on management's judgment, giving effect to numerous factors including, but not necessarily limited to, general economic conditions, loan portfolio composition, prior loss experience and independent appraisals. The reserve for anticipated loan losses represents amounts which are not expected to be fully reimbursed by certain guarantors.The Board incurs mortgage loan service fees with participating loan servicers based on outstanding monthly mortgage loan principal balances. The service fees are paid only when the mortgagee's full monthly payment is collected.

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

Mortgage-Backed Securities:

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

Deferred Issuance and Servicing Costs:

Debt issuance costs and costs of purchasing loan servicing rights are capitalized and amortized over the life of the remaining debt or the average mortgage loan life.

Bonds Payable:

Bonds payable is adjusted for amortized bond premiums and discounts. Bond premiums and discounts are amortized or accreted to interest expenses using the interest method, as an adjustment to yield, over the life of the bonds to which they relate or are expensed upon early redemption of the bonds.

Bond issuance costs, including underwriter discounts, are amortized using the bonds outstanding method over the life of the bonds or are expensed upon redemption of the bonds.

Estimates:

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

Capital Assets:

Capital assets are recorded at cost and depreciation is computed using the straight-line method over estimated useful lives of 5 to 10 years. The majority of capital assets consist of computers and software. The capitalization threshold for recording capital assets is $5,000. Purchases under this threshold are recorded as expenses in the current period.

Funds Held For Others:

The Board started a pilot project 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, 2012 and 2011, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

Program Funds	2012	2011
Cash Deposited with State Treasury	1,230,457	1,102,953
Cash Deposited with Trustee Banks	87,565	0
State Short-Term Investment Pool*	0	362,509
Short-Term Investments**	127,318,310	143,910,081
	$ 128,636,332	$ 145,375,543

* The State's Short Term Investment Pool (STIP) is managed by the Montana Board of Investments. Net assets of the pool are equivalent to $1 per share of the pool.

** Short-Term Investments include $50,057,957 (2012) and $125,520,745 (2011) of U.S. Treasury 28 day "T-Bills" held in the Single Family XI Indenture Bond Series 2009A Program Escrow Account. The Board is required by the U.S. Treasury to invest these funds in U.S. Treasury securities having maturities of less than 28 days at the time of purchase.

NOTE 3. SECURITIES LENDING

The Board of Housing invests in the State's Short-Term Investment Pool. As part of the pool administered by the Board of Investments (BOI), the Board participates in securities lending transactions. Under GASB 28, the following disclosures are required:

Under the provisions of state statutes, the BOI has, via a Securities Lending Authorization Agreement, authorized a custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, BOI receives a fee and the custodial bank must initially receive collateral equal to 102% of the fair value of the loaned securities and maintain collateral equal to not less than 100% of the fair value of the loaned security. BOI retains all rights and risks of ownership during the loan period.

During fiscal years 2012 and 2011, State Street lent, on behalf of BOI, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

BOI did not impose any restrictions during fiscal years 2012 and 2011 on the amount of loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2012 and 2011. Moreover, there were no losses during fiscal years 2012 and 2011resulting from a default of the borrowers or State Street.

During fiscal years 2012 and 2011, 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, 2012 and June 30, 2011, BOI had no credit risk exposure to borrowers.

On June 30, 2012, there were $ 0.00 of securities on loan.
On June 30, 2011, there were $ 4,824 of 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 Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The applicable investment risk disclosures are described in the following paragraphs.

Power to Invest & Investment Policy

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

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

Credit Risk

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

Credit Risk Concentration

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

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.
Board investment policy requires that investment contracts and repurchase agreements be fully collateralized with securities and cash held by the provider's agent and confirmed by the Board's trustee as required by the bond indentures. Securities underlying the investment contracts have a market value of at least 100% of the cost of the investment contract plus accrued interest. Securities underlying the repurchase agreements have a market value of at least 102% of the cost of repurchase agreement.

Interest Rate Risk

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

NOTE 4. INVESTMENTS – continued

Investment Type & Source		Fair Value June 30, 2012	Moody's Rating	Standard & Poor's Rating	Effective Duration
Investment Contracts					
Société Générale		$ 5,953,659	NR**	NR**	NA
Trinity Plus Funding Co.		2,265,027	NR**	NR**	NA
Bayerische Landesbank		783,725	NR**	NR**	NA
	Total	$ 9,002,411			
Government Sponsored Enterprises					
FNMA* Medium Term Notes		$ 17,368,100	Aaa	AA+	9.82
FNMA* Mortgage Backed Securities		5,571,364	Aaa	AA+	14.35
Federal Farm Credit Bank Notes		1,367,120	Aaa	AA+	7.76
FHLMC**** Bond		3,309,777	Aaa	AA+	20.04
FHLMC**** Discount Notes		44,945,962	Aaa	AA+	0.32
	Total	$ 72,562,323			
U. S. Treasury Bills		$ 50,057,498	Aaa	AA+	0.07
U. S. Treasury Bonds		7,491,496	Aaa	AA+	8.65
	Total	$ 57,548,994			
Trustee Cash & Money Market Accounts		$ 77,347,917	NA	NA	NA
State Cash & Short-term Pool Accounts		1,230,457	NA***	NA***	NA
	Total	$ 78,578,374			
Total All Investments		$ 217,692,102			

* Federal National Mortgage Association
** Investment Contracts are not rated (NR). However, the providers are required to meet ratings described in the Credit Risk section of this note.
*** The state's short-term pool is not rated.
****Federal Home Loan Mortgage Corporation

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 Governmental Accounting Standards Board (GASB) 48, the pledging of Mortgage Loans Receivable is considered a collateralized borrowing. Mortgage loans receivable consist of the following:

	2012	2011
Mortgage loan receivables:		
Single Family Program	$547,304,051	$627,334,735
Multifamily Program	10,426,168	10,811,010
Housing Trust Program	3,696,983	3,457,538
Housing Montana Fund	2,178,086	2,228,680
	563,605,288	643,831,963
Net mortgage discounts, premiums and deferred fees	7,189,413	7,938,539
Allowance for loan losses and real estate owned (note 6)	(300,000)	(300,000)
	$570,494,701	$651,470,502

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 at the outstanding loan balance.

The June 30, 2012 and 2011 Allowances For Loan Losses include $100,000 for mortgage bad debt and $200,000 for future estimated losses on real estate owned. The Board held 23 real estate owned properties as of June 30, 2012, and 32 real estate owned properties as of June 30, 2011. The properties' combined loan amounts were $2,787,858 and $4,171,301 as of June 30, 2012 and 2011 respectively. 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, June 30, 2010	$ 300,000
Provision	0
Less: Net loans charged off	0
Balance, June 30, 2011	300,000
Provision	0
Less: Net loans charged off	0
Balance, June 30, 2012	$ 300,000

NOTE 7. CAPITAL ASSETS

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

	2012	2011
Capital Assets - Equipment	$ 12,170	$ 12,170
Accumulated depreciation	(10,326)	(9,250)
Net capital assets	$ 1,844	$ 2,920

Depreciation and amortization expense included in general and administrative expense was $ 1,075 and $ 6,311 for the years ended June 30, 2012 and 2011 respectively.

NOTE 8. BONDS PAYABLE, NET

The Board has no variable interest rate debt obligations, except 2009 Series A issued to the U.S. Treasury as part of the Housing Finance Authority Initiative - New Issue Bond Program, 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:

	Original Amount	2012	2011
Single Family I Mortgage Bonds:			
1999 Series A-1 and A-2 bonds were refunded by Single Family XI Series 2011B on December 1, 2011.	60,000,000	0	5,800,000
2000 Series A-1 and A-2 serial and term bonds 4.15% to 6.45% maturing in scheduled semi-annual installments to December 1, 2012, and on June 1, 2016, June 1, 2019, December 1, 2020, June 1, 2029 December 1, 2031 and June 1, 2032.	87,695,000	625,000	2,555,000
2000 Series B-1 and B-2 bonds were refunded by Single Family XI Series 2011B on December 1, 2011.	71,940,000	0	11,835,000
2001 Series A-1 and A-2 bonds were refunded by Single Family XI Series 2011B on December 1, 2011.	71,000,000	0	10,160,000
2002 Series A-1 and A-2 bonds were refunded by Single Family XI Series 2011B on December 1, 2011.	39,000,000	0	8,305,000
2002 Series B-1 and B-2 serial and term bonds 2.30% to 5.55% maturing in scheduled semi-annual installments to December 1, 2023, December 1, 2026, December 1, 2032, June 1, 2033, December 1, 2033, and June 1, 2034.	52,190,000	10,815,000	13,175,000

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	2012	2011
2005 Series A serial and term bonds 2.80% to 5.60% maturing in scheduled semi-annual installments to December 1, 2013, December 1, 2030, December 1, 2035, and June 1, 2036.	93,785,000	38,485,000	47,545,000
2006 Series A serial and term bonds 3.40% to 5.25% maturing in scheduled semi-annual installments to June 1, 2016, December 1, 2016, December 1, 2025, December 1, 2036, and June 1, 2037.	50,560,000	22,175,000	27,580,000
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	31,740,000	38,425,000
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	32,015,000	37,920,000
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	49,240,000	55,070,000
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	46,155,000	54,370,000
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	22,075,000	28,590,000

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	2012	2011
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	28,940,000	35,535,000
Bonds outstanding Single Family I		$ 282,265,000	$ 376,865,000
Unamortized bond premium		4,195,407	5,282,672
Total bonds payable Single Family I		$ 286,460,407	$ 382,147,672

Single Family II Mortgage Bonds:

1998			
Series A-1 and A-2 bonds were refunded by Single Family XI Series 2011B on December 1, 2011.	$ 51,780,000	$ 0	$ 8,920,000
1998			
Series B-1 and B-2 serial and term bonds 4.65% to 5.35% maturing in scheduled semi-annual installments to December 1, 2005 and on December 1, 2013, and on December 1, 2005, December 1, 2016, June 1, 2021, December 1, 2022, December 1, 2030 and, June 1, 2031.	65,000,000	11,770,000	14,080,000
2003			
Series A-1 and A-2 serial and term bonds 1.20% to 4.90% maturing in scheduled semi-annual installments to December 1, 2024, June 1, 2033, December 1, 2033, June 1, 2034, June 1, 2035, June 1, 2042, and December 1, 2042.	52,520,000	30,245,000	31,660,000
2003			
Series B-1 and B-2 serial and term bonds 1.10% to 4.50% maturing in scheduled semi-annual installments to December 1, 2023, December 1, 2024, December 1, 2025, December 1, 2026, December 1, 2027, December 1, 2028, December 1, 2032, December 1, 2033, December 1, 2034, December 1, 2041, and December 1, 2042.	70,700,000	33,070,000	35,520,000
2003			
Series C serial and term bonds 1.45% to 5.05% maturing in scheduled semi-annual installments to June 1, 2023, December 1, 2023, December 1, 2028, and December 1, 2034.	40,500,000	12,305,000	15,010,000
2004			
Series A serial and term bonds 1.40% to 5.00% maturing in scheduled semi-annual installments to December 1, 2023, June 1, 2024, June 1, 2029, December 1, 2029, and June 1, 2035.	50,600,000	16,225,000	18,995,000

NOTE 8. BONDS PAYABLE, NET – continued

	Original Amount	2012	2011
2004			
Series B serial and term bonds 1.85% to 5.75% maturing in scheduled semi-annual installments to December 1, 2014, June 1, 2015, December 1, 2024, December 1, 2030 and December 1, 2035.	68,000,000	22,135,000	26,905,000
2004			
Series C serial and term bonds 2.00% to 5.00% Maturing in scheduled semi-annual installments To December 1, 2016, December 1, 2025, December 1, 2030, June 1, 2035, and December 1, 2035.	54,600,000	22,225,000	25,120,000
2005 RA			
Series A serial and term bonds 4.10% to 4.75% maturing in scheduled semi-annual installments to December 1, 2016, December 1, 2017, December 1, 2021, December 1, 2026, December 1, 2027, and June 1, 2044.	30,280,000	20,815,000	21,780,000
2008			
Series A serial and term bonds 2.55% to 5.50% Maturing in scheduled semi-annual installments To December 1, 2019, December 1, 2024, December 1, 2029, December 1, 2033, December 1, 2039	31,000,000	23,315,000	26,615,000
Bonds outstanding Single Family II		$ 192,105,000	$ 224,605,000
Unamortized bond premium / discount		1,624,003	1,939,919
Total bonds payable Single Family II		$ 193,729,003	$ 226,544,919
Single Family XI Bonds:			
2009			
Series A variable rate bonds. Interest is payable on release date and each redemption date. Bonds are issued to the U.S. Treasury as part of the Housing Finance Authority Initiative - New Issue Bond Program.	$ 150,000,000	$ 50,000,000	$ 125,400,000
2009			
Series B Term Bonds, 3.70% maturing December 1, 2041, converted from 2009 Series A and issued concurrently with 2011 Series A. Bonds are issued to the U.S. Treasury as part of the Housing Finance Authority Initiative - New Issue Bond Program.	24,600,000	24,125,000	24,600,000
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 to the U.S. Treasury as part of the Housing Finance Authority Initiative - New Issue Bond Program.	20,000,000	19,630,000	0

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	2012	2011
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	15,735,000	16,400,000
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	37,205,000	0
Bonds outstanding Single Family XI		$ 146,695,000	$ 167,400,000
Unamortized bond premium / discount		621,076	262,663
Total bonds payable Single Family XI		$ 147,316,076	$ 166,662,663

Single Family General Obligation Bonds:

	Original Amount	2012	2011
2008 Series A General Obligation Private Placement Bonds	$497,942	$497,942	$497,942
Total Single Family Mortgage bonds payable, net		$ 628,003,425	$ 775,853,196

All single-family mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 103%.

Single Family I and II mortgage bonds are general obligation bonds of the Board of Housing within the individual bond indenture.

Board of Housing Essential Workers' Program
The Board has authorized the issuance of $1,000,000 of taxable general obligation bonds to finance second mortgage shared appreciation loans to provide assistance to Ravalli County teachers. As of June 30, 2011, $497,942 of bonds have been issued.

	Original Amount	2012	2011
Multifamily Mortgage Bonds:			
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	850,000	880,000
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	7,435,000	7,680,000

NOTE 8. BONDS PAYABLE, NET - continued

Total bonds outstanding	8,285,000	8,560,000
Unamortized bond premium	(52,134)	(55,082)
Total Multifamily Mortgage bonds payable, net	$8,232,866	$8,504,918

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	$ 636,236,291	$ 784,358,114

The following is a summary of bond principal and interest requirements as of June 30, 2012:

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
2013	$ 88,103,221	$ 776,794	$ 61,665,000	$ 27,215,015
2014	38,511,071	751,586	12,555,000	26,707,657
2015	38,836,786	672,754	13,295,000	26,214,540
2016	38,651,378	671,545	13,660,000	25,662,923
2017	39,811,916	586,005	15,340,000	25,057,920
2018-22	200,015,577	3,000,301	89,150,000	113,865,878
2023-27	205,466,107	3,056,433	119,005,000	89,517,540
2028-32	184,522,839	2,820,470	128,980,000	58,363,309
2033-37	147,470,816	2,719,755	121,980,000	28,210,571
2038-42	53,648,135	2,286,474	50,495,000	5,439,609
2043-47	3,369,950	0	3,225,000	144,950
Total	$ 1,038,407,796	$ 17,342,117	$ 629,350,000	$ 426,399,913

Cash paid for interest expenses during the years ending June 30, 2012 and 2011 was $29,981,408 and $32,316,304 respectively.

Changes in Bonds Payable

	6/30/2011 Balance	Increases	Decreases	6/30/2012 Balance
Single Family	$ 775,853,195	58,433,413	(206,383,183)	$ 628,003,425
Multi Family	8,504,919		(272,053)	8,232,866
Total	$ 784,358,114	58,433,413	(206,655,236)	$ 636,236,291

NOTE 9. LOSS ON REDEMPTION

During the years ended June 30, 2012 and 2011 the Board redeemed Single Family mortgage program bonds prior to scheduled maturity as follows:

	2012	2011
Single Family I		
December 1	$ 59,950,000	$ 37,160,000
June 1	28,300,000	37,985,000
	88,250,000	75,145,000
Single Family II		
December 1	16,810,000	14,112,716
June 1	11,850,000	13,545,000
	28,660,000	27,657,716
Single Family XI		
December 1	20,325,000	0
March 9	55,400,000	0
June 1	1,550,000	24,600,000
	77,275,000	24,600,000
Multifamily		
August 1	0	660,000
November 1	0	230,000
	0	890,000
Total	$ 194,185,000	$ 128,292,716

All such Bonds were redeemed at par or 100% of their compounded value to date of redemption.
Unamortized discounts and cost of issuance associated with the bonds redeemed were expensed at time of redemption and are reported as losses on redemption of $ 920,315 and $ 885,124 in 2012 and 2011, respectively.

NOTE 10. COMMITMENTS

The Board is in the process of reserving and purchasing single family mortgages of approximately $8,193,909 in the Single Family XI Indenture.

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

2011 Flood Relief Program	3,000,000
West End District IX Human Resource Council	1,420,920
Burns Street Commons	1,740,000
Eaton Street Condos	1,000,000
Foreclosure Prevention	45,635
Disabled Affordable Accessible Homeownership	666,769
Lot Refinance	726,440
Habitat for Humanity	1,125,000
HUD Section 184-Indian Housing	1,194,593
Chippewa Cree	2,000,000
Down Payment Pool	6,111,135
Total Single Family Commitments	$19,030,492

Other Commitments--Single Family I	
Reverse Annuity Mortgage Program Future Loans	$ 2,281,695

The Board has the following Multifamily commitments:	
Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD)	
Total Multifamily Commitments	$174,656

The Board has committed Housing Trust Funds as noted below:	
Reverse Annuity Mortgage Program Existing Loans	$4,992,963

These mortgage commitments will be funded through cash and investments.

NOTE 11. EMPLOYEE BENEFIT PLANS

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

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

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

NOTE 11. EMPLOYEE BENEFIT PLANS - Continued

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

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

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

	Employee	Employer	Total
Employees Hired Before 7/1/2011	6.90%	7.17%	14.07%
Employees Hired After 7/1/2011	7.90%	7.17%	15.07%

The amounts contributed to the plans during the years ended June 30, 2010, 2011 and 2012 were equal to the required contribution each year. The amounts contributed by both the Board and by employees, as required by State law, were as follows:

Fiscal Year 2012 - $ 57,963
Fiscal Year 2011 - $ 58,183
Fiscal Year 2010 - $ 59,060

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 $682 and $922 per month depending on the medical plan selected, family coverage, and eligibility. Administratively established premiums vary between $34.90 and $59.36 per month for dental and between $7.64 and $22.26 per month for an optional vision plan depending on family coverage and eligibility. The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Eligible dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs.

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

The Board has established an accrual for the liability for estimated arbitrage payments due to the 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 made $ 760,061 in arbitrage rebate cash payments to The United States Treasury Department in fiscal year 2012 and $ 30,481 during the fiscal year ended June 30, 2011. The related liabilities were $ 296,385 and $ 845,452 as of June 30, 2012 and 2011, respectively.

Beginning Balance July 1, 2011	$ 845,452
Additions	160,328
Reductions	(709,395)
Ending Balance June 30, 2012	$ 296,385

NOTE 13. NO-COMMITMENT DEBT

The Board of Housing 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.

Bond Series	Original Amount	Outstanding as of 6/30/2012
Single Family Mortgage Revenue Bonds Series 2005A-1	$ 516,000	$ 18,000
Single Family Mortgage Revenue Bonds Series 2005A-2	$ 500,000	$ 191,000
Single Family Mortgage Revenue Bonds Series 2005A-3	$ 984,000	$ 655,000
Multifamily Housing Revenue Bonds Series 2006A	$ 2,104,700	$ 1,927,119
Multifamily Housing Revenue Bonds Series 2007A	$ 5,100,000	$ 4,951,115
Multifamily Housing Revenue Bonds Series 2008A	$ 2,413,600	$ 2,227,715
Multifamily Housing Revenue Bonds Series 2012 A-1	$ 857,000	$ 857,000

NOTE 13. NO-COMMITMENT DEBT - Continued

Bond Series	Original Amount	Outstanding as of 6/30/2012
Multifamily Housing Revenue Bonds Series 2012 A-2	$ 4,032,000	$ 4,032,000
Multifamily Housing Revenue Bonds Series 2012 B-1	$ 850,713	$ 850,713

NOTE 14. REFUNDING AND DEFERRED BOND ISSUANCE COSTS

On November 17, 2011, the Board issued Single Family Homeownership Bonds, 2011 Series B, in the amount of $38,175,000. All proceeds were used as replacement refunding of the following series:
1998 Series B, 1999 Series A, 2000 Series B, 2001 Series A, and 2002 Series A.

Under Governmental Accounting Standards Board (GASB) Statement 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities, deferred costs are required to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds.

The following costs associated with the refunding were deferred and are being amortized under the GASB 23 guidelines:

FY 2012 Refunding:	
Cost of Issuance related to the refunded bonds	$519,743
Less amortization FY 2012	(46,644)
Amount remaining to be amortized on the refunded issues	$473,099
Prior years' Refundings:	
Unamortized Deferred refunding costs from prior years' refunding	$1,228,676
Total unamortized	$1,701,775

The refunding of the five series resulted in an economic gain of approximately $5.7 million and a difference in cash flows of approximately $14.6 million.

The Board performed no refunding during the period from July 1, 2010 to June 30, 2011.

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 who elect to continue coverage and pay administratively established premiums. Coverage is provided through the State Group Benefits Plan.

The Board follows Governmental Accounting Standards Board (GASB) Statement 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 GASB 45 reporting, the State Group Benefits Plan is considered an agent multiple-employer plan and the Board is considered to be a separate employer participating in the plan. Each participating employer is required by GASB Statement 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.

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

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.
For GASB 45 reporting, the State Group Benefits Plan is considered an agent multiple-employer plan and the Board is considered to be a separate employer participating in the plan.

In addition to the employee benefits described in Note 11, Employee Benefit Plans, the following post-employment benefits are provided.
Montana Department of Administration established retiree medical premiums vary between $285 and $982 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between $34.90 and $59.36; vision premiums vary between $7.64 and $22.26; both premiums vary depending on the coverage selected. Basic life insurance in the amount of $14,000 is provided until age 65 at a cost of $1.90 per month to the retiree.
The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. The State acts as secondary payor for retired Medicare-eligible claimants.

Benefits Not Included in the Valuation:
Retirees pay 100 percent of dental premiums. Thus, there is no liability for dental valued in this valuation. The vision benefit is fully-insured and retirees pay 100 percent of the cost. Thus, there is no liability for vision valued in this valuation.
The life insurance benefit is a fully-insured benefit that is payable until age 65 with the retiree required to pay the full premium. There is no liability valued in this valuation for the retirees, though the required premium is an active/retiree blended premium. This liability would be insignificant to the overall results of this valuation.

Funding Policy:
The following estimates were prepared for the Department of Administration and the resulting State of Montana Actuarial Valuation of Other Post-Employment Benefits Plan (plan) contains the Board's data and is available through:
Montana Department of Administration,
State Accounting Division
Rm 255, Mitchell Bldg,
125 N Roberts St
PO Box 200102,
Helena, MT 59620-0102.

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

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

The 2012 ARC is calculated for all the plan's participants and then individually allocated to individual participants. The Board's 2012 ARC is estimated at $44,202 and is based on the plan's current ARC rate of 5.39% percent of participants' annual covered payroll. The Board's 2012 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 45, and liability is estimated at $451,622 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 43 or 45. Annual healthcare cost trend rates of 9.5 percent for medical and 9 percent for prescription claims are used for the 2012 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 2011.

The State finances claims on a pay-as-you-go basis and does not advance-fund the OPEB liability. Therefore the following cost information shows no cost contributions or plan assets made by the Board.

Annual OPEB Cost:
For 2012, the Board's allocated annual OPEB cost (expense) of $51,493 was equal to the ARC plus $7,291 of interest on the prior year obligation amount. The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2012 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/10	$77,251	0%	$164,550
6/30/11	$80,533	0%	$245,083
6/30/12	$44,202	0%	$299,700

Funded Status and Funding Progress:
The funded status of the Board's allocation of the plan as of June 30, 2012, was as follows:

Actuarial accrued liability (AAL)	$451,622
Actuarial value of plan assets	$ 0
Unfunded actuarial accrued liability (UAAL)	$451,622
Funded ratio (actuarial value of plan assets/AAL)	0
Covered payroll (active plan members)	$819,677
UAAL as a percentage of covered payroll	55.1 %

NOTE 16. SUBSEQUENT EVENTS

On August 2, 2012, the Board issued $81,280,000 of Single Family Homeownership Bonds Series 2012 A / 2009 D. The bonds will mature on December 1, 2012, through December 1, 2041, with interest rates from 0.375% to 4 .00%. Bond proceeds of $25,000,000 were used to purchase single family mortgage loans for the board's Homeownership Program. Bond proceeds of $56,280,000 were used to refund existing bond issues.

On October 1, 2012, the Board purchased servicing rights for approximately 3,400 single family program Board loans. Prior to the purchase, the Board held servicing rights to approximately 1,500 single family program Board loans. The combined total, approximately 4,900 loans, is 55% of the Board's single family mortgage loan portfolio. The Board expects to be servicing all loans by the end of fiscal year 2013 (June 30, 2013).

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

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

As of June 30, 2012, the most recent actuarial valuation available that was completed by the State of Montana was as of January 1, 2011 for the year ending December 31, 2011. This actuarial evaluation is completed every two years with the next valuation to be completed 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, 2012.

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)
1/1/2007	$0	$240,473	$240,473	0	$715,960	33.59%
1/1/2009	$0	$444,772	$444,772	0	$859,031	51.78%
1/1/2011	$0	$451,622	$451,622	0	$813,088	55.54%

* Projected unit credit funding method

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2011)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL PROGRAMS	FY 2012	FY 2011
ASSETS										
Current Assets										
Cash and Cash Equivalents	$ 34,661,364	$ 29,010,241	$ 55,180,965	$ 118,852,570	$ 8,935,296	$ 418,511	$ 429,955	$ -	$ 128,636,332	$ 145,369,388
Investments	17,948,384	35,997,091	-	53,945,475	-	-			53,945,475	103,988,802
Mortgage Loans Receivable	6,060,018	4,620,666	2,679,723	13,360,407	214,326	-	5,519		13,580,252	14,919,954
Interest Receivable	2,039,496	1,257,769	496,093	3,793,358	47,805	944,598	133,431		4,919,192	5,191,922
Interfund Receivable (Payable)*	15,062,401		(15,062,401)							
Due from Other Governments								112,769	112,769	102,500
Security Lending Collateral						-	-			4,824
Prepaid Expense	347	187,394		187,741	4,003	15,182	-		206,926	227,375
Total Current Assets	$ 75,772,010	$ 71,073,161	$ 43,294,380	$ 190,139,551	$ 9,201,430	$ 1,378,291	$ 568,905	$ 112,769	$ 201,400,946	$ 269,804,765
Noncurrent Assets										
Investments	$ 10,297,292	$ 13,470,748	$ 6,233,076	$ 30,001,116	$ -	$ -	$ -	$ -	$ 30,001,116	$ 26,065,075
Mortgage Loans Receivable	260,759,413	178,573,970	101,499,674	540,833,057	10,211,842	3,696,983	2,172,567	-	556,914,449	636,550,548
Mortgage Backed Securities	1,117,747	3,988,994	-	5,106,741	-	-	-	-	5,106,741	6,669,504
Deferred Issuance and Servicing Costs	2,281,916	2,331,511	948,068	5,561,495	93,512	-	-	-	5,655,007	5,570,408
Capital Assets, Net	(129)	1,591	-	1,462	191	191	-	-	1,844	2,920
Total Noncurrent Assets	$ 274,456,239	$ 198,366,814	$ 108,680,818	$ 581,503,871	$ 10,305,545	$ 3,697,174	$ 2,172,567	$ -	$ 597,679,157	$ 674,858,455
TOTAL ASSETS	$ 350,228,249	$ 269,439,975	$ 151,975,198	$ 771,643,422	$ 19,506,975	$ 5,075,465	$ 2,741,472	$ 112,769	$ 799,080,103	$ 944,663,220
LIABILITIES										
Current Liabilities										
Accounts Payable	$ 523,152	$ 363,892	$ 71,571	$ 958,615	$ 4,739	$ 22,550	$ 250	$ 112,769	$ 1,098,923	$ 1,231,860
Security Lending Liability						-	-	-		4,824
Funds Held For Others		18,109		18,109		-	-		18,109	0
Accrued Interest - Bonds Payable	1,178,545	765,925	343,246	2,287,716	212,893	-	-	-	2,500,609	2,923,421
Bonds Payable, Net	4,905,000	3,880,000	52,610,000	61,395,000	270,000	-	-	-	61,665,000	136,705,000
Arbitrage Rebate Payable to U.S.										
Treasury Department	225,812			225,812		-	-	-		518,213
Accrued Compensated Absences	30,741	30,737		61,478		5,112	-	-	66,590	78,868
Total Current Liabilities	$ 6,863,250	$ 5,058,663	$ 53,024,817	$ 64,946,730	$ 487,632	$ 27,662	$ 250	$ 112,769	$ 65,349,231	$ 141,462,186
Noncurrent Liabilities										
Bonds Payable, Net	$ 281,555,407	$ 190,346,942	$ 94,706,076	$ 566,608,425	$ 7,962,866	$ -	$ -	$ -	$ 574,571,291	$ 647,653,114
Deferred Refunding Costs	(733,964)	(494,712)	(473,099)	(1,701,775)	0	-	-	-	(1,701,775)	(1,642,835)
Arbitrage Rebate Payable to U.S.										
Treasury Department		70,573	0	70,573	0	-	-	-	296,385	327,240
Accrued Compensated Absences	44,184	45,964	0	90,148	0	24,961	-	-	115,109	92,133
OPEB Liability	149,850	149,850	0	299,700	0	-	-	-	299,700	245,082
Total Noncurrent Liabilities	$ 281,015,477	$ 190,118,617	$ 94,232,977	$ 565,367,071	$ 7,962,866	$ 24,961	$ -	$ -	$ 573,580,710	$ 646,674,734
TOTAL LIABILITIES	$ 287,878,727	$ 195,177,280	$ 147,257,794	$ 630,313,801	$ 8,450,498	$ 52,623	$ 250	$ 112,769	$ 638,929,941	$ 788,136,920
NET ASSETS										
Invested in Capital Assets, Net	$ (129)	$ 1,591	$ -	$ 1,462	$ 191	$ 191	$ -	$ -	$ 1,844	$ 2,920
Restricted for Bondholders:										
Unrealized (losses) gains on investments	2,145,799	4,338,635	1,451,756	7,936,190	-	-	-	-	7,936,190	4,136,692
Single Family Programs	40,891,665	67,922,469	3,265,648	112,079,782	-	-	-	-	112,079,782	113,826,304
Various Recycled Mortgage Programs	17,030,492	2,000,000	-	19,030,492	-	-	-	-	19,030,492	17,890,497
Multifamily Programs		-	-	-	10,881,630	29,689	-	-	10,911,319	10,708,823
Multifamily Project Commitments	-	-	-	-	174,656		-	-	174,656	182,787
Reverse Annuity Mortgage Program	2,281,695			2,281,695	-	4,992,963	-	-	7,274,658	7,070,784
Restricted by Affordable Revolving Loan Program	-	-	-	-	-	-	2,741,222	-	2,741,221	2,707,493
TOTAL NET ASSETS	62,349,522	74,262,695	4,717,404	141,329,621	11,056,477	5,022,842	2,741,222	-	160,150,162	156,526,300.07

*Interfund activity is a loan between indentures used to purchase mortgages until bonds are issued then repaid within one year. The loan is not shown in the Statement of Net Assets because it is not an obligation to an external entity.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL ASSISTANCE	FY 2012	FY 2011
OPERATING REVENUES										
Interest Income - Mortgage Loans	$ 16,298,023	$ 10,453,641	$ 4,095,172	$ 30,846,836	$ 577,298	$ 213,818	$ 34,776	$ -	$ 31,672,728	$ 36,289,260
Interest Income - Investments	1,247,499	933,503	185,283	2,366,285	14,121	935	-	-	2,381,341	2,845,047
Fee Income	5,725	728,362	14,058	748,145	21,158	350,736	1,008	-	565,133	389,501
Federal Financial Assistance	-	35,282	-	35,282	201,756	-	-	2,123,240	2,360,278	10,435,166
Net Increase (Decrease)				-						
in Fair Value of Investments	1,182,417	1,140,021	1,477,060	3,799,498	-	-	-	-	3,799,498	(615,965)
Other Income	-	72,000	-	72,000	-	-			627,914	41,454
Securities Lending Gross Income	-	-	-	-		102	-	-	102	181
Total Operating Revenues	$ 18,733,664	$ 13,362,809	$ 5,771,573	$ 37,868,046	$ 814,333	$ 565,591	$ 35,784	$ 2,123,240	$ 41,406,994	$ 49,384,644
OPERATING EXPENSES										
Interest on Bonds	$ 15,951,998	$ 9,882,007	$ 2,596,599	$ 28,430,604	$ 518,624	$ -	$ -	$ -	$ 28,949,228	$ 32,741,511
Servicer Fees	1,103,465	806,733	300,098	2,210,296	11,673	-	2,105	-	2,224,074	2,412,602
Contracted Services	25,891	869,876	(3,694)	892,073	20,465	51,964	(49)	381,363	1,345,816	1,262,284
Amortization of Bond Issuance Costs	35,538	146,711	119,405	301,654	6,219	-	-	-	307,873	560,605
General and Administrative	384,565	1,255,370	15,000	1,654,935	111,568	261,813	-	18,520	2,046,836	1,961,080
Arbitrage Rebate Expense	204,249	6,744	-	210,993	-	-	-	-	210,993	67,224
Loss on Redemption	678,701	216,787	24,828	920,316	-	-	-	-	920,316	1,077,782
Securities Lending Expense	-	-	-	-	-	20	-	-	20	38
Other Post-Emploment Benefits	25,747	25,747	-	51,494	-	-	-	-	51,494	80,533
Grants to Local Community								1,723,357	1,723,357	9,897,196
Total Operating Expenses	$ 18,410,154	$ 13,209,975	$ 3,052,236	$ 34,672,365	$ 668,549	$ 313,797	$ 2,056	$ 2,123,240	$ 37,780,007	$ 50,060,856
Operating Income (Loss) Before Transfers	323,510	152,834	2,719,337	3,195,681	145,784	251,793	33,729	-	3,626,987	(676,212)
Transfers In(Out)	500,288	(1,060,524)	560,236	-	-	-	-	-	-	-
Increase (Decrease) in Net Assets	823,798	(907,690)	3,279,573	3,195,681	145,784	251,793	33,729	-	3,626,987	(676,212)
Net Assets, Beginning of Year	61,527,287	75,171,947	1,437,831	138,137,065	10,910,693	4,771,049	2,707,493	-	156,526,300	157,202,512
Prior Period Adjustment	(1,563)	(1,562)		(3,125)	-	-	-	-	(3,125)	-
Net Assets, End of Year	$ 62,349,522	$ 74,262,695	$ 4,717,404	$ 141,329,621	$ 11,056,477	$ 5,022,842	$ 2,741,222	$ -	$ 160,150,162	$ 156,526,300

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL ASSISTANCE	2012	2011
CASH FLOWS FROM OPERATING ACTIVITY										
Receipts for Sales and Services	$ 5,725	$ 89,813	$ 14,058	$ 109,596	$ 25,278	$ 350,309	$ 1,008	$ -	$ 486,191	$ 394,622
Collections on Loans and Interest on Loans	120,780,173	54,363,211	2,616,821	177,760,205	963,944	(169,666)	72,768	-	178,627,251	154,228,242
Cash payments for Loans	(2,242,232)	-	(62,909,067)	(65,151,299)	-	-	-	-	(65,151,299)	(29,906,672)
Federal Financial Assistance Receipts		16,762	-	16,762	201,756	-	-	2,133,509	2,352,027	12,147,097
Payments to Suppliers for Goods and Services	(1,298,293)	(3,134,435)	(282,963)	(4,715,691)	(85,907)	(144,582)	(2,183)	(2,133,509)	(7,081,872)	(16,063,213)
Payments to Employees	(211,581)	(667,922)	-	(879,503)	(74,953)	(151,340)	-	-	(1,105,796)	(1,106,793)
Other Operating Revenues		729,069	-	729,069	-	427	-	-	729,496	52,771
Net Cash Provided (Used) by Operating Activities	$ 117,033,792	$ 51,396,498	$ (60,561,151)	$ 107,869,139	$ 1,030,118	$ (114,852)	$ 71,593	$ -	$ 108,855,998	$ 119,746,054
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:										
Payment of Principal and Interest on Bonds and Notes	$ (112,060,118)	$ (42,741,254)	$ (80,864,470)	$ (235,665,842)	$ (797,111)	$ -	$ -	$ -	$ (236,462,953)	$ (150,715,699)
Proceeds from Issuance of Bonds and Notes	0	-	58,588,168	58,588,168	-	-	-	-	58,588,168	16,665,475
Payment of Bond Issuance Costs	460,856	(33,288)	(668,132)	(240,564)	-	-	-	-	(240,564)	(325,582)
Due From (To) Other Funds*	(15,062,401)	(1,060,523)	15,062,401	(1,060,523)	-	-	-	-	(1,060,523)	(271,187)
Transfers in (out)	500,288	-	560,235	1,060,523	-	-		-	1,060,523	271,187
Net Cash Provided (Used) by Noncapital Financing Activities	$ (126,161,375)	$ (43,835,065)	$ (7,321,798)	$ (177,318,238)	$ (797,111)	$ -	$ -	$ -	$ (178,115,349)	$ (134,375,806)
CASH FLOWS FROM CAPITAL ACTIVITIES										
CASH FLOWS FROM INVESTING ACTIVITIES:										
Purchase of Investments	$ (129,267,737)	$ (66,306,233)	$ (3,533,852)	$ (199,107,822)	$ -	$ -	-	-	$ (199,107,822)	$ (2,295,521,529)
Proceeds from Sales or Maturities of Investments	161,011,828	80,967,242	-	241,979,070	7,859,191	6,155	-	-	249,844,416	2,293,109,709
Interest on Investments	1,391,817	976,008	164,649	2,532,474	16,215	1,071	-	-	2,549,760	2,863,147
Arbitrage Rebate Tax	(576,264)	(183,796)	-	(760,060)	-	-	-	-	(760,060)	(30,481)
Net Cash Provided (Used) by Investing Activities	$ 32,559,644	$ 15,453,221	$ (3,369,203)	$ 44,643,662	$ 7,875,406	$ 7,226	$ -	$ -	$ 52,526,294	$ 420,846
Net Increase (Decrease) in Cash and Cash Equivalents	$ 23,432,061	$ 23,014,654	$ (71,252,152)	$ (24,805,437)	$ 8,108,413	$ (107,626)	$ 71,593	$ -	$ (16,733,057)	$ (14,208,906)
Cash and Cash Equivalents,beginning bal.	$ 11,229,303	$ 5,995,587	$ 126,433,117	$ 143,658,007	$ 826,883	$ 526,137	358,362		$ 145,369,389	$ 159,578,295
Cash and Cash Equivalents, ending bal.	$ 34,661,364	$ 29,010,241	$ 55,180,965	$ 118,852,570	$ 8,935,296	$ 418,511	$ 429,955	$ -	$ 128,636,332	$ 145,369,389

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL ASSISTANCE	FY 2012	FY 2011
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES										
Operating Income	$ 323,510	$ 152,834	$ 2,719,337	$ 3,195,681	$ 145,784	$ 251,793	$ 33,729	$ -	$ 3,626,987	$ (676,212)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:										
Depreciation	$ 306	$ 685		$ 991	$ 42	$ -	$ -	$ -	$ 1,033	$ 1,033
Amortization	(307,035)	366,844	74,163	133,972	39,185	-	-	-	$ 173,157	811,930
Interest Expense	17,039,263	9,882,007	2,651,354	29,572,624	515,676	-	-	-	$ 30,088,300	34,574,956
Interest on Investments	(1,454,830)	(954,517)	(3,124,090)	(5,533,436)	(49,186)	(1,071)	-	-	$ (5,583,693)	(2,736,414)
Arbitrage Rebate Tax	204,249	6,744		210,993	-	-	-	-	$ 210,993	67,224
Change in Assets and Liabilities:										
Decr (Incr) in Mortgage Loans Receivable	101,815,970	43,758,950	(64,062,157)	81,512,762	386,645	(239,445)	37,992	-	$ 81,697,954	86,779,037
Decr (Incr) in Other Assets	556,790	(597,178)	(320,730)	(361,118)	1,286	(137,654)	-	(10,269)	$ (507,755)	1,780,542
(Incr) Decr in Fair Value of Investments	(1,182,417)	(1,140,021)	1,477,060	(845,378)			0	-	$ (845,378)	615,966
Incr (Decr) in Accounts Payable	3,765	(115,847)	23,911	(88,171)	(3,854)	4,927	(128)	10,269	$ (76,957)	(1,588,527)
Incr (Decr) in Deferred Reservation & Disc. Fees	0	0	0	0	9,166	-	-		$ 9,166	34,468
Incr (Decr) in Compensated Absences Payable	34,222	35,997	0	70,219	(14,626)	6,598	-	-	$ 62,191	82,050
Net Cash Provided by (Used for) Operating Activities	$ 117,033,793	$ 51,396,498	$ (60,561,152)	$ 107,869,139	$ 1,030,118	$ (114,851)	$ 71,592	$ -	$ 108,855,998	$ 119,746,054

Montana Board of Housing

Board Response

MONTANA
Department of Commerce
MONTANA BOARD OF HOUSING
P.O. Box 200528 ★ Helena, Montana 59620-0528 ★ www.housing.mt.gov
Phone: 406-841-2840 ★ 1-800-761-6264 ★ Fax: 406-841-2841 ★ TDD: 406-841-2702

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LEGISLATIVE AUDIT DIV.

November 5, 2012

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

Dear Ms. Hunthausen:

We have received and reviewed the financial audit report of the Montana Board of Housing for the fiscal year ended June 30, 2012. 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