A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana Board of Housing

For the Fiscal Year Ended June 30, 2013

OCTOBER 2013

LEGISLATIVE AUDIT DIVISION

13-07A

Legislative Audit Committee

Representatives

Randy Brodehl
Randybrodehl57@gmail.com

Virginia Court
Vjchd52@yahoo.com

Mike Cuffe
mike@mcuffe.com

Mary McNally
mcnallyhd49@gmail.com

Ryan Osmundson
Ryanosmundson@gmail.com

J.P. Pomnichowski
pomnicho@montanadsl.net

Senators

Dee Brown
repdee@yahoo.com

Taylor Brown
taylor@northernbroadcasting.com

Greg Jergeson
jergeson4senator@yahoo.com

Sue Malek
senatormalek@gmail.com

Fredrick (Eric) Moore
mail@SenatorEricMoore.com

Mitch Tropila, Chair
tropila@mt.net

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

Fraud Hotline
(Statewide)
1-800-222-4446
(in Helena)
444-4446
ladhotline@mt.gov

Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

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

Audit Staff

Jeff Clarke
Jennifer Erdahl
Natalie H. Gibson
Brenda Kedish
Jessica Curtis
John Fine
Sherrie L. Lindbo

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

October 2013

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Board of Housing (board) for the fiscal year ended June 30, 2013. During the audit, we reviewed financial records related to the board's mortgages, loans, investments, and bonds, and tested compliance with selected state laws and regulations. The report contains one recommendation related to following the review procedures established over the preparation process for the Statement of Cash Flows.

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

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

Table of Contents

Figures and Tables

Tables

Appointed and Administrative Officials

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

Administrative Officials Department of Commerce

Meg O'Leary, Director

Doug Mitchell, Deputy Director

Board of Housing

Bruce Brensdal, Executive Director

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

e-mail: bbrensdal@mt.gov

Montana Legislative Audit Division

Financial-Compliance Audit
Montana Board of Housing
For the Fiscal Year Ended June 30, 2013

October 2013 13-07A Report Summary

In fiscal year 2013, the Montana Board of Housing (board) began collecting mortgage payments from borrowers. The board services approximately 325 loans, which include loans from the Veteran Loans Program.

Context

The board operates within the Department of Commerce for administrative purposes. Under the Montana Housing Act of 1975, 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 and repayment of loans.

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

In fiscal year 2013 the board purchased 305 single-family mortgages for $38 million. The board retired $114 million in bonds payable through prepayments and regular debt service payments. However, total bond debt payable only decreased $94 million during the fiscal year due to newly issued bonds.

Results

Our audit report contains one recommendation to the board related to following review procedures over the preparation of the Statement of Cash Flows.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (13-07A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at http://leg.mt.gov/audit
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction

Audit Scope

We performed a financial-compliance audit of the Montana Board of Housing (board) for the two fiscal years ended June 30, 2013. The objectives of our audit were to:

1. Determine whether the financial statements fairly present the board's 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, 2013.
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.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #2 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 outlines the status of the significant deficiency we identified during this audit.

Table 1
Summary of Deficiencies in Internal Control

Subject	Type of Deficiency	Page
Review procedures not complete	Significant	5

Source: Compiled by Legislative Audit Division.

Our consideration of internal control was not for the purpose of expressing an opinion on the effectiveness of internal control. Therefore, material weaknesses or significant deficiencies may exist that were not identified. This report contains one recommendation to the board.

Background

The board is allocated to the Department of Commerce for administrative purposes. 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 issues tax-exempt bonds to provide funds to purchase home mortgages, making loans for rental housing projects, administering federal housing tax credit programs, and working in partnership with other housing providers throughout Montana. Mortgage loans are primarily for first-time home buyers.

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

The Montana Veterans' Home Loan Mortgage Program, established during the 2011 Legislative Session, was designed to assist Montana residents who are National Guard members, reservists, or federally qualified veterans to purchase their first home. The board administers the purchasing and servicing of these loans. The board will continue to purchase and service other loans in fiscal year 2013.

The Low Income Housing Tax Credit Program receives Montana's allocation of federal tax credits each year and distributes those credits to developers of multifamily housing according to a competitive application process. Generally, when a successful applicant is awarded credits they are sold to an investor or syndicated group of investors and the equity is used to reduce the amount of debt financing that the property owner will incur. This lowers the operating costs, and makes it economically feasible to operate the property at affordable rents. In exchange for the financing provided through the tax credit, owners agree to keep rents affordable for a minimum period of 15 years for families and individuals with incomes at or below 60 percent of the area median income. The board monitors the properties during the compliance period to ensure that rents and residents' incomes do not exceed federal limits and the properties are well maintained.

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

The board portfolio of loans has a low rate of default and potential foreclosure. The following table compares the delinquency and foreclosure rates of board loans to the averages of all mortgage loans in Montana, in the Mountain Region, and in the nation as a whole. The delinquency rate increase for the board is due to the transition from the servicing at the banks to the board and is not expected to continue to increase.

Table 2
Delinquency and Foreclosure Rates

As of June 30, 2013	30 days delinquent	60 days delinquent	90 days delinquent	Foreclosure in process
Montana Board of Housing	2.49%	1.18%	1.56%	0.99%
Montana Mortgage Loans	2.02%	0.63%	1.12%	1.16%
Mountain Region	2.51%	0.83%	1.97%	2.08%
United States	3.16%	1.09%	2.55%	3.33%

Source: Montana Board of Housing.

In addition to the annual financial audit of the board, our office performs special engagements for the board throughout the year. These include agreed-upon procedures for the board and its underwriters to evaluate revenue, expense, and fund equity information when selling bonds, and reviews of preliminary and official statements to allow inclusion of our Independent Auditor's Report with the financial statements when the board issues bonds. We also perform 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.

Chapter II – Findings and Recommendations

Review Procedures Not Complete

The Montana Board of Housing (board) did not follow the established review procedures for the Statement of Cash Flows.

Internal controls over financial reporting provide assurance that errors or omissions will be prevented, or detected and corrected, on a timely basis. According to state accounting policy, "internal control over financial reporting is defined as a process designed by, or under the supervision of the entity's principal executive and principal financial officers, or persons performing similar functions, and effected by the entity's governing board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles."

During our audit we reviewed the Statement of Cash Flows and determined an unamortized bond discount of $1,146,693 was missing from the Proceeds from Issuance of Bonds and Notes. This misstatement was subsequently corrected by the board. While the reviews performed by the preparer did identify some misstatements prior to our review, the reviews were not adequate to detect all significant errors or omissions. In the prior year's audit we found similar errors in the Statement of Cash Flows, which were also subsequently corrected by the board.

The established procedures require staff not involved in the preparation of the statement to conduct the review. Board staff indicated the established review procedure was not followed due to staff turnover and lack of availability of the employee who typically reviews the Statement of Cash Flows.

Due to the misstatements identified in the fiscal year 2012 and 2013 statements, as well as the potential misstatements that could occur in the future as a result of not following review procedures on the Statement of Cash Flows, we consider this to be a significant deficiency in internal control. The board should follow review procedures to ensure the accuracy and completeness of the financial statements as there is potential for more miscalculations to occur and not be detected when the statements are not reviewed by a person other than the preparer.

Recommendation #1

We recommend the board follow the established review procedures over the Statement of Cash Flows.

Independent Auditor’s Report

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Statement of Net Position of the Montana Board of Housing, a component unit of the state of Montana, as of June 30, 2013, and 2012, the related Statement of Revenues, Expenses and Changes in Fund Net Position, and the Statement of Cash Flows for each of the fiscal years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

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, 2013, and 2012, and the changes in net position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page A-5 and 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Combining Statement of Net Position, Combining Statement of Revenues, Expenses, and Changes in Fund Net Position, 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
Helena, MT

September 25, 2013

Montana Board of Housing

Management's Discussion and Analysis, Financial Statements, Notes,Required Supplementary Information and Supplementary Information

Montana Board of Housing
A Component Unit of the State of Montana
Management's Discussion and Analysis
Year Ended June 30, 2013

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, 2013. Please read this section in conjunction with the financial statements and accompanying notes.

Summary

- 305 single-family mortgages were purchased for $38 million.
- 92 Mortgage Credit Certificates were issued on a total loan amount of $16 million.
- $2.6 million of Low Income Housing Tax Credits were allocated providing approximately $20 million of equity to produce or preserve 160 units of affordable rental housing.
- 6 Reverse Annuity Mortgage (RAM) Loans were originated bringing the total active RAM loans to 83. Since its inception the RAM program has assisted 197 elderly households.
- The Board refinanced $109 million of existing debt and converted $50 million of New Issue Bond Program (NIBP) escrow bonds to mortgage revenue bonds.
- Bond debt retired was $114 million from prepayments and regular debt service.
- Bond debt payable decreased from $630 million to $536 million.
- Net Position decreased by $3 million during the 2013 fiscal year (see Condensed Financial Information on the following page)

Fiscal Year 2013 Update

Homeownership Program:

Market rates for first mortgage loans have risen during FY 2013 and MBOH is able to offer mortgages below current Montana market rate. The result was the number of loans purchased was higher than the number purchased in FY2012 and FY2011, but still far less than the preceding years.

The New Issue Bond Program (NIBP) was extended to December 31, 2013 allowing the Board another year of financing mortgage purchases through the program. The Board issued the remaining $50 million NIMP bonds by December, 2013, and closed the program.

In January of 2013 MBOH began servicing loans and continues to add loans to the servicing portfolio. As of July 2013, the Board services almost half of mortgage loans it owns.

Finance:

Major economic changes continue affecting financial and mortgage markets and MBOH. Historically low investment returns continue limiting MBOH investment income. The prolonged period of unusually low mortgage rates continue reducing MBOH's number of loans as borrowers refinance out of existing MBOH loans and MBOH is unable to replace these loans with an equal number of new loans. The combined effects of these conditions have limited MBOH participation in the Montana mortgage market and affected financial operations. The fiscal year ended with an operating loss of $3 million, however, excluding $2.4 million of investment valuation changes, operating loss is $600,000. (see Condensed Financial Information on the following page).

Many economic and financial changes have limited effect since MBOH does not issue variable rate bonds or swap interest rates; mortgages are insured largely through federal programs; and MBOH investment policy emphasizes capital preservation over return thus limiting risk to capital.

A result is 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 Board's fiscal year 2013 financial statements have changed. The Board implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Whereas the Board formerly reported net assets and changes to net assets for the period, the ending balances are now known as "fund net position". The result is the Board's "balance sheet" now shows the difference between assets and liabilities as "fund net position" and "operating statement" results now changes to "fund net position".

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

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

Montana Board of Housing
Condensed Financial Information
Change in Net Position and Operating Income
Years ended June 30, 2013, 2012 and 2011

	2013		2012		2011
Assets:					
Current Assets	$ 182,047,967	**(A)**	$ 201,400,946	**(A)**	$ 269,804,765
Noncurrent Assets	518,243,448	**(B)**	597,679,157	**(B)**	674,858,455
Total Assets	$ 700,291,415		$ 799,080,103		$ 944,663,220
Liabilities:					
Current Liabilities	$ 15,058,659	**(C)**	$ 65,349,231	**(C)**	$ 141,462,186
Noncurrent Liabilities	528,063,977	**(D)**	573,580,710	**(D)**	646,674,734
Total Liabilities	$ 543,122,636		$ 638,929,941		$ 788,136,920
Net Position:					
Invested in Capital Assets	$ 1,217		$ 1,844		$ 2,920
Restricted	157,167,562		160,148,318		156,523,380
Total Net Position	$ 157,168,779	**(G)**	$ 160,150,162	**(G)**	$ 156,526,300
Operating Revenue:					
Interest on Loans	$ 26,212,234	**(E)**	$ 31,672,728	**(E)**	$ 36,289,260
Federal Financial Assistance	364,744	**(F)**	2,360,278	**(F)**	10,435,166
Earnings from Investments	(798,221)	**(G)**	6,180,941	**(G)**	2,229,263
Fees and Charges	1,205,247		1,092,776		430,955
Total Operating Revenue	$ 26,984,004		$ 41,306,723		$ 49,384,644
Operating Expenses:					
Bond Expenses	$ 24,798,943	**(H)**	$ 30,388,410	**(H)**	$ 34,447,122
Federal Grants to Local Communities		**(I)**	1,723,357	**(I)**	9,897,196
Servicing Fees	2,189,745		2,142,323		2,412,602
General and Administrative	2,977,100	**(J)**	3,425,646		3,303,936
Total Expenses	$ 29,965,788		$ 37,679,736		$ 50,060,856
Operating Income (Loss)	$ (2,981,784)	**(G)**	$ 3,626,987	**(G)**	$ (676,212)
Increase (Decrease) in Net Position	$ (2,981,784)		$ 3,626,987		$ (676,212)
Net Position, Beginning of Year	160,150,162		156,526,300		157,202,512
Prior Period Adjustment	401		(3,125)		
Net Position, End of Year	$ 157,168,779	**(G)**	$ 160,150,162	**(G)**	$ 156,526,300

Discussion of Changes between 2013 and 2012

(A) Current Assets decreased because of a decline of $17 million in current investments and $3 million less of current mortgages receivable due to borrowers' refinancing mortgages.

(B) Non Current Assets decreased because Mortgages Receivable decreased by $76 million between years due to borrowers refinancing loans and $4 million less in investments.

(C) Current Liabilities decreased by $50 million because NIBP bonds converted to long-term debt and bonds payable decreased by $45 (net) due to loan payoffs plus conversion to long-term debt.

(D) Noncurrent Liabilities decreased by $45 million (net) due to borrowers' loan payoffs plus conversion to long-term debt. As borrowers 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 $2million as MBOH closed the America Recovery and Reinvestment Act Programs: Tax Credit Assistance Program and Tax Credit Exchange Program.

(G) Earning from investments decreased $7 million of which $6 million resulted from valuation changes required by GASB 31 (see Financial Statements Note 1 - Investments). FY 12 Long-term investments gained value by $3.8 million due to record low interest rates on long-term notes and bonds, thereby increasing their value. FY 13 interest rates increased and the opposite ocurred causing investments to lose value by $2.4 million. Less money invested lowered revenue by $.6 million.

(H) Bond Expenses fell by $3 million because loan payoffs [E] reduced the bond principal and interest MBOH paid.

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

(J) Foreclosure related expenses declined since fewer foreclosed properties were held by the Board.

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.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET POSITION
AS OF JUNE 30, 2013 AND 2012

	FY 2013	FY 2012
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 53,624,779	$ 128,636,332
Investments	112,011,525	53,945,475
Mortgage Loans Receivable	11,570,267	13,580,253
Interest Receivable	4,640,463	4,919,192
Due from Other Governments	-	112,769
Security Lending Collateral	1,710	-
Prepaid Expense	199,223	206,926
Total Current Assets	$ 182,047,967	$ 201,400,946
Noncurrent Assets		
Investments	$ 27,218,797	$ 30,001,116
Mortgage Loans Receivable	480,579,074	556,914,449
Mortgage Backed Securities	3,678,908	5,106,741
Deferred Bond Issuance Costs, Net	6,765,452	5,655,007
Capital Assets, Net	1,217	1,844
Total Noncurrent Assets	$ 518,243,448	$ 597,679,157
TOTAL ASSETS	$ 700,291,415	$ 799,080,103
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 644,659	$ 1,098,923
Security Lending Liability	1,710	-
Funds Held For Others	126,247	18,109
Accrued Interest - Bonds Payable	1,962,842	2,500,609
Bonds Payable, Net	12,240,000	61,665,000
Arbitrage Rebate Payable to U.S. Treasury Department	-	-
Accrued Compensated Absences	83,201	66,590
Total Current Liabilities	$ 15,058,659	$ 65,349,231
Noncurrent Liabilities		
Bonds Payable, Net	$ 529,561,905	$ 574,571,291
Deferred Refunding Costs	(2,327,705)	(1,701,775)
Arbitrage Rebate Payable to U.S. Treasury Department	335,556	296,385
Accrued Compensated Absences	137,581	115,109
Other Post_Employment Benefits	356,640	299,700
Total Noncurrent Liabilities	$ 528,063,977	$ 573,580,710
TOTAL LIABILITIES	$ 543,122,636	$ 638,929,941
NET POSITION		
Invested in Capital Assets, Net	$ 1,217	$ 1,844
Restricted for Bondholders:		
Unrealized (losses) gains on investments	5,611,030	7,936,190
Single Family Programs	113,784,909	112,079,782
Various Recycled Mortgage Programs	16,470,886	19,030,492
Multifamily Programs	10,900,304	10,911,318
Multifamily Project Commitments	166,084	174,656
Reverse Annuity Mortgage Program	7,483,790	7,274,658
Restricted for Affordable Revolving Loan Program	2,750,559	2,741,222
TOTAL NET POSTION	$ 157,168,779	$ 160,150,162

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	FY 2013	FY 2012
OPERATING REVENUES		
Interest Income - Mortgage Loans	$ 26,212,234	$ 31,672,728
Interest Income - Investments	1,526,936	2,381,341
Fee Income	1,063,956	483,382
Federal Financial Assistance	364,744	2,360,278
Net Increase (Decrease)		
in Fair Value of Investments	(2,325,160)	3,799,498
Other Income	141,291	609,394
Securities Lending Gross Income	3	102
Total Operating Revenues	$ 26,984,004	$ 41,306,723
OPERATING EXPENSES		
Interest on Bonds	$ 23,058,811	$ 28,949,228
Servicer Fees	2,189,745	2,142,323
Contracted Services	336,800	1,345,816
Amortization of Bond Issuance Costs	(10,467)	307,873
General and Administrative	2,583,361	2,028,316
Arbitrage Rebate Expense	271,496	210,993
Loss on Redemption	1,479,102	920,316
Securities Lending Expense	1	20
Other Post-Employment Benefits	56,939	51,494
Grants to Local Community	-	1,723,357
Total Operating Expenses	$ 29,965,788	$ 37,679,736
Operating Income (Loss)	(2,981,784)	3,626,987
Increase (Decrease) in Net Position	$ (2,981,784)	$ 3,626,987
Net Position, Beginning of Year	160,150,162	156,526,300
Prior Period Adjustment	401	(3,125)
Net Position, End of Year	$ 157,168,779	$ 160,150,162

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITY		
Receipts for Sales and Services	$ 484,231	$ 486,191
Collections on Loans and Interest on Loans	200,306,336	178,627,251
Cash payments for Loans	(94,906,865)	(65,151,299)
Federal Financial Assistance Receipts	249,213	2,352,027
Payments to Suppliers for Goods and Services	(3,272,341)	(7,081,872)
Payments to Employees	(1,473,747)	(1,105,796)
Other Operating Revenues	1,235,304	729,496
Net Cash Provided (Used) by Operating Activities	$ 102,622,131	$ 108,855,998
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payment of Principal and Interest on Bonds and Notes	$ (300,587,429)	$ (236,462,953)
Proceeds from Issuance of Bonds and Notes	181,243,261	58,588,168
Payment of Bond Issuance Costs	(1,172,645)	(240,564)
Premium Paid on Refunding Bonds	816,568	-
Transfers in (out)	(2,602,753)	
Net Cash Provided (Used) by Noncapital Financing Activities	$ (122,302,998)	$ (178,115,349)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchase of fixed assets	$ -	$ -
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	$ (883,810,974)	$ (199,107,822)
Proceeds from Sales or Maturities of Investments	829,968,621	249,844,417
Interest on Investments	(1,256,008)	2,549,760
Arbitrage Rebate Tax (Note 12)	(232,325)	(760,060)
Net Cash Provided (Used) by Investing Activities	$ (55,330,686)	$ 52,526,294
Net Increase (Decrease) in Cash and Cash Equivalents	$ (75,011,553)	$ (16,733,057)
Cash and Cash Equivalents,beginning bal.	$ 128,636,332	$ 145,369,389
Cash and Cash Equivalents, ending bal.	$ 53,624,779	$ 128,636,332

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, 2013 AND 2012

	FY 2013	FY 2012
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$ (2,981,784)	$ 3,626,987
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation	603	1,033
Amortization	56,708	173,157
Interest Expense	24,452,054	30,088,300
Interest on Investments	(3,224,196)	(5,583,693)
Arbitrage Rebate Tax	185,084	210,993
Change in Assets and Liabilities:		
Decr (Incr) in Mortgage Loans Receivable	79,031,468	81,697,954
Decr (Incr) in Other Assets	1,538,454	(507,755)
(Incr) Decr in Fair Value of Investments	3,751,620	(845,378)
Incr (Decr) in Accounts Payable	(324,521)	(76,957)
Incr (Decr) in Deferred Reservation & Disc. Fees	40,617	9,166
Incr (Decr) in Compensated Absences Payable	96,024	62,191
Net Cash Provided (Used) by Operating Activities	$ 102,622,131	$ 108,855,998

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, 2013 and 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

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

Basis of Presentation:

The financial statements of the Board are presented on a combined basis. 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” Statement No. 38, “Certain Financial Statement Note Disclosures” and Statement No. 63 “Financial reporting of Deferred Inflows of Resources, Deferred Outflows of Resources and Net Position” . In order to comply with the requirements of the statements noted, the Board’s financial statements include a classified statement of net position, a statement of revenues, expenses, and changes in net position that reports operating and non-operating revenues and expenses, and the statement of cash flows. Revenues in the proprietary funds are recognized when earned and expenses are recognized when incurred. The financial activities of the Board are recorded in funds established under various bond resolutions and the Montana Code Annotated (MCA). In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net position and revenues and expenses for the period. The Board follows GASB Statement No. 62 “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements” that incorporates certain private sector standards of accounting and financial reporting issued prior to December 1, 1989.

Reporting Entity:

In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Board of Housing as a reporting entity. The financial statements of the Board of Housing are presented as a component unit in the State of Montana’s 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 position, revenues, and expenses.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting - continued:
Net Position – Restricted for Bondholders represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following describes the restrictions on the Net Position: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. 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 Position also includes funds reserved by participants and funds committed to specific projects under various programs established by the Board and restricted by enabling legislation.

Restricted Net position - The Board implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 46 – Net Assets Restricted by Enabling Legislation. Net position 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 Position reports $157,168,779 of restricted net position, of which $157,168,779 is restricted by enabling legislation and agreements with bond holders.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Multifamily Mortgage Program Funds – continued

The mortgage loans originated under this Indenture do not require Federal Housing Administration insurance. The Multifamily Program Fund on the combining financial statements includes activity for both Indentures.

Housing Trust Fund - the Housing Trust Fund was established as a separate trust fund by a resolution of the Montana Board of Housing, adopted February 16, 1989. The Housing Trust Fund was created to finance in whole or in part future housing needs including the establishment of new programs as deemed necessary by the Board and any loans or projects that will provide housing for lower income persons and families with special housing needs. Housing Trust Fund accounts are held in the state treasury. Current programs include, but are not limited to, the Reverse Annuity Mortgage Program (RAM) for senior Montana homeowners and the Cash Assistance Program – Disabled (CAP) to assist disabled individuals and families in the purchase of a single family home. The Housing Trust Fund includes all 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 ceased participating in the ARRA program during fiscal year 2012 as ARRA funded projects were completed.
The Board also receives two grants: Foreclosure Mitigation Counseling (NeighborWorks America funded by the Congress of the United States) and Comprehensive Housing Counseling (Housing and Urban Development).

Cash and Cash Equivalents:

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

Investments:

The Board follows the provisions of 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 or have loan-to-value less than 80%. Guidelines to minimize credit risk are established by FHA, VA, RD & Board policies.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mortgage Loans Receivable - continued

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

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

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

Mortgage-Backed Securities:

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

Bonds Payable:

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

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

Estimates:

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

Capital Assets:

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

Funds Held For Others:

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

Compensated Absences:

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

NOTE 2. CASH AND CASH EQUIVALENTS

The Board's cash and cash equivalents are held by trustees or by the State of Montana Treasury as cash or short-term investments having maturities of less than 90 days. At June 30, 2013 and 2012, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

Program Funds	2013	2012
Cash Deposited with State Treasury	1,338,237	1,230,457
Cash Deposited with Trustee Banks	0	87,565
State Short-Term Investment Pool*	625,797	0
Short-Term Investments**	51,660,745	127,318,310
	$ 53,624,779	$ 128,636,332

* 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.

** 2012 Short-Term Investments include $50,057,957 of U.S. Treasury 28 day "T-Bills" held in the Single Family XI Indenture Bond Series 2009A Program Escrow Account. The Board was 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. In December, 2012, the Board converted the remaining balance in the 2009A Escrow Account to bonds.

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 2013 and 2012, 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 2013 and 2012 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 2013 and 2012. Moreover, there were no losses during fiscal years 2013 and 2012 resulting from a default of the borrowers or State Street.

During fiscal years 2013 and 2012, 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, 2013 and June 30, 2012, BOI had no credit risk exposure to borrowers.

On June 30, 2013, there were $ 1,710 of securities on loan.
On June 30, 2012, there were $ 0.00 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, 2013	Moody's Rating	Standard & Poor's Rating	Effective Duration
Investment Contracts					
Société Générale		$ 5,400,000	NR	NR	NA
	Total	$ 5,400,000			
Government Sponsored Enterprises					
FNMA* Discount Notes		$ 17,922,008	Aaa	AA+	0.42
Federal Home Loan Bank Discount Notes		58,196,646	Aaa	AA+	0.29
FNMA* Medium Term Notes		16,095,104	Aaa	AA+	9.27
FNMA* Mortgage Backed Securities		3,678,908	Aaa	AA+	14.04
Federal Farm Credit Bank Notes		1,307,761	Aaa	AA+	7.00
FHLMC** Bond		2,948,637	Aaa	AA+	10.98
FHLMC** Discount Notes		30,485,256	Aaa	AA+	0.23
	Total	$ 130,634,320			
U. S. Treasury Bonds		$ 6,867,296	Aaa	AA+	8.12
Trustee Cash & Money Market Accounts		$ 51,660,746	NR	NR	NA
State Cash & Short-term Pool Accounts		1,972,160	NR	NR	NA
	Total	$ 53,632,906			
Total All Investments		$ 196,534,522			

* Federal National Mortgage Association
** Federal Home Loan Mortgage Corporation
NR Not Rated
NA Not Applicable

NOTE 5. MORTGAGE LOANS RECEIVABLE

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

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

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

MONTANA BOARD OF HOUSING
(A Component Unit of the State of Montana)
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 5. MORTGAGE LOANS RECEIVABLE - continued

	2013	2012
Mortgage loan receivables:		
Single Family Program	$470,075,606	$547,304,051
Multifamily Program	10,191,635	10,426,168
Housing Trust Program	3,599,016	3,696,983
Housing Montana Fund	2,125,469	2,178,086
	485,991,726	563,605,288
Net mortgage discounts, premiums and deferred fees	6,457,614	7,986,471
Allowance for loan losses and real estate owned (note 6)	(300,000)	(300,000)
	$492,149,340	$571,291,759

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, 2013 and 2012 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 14 real estate owned properties as of June 30, 2013, and 23 real estate owned properties as of June 30, 2012. The properties' combined loan amounts were $1,684,761 and $2,787,858 as of June 30, 2013 and 2012 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, 2011	$ 300,000
Provision	0
Less: Net loans charged off	0
Balance, June 30, 2012	300,000
Provision	0
Less: Net loans charged off	0
Balance, June 30, 2013	$ 300,000

NOTE 7. CAPITAL ASSETS

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

	2013	2012
Capital Assets - Equipment	$ 12,170	$ 12,170
Accumulated depreciation	(10,953)	(10,326)
Net capital assets	$ 1,217	$ 1,844

Depreciation and amortization expense included in general and administrative expense was $ 627 and $ 1,075 for the years ended June 30, 2013 and 2012 respectively.

MONTANA BOARD OF HOUSING
(A Component Unit of the State of Montana)
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 8. BONDS PAYABLE, NET

The Board has no variable interest rate debt obligations and does not swap interest rates. The following bonds are fixed rate mortgage revenue or general obligation bonds. Bonds payable, net of premium or discount, consists of the following:

	Original Amount	2013	2012
Single Family I Mortgage Bonds:			
2000 Series A-1 and A-2 bonds were refunded by Single Family XI Series 2012A on September 1, 2012.	$ 87,695,000	$ 0	$ 625,000
2002 Series B-1 and B-2 bonds were refunded by Single Family XI Series 2012A on September 1, 2012.	52,190,000	0	10,815,000
2005 Series A serial and term bonds 2.80% to 5.60% maturing in scheduled semi-annual installments to December 1, 2013, December 1, 2030, December 1, 2035, and June 1, 2036.	93,785,000	27,850,000	38,485,000
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	15,940,000	22,175,000
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	23,410,000	31,740,000
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	25,030,000	32,015,000
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	42,980,000	49,240,000

NOTE 8. BONDS PAYABLE.NET – continued	Original Amount	2013	2012
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	34,240,000	46,155,000
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	14,855,000	22,075,000
2007 Series D serial and term bonds 3.75% to 5.50% maturing in scheduled semi-annual installments to December 1, 2014, December 1, 2015, December 1, 2016, December 1, 2017, December 1, 2022, December 1, 2027, June 1, 2038 and December 1, 2038.	56,600,000	22,270,000	28,940,000
Bonds outstanding Single Family I		$ 206,575,000	$ 282,265,000
Unamortized bond premium		3,032,988	4,195,407
Total bonds payable Single Family I		**$209,607,988**	**$ 286,460,407**
Single Family II Mortgage Bonds:			
1998 Series B-1 and B-2 Bonds were refunded by Single Family XI Series 2012A on September 1, 2012.	$ 65,000,000	$ 0	$ 11,770,000
2003 Series A-1 and A-2 Bonds were refunded by Single Family II Series 2013A on June 1, 2013.	52,520,000	0	30,245,000
2003 Series B-1 and B-2 Bonds were refunded by Single Family XI Series 2012A on September 1, 2012.	70,700,000	0	33,070,000
2003 Series C Bonds were refunded by Single Family II Series 2013A on June 1, 2013.	40,500,000	0	12,305,000
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	12,860,000	16,225,000
2004 Series B serial and term bonds 1.85% to 5.75% maturing in scheduled semi-annual installments to December 1, 2014, June 1, 2015, December 1, 2024, December 1, 2030 and December 1, 2035.	68,000,000	17,755,000	22,135,000

NOTE 8. BONDS PAYABLE.NET - continued	Original Amount	2013	2012
2004			
Series C Bonds were refunded by Single Family II Series 2013A on June 1, 2013.	54,600,000	0	22,225,000
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	19,560,000	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	16,585,000	26,615,000
2013			
Series A-1 & A-2 serial bonds .20% to 3.35% Maturing in scheduled semi-annual installments To December 1, 2025, Series A-1, A-2 & A-3 term bonds 3.00% to 3.75% maturing December 1, 2028, 2033, 2037, 2038 and 2043.	73,000,000	73,000,000	0
Bonds outstanding Single Family II		$ 139,760,000	$ 192,105,000
Unamortized bond premium / discount		1,535,188	1,624,003
Total bonds payable Single Family II		**$141,295,188**	**$ 193,729,003**
Single Family XI Bonds:			
2009			
Series A variable rate bonds. Bonds were issued by the U.S. Treasury as part of the Housing Finance Authority Initiative - New Issue Bond Program. The remaining bonds were converted to 2009 Series D & E, thus ending the program.	$ 150,000,000	0	50,000,000
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 as part of the Housing Finance Authority Initiative - New Issue Bond Program.	24,600,000	22,730,000	24,125,000
2009			
Series C Term Bonds, 2.47% maturing December 1, 2041, converted from 2009 Series A and issued concurrently with 2011 Series B. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	20,000,000	17,435,000	19,630,000
2009			
Series D Term Bonds, 2.79% maturing December 1, 2041, converted from 2009 Series A and issued concurrently with 2012 Series A. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	25,000,000	23,650,000	0

NOTE 8. BONDS PAYABLE.NET - continued

	Original Amount	2013	2012
2009			
Series E Term Bonds, 2.67% maturing December 1, 2041. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	25,000,000	25,000,000	0
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	14,140,000	15,735,000
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	31,265,000	37,205,000
2012			
Series A-1 and A-2 serial and term bonds, 0.375% to 4.00%, maturing in scheduled semi-annual installments to December 1, 2024 (serial bonds); December 1, 2027, 2030, 2038, and 2041 (term bonds).	56,280,000	48,860,000	0
Bonds outstanding Single Family XI		$ 183,080,000	$ 146,695,000
Unamortized bond premium / discount		1,195,296	621,076
Total bonds payable Single Family XI		**$184,275,296**	**$ 147,316,076**

Single Family General Obligation Bonds:

	Original Amount	2013	2012
2008 Series A General Obligation Private Placement Bonds	$ 497,942	$ 414,042	$ 497,942
Total Single Family Mortgage bonds payable, net		**$ 535,592,514**	**$ 628,003,425**

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

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

Board of Housing Essential Workers' Program
The Board has authorized the issuance of $1,000,000 of taxable general obligation bonds to finance second mortgage shared appreciation loans to provide assistance to Ravalli County teachers. As of June 30, 2013, $497,942 of bonds have been issued.

NOTE 8. BONDS PAYABLE.NET - continued

Multifamily Mortgage Bonds:	Original Amount	2013	2012
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	$ 315,000	$ 850,000
1999			
Series A 4.95% to 8.45% interest, term Bonds, maturing in scheduled semi annual installments to August 1, 2008, August 1, 2010, August 1, 2016, August 1, 2025, August 1, 2030, August 1, 2037, August 1, 2041 and August 1, 2039.	9,860,000	5,935,000	7,435,000
Total bonds outstanding		6,250,000	8,285,000
Unamortized bond premium		(40,609)	(52,134)
Total Multifamily Mortgage bonds payable, net		**$ 6,209,391**	**$ 8,232,866**

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	**$ 541,801,905**	**$ 636,236,291**

The following is a summary of bond principal and interest requirements as of June 30, 2013:

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
2014	$ 33,450,212	$ 644,322	$ 12,240,000	$ 21,854,534
2015	34,523,541	565,490	13,600,000	21,489,031
2016	34,503,340	549,671	13,985,000	21,068,011
2017	35,558,020	450,171	15,410,000	20,598,191
2018	35,726,354	453,744	16,135,000	20,045,098
2019-23	179,810,499	2,292,238	91,940,000	90,162,737
2024-28	182,218,568	2,321,365	115,825,000	68,714,933
2029-33	157,020,096	2,127,729	115,925,000	43,222,826
2034-38	120,647,074	2,096,361	103,764,042	18,979,394
2039-43	37,334,570	1,310,228	35,655,000	2,989,797
2044-48	1,645,325		1,600,000	45,325
Total	$ 852,437,599	$ 12,811,319	$ 536,079,042	$ 329,169,877

Cash paid for interest expenses during the years ending June 30, 2013 and 2012 was $25,149,790 and $29,981,408 respectively.

Changes in Bonds Payable

	6/30/2012 Balance	Increases	Decreases	6/30/2013 Balance
Single Family	$ 628,003,425	179,854,220	(272,265,131)	$ 535,592,514
Multi Family	8,232,866		(2,023,475)	6,209,391
Total	$ 636,236,291	179,854,220	(274,288,606)	$ 541,801,905

MONTANA BOARD OF HOUSING
(A Component Unit of the State of Montana)
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 9. LOSS ON REDEMPTION
During the years ended June 30, 2013 and 2012 the Board redeemed Single Family and Multi-Family mortgage program bonds prior to scheduled maturity as follows:

	2013	2012
Single Family I		
December 1	$ 32,735,000	$ 59,950,000
September 1	11,440,000	
June 1	27,195,000	28,300,000
	71,370,000	88,250,000
Single Family II		
December 1	11,075,000	16,810,000
September 1	44,840,000	
June 1	66,410,000	11,850,000
	122,325,000	28,660,000
Single Family XI		
December 1	28,310,000	20,325,000
June 1	12,230,000	1,550,000
	40,540,000	77,275,000
Single Family General Obligation	83,900	0
Multifamily May 1	505,000	0
May 20	1,075,000	0
June 4	185,000	0
	1,765,000	0
Total	$ 236,083,900	$ 194,185,000

All such Bonds were redeemed at par or 100% of their compounded value to date of redemption. Unamortized discounts and cost of issuance associated with the bonds redeemed were expensed at time of redemption and are reported as losses on redemption of $1,479,102 and $ 920,315 in 2013 and 2012, respectively.

NOTE 10. COMMITMENTS
Single Family Indentures - The Board is in the process of reserving and purchasing single family mortgages of approximately $11,911,950 and $1,160,000 in the Single Family II and XI Indentures, respectively.

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

West End District IX Human Resource Council	214,480
Burns Street Commons	1,740,000
Eaton Street Condos	1,000,000
Foreclosure Prevention	45,635
Disabled Affordable Accessible Homeownership	1,000,000
Lot Refinance	726,440

NOTE 10. COMMITMENTS - continued

Habitat for Humanity	1,000,000
Chippewa Cree	2,000,000
Down Payment Pool	6,111,135
Total Single Family Commitments	$13,837,690

Single Family I - Reverse Annuity Mortgage Program Future Loan Amounts$ 2,283,196
Single Family I & II – $175,000 of funding for Homebuyer Education for fiscal year 2014

Multifamily Program:
Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD) $166,084

Housing Trust Fund Program:
Reverse Annuity Mortgage Program Existing Loans $5,202,095

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

NOTE 11. EMPLOYEE BENEFIT PLANS

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

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

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

The PERS issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained online (http://mpera.mt.gov/pers) or by contacting the following:

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

Contribution rates for the plans are required and determined by State law. The contribution rates 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%

NOTE 11. EMPLOYEE BENEFIT PLANS - continued

The amounts contributed to the plans during the years ended June 30, 2011, 2012 and 2013 were equal to the required contribution each year. The amounts contributed by both the Board, as required by State law, were as follows:

Fiscal Year 2013 - $ 73,638
Fiscal Year 2012 - $ 57,963
Fiscal Year 2011 - $ 58,183

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 $709 and $987 per month depending on the medical plan selected, family coverage, and eligibility. Administratively established premiums vary between $17.50 and $60.00 per month for dental and between $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 $ 232,325 in arbitrage rebate cash payments to The United States Treasury Department in fiscal year 2013 and $ 760,061 during the fiscal year ended June 30, 2012. The related liabilities were $ 335,556 and $ 296,385 as of June 30, 2013 and 2012, respectively.

Beginning Balance July 1, 2012	$ 296,385
Additions	109,744
Reductions	(70,573)
Ending Balance June 30, 2013	$ 335,556

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 6/30/2013
Single Family Mortgage Revenue Bonds Series 2005A-1	$ 516,000	$ 7,000
Single Family Mortgage Revenue Bonds Series 2005A-2	$ 500,000	$ 136,000
Single Family Mortgage Revenue Bonds Series 2005A-3	$ 984,000	$ 589,000
Multifamily Housing Revenue Bonds Series 2006A	$ 2,104,700	$ 1,884,567
Multifamily Housing Revenue Bonds Series 2007A	$ 5,100,000	$ 4,895,526
Multifamily Housing Revenue Bonds Series 2008A	$ 2,413,600	$ 2,136,590
Multifamily Housing Revenue Bonds Series 2012 A-1	$ 857,000	$ 790,149
Multifamily Housing Revenue Bonds Series 2012 A-2	$ 4,032,000	$ 4,032,000
Multifamily Housing Revenue Bonds Series 2012 B-1	$ 857,000	$ 857,000

NOTE 14. REFUNDING AND DEFERRED BOND ISSUANCE COSTS

The Board may refund all or a portion of the Board's outstanding bonds when it is economically advantageous to do so. Refundings involve the issuance of new debt with the proceeds being used to repay previously issued debt.
Governmental Accounting Standards Board (GASB) Statement 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities, requires deferred costs 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.

NOTE 14. REFUNDING AND DEFERRED BOND ISSUANCE COSTS - continued

FY 2013 Refunding:
On August 2, 2012, the Board issued Single Family Homeownership Bonds, 2012 Series A, in the amount of $56,280,000. All proceeds were used as replacement refunding of the following series:
1998 Series B, 2000 Series A, 2002 Series B, and 2003 Series B.

On May 30, 2013, the Board issued Single Family Program Bonds, 2013 Series A, in the amount of $73,000,000. Proceeds were used as replacement refunding of the following series:
2003 Series A, 2003 Series C, and 2004 Series C.

Cost of Issuance related to the refunded bonds	$1,008,097
Premium paid on the refunded bonds	54,352
Total deferred refunding costs	1,062,449
Less amortization FY 2013	(41,661)
Amount remaining to be amortized on the refunded issues	$1,020,788
Prior years' Refundings:	
Unamortized Deferred refunding costs from prior years' refunding	$1,306,917
Total unamortized	$2,327,705

The refunding of the seven series resulted in an economic gain of $10,512,551 and a difference in cash flows of $40,327,574.

FY 2012 Refunding:

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.

Cost of Issuance related to the refunded bonds	$519,743
Premium paid on the refunded bonds	0
Total deferred refunding costs	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 $6,274,029 and a difference in cash flows of $3,328,826.

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

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

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.

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 $299 and $1,061 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between $17.50 and $60.00; vision premiums vary between $7.64 and $22.26; both premiums vary depending on the coverage selected. Basic life insurance in the amount of $14,000 is provided until age 65 at a cost of $1.90 per month to the retiree.
The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Dental claims are reimbursed up to $600 for diagnostic/preventative and $1,200 for repair/reconstructive services annually. 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.

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

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

The 2013 ARC is calculated for all the plan's participants and then individually allocated to individual participants. The Board's 2013 ARC is estimated at $44,202 and is based on the plan's current ARC rate of 4.33 % percent of participants' annual covered payroll. The Board's 2013 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 percent for medical and 8 percent for prescription claims are used for the 2013 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 2013, the Board's allocated annual OPEB cost (expense) of $56,939 was equal to the ARC plus $12,737 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 2013 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/11	$80,533	0%	$245,083
6/30/12	$44,202	0%	$299,700
6/30/13	$44,202	0%	$356,640

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

Funded Status and Funding Progress:
The funded status of the Board's allocation of the plan as of June 30, 2013, 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)	$1,021,763
UAAL as a percentage of covered payroll	44.2 %

NOTE 16. SUBSEQUENT EVENTS

On September 26, 2013, the Board of Housing issued $59,980,000 of Single Family Program Bonds Series 2013 B (1979 Single Family II Indenture). The bonds will mature on June 1, 2014, through December 1, 2044, with interest rates from 0.45% to 5.30%. Bond proceeds of $35,000,000 were used to purchase single family mortgage loans for the Board's Homeownership Program. Bond proceeds of $24,980,000 were used to refund existing bond issues.

On July 1, 2013, MBOH Servicing began servicing approximately 2600 loans acquired from a former mortgage loan servicer for the Board. As of the end of July, MBOH serviced approximately 3,000 loans or 48% of the Board's mortgage loan portfolios.

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, 2013, 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 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, 2013.

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 POSITION
AS OF JUNE 30, 2013 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2012)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	Combined Totals FY 2013	Combined Totals FY 2012
ASSETS										
Current Assets										
Cash and Cash Equivalents	$ 9,737,579	$ 37,044,305	$ 3,391,061	$ 50,172,945	$ 1,759,626	$ 583,142	$ 632,773	$ 476,293	$ 53,624,779	$ 128,636,332
Investments	52,678,548	46,303,119	7,622,043	106,603,710	5,399,688	-	8,127		112,011,525	53,945,475
Mortgage Loans Receivable	4,319,575	2,700,246	4,325,034	11,344,855	219,575	-	-	5,837	11,570,267	13,580,252
Interest Receivable	1,521,751	812,496	971,050	3,305,297	45,401	152,936	987,651	149,178	4,640,463	4,919,192
Due from Other Governments				-					-	112,769
Security Lending Collateral		-		-			1,710	-	1,710	0
Prepaid Expense	78,678	92,849		171,527	4,301	11,555	11,840	-	199,223	206,926
Total Current Assets	$ 68,336,131	$ 86,953,015	$ 16,309,188	$ 171,598,334	$ 7,428,591	$ 747,633	$ 1,642,101	$ 631,308	$ 182,047,967	$ 201,400,946
Noncurrent Assets										
Investments	$ 8,533,821	$ 6,867,296	$ 11,817,680	$ 27,218,797	$ -	$ -	$ -	$ -	$ 27,218,797	$ 30,001,116
Mortgage Loans Receivable	190,884,956	109,736,326	164,267,084	464,888,366	9,972,060	-	3,599,016	2,119,632	480,579,074	556,914,449
Mortgage Backed Securities	448,665	3,230,243	-	3,678,908	-	-	-	-	3,678,908	5,106,741
Deferred Issuance and Servicing Costs	1,600,298	3,589,860	1,510,875	6,701,033	64,419	-	-	-	6,765,452	5,655,007
Capital Assets, Net	(307)	1,191	-	884	167	-	166	-	1,217	1,844
Total Noncurrent Assets	$ 201,467,433	$ 123,424,916	$ 177,595,639	$ 502,487,988	$ 10,036,646	$ -	$ 3,599,182	$ 2,119,632	$ 518,243,448	$ 597,679,157
TOTAL ASSETS	$ 269,803,564	$ 210,377,931	$ 193,904,827	$ 674,086,322	$ 17,465,237	$ 747,633	$ 5,241,283	$ 2,750,940	$ 700,291,415	$ 799,080,103
LIABILITIES										
Current Liabilities										
Accounts Payable	$ 159,426	$ 211,727	$ 126,545	$ 497,698	$ 8,724	$ 122,241	$ 15,615	$ 381	$ 644,659	$ 1,098,923
Security Lending Liability	-	-	-		-		1,710	-	1,710	0
Funds Held For Others	-	-			-	126,247	-	-	126,247	18,109
Accrued Interest - Bonds Payable	855,245	451,922	493,805	1,800,972	161,870	-	-	-	1,962,842	2,500,609
Bonds Payable, Net	3,675,000	2,975,000	5,330,000	11,980,000	260,000	-	-	-	12,240,000	61,665,000
Arbitrage Rebate Payable to U.S.										
Treasury Department	-	-	-		-	-	-	-	0	0
Accrued Compensated Absences	28,661	28,661	-	57,322	6,712	10,470	8,697	-	83,201	66,590
Total Current Liabilities	$ 4,718,332	$ 3,667,310	$ 5,950,350	$ 14,335,992	$ 437,306	$ 258,958	$ 26,022	$ 381	$ 15,058,659	$ 65,349,231
Noncurrent Liabilities										
Bonds Payable, Net	$ 205,932,988	$ 138,734,230	$ 178,945,296	$ 523,612,514	$ 5,949,391	$ -	$ -	$ -	$ 529,561,905	$ 574,571,291
Deferred Refunding Costs	(606,905)	(751,069)	(969,731)	(2,327,705)			-	-	(2,327,705)	(1,701,775)
Arbitrage Rebate Payable to U.S.										
Treasury Department	249,144		86412	335,556			-	-	335,556	296,385
Accrued Compensated Absences	51,728	51,728		103,456	12,131	9,140	12,854	-	137,581	115,109
OPEB Liability	178,320	178,320		356,640			-	-	356,640	299,700
Total Noncurrent Liabilities	$ 205,805,275	$ 138,213,209	$ 178,061,977	$ 522,080,461	$ 5,961,522	$ 9,140	$ 12,854	$ -	$ 528,063,977	$ 573,580,710
TOTAL LIABILITIES	$ 210,523,607	$ 141,880,519	$ 184,012,327	$ 536,416,453	$ 6,398,828	$ 268,098	$ 38,876	$ 381	$ 543,122,636	$ 638,929,941
NET POSITION										
Invested in Capital Assets, Net	$ (307)	$ 1,191	$ -	$ 884	$ 167	$ -	$ 166	$ -	$ 1,217	$ 1,844
Restricted for Bondholders:										
Unrealized (losses) gains on investments	1,319,763	2,126,281	2,164,986	5,611,030	-	-	-	-	5,611,030	7,936,190
Single Family Programs	46,389,265	59,188,595	7,727,514	113,305,374	-	479,535	-	-	113,784,909	112,079,782
Various Recycled Mortgage Programs	9,289,541	7,181,345	-	16,470,886	-	-	-	-	16,470,886	19,030,492
Multifamily Programs		-	-	-	10,900,158		146	-	10,900,304	10,911,319
Multifamily Project Commitments	-	-	-	-	166,084			-	166,084	174,656
Reverse Annuity Mortgage Program	2,281,695			2,281,695	-	-	5,202,095	-	7,483,790	7,274,658
Restricted - Affordable Revolving Loan Pgm	-	-	-	-	-		-	2,750,559	2,750,559	2,741,221
TOTAL NET POSITION	$ 59,279,957	$ 68,497,412	$ 9,892,500	$ 137,669,869	$ 11,066,409	$ 479,535	$ 5,202,407	$ 2,750,559	$ 157,168,779	$ 160,150,162

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL ASSISTANCE	Combined Totals FY 2013	FY 2012
OPERATING REVENUES											
Interest Income - Mortgage Loans	$ 11,280,343	$ 6,447,955	$ 7,681,392	$ 25,409,690	$ 559,562	$ -	$ 210,190	$ 32,792	$ -	$ 26,212,234	$ 31,672,728
Interest Income - Investments	493,090	523,767	525,489	1,542,346	7,628	107	(201)	(22,944)	-	1,526,936	2,381,341
Fee Income *	15,629	52,596	13,544	81,769	26,056	1,103,853	357,830	1,600	-	1,571,108	565,133
Federal Financial Assistance	1,288	10,897	-	12,185	186,964		-	-	165,595	364,744	2,360,278
Net Increase (Decrease)				-							
in Fair Value of Investments	(826,036)	(2,212,354)	713,230	(2,325,160)	-		-	-	-	(2,325,160)	3,799,498
Other Income	-	141,291	-	141,291	-		-			141,291	627,914
Securities Lending Gross Income	-	-	-	-			3	-	-	3	102
Total Operating Revenues	$ 10,964,314	$ 4,964,152	$ 8,933,655	$ 24,862,121	$ 780,210	1,103,960	$ 567,822	$ 11,448	$ 165,595	$ 27,491,156	$ 41,406,994
OPERATING EXPENSES											
Interest on Bonds	$ 11,308,222	$ 5,802,221	$ 5,448,174	$ 22,558,617	$ 500,194	$ -	$ -	$ -	$ -	$ 23,058,811	$ 28,949,228
Servicer Fees	790,152	788,026	582,364	2,160,542	11,313	511,195	-	2,111	-	2,685,161	2,224,074
Contracted Services	(177,707)	271,907	(65,802)	28,398	25,635	6,689	122,219	-	153,859	336,800	1,345,816
Amortization of Bond Issuance Costs	(320,998)	48,246	245,769	(26,983)	16,516		-	-	-	(10,467)	307,873
General and Administrative	869,758	825,751	11,308	1,706,817	204,044	406,463	266,037	-	11,736	2,595,097	2,046,836
Arbitrage Rebate Expense	188,489	(3,405)	86,412	271,496	-		-	-	-	271,496	210,993
Loss on Redemption	984,439	260,636	221,451	1,466,526	12,576		-	-	-	1,479,102	920,316
Securities Lending Expense	-	-	-	-	-		1	-	-	1	20
Other Post-Emploment Benefits	28,469	28,470	-	56,939	-		-	-	-	56,939	51,494
Grants to Local Community									-	-	1,723,357
Total Operating Expenses	$ 13,670,824	$ 8,021,852	$ 6,529,676	$ 28,222,352	$ 770,278	$ 924,347	$ 388,257	$ 2,111	$ 165,595	$ 30,472,940	$ 37,780,007
Operating Income (Loss) Before Transfers	(2,706,510)	(3,057,700)	2,403,979	(3,360,231)	9,932	179,613	179,565	9,337	-	(2,981,784)	3,626,987
Transfers In(Out)	(363,055)	(2,707,984)	2,771,117	(299,922)	-	299,922	-	-	-	-	-
Increase (Decrease) in Net Postion	(3,069,565)	(5,765,684)	5,175,096	(3,660,153)	9,932	479,535	179,565	9,337	-	(2,981,784)	3,626,987
Net Position, Beginning 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
Prior Period Adjustment	-	401		401	-		-	-	-	401	(3,125)
Net Position, End of Year	$ 59,279,957	$ 68,497,412	$ 9,892,500	$ 137,669,869	$ 11,066,409	$ 479,535	$ 5,202,407	$ 2,750,559	$ -	$ 157,168,779	$ 160,150,162

* Interfund Revenue and Expenditures are eliminated for mortgage loan servicing fees paid to Mortgage Loan Servicing by Single Family Indentures.
Statement of Revenues, Expenses and Changes in Net Position therefore does not include servicing fee revenue and expense for loans owned and serviced by the Board.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL PROGRAMS	Combined Totals 2013	2012
CASH FLOWS FROM OPERATING ACTIVITY											
Receipts for Sales and Services	$ 16,917	$ 63,910	$ 13,544	$ 94,371	$ 30,430	$ -	$ 357,830	$ 1,600	$ -	$ 484,231	$ 486,191
Collections on Loans and Interest on Loans	85,921,748	84,581,606	28,340,369	198,843,723	796,267	355,538	264,090	46,718	-	200,306,336	178,627,251
Cash payments for Loans	(2,670,271)	(6,787,199)	(85,449,395)	(94,906,865)	-	-	-	-	-	(94,906,865)	(65,151,299)
Federal Financial Assistance Receipts		9,424	-	9,424	186,964		-	-	52,825	249,214	2,352,027
Payments to Suppliers for Goods and Services	(1,405,668)	(1,180,914)	(497,957)	(3,084,539)	(108,988)	198,228	(222,238)	(1,979)	(52,825)	(3,272,342)	(7,081,872)
Payments to Employees	(516,534)	(424,416)	-	(940,950)	(109,451)	(245,237)	(178,109)	-	-	(1,473,747)	(1,105,796)
Other Operating Revenues		131,451	-	131,451	-	1,103,853	-	-	-	1,235,304	729,496
Net Cash Provided (Used) by Operating Activities	$ 81,346,192	$ 76,393,862	$ (57,593,439)	$ 100,146,615	$ 795,222	$ 1,412,382	$ 221,573	$ 46,339	$ -	$ 102,622,131	$ 108,855,998
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:											
Principal & Interest Payment: Bonds and Notes	$ (88,483,941)	$ (133,597,197)	$ (75,931,598)	$ (298,012,736)	$ (2,574,693)	$ -	$ -	$ -	$ -	$ (300,587,429)	$ (236,462,953)
Proceeds from Issuance of Bonds and Notes		74,146,693	107,096,568	181,243,261	-	-	-	-	-	181,243,261	58,588,168
Payment of Bond Issuance Costs	145,235	(315,999)	(1,001,881)	(1,172,645)	-		-	-	-	(1,172,645)	(240,564)
Premium Paid on Refunding Bonds		816,568	-	816,568	-		-	-	-	816,568	-
Due From (To) Other Funds*	15,062,401		(15,062,401)	-	-		-	-	-	-	(1,060,523)
Transfers in (out)	(363,055)	(3,757,019)	2,771,118	(1,348,956)	-	(1,253,797)	-		-	(2,602,753)	1,060,523
Net Cash Provided (Used) by Noncapital Financing Activitie	$ (73,639,360)	$ (62,706,954)	$ 17,871,806	$ (118,474,508)	$ (2,574,693)	$ (1,253,797)	$ -	$ -	$ -	$ (122,302,998)	$ (178,115,349)
CASH FLOWS FROM CAPITAL ACTIVITIES											
Purchase of fixed assets	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
CASH FLOWS FROM INVESTING ACTIVITIES:											
Purchase of Investments	$ (251,199,046)	$ (300,925,825)	$ (326,278,288)	$ (878,403,159)	$ (5,399,688)	$ -	$ (8,127)	-	-	$ (883,810,974)	$ (199,107,822)
Proceeds from Sales or Maturities of Investments	218,901,433	297,282,316	313,784,872	829,968,621	-	-	-	-	-	829,968,621	249,844,416
Interest on Investments	(167,848)	(1,517,715)	425,145	(1,260,418)	3,488	107	815	-	-	(1,256,008)	2,549,760
Arbitrage Rebate Tax	(165,156)	(67,169)	-	(232,325)	-		-	-	-	(232,325)	(760,060)
Net Cash Provided (Used) by Investing Activities	$ (32,630,617)	$ (5,228,393)	$ (12,068,271)	$ (49,927,281)	$ (5,396,200)	$ 107	$ (7,312)	$ -	$ -	$ (55,330,686)	$ 52,526,294
Net Increase (Decrease) in Cash and Cash Equivalents	$ (24,923,785)	$ 8,458,515	$ (51,789,904)	$ (68,255,174)	$ (7,175,671)	$ 158,692	$ 214,261	$ 46,339	$ -	$ (75,011,553)	$ (16,733,057)
Cash and Cash Equivalents,beginning bal.	$ 34,661,364	$ 28,585,790	$ 55,180,965	$ 118,428,119	$ 8,935,296	$ 424,452	$ 418,511	429,954	-	$ 128,636,332	$ 145,369,389
Cash and Cash Equivalents, ending bal.	$ 9,737,579	$ 37,044,305	$ 3,391,061	$ 50,172,945	$ 1,759,625	$ 583,144	$ 632,772	$ 476,293	$ -	$ 53,624,779	$ 128,636,333

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2012)

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTI FAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL PROGRAMS	Combined Totals (Memorandum Only) FY 2013	Combined Totals (Memorandum Only) FY 2012
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES											
Operating Income	$ (2,706,510)	$ (3,057,699)	$ 2,403,978	$ (3,360,231)	$ 9,932	$ 179,613	$ 179,564	$ 9,338	$ -	$ (2,981,784)	$ 3,626,987
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:											
Depreciation	$ 178	$ 400		$ 578	$ 25	$ -	$ -	$ -	$ -	603	$ 1,033
Amortization	(449,494)	290,903	215,446	56,855	(147)	-	-	-	-	56,708	173,157
Interest Expense	12,470,641	5,802,221	5,690,523	23,963,385	488,669	-	-	-	-	24,452,054	30,088,300
Interest on Investments	(673,366)	(604,278)	(1,942,522)	(3,220,166)	(3,108)	(107)	(815)	-	-	(3,224,196)	(5,583,693)
Arbitrage Rebate Tax	188,489	(3,405)		185,084	-		-	-	-	185,084	210,993
Change in Assets and Liabilities:											
Decr (Incr) Mortgage Loans Receivable	71,614,901	71,105,001	(64,412,721)	78,307,181	236,704	352,746	97,968	36,869	-	79,031,468	81,697,954
Decr (Incr) Other Assets	405,107	801,522	(374,613)	832,016	(298)	635,362	(41,395)	-	112,769	1,538,454	(507,755)
(Incr) Decr Fair Value of Investments	826,036	2,212,354	713,230	3,751,620		0		0	-	3,751,620	(845,378)
Incr (Decr) Accounts Payable	(363,725)	(187,091)	113,240	(437,576)	3,985	226,934	(5,227)	132	(112,769)	(324,521)	(76,957)
Incr (Decr) Deferred Reservation & Disc. Fees	0	0	0	0	40,617		-	-		40,617	9,166
Incr (Decr) Compensated Absences Payable	33,935	33,934	0	67,869	18,843	17,834	(8,522)	-	-	96,024	62,191
Net Cash Provided by (Used for) Operating Activities	$ 81,346,192	$ 76,393,862	$ (57,593,439)	$ 100,146,615	$ 795,222	$ 1,412,382	$ 221,573	$ 46,339	$ -	$ 102,622,131	$ 108,855,998

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

October 23, 2013

RECEIVED
OCT 24 2013
LEGISLATIVE AUDIT DIV.

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 of the Montana Board of Housing for the fiscal year ended June 30, 2013. We appreciate the professionalism and courtesy with which the audit was conducted. Our response to the audit recommendation follows:

Recommendation #1

We recommend the board follow the established review procedures over the Statement of Cash Flows.

Response

The board concurs. Board management considers financial statement internal review a priority and will ensure the necessary staff and resources are available to complete the established review procedures.

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

Sincerely,

Bruce Brensdal
Executive Director
Montana Board of Housing