A Report
to the
Montana
Legislature

Financial-Compliance Audit

Montana Board of Housing

For the Fiscal Year Ended June 30, 2015

January 2016

Legislative Audit Division

15-07A

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.

The Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. 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, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

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

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

Audit Staff

John Fine
Nolan Preeshl
Karen E. Simpson
Aaron Funk
Jill Sharp

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

January 2016

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, 2015. We performed this audit of the board in accordance with §90-6-124, MCA. During the audit, we reviewed financial records related to the board's mortgage loans, investments, and bonds. We also tested compliance with selected state laws. The report contains one recommendation related to internal controls over financial reporting.

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 C-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	2019
	Sheila Rice, Secretary	Great Falls	2019
	Ingrid Firemoon	Wolf Point	2017
	Bob Gauthier	Ronan	2019
	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

Ginger Pfankuch, CPA, Accounting and Finance Manager

Mary Bair, Multifamily Program Manager

Stacy Collette, Operations Manager

Vicki Bauer, Single Family Program Manager

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

Bruce Brensdal, Executive Director
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, 2015

January 2016 15-07A Report Summary

The Montana Board of Housing continued to expand its in-house loan servicing function in fiscal year 2015, servicing approximately 4,200 loans with total outstanding balances of approximately $335 million as of June 30, 2015.

Context

The Montana Board of Housing (board) is self-supporting, and receives no general fund appropriations. A majority of the board's operations and programs are financed by proceeds from selling tax-exempt bonds in the private sector. The board is allocated to the Department of Commerce for administrative purposes.

The powers of the board 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 issuances, and approves development financing. The board also evaluates the Single Family, Recycled Single Family, and Multifamily loan programs, as well as the Low Income Tax Credit and Reverse Annuity Mortgage programs.

The board issues tax-exempt bonds to provide funds to purchase home mortgages, makes loans for rental housing projects, administers federal housing tax credit programs, and works in partnership with other housing providers throughout the state. The board's mortgage loans are primarily for first-time home buyers.

The board issued one bond, for $20 million, in fiscal year 2015. During the fiscal year, the board also continued to expand its in-house loan servicing function, which first began in fiscal year 2013. As of June 30, 2015, the board was servicing approximately 4,200 loans, compared to approximately 3,400 at June 30, 2014. The total outstanding principle balance on the loans serviced in-house was approximately $335 million as of June 30, 2015.

Results

Our audit effort focused primarily on the board's activity related to bonds, mortgage loans, and investments. Throughout the audit, we also reviewed and tested select control systems and determined compliance with selected state laws and regulations.

This report contains one recommendation to the board related to internal controls over financial reporting. The board did not have adequate internal controls in place to ensure accurate and complete financial reporting for fiscal year 2015.

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

Chapter I – Introduction

Audit Scope

We performed a financial-compliance audit of the Montana Board of Housing (board) for the fiscal year ended June 30, 2015. The objectives of our audit were to:

1. 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.
2. Determine whether the board's financial statements present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles, for the fiscal year ended June 30, 2015.
3. Determine whether the board complied with selected state laws and regulations.

We addressed these objectives by focusing our audit effort on activity related to bonds, investments, and mortgage loans. Throughout the audit we also reviewed and tested select control systems and determined compliance with selected state laws and regulations.

Background

The board is allocated to the Department of Commerce for administrative purposes. The board provides access to a 30-year, fixed rate mortgage, offers rental assistance to those who need it, and assists the public in locating affordable housing. The board issues tax-exempt bonds to provide funds to purchase home mortgages, makes loans for rental housing projects, administers federal housing tax credit programs, and works 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 is designed to assist Montana residents who are National Guard members, reservists, or federally qualified veterans to purchase their first home.

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

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

The board portfolio of loans has a low rate of default and potential foreclosure. The following table compares the delinquency and foreclosure rates of board loans to the averages of all mortgage loans in Montana, in the Mountain Region, and in the nation as a whole. Since June 30, 2014, the board's delinquency rates have increased in all areas, as a result of a decrease in the number of total loans in the board's portfolio from June 30, 2014, to June 30, 2015. The board's foreclosures have decreased, as a result of board staff working more closely with borrowers through the expansion of in-house servicing during fiscal year 2015.

Table 1
Delinquency and Foreclosure Rates

	30 days delinquent	60 days delinquent	90 days delinquent	Foreclosure in process
Montana Board of Housing *	2.16%	1.21%	1.78%	0.71%
Montana Mortgage Loans **	1.36%	0.45%	0.93%	0.77%
Mountain Region **	1.78%	0.61%	1.37%	1.26%
United States **	2.29%	0.83%	2.02%	2.22%

Source: Montana Board of Housing.

* As of June 2015 ** As of March 2015

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

Prior Audit Recommendations

The audit report for the fiscal year ended June 30, 2014, contained no audit recommendations.

Chapter II – Findings and Recommendations

Inadequate Internal Controls Over Financial Reporting

The Board of Housing did not have adequate internal controls in place to ensure accurate and complete financial reporting.

The Montana Board of Housing (board) is required to prepare financial statements in accordance with provisions established in generally accepted accounting principles (GAAP). Under GAAP, the financial statements include note disclosures related to items in the financial statements.

In performing work over the board's financial statements for the fiscal year ended June 30, 2015, we determined the board's internal controls were not adequate to ensure accurate and complete financial reporting in accordance with GAAP. We identified the misstatements outlined below that required adjustments to the financial statements:

- **Misclassification of Assets on the Statement of Net Position:** Investments and mortgage loan receivables were misclassified between current and noncurrent assets by approximately $65 million and $285 thousand, respectively.
- **Overstatements of Cash Flows on the Statement of Cash Flows:** Cash inflows related to mortgage loan activities and cash outflows related to bond activities were overstated by approximately $41 million and $111 million, respectively.
- **Incomplete Note Disclosures:** Certain investment and bond-related balances were inappropriately excluded from the note disclosures. Investments with balances totaling approximately $19 million were not included in the table in Note 4 detailing the board's investments and their applicable ratings and effective durations. Additionally, bond principal and interest requirements for fiscal year 2016 were not included in the table in Note 8 detailing the board's bond principal and interest requirements as of June 30, 2015. The missing amounts ranged from approximately $550 thousand to approximately $30.5 million.

These errors were made in the financial statement preparation process, and were the result of inaccurate or incomplete analysis of the underlying accounting and related records. The board's procedures for preparing and reviewing the financial statements and note disclosures did not identify the errors outlined above. We communicated these errors to the board, and the board made the necessary financial statement and note disclosure adjustments to fully disclose its activity in accordance with GAAP.

State accounting policy requires management establish and maintain internal controls to ensure their programs operate in conformity with applicable laws and regulations, and that the related financial transactions are accurate and properly recorded in accordance with GAAP. Based on the nature and size of the errors identified, we consider there to be a material weakness in the board's internal controls over financial reporting. While the board adjusted its financial presentation for the errors and omissions identified, the board's internal control procedures should be enhanced to allow management to prevent, or detect and correct, such errors, ensuring accurate and complete financial reporting.

Recommendation #1

We recommend the Montana Board of Housing enhance internal control procedures to ensure accurate and complete financial reporting, in accordance with generally accepted accounting principles.

Independent Auditor's Report and Board Financial Statements

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction
We have audited the accompanying Statement of Net Position of the Montana Board of Housing (board), a component unit of the state of Montana, as of June 30, 2015, the related Statement of Revenues, Expenses and Changes in Fund Net Position and the Statement of Cash Flows for the fiscal year then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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

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

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, 2015, and the changes in net position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page A-7, the Schedule of Funding Progress on page A-38, and the Pension Schedule of Net Pension Liability and Schedule of Contributions on page A-38 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-39 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2015, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 24, 2015

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, 2015

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, 2015. Please read this section in conjunction with the financial statements and accompanying notes.

Summary

- 274 single-family mortgages were purchased for $33.6 million.
- 132 Mortgage Credit Certificates were issued on a total loan amount of $25 million.
- $2.7 million of Low Income Housing Tax Credits were allocated providing approximately $24.3 million of equity to produce or preserve 323 units of affordable rental housing.
- 4 Reverse Annuity Mortgage (RAM) Loans were originated in the amount of $388 thousand. Since its inception the RAM program has assisted 207 elderly households.
- The Board issued $20 million of new debt.
- Bond debt retired was $66 million from prepayments and regular debt service.
- Bond debt payable decreased from $523 million to $476 million in the Single Family Program.
- Net Position remained relatively constant during the 2015 fiscal year despite the changes due to implementation of Governmental Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* that require recording and recognition of Net Pension Liability, Pension Expense, Deferred Inflows and Outflows of resources associated with Pension.

Fiscal Year 2015 Update

Homeownership Program:

For the last seven months of FY 2015, market rates for first mortgage loans dropped to sub – 4%. Due to this drop in rates, some of the loans purchased by the MBOH in FY 2014 and prior that were at the higher mortgage loan rates, were paid off or refinanced causing a decline in mortgage receivable in FY 2015. The MBOH rate is now holding at 3.25% and we are seeing lower payoffs and refinancing and increases in new loan purchases.

MBOH is continuing its loan servicing service and adding loans to the servicing portfolio. During FY 2015 the Board serviced more than half of the mortgage loans it owns.

Finance:

MBOH's investment income is continuing to have slow growth due to enduring low investment rates. The unusually low mortgage rates are affecting the number of loans owned by MBOH's as borrowers refinance out of existing MBOH loans. MBOH, however, has continued to make strides in closing the gap between the number of loans refinanced and new loans purchased. The combined effects of these conditions have limited MBOH participation in the Montana mortgage market and affected financial operations.

Despite a decrease in revenue in FY 2015, a greater decrease in bond issuance cost from the prior fiscal year produced better operating income for FY 2015. The fiscal year ended with an operating income of $1.5 million (see Condensed Financial Information on the following page).

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

Even though financial circumstances continue to be less than favorable, they have not prevented MBOH and its programs from continuing to operate and help Montanans achieve affordable homeownership.

Overview of the Financial Statements

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

The Board's FY 2015 financial statements have changed. The Board implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* which was required to be implemented and retroactively applied during FY 2015. Whereas the Board formerly did not report the proportionate share of the net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions, these are now being reported. This change in reporting will improve information provided in regard to support for pensions. The implementation of GASB Statement No. 68 created a $1.2 million pension liability.

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, 2015 and 2014

	2015		2014
Assets:			
Current Assets	$ 160,521,658	(A)	$ 162,650,644
Noncurrent Assets	484,377,062	(B)	525,383,230
Total Assets	644,898,720		688,033,874
Deferred Outflow of Resources:	720,392	(C)	703,810
Liabilities:			
Current Liabilities	21,463,875	(D)	19,825,704
Noncurrent Liabilities	472,107,998	(E)	517,163,275
Total Liabilities	493,571,873		536,988,979
Deferred Inflows of Resources:	310,964	(C)	-
Net Position:			
Invested in Capital Assets	4,504		5,519
Restricted	151,731,771		151,743,186
Total Net Position	151,736,275	(K)	151,748,705
Operating Revenue:			
Interest on Loans	22,257,970	(F)	23,916,332
Federal Financial Assistance	623,358		790,581
Earnings from Investments	1,870,471	(G)	1,734,923
Fees and Charges	1,291,940		1,227,635
Total Operating Revenue	26,043,739		27,669,471
Operating Expenses:			
Bond Expenses	19,092,704	(H)	21,676,043
Servicing Fees	1,253,067	(I)	1,323,959
General and Administrative	4,230,768	(J)	4,212,983
Total Expenses	24,576,539		27,212,985
Operating Income	1,467,200		456,486
Nonoperating revenue			
Pensions - nonemployer contributions	32,527		-
Total Nonoperating Income	32,527		-
Increase (Decrease) in Net Position	1,499,727		456,486
Net Position, Beginning of Year	151,748,705		157,168,779
Prior Period Adjustment - Pensions	(1,453,709)		0
Prior Period Adjustment	(58,448)		(5,876,560)
Net Position, End of Year	$ 151,736,275	(K)	$ 151,748,705

Discussion of Changes

(A) Current assets decreased by 1.3% due to a reduction of cash and cash equivalents of approximately $9 million. This was mitigated by an increase in both investments and current mortgages receivable.

(B) Noncurrent assets decreased by 8.5% due to a decline in the non-current mortgages receivable of approximately $40 million.

(C) Deferred outflows of resources increased due to the implementation of GASB 68, Accounting and Financial Reporting for Pensions. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions.

(D) Current liabilities increased 7.6% due to the additional funds held in trust for others related to the increase in MBOH loans that are serviced in-house.

(E) Noncurrent liabilities decreased by approximately $45 million. Bonds payable decreased by over $46 million. GASB 68 was implemented during fiscal year 2015 and a $1.2 million pension liability was recognized.

(F) Interest income on loans decreased $1.6 million as MBOH mortgage loans with higher interest rates continued to be paid off or refinanced by homeowners and new MBOH mortgage loans were originated with lower interest rates.

(G) Investment earnings increased slightly as the Investment Market continues to level out.

(H) Bond expenses decreased $2.5 million due to less bond interest paid as bonds were redeemed with moneys received from MBOH mortgage loans paid off or refinanced by homeowners or refunded and replaced with bonds with lower interest rates.

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

(J) General and Administrative costs remained fairly constant during fiscal year 2015.

(K) Net Position for fiscal year 2015 declined only slightly from fiscal year 2014 due partly to the implementation of GASB statement 68 which requires, in part, recognition of pension liabililities.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET POSITION
AS OF JUNE 30, 2015

ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 64,127,199
Investments	76,648,612
Mortgage Loans Receivable	14,905,375
Interest Receivable	4,612,670
Due from Other Governments	9,752
Prepaid Expense	218,050
Total Current Assets	160,521,658
Noncurrent Assets	
Investments	27,496,004
Mortgage Loans Receivable	452,699,061
Mortgage Backed Securities	1,892,358
Acquisition Costs	2,285,135
Capital Assets, Net	4,504
Total Noncurrent Assets	484,377,062
TOTAL ASSETS	644,898,720
DEFERRED OUTFLOW OF RESOURCES	
Deferred Refunding Costs	608,285
Deferred Pension Outflow	112,107
TOTAL DEFERRED OUTFLOWS	720,392
LIABILITIES	
Current Liabilities	
Accounts Payable	2,109,597
Funds Held For Others	4,423,379
Accrued Interest - Bonds Payable	1,618,969
Bonds Payable, Net	13,215,000
Accrued Compensated Absences	96,930
Total Current Liabilities	21,463,875
Noncurrent Liabilities	
Bonds Payable, Net	469,507,791
Arbitrage Rebate Payable to U.S. Treasury Department	904,024
Accrued Compensated Absences	131,352
Net Pension Liability	1,203,496
Other Postemployment Benefits	361,335
Total Noncurrent Liabilities	472,107,998
TOTAL LIABILITIES	493,571,873
DEFERRED INFLOW OF RESOURCES	
Deferred Pension Inflow	310,964
TOTAL DEFERRED INFLOWS	310,964
NET POSITION	
Net Investment in Capital Assets	4,504
Restricted for Bondholders:	
Unrealized (losses) gains on investments	5,985,281
Single Family Programs	113,648,044
Various Recycled Mortgage Programs	10,136,428
Multifamily Programs	11,216,881
Multifamily Project Commitments	67,245
Reverse Annuity Mortgage Program	7,859,977
Restricted for Affordable Revolving Loan Program	2,817,915
TOTAL NET POSITION	$ 151,736,275

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	FY 2015
OPERATING REVENUES	
Interest Income - Mortgage Loans	$ 22,257,970
Interest Income - Investments	1,724,966
Fee Income	1,186,381
Federal Financial Assistance	623,358
Net Increase (Decrease) in Fair Value of Investments	145,505
Other Income	105,561
Securities Lending Gross Income	(2)
Total Operating Revenues	26,043,739
OPERATING EXPENSES	
Interest on Bonds	18,404,947
Servicer Fees	1,253,067
Contracted Services	957,455
Amortization of Refunding Costs	95,524
Bond Issuance Costs	238,896
General and Administrative	3,236,238
Arbitrage Rebate Expense	353,337
Other Post-Employment Benefits	37,075
Total Operating Expenses	24,576,539
Operating Income	1,467,200
Nonoperating Revenues	
Pensions - nonemployer contributions	32,527
Nonoperating income	32,527
Increase (Decrease) in Net Position	1,499,727
Net Position, July 1 - as previously reported	151,748,705
Prior Period Adjustment - Pensions	(1,453,709)
Prior Period Adjustment	(58,448)
Net Position, July 1 - as restated	150,236,548
Net Position, End of Year	$ 151,736,275

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 YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITY:	
Receipts for Sales and Services	$ 1,382,333
Collections on Loans and Interest on Loans	94,460,445
Collection on Loan Escrow Accounts	2,417,483
Cash Payments for Loans	(33,827,657)
Federal Financial Assistance Receipts	627,589
Payments to Suppliers for Goods and Services	(4,082,006)
Payments to Employees	(1,805,073)
Other Operating Revenues	32,561
Net Cash Provided (Used) by Operating Activities	59,205,675
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Payment of Principal and Interest on Bonds and Notes	(85,057,814)
Proceeds from Issuance of Bonds and Notes	20,200,000
Payment of Bond Issuance Costs	(324,278)
Premium Paid on Refunding of Bonds	-
Pension - Nonemployer Contributions	32,527
Pension - Deferred Inflows/Outflows	198,857
Transfers in (out)	-
Net Cash Provided (Used) by Noncapital Financing Activities	(64,950,708)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of Mortgage Servicing Rights	(249,387)
Net Cash Provided (Used) by Capital and Related Financing Activities	(249,387)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of Investments	(272,767,348)
Proceeds from Sales or Maturities of Investments	267,542,177
Interest on Investments	1,799,839
Net Cash Provided (Used) by Investing Activities	(3,425,332)
Net Increase (Decrease) in Cash and Cash Equivalents	(9,419,752)
Cash and Cash Equivalents, July 1	73,546,951
Cash and Cash Equivalents, June 30	$ 64,127,199

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	$ 1,467,200
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:	
Depreciation	978
Amortization	(218,369)
Interest Expense	19,013,712
Interest on Investments	(2,006,997)
Arbitrage Rebate Tax	111,582
Change in Assets and Liabilities:	
Decr (Incr) in Mortgage Loans Receivable	38,731,503
Decr (Incr) in Other Assets	133,273
Decr (Incr) in Fair Value of Investments	30,291
Incr (Decr) in Accounts Payable	1,120,828
Incr (Decr) Funds Held for Others	670,123
Incr (Decr) Pensions Payable	287,781
Incr (Decr) in Compensated Absences Payable	(25,172)
Incr (Decr) Other Postemployment Benefits	(111,058)
Net Cash Provided (Used) by Operating Activities	$ 59,205,675

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation:
The financial statements of the Board are presented on a combined basis. Summary comparative financial information is contained in the Management Discussion and Analysis section. The accompanying financial statements have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The Montana Board of Housing has implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* In accordance with this statement, the Board has recognized and reported certain amounts associated with their participation in the Public Employees' Retirement System (PERS) which includes recording and reporting their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

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.

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

Fund Accounting:
To ensure observance of limitations and restrictions placed on the use of resources by the trust indentures, the Board of Housing accounts are organized in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose as described in the trust indentures. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, deferred inflows of resources, liabilities, deferred outflows of resources, net position, revenues, and expenses.

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

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

Net Position:

Restricted Net Position - The Board implemented the provisions of GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation.* Net position is considered restricted if it is limited as to the manner in or purpose for which they may be used. The Statement of Net Position reports $4,504 of net investment in capital assets and $151,731,771 of restricted net position. All restricted funds are restricted by enabling legislation and agreements with bond holders.

Prior Period Adjustments – The Board implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* during fiscal year 2015. A prior period adjustment was made for approximate $1.5 million in relation to this implementation. See footnote 11 for more information on new pension standards.

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 other financing sources or uses. The Board records all revenues and expenses related to mortgages, investments, and bonds as operating revenues and expenses.

Fund Structure:

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

Single Family Mortgage Program Funds - These funds, established under three separate trust indentures adopted on various dates, are established for accounting for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general, restricted to the purchase of eligible single family mortgage loans. The mortgage loans must be insured by the Federal Housing Administration or guaranteed by Veterans Administration or Rural Development or private mortgage insurance.

The assets of each individual Single Family Mortgage Program Fund are restricted by the Fund's respective trust indenture; therefore, the total does not indicate that the Single Family Mortgage Program Funds' assets are available in any manner other than provided for in the individual trust indentures. The Board has reserved funds for specific loan programs. These loans will be originated from funds available in Single Family I, II and XI Indentures.

Multifamily Mortgage Program Funds - These funds, established under a trust indenture adopted February 23, 1978, as amended and restated as of December 29, 1992, are established to account for the proceeds from the sale of Multifamily Mortgage Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. The Federal Housing Administration must insure mortgage loans originated prior to December 1992.

On November 10, 1998, the Board issued $1,625,000 in Multifamily General Obligation Bonds. These bonds are payable out of any of the Board's moneys, assets or revenue. These funds, established under a trust indenture adopted November 1, 1998, are established to account for the proceeds from the sale of Multifamily Mortgage General Obligation Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds.

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

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

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

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

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

Investments:
The Board follows the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The applicable investment risk disclosures are described in Note 4 of these financial statements.

Under GASB Statement No. 31, certain investments are to be reported at fair value. The Board values all of its investments that have a maturity date of over one year at fair value. Those investments that have a maturity date of less than one year are valued at amortized cost. The fair values were based on market prices provided by the Board’s trustees.

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

The Board purchases mortgage loans secured by residences located throughout the State of Montana. Loans must be insured by the FHA (Federal Housing Administration) or private mortgage insurance or guaranteed by the VA (Veterans Administration) or RD (Rural Development) or Housing and Urban Development (HUD) or private mortgage insurers or have loan-to-value less than 80%. Guidelines to minimize credit risk are established by FHA, VA, RD and Board policies.

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

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

The Board has pledged future revenues collected from mortgages receivable accounts to bondholders for repayment of the mortgage revenue bonds issued by the Board; see Note 8 for details. The Board issued these bonds to finance the mortgage loans purchased by the Board's various programs. In accordance with GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, the pledging of these revenues is considered a collateralized borrowing based on the Board retaining control of the receivables and evidenced by the Board's active management of these accounts.

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

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

Bond issuance costs, including underwriter discounts, are expensed in the period incurred.

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

Capital Assets:
Capital assets are recorded at cost and depreciation is computed using the straight-line method over estimated useful lives of 5 to 10 years. The majority of capital assets consist of computers and software. The capitalization threshold for recording capital assets varies between $5,000 and $500,000 depending on type of asset purchased. Purchases under these thresholds are recorded as expenses in the current period.

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

Pensions:
For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employee Retirement System (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, member contributions are recognized in the period in which they are due. Employer contributions are recognized when due and the

employer has made a formal commitment to provide the contributions. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Investments are reported at fair value. PERS adheres to all applicable GASB statements.

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, 2015, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

Program Funds:	
Cash Deposited with State Treasury	$ 6,212,523
Cash on Hand *	79,425
Short-Term Investments	57,835,251
	64,127,199

* Cash on hand is a combination of cash held for customer change and cash or checks received but not deposited on June 30, 2015.

NOTE 3. SECURITIES LENDING

The Board invests in the State's Short-Term Investment Pool throughout the fiscal year. As part of the pool administered by the Board of Investments (BOI), the Board participates in securities lending transactions. Under GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, the following disclosures are required:

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

During fiscal year 2015, State Street lent, on behalf of BOI, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

BOI did not impose any restrictions during fiscal year 2015 on the amount of loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal year 2015. Moreover, there were no losses during fiscal year 2015 resulting from a default of the borrowers or State Street.

During fiscal year 2015, 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, 2015, BOI had no credit risk exposure to borrowers.

On June 30, 2015 there were no securities on loan.

NOTE 4. INVESTMENTS

The Board invests the following funds: bond proceeds until the amounts are used to purchase mortgage loans, mortgage loan collections until debt service payment dates, and reserves and operating funds until needed. The Board follows GASB Statement No. 40. The applicable investment risk disclosures are described in the following paragraphs.

Power to Invest & Investment Policy

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

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

Credit Risk

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

Credit Risk Concentration

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

Custodial Credit Risk

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

Interest Rate Risk

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

	Fair Value June 30, 2015	Moody's Rating	Standard & Poor's Rating	Effective Duration
Investment Contracts				
Société Générale	$ 5,400,000	NR	NR	NA
Government Sponsored Enterprises				
FNMA* Discount	$17,485,502	Aaa	AA+	0.46
Federal Home Loan Bank Discount Notes	34,765,745	Aaa	AA+	0.32
FNMA* Medium Term Notes	16,282,287	Aaa	AA+	8.36
FNMA* Mortgage Backed Securities	1,892,358	Aaa	AA+	13.37
Federal Farm Credit Bank Notes	1,333,960	Aaa	AA+	5.40
FHLMC** Bond	3,091,927	Aaa	AA+	10.33
FHLMC** Discount Notes	18,989,599	Aaa	AA+	0.46
	93,841,378			
U. S. Treasury Bonds	6,787,827	Aaa	AA+	7.19
Trustee Cash & Money Market Accounts	57,835,251	NR	NR	NA
State Cash & Short-term Pool Accounts***	6,291,948	NR	NR	NA
	64,127,199			
Total All Investments	170,156,404			

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

NOTE 5. MORTGAGE LOANS RECEIVABLE

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

All Board mortgage loans are made for properties located within Montana. Board loans are secured by first liens on real property and are insured by the Federal Housing Administration or private mortgage insurance (Single Family 1977 Indenture only); or are guaranteed by the Veterans' Administration or United States Department of

Agriculture Rural Development program; or are uninsured if the mortgages have a loan to value of less than 80%.

In accordance with GASB Statement No. 48, the pledging of mortgage loans receivable is considered a collateralized borrowing. Mortgage loans receivable, as of June 30, 2015 consist of the following:

Single Family Program	445,616,472
Multifamily Program	10,091,443
Housing Trust Program	3,867,161
Housing Montana Fund	2,351,207
	461,926,283
Net mortgage discounts and premiums	5,978,153
Allowance for losses and real estate owned (Note 6)	(300,000)
	$467,604,436

NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

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

The June 30, 2015 Allowances for Loan Losses include $100,000 for mortgage bad debt and $200,000 for future estimated losses on real estate owned property. The Board held 11 real estate owned properties as of June 30, 2015. The properties' combined loan amounts were $1,168,930 as of June 30, 2015. Since Board real estate owned properties are insured or guaranteed by external organizations, Board loan losses are limited by insurance claims or sale of foreclosed properties. Real estate owned by the Board is included in the mortgages receivable balance (Note 5).

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

Balance as of June 30, 2014	$ 300,000
Provision	-
Less: Net loans charged off	-
Balance as of June 30, 2015	$ 300,000

NOTE 7. CAPITAL ASSETS

Capital assets consist primarily of computer software and equipment and other office equipment.
Capital asset balances as of June 30, 2015 are as follows:

Capital Assets – Equipment	$ 11,320
Accumulated Depreciation	(6,816)
Net Capital Assets	$ 4,504

Depreciation expense included in general and administrative expense was $1,016 for the year ended June 30, 2015.

NOTE 8. BONDS PAYABLE, NET

The Board has no variable interest rate debt obligations and does not swap interest rates. The following bonds are fixed rate mortgage revenue or general obligation bonds. Bonds payable, net of premium or discount, consists of the following as of June 30, 2015:

Single Family I Mortgage Bonds:	Original Amount	Balance
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	10,355,000
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	15,360,000
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	16,080,000
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	35,120,000
2007 Series B serial and term bonds 3.75% to 5.50% maturing in scheduled semi-annual installments to December 1, 2017, December 1, 2022, December 1, 2027, December 1, 2032, December 1, 2037 and June 1, 2038.	83,090,000	22,535,000
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	8,530,000
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	14,505,000

Bonds outstanding Single Family I	$122,485,000
Unamortized bond premium	1,610,534
Total Bonds Payable Single Family I	**$124,095,534**

Single Family II Mortgage Bonds:	**Original Amount**	**Balance**
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	9,995,000
2013 Series A-1 & A-2 serial bonds .20% to 3.35% 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	58,430,000
2013 Series B-1 & B-2 serial bonds .45% to 4.20% Maturing in scheduled semi-annual installments To December 1, 2025, Series B-1 & B-2 term bonds 3.50% to 5.30% maturing December 1, 2028, 2033, 2038 and 2043.	59,980,000	51,895,000
2014 Series A-2 & A-3 serial bonds .25% to 3.375% Maturing in scheduled semi-annual installments To December 1, 2025, Series A-1, A-2 & A-3 term bonds 3.00% to 4.15% maturing December 1, 2029, June 1, 2032, December 1, 2035 and 2043.	71,500,000	66,145,000
2015 Series A serial bonds .20% to 2.95% Maturing in scheduled semi-annual installments To December 1, 2026, Series A term bonds 3.25% to 3.50% maturing December 1, 2029, December 1, 2034, June 1, 2040.	20,000,000	19,475,000

Bonds outstanding Single Family II	$205,940,000
Unamortized bond premium / discount	2,178,556
Total Bonds Payable Single Family II	**$208,118,556**

Single Family XI Mortgage Bonds:	**Original Amount**	**Balance**
2009 Series B Term Bonds, 3.70% maturing December 1, 2041, with 2011 Series A. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	$ 24,600,000	$ 19,100,000

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	14,395,000
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	18,935,000
2009 Series E Term Bonds, 2.67% maturing December 1, 2041. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	25,000,000	22,550,000
2011 Series A serial and term bonds, 0.60% to 5.00%, Maturing in scheduled semi-annual installments to December 1, 2022 (serial bonds); December 1, 2026; June 1, 2028; and December 1, 2028 (term bonds).	16,400,000	10,600,000
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	22,665,000
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	35,275,000
Bonds outstanding Single Family XI		$143,520,000
Unamortized bond premium / discount		815,300
Total Bonds Payable Single Family XI		**$144,335,300**

Single Family General Obligation Bonds:	**Original Amount**	**Balance**
2008 Series A General Obligation Private Placement Bonds	$ 497,942	$ 414,042
Total Single Family Mortgage Bonds Payable, Net		**$476,963,432**

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, 2015, $497,942 of bonds have been issued.

Multifamily Mortgage Bonds:	**Original Amount**	**Balance**
1998		
Series A 3.5% to 4.70% interest, serial and term bonds, maturing in scheduled annual installments to August 1, 2014 and on August 1, 2029.	$1,625,000	$ 255,000
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	5,540,000
Bonds outstanding Multifamily		$5,795,000
Unamortized bond premium / discount		(35,641)
Total Multifamily Mortgage Bonds Payable, Net		**$5,759,359**

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 **$482,722,791**

The following is a summary of bond principal and interest requirements as of June 30, 2015:

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**
2016	$ 30,569,405	$ 549,672	$ 13,215,000	$ 17,904,077
2017	31,157,964	450,171	14,020,000	17,588,135
2018	31,489,464	453,744	14,725,000	17,218,208
2019	31,593,647	456,785	15,265,000	16,785,432
2020	31,741,212	459,174	15,900,000	16,300,386
2021-25	160,101,380	2,316,658	89,865,000	72,553,038
2026-30	157,048,111	2,278,783	105,870,000	53,456,894
2031-35	136,227,171	2,054,039	106,640,000	31,641,210
2036-40	87,854,567	2,078,631	78,335,000	11,598,198
2041-45	24,885,878	503,850	23,905,000	1,484,728
Total	$ 722,668,799	$ 11,601,507	$ 477,740,000	$ 256,530,306

Cash paid for interest expenses during the year ended June 30, 2015 was $19,554,907.

Changes in Bonds Payable

	6/30/2014 Balance	Additions	Reductions	6/30/2015 Balance
Single Family	$ 523,027,732	$ 20,152,072	$ 66,216,372	$ 476,963,432
Multi Family	5,951,755	-	192,396	5,759,359
Total	$ 528,979,487	$ 20,152,072	$ 66,408,768	$ 482,722,791

NOTE 9. BOND REDEMPTION

During the year ended June 30, 2015 the Board redeemed Single Family and Multi-Family mortgage program bonds prior to scheduled maturity as follows:

Single Family I	
December 1	$ 10,270,000
June 1	10,670,000
	20,940,000
Single Family II	
December 1	9,595,000
June 1	7,170,000
	16,765,000
Single Family XI	
December 1	6,960,000
June 1	8,530,000
	15,490,000
Total	$ 53,195,000

This note disclosure was titled “Loss on Redemption” in previous years’ financial statements. Due to the implementation of GASB Statement No. 65 there are no longer unamortized cost of issuances, thus there is no loss on redemption for the year ended June 30, 2015.

NOTE 10. COMMITMENTS

Single Family Indentures - The Board has bond proceeds available for the purchase and reservation of single family mortgages of approximately $17,890,538 in the Single Family II Indentures.

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

West End District IX Human Resource Council	$ 24,478
Foreclosure Prevention	45,635
Disabled Affordable Accessible Homeownership	1,001,568
Lot Refinance	726,440
Habitat for Humanity	742,505
80% Combined Program	4,758,601
Down Payment Assistance	1,092,930
Down Payment Pool	6,111,135
Total Single Family Commitments	$14,503,292

Single Family I - Reverse Annuity Mortgage Program Future Loan Amounts $1,170,045

Single Family I & II – $175,000 of funding for Homebuyer Education for fiscal year 2016

Multifamily Program:
Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD) $148,169

Housing Trust Fund Program:
Reverse Annuity Mortgage Program Existing Loans $5,637,349

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

NOTE 11. EMPLOYEE BENEFIT PLANS

General Information about the Pension Plan

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pension,* employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability (NPL), Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

The Board and its members contribute to the PERS. PERS offers two types of retirement plans administered by the Montana Public Employees' Retirement Administration.

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employee Retirement System (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, member contributions are recognized in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Investments are reported at fair value. PERS adheres to all applicable GASB statements.

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

Defined Contribution Retirement Plan: The Defined Contribution Retirement Plan (DCRP) was created by the 1999 legislature and available to all active PERS members effective July 1, 2002. This plan is a multiple-employer 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.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the DBRP and the DCRP. For members that choose to join the PERS-DCRP, a percentage of the employer's contributions will be used to pay down the liability of the PERS-DBRP.

The PERS issues publicly available annual reports which include financial statements and required supplemental information for the plans. Those reports may be obtained online (http://mpera.mt.gov/index.shtml) 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

The information contained within MPERA's CAFR will only display information in regard to PERS in total and will not display information specific to Board of Housing as an entity.

Summary of Benefits:

Member's highest average compensation (HAC):

Hired prior to July 1, 2011:	HAC during any consecutive 36 months
Hired on or after July 1, 2011:	HAC during any consecutive 60 months
Hired on or after July 1, 2013:	110% annual cap on compensation considered as part of a member's HAC

Eligibility for benefits:

Service retirement:

Hired prior to July 1, 2011:	Age 60, 5 years of membership service Age 65, regardless of membership service; or Any age, 30 years of membership service.
Hired on or after July 1, 2011:	Age 65, 5 years of membership service; or Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011:	Age 50, 5 years of membership service; or Any age, 25 years of membership service.
Hired on or after July 1, 2011:	Age 55, 5 years of membership service.

Monthly benefit formula:

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit:
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)*:

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided above) each January, inclusive of other adjustments to the member's benefit.

*At this time, as a result of permanent injunction issued in the AMRPE vs State litigation, the GABA rate in effect is being used in the calculation. Per court order on August 19, 2015, the permanent injunction is only applicable to public employees that were hired prior to July 1, 2013. For employees hired on or after July 1, 2013, the funding will be at a maximum of 1.5% for each year PERS is funded at or above 90%, for each 2% PERS is funded below 90% the 1.5% is reduced by 0.1% and 0% whenever the amortization period for PERS is 40 years or more.

Overview of contributions:

Contribution rates for the plans are required and determined by State law for employer and member's contributions. Currently members are required to contribute 7.9% of their compensation. By statute, the 7.9% member contribution is temporary and will be decreased to 6.9% on January 1 of the year when the actuarial valuation results show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

The State of Montana employer was required to contribute 8.17% of the members' compensation. Following the 2013 Legislative Session, PERS employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014 employer contributions increased an additional 0.1% a year over 10 years, through 2024. The employer additional contribution including the 0.27% added in 2007 and 2009, terminates on January 1 of the year following actuary valuation results that show the amortization period of PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contribution rates. The additional contributions were not terminated on January 1, 2015.

Effective July 1, 2013, DBRP received other contributions including 1% of the DCRP employer contributions for participants, additional Plan Choice Rate contributions, and additional contributions from the coal severance tax fund and interest income from the coal severance tax permanent fund. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required. PERS received 100% of required contributions from the Board in fiscal year 2015 in the amount of $116,774.

Assumptions and Other Inputs

Actuarial Assumptions:
The Total Pension Liability as of June 30, 2015, is based on the result of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumption used in the June 30, 2014 valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- General Wage Growth 4.00% (includes inflation at 3.00%)
- Merit Increase 0.00% to 6.00%
- Investment Return 7.75%
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Tables projected to 2015 with scale AA.
- Mortality assumptions among disabled retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.
- Postretirement Benefit Increases
  - 3% for members hired **prior to** July 1, 2007
  - 1.5% for members hired **on or after** July 1, 2007

*At this time as a result of permanent injunction issued in the AMRPE vs State litigation, the GABA rate in effect is being used in the calculation, Per court order on August 19, 2015, the permanent injunction is only applicable to public employees that were hired prior to July 1, 2013. For employees hired on or after July 1, 2013, the funding will be at a maximum of 1.5% for each year PERS is funded at or above 90%, for each 2% PERS is fund below 90% the 1.5% is reduced by 0.1% and 0% whenever the amortization period for PERS is 40 years or more.

Discount Rate:
The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts; both are special funding situations for those employers. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. The contributions from the Coal Tax Severance fund are not a special funding situation. Contributions provided by the Coal Tax revenue for the Board of Housing were $32 thousand.

Long-term Expected Rate of Return:
The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the table below.

Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability**.** No municipal bond rate was incorporated in the discount rate.

Assumed Asset Allocation:
The assumed asset allocation of the pension plan's portfolio and the long-term expected real rate of return for each major asset class are as follows:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	(0.25%)
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

The below table represents the Net Pension Liability calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

Net Pension Liability Sensitivity Analysis (in thousands)	1.0% Decrease (6.75%)	Current Discount Rate (7.75%)	1.0% Increase (8.75)
DBRP Total Plan	$ 1,982,274	$ 1,246,011	$ 625,045
BOH	1,359	1,203	1,048

Other Information

At June 30, 2015, the Board recorded a liability of $1.2 million for its proportionate share of the DBRP Net Pension Liability and $92 thousand for its proportionate share of the pension expense. The Net Pension Liability was measured as of June 30, 2014 and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2014. The Board's Net Pension Liability was based on the contributions received by PERS from the board during the measurement period of July 1, 2013 through June 30, 2014, relative to the total employer contributions received from all of PERS' participating employers. At June 30, 2014, the Board's proportion was 0.097%. There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability. There have been no changes in benefit terms since the previous measurement date. There were no changes between the measurement date of the collective Net Pension Liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

Deferred Pension Inflow/Outflow:
At June 30, 2015, the Board recognized a beginning deferred outflow of resources of $112 thousand for the Board's FY2014 contributions. The pension deferred inflows was $311 thousand, which related to the net difference between projected and actual earning on pension plan investments.

Amounts reported as deferred outflows of resources related to pension resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	Deferred Outflows/Inflows of Resources (in thousands)
2016	$ (77)
2017	(78)
2018	(78)
2019	(78)
2020	n/a
Thereafter	n/a

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 $845 and $1,134 per month depending on the medical plan selected, family coverage, and eligibility. Administratively established premiums vary between $22 and $68.50 per month for dental and between $5.76 and $16.76 per month for an optional vision hardware plan depending on family coverage and eligibility. The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Eligible dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs.

NOTE 12. ARBITRAGE REBATE LIABILITY

The Board has established an accrual for the liability for estimated arbitrage payments due to the United States Treasury Department in accordance with the Internal Revenue Code. The amount of the rebate in general terms is the difference between the actual interest earned on investments and “allowable” interest as defined by Treasury Department Regulations. Ninety percent of the estimated rebate will be paid to the United States Treasury within 60 days of the end of every fifth bond year until the bonds are retired, at which time 100% of the remaining rebate amount is due.

The Board did not make any arbitrage rebate cash payments to The United States Treasury Department in fiscal year 2015. The related liability was $904,024 as of June 30, 2015.

Beginning Balance, July 1, 2014	$ 550,687
Additions	353,337
Reductions	-
Ending Balance, June 30, 2015	$ 904,024

NOTE 13. NO-COMMITMENT DEBT

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

These bonds are not general obligations, debts, liabilities or pledges of faith and credit of the Board but are special limited obligations payable solely from pledged revenues and assets of the borrower. The Board is not obligated to make payment on the bonds from any of its assets. Accordingly, these bonds are not reflected in the accompanying financial statements.

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

The outstanding balances of these bonds as of June 30, 2015 are as follows:

Bond Series	Original Amount	Balance
Multifamily Housing Revenue Bonds Series 2006A	$2,104,700	$1,803,092
Multifamily Housing Revenue Bonds Series 2007A	5,100,000	4,774,324
Multifamily Housing Revenue Bonds Series 2008A	2,413,600	2,000,159
Multifamily Housing Revenue Bonds Series 2012 A-1	857,000	833,890
Multifamily Housing Revenue Bonds Series 2012 A-2	4,032,000	3,925,214
Multifamily Housing Revenue Bonds Series 2012 B-1	857,000	830,365

NOTE 14. REFUNDING AND DEFERRED BOND COSTS

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

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

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

Prior Years' Refundings:

Unamortized deferred refunding costs from prior years' refundings	608,285
Total unamortized	$608,285

NOTE 15. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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

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

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

Post-employment Healthcare Plan Description:
Board staff and dependents are eligible to receive health care through the State Group Benefits Plan administered by the Montana Department of Administration. In accordance with MCA 2-18-704, the State provides optional postemployment medical, vision and dental health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees.

In addition to the employee benefits described in Note 11, Employee Benefit Plans, the following post-employment benefits are provided:
Montana Department of Administration established retiree medical premiums vary between $371 and $1,184 administratively established dental premiums vary between $22.00 and $68.50; vision hardware premiums vary between $5.76 and $16.76 both premiums vary depending on the coverage selected. Basic life insurance in the amount of $14,000 is provided until age 65 at a cost of $1.90 per month to the retiree. The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Dental claims are reimbursed up to $600 for diagnostic/preventative and $1,500 for repair/reconstructive services annually. The State acts as secondary payer for retired Medicare-eligible claimants.

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

Funding Policy:
The following estimates were prepared for the Department of Administration and the resulting State of Montana Actuarial Valuation of Other Post-Employment Benefits Plan (plan) contains the Board's data and is available through:

Montana Department of Administration,
State Financial Services Division
Rm 255, Mitchell Bldg.,
125 N Roberts St
PO Box 200102,
Helena, MT 59620-0102.

GASB Statement No. 45 requires the plan's participants, including the Board, to report each year the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year of retiree health care costs and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The 2015 ARC is calculated for all the plan's participants and then individually allocated to individual participants. The Board's 2015 ARC is estimated at $48,842 and is based on the plan's current ARC rate of 3.43% percent of participants' annual covered payroll. The Board's 2015 ARC is equal to an annual amount required each year to fully fund the liability over 30 years.

The amount of the estimated OPEB actuarial accrued liability is determined in accordance with the GASB Statement No. 45, and liability is estimated at $361,335 for the Board. (The actuarial accrued liability is the present value of future retiree benefits and expenses.)

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

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

The actuarial valuation method used is the projected unit credit funding method. The actuarial assumptions did not include an investment rate of return since no assets meet the definition of plan assets under GASB Statement No. 43 or No. 45. Annual healthcare cost trend rates of 9.0 percent for medical and 8.0 percent for prescription claims are used for the 2015 plan year. The unfunded actuarial accrued liability is amortized following a 30-year level percentage of payroll amortization schedule on an open basis beginning for calendar year 2014.

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

Annual OPEB Cost:
For 2015, the Board's allocated annual OPEB cost (expense) of $51,629, adjusted for amortization of the net OPEB obligation plus interest on the prior year obligation amount, less employer contributions. The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013*	$47,935	12%	$282,110
6/30/2014	51,097	19%	324,259
6/30/2015	51,629	28%	361,335

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

Funded Status and Funding Progress:
The funded status of the Board's allocation of the plan as of June 30, 2015, was as follows:

Actuarial Accrued Liability (AAL)	$ 548,777
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	548,777
Funded Ratio (Actuarial Value of Plan Assets/AAL)	-
Covered Payroll (Active Plan Members)	1,423,454
UAAL as a Percentage of Covered Payroll	38.55%

NOTE 16. INTERFUND BALANCES

The following interfund balances have been eliminated from the Combining Statement of Net Position to report the Statement of Net Position for all programs net of interfund activity for June 30, 2015:

Fee Income and Servicers Fees related to in-house loan servicing	$1,135,379
Fee Income and General and Administrative costs related to administering federal grants	61,766
Total Interfund Balance Eliminations	$1,197,145

NOTE 17. SUBSEQUENT EVENTS

On October 29th, 2015, the Board issued $64,400,000 of Single Family Mortgage Bonds, Series 2015B. The Bonds will mature on June 1, 2016, through December 1, 2026, with interest rates from 0.50% to 3.125%. Bond proceeds of $30,000,000 will be used to purchase single family mortgage loans for the Board's ownership program. Bond proceeds of $34,400,000 will be issued in order to refund existing bond issues.

MONTANA BOARD OF HOUSING
(A Component Unit of the State of Montana)
REQUIRED SUPPLEMENTARY INFORMATION
Fiscal Year Ended June 30, 2015

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

As of June 30, 2015, the most recent actuarial valuation available that was completed by the state of Montana was as of January 1, 2013 for the year ending December 31, 2013. The State of Montana finances claims on a pay-as-you-go- basis and does not advance fund the OPEB liability. Therefore, the funded ratio remains at 0% at June 30, 2015.

Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability* (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2009	$ 0	$ 767,186	$ 767,186	0	$ 859,031	89.31%
1/1/2011	0	480,731	480.731	0	813,088	59.12%
1/1/2013	0	398,874	398,874	0	1,201,965	33.19%

*Projected unit credit funding method.
Note: All years were restated due to a prorated reallocation of unaccounted for inactive participants.

Pension Benefits (Financial Statement Note 11)

Schedule of Net Pension Liability
As of June 30
(Dollar amounts in thousands)

	2015
Proportion of the net pension liability (asset)	0.097%
Proportionate share of the net pension liability (asset)	$ 1,203
Pensionable payroll	1,079
Proportionate share of the net pension liability (asset) as a percentage of its pensionable payroll	95
Plan fiduciary net position as a percentage of total pension liability	79.9%

Note: 10 year schedules will be displayed as it becomes available.

Schedule of Contributions
As of June 30
(Dollar amounts in thousands)

	2015
Contractually required contributions	$ 89
Contributions made	89
Contribution deficiency (excess)	$ 0
Share pensionable payroll	1,079
Contributions as a percentage of pensionable payroll	8.797%

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF NET POSITION
AS OF JUNE 30, 2015

-

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL PROGRAMS	TOTAL
ASSETS										
Current Assets										
Cash and Cash Equivalents	$ 21,874,449	$ 27,699,919	$ 5,397,175	$ 54,971,543	$ 2,844,157	$ 5,505,212	$ 499,540	$ 306,747	$ -	$ 64,127,199
Investments	29,934,117	39,492,274	1,259,590	70,685,981	5,962,631	-	-	-	-	76,648,612
Mortgage Loans Receivable	5,172,756	4,755,166	4,723,229	14,651,151	245,413	-	-	8,811	-	14,905,375
Interest Receivable	757,277	1,068,772	741,990	2,568,039	47,191	576,112	1,260,883	160,445	-	4,612,670
Due from Other Governments	-	-	-	-	-	-	-	-	9,752	9,752
Prepaid Expense	88,004	88,004		176,008	7,438	17,767	16,837	-		218,050
Total Current Assets	57,826,603	73,104,135	12,121,984	143,052,722	9,106,830	6,099,091	1,777,260	476,003	9,752	160,521,658
Noncurrent Assets										
Investments	7,230,169	8,142,720	12,123,115	27,496,004	-	-	-	-	-	27,496,004
Mortgage Loans Receivable	116,700,948	189,694,074	130,248,452	436,643,474	9,846,030	-	3,867,161	2,342,396	-	452,699,061
Mortgage Backed Securities	-	1,892,358	-	1,892,358	-	-	-	-	-	1,892,358
Acquisition Costs	-	-	-	-	-	2,285,135	-	-	-	2,285,135
Capital Assets, Net	1,630	2,648	-	4,278	113	-	113	-	-	4,504
Total Noncurrent Assets	123,932,747	199,731,800	142,371,567	466,036,114	9,846,143	2,285,135	3,867,274	2,342,396	-	484,377,062
TOTAL ASSETS	181,759,350	272,835,935	154,493,551	609,088,836	18,952,973	8,384,226	5,644,534	2,818,399	9,752	644,898,720
DEFERRED OUTFLOW OF RESOURCES										
Deferred Refunding Costs	307,083	163,294	137,908	608,285	-	-	-	-	-	608,285
Deferred Pension Outflow	40,590	40,590	-	81,180	-	30,927	-	-	-	112,107
TOTAL DEFERRED OUTFLOWS	347,673	203,884	137,908	689,465	-	30,927	-	-	-	720,392
LIABILITIES										
Current Liabilities										
Accounts Payable	74,957	212,554	52,740	340,251	5,230	1,735,425	18,455	484	9,752	2,109,597
Funds Held For Others	-	-	-	-	1,747,360	2,676,019	-	-	-	4,423,379
Accrued Interest - Bonds Payable	496,422	577,619	393,823	1,467,864	151,105	-	-	-	-	1,618,969
Bonds Payable, Net	2,765,000	5,500,000	4,760,000	13,025,000	190,000	-	-	-	-	13,215,000
Accrued Compensated Absences	23,666	23,666	-	47,332	2,385	21,479	25,734	-	-	96,930
Total Current Liabilities	3,360,045	6,313,839	5,206,563	14,880,447	2,096,080	4,432,923	44,189	484	9,752	21,463,875
Noncurrent Liabilities										
Bonds Payable, Net	121,330,534	203,032,598	139,575,300	463,938,432	5,569,359	-	-	-	-	469,507,791
Arbitrage Rebate Payable to U.S.										
Treasury Department	445,793	12,786	445,445	904,024	-	-	-	-	-	904,024
Accrued Compensated Absences	48,884	48,884	-	97,768	3,295	4,996	25,293	-	-	131,352
Net Pension Liability	435,744	435,744	-	871,488	-	332,008	-	-	-	1,203,496
OPEB Liability	179,055	179,055		358,110		3,225				361,335
Total Noncurrent Liabilities	122,440,010	203,709,067	140,020,745	466,169,822	5,572,654	340,229	25,293	-	-	472,107,998
TOTAL LIABILITIES	125,800,055	210,022,906	145,227,308	481,050,269	7,668,734	4,773,152	69,482	484	9,752	493,571,873
DEFERRED INFLOW OF RESOURCES										
Deferred Pension Inflow	112,589	112,589	-	225,178	-	85,786	-	-	-	310,964
TOTAL DEFERRED INFLOWS	112,589	112,589	-	225,178	-	85,786	-	-	-	310,964
NET POSITION										
Net Investment in Capital Assets	1,630	2,648	-	4,278	113	-	113	-	-	4,504
Restricted for Bondholders:										
Unrealized (losses) gains on investments	1,433,056	2,070,631	2,481,594	5,985,281	-	-	-	-	-	5,985,281
Single Family Programs	47,406,441	55,762,831	6,922,557	110,091,829	-	3,556,215	-	-	-	113,648,044
Various Recycled Mortgage Programs	5,068,214	5,068,214	-	10,136,428	-	-	-	-	-	10,136,428
Multifamily Programs	-	-	-	-	11,216,881	-	-	-	-	11,216,881
Multifamily Project Commitments	-	-	-	-	67,245	-	-	-	-	67,245
Reverse Annuity Mortgage Program	2,285,038	-	-	2,285,038	-	-	5,574,939	-	-	7,859,977
Restricted for Affordable Revolving Loan Program	-	-	-	-	-	-	-	2,817,915	-	2,817,915
TOTAL NET POSITION	$ 56,194,379	$ 62,904,324	$ 9,404,151	$ 128,502,854	$ 11,284,239	$ 3,556,215	$ 5,575,052	$ 2,817,915	$ -	$ 151,736,275

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, 2015

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL ASSISTANCE	TOTAL
OPERATING REVENUES										
Interest Income - Mortgage Loans	$ 6,655,742	$ 8,255,907	$ 6,541,597	$ 21,453,246	$ 543,657	$ -	$ 221,439	$ 39,628	$ -	$ 22,257,970
Interest Income - Investments	582,226	627,072	539,548	1,748,846	6,606	114	(25,600)	(5,000)	-	1,724,966
Fee Income	20,330	44,076	608	65,014	14,662	1,846,965	453,608	3,277	-	2,383,526
Federal Financial Assistance	-	61,766	-	61,766	84,599	-	-	-	476,993	623,358
Net Increase (Decrease)										
in Fair Value of Investments	93,469	(35,861)	87,897	145,505	-	-	-	-	-	145,505
Other Income	11,329	94,232	-	105,561	-	-	-	-	-	105,561
Securities Lending Gross Income	-	-	-	-	-	-	(2)	-	-	(2)
Total Operating Revenues	7,363,096	9,047,192	7,169,650	23,579,938	649,524	1,847,079	649,445	37,905	476,993	27,240,884
OPERATING EXPENSES										
Interest on Bonds	6,354,211	6,713,747	4,968,492	18,036,450	368,497	-	-	-	-	18,404,947
Servicer Fees	474,357	698,810	522,752	1,695,919	10,668	680,039	-	1,820	-	2,388,446
Contracted Services	107,960	282,244	-	390,204	16,216	84,613	51,195	-	415,227	957,455
Amortization of Deferred Refunding	37,096	21,299	37,129	95,524	-	-	-	-	-	95,524
Bond Issuance Costs	-	238,896	-	238,896	-	-	-	-	-	238,896
General and Administrative	804,368	808,404	30,450	1,643,222	64,874	934,451	593,691	-	61,766	3,298,004
Arbitrage Rebate Expense	98,796	12,786	241,755	353,337	-	-	-	-	-	353,337
Other Post-Employment Benefits	12,257	12,257	-	24,514	-	12,561	-	-	-	37,075
Total Operating Expenses	7,889,045	8,788,443	5,800,578	22,478,066	460,255	1,711,664	644,886	1,820	476,993	25,773,684
Operating Income (Loss)	(525,949)	258,749	1,369,072	1,101,872	189,269	135,415	4,559	36,085	-	1,467,200
Nonoperating Revenue										
Pensions - nonemployer contributions	11,777	11,777	-	23,554	-	8,973	-	-	-	32,527
Nonoperating Income (Loss)	11,777	11,777	-	23,554	-	8,973	-	-	-	32,527
Income (Loss) before Transfers	(514,172)	270,526	1,369,072	1,125,426	189,269	144,388	4,559	36,085	-	1,499,727
Transfers In (Out)	(1,374,931)	2,267,831	(892,900)	-	-	-	-	-	-	-
Increase (Decrease) in Net Position	(1,889,103)	2,538,357	476,172	1,125,426	189,269	144,388	4,559	36,085	-	1,499,727
Net Position, July 1	58,620,563	60,903,048	8,927,979	128,451,590	11,094,970	3,850,571	5,569,744	2,781,830	-	151,748,705
Prior Period Adjustment - Pensions	(526,337)	(526,337)		(1,052,674)		(401,035)				(1,453,709)
Prior Period Adjustment	(10,744)	(10,744)	-	(21,488)	-	(37,709)	749	-	-	(58,448)
Net Position, July 1	58,083,482	60,365,967	8,927,979	127,377,428	11,094,970	3,411,827	5,570,493	2,781,830	-	150,236,548
Net Position, End of Year	$ 56,194,379	$ 62,904,324	$ 9,404,151	$ 128,502,854	$ 11,284,239	$ 3,556,215	$ 5,575,052	$ 2,817,915	$ -	$ 151,736,275

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL ASSISTANCE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:										
Receipts for Sales and Services	$ 20,330	$ 117,076	$ 607	$ 138,013	$ 18,417	$ 1,906,163	$ 453,609	$ 3,277	$ -	$ 2,519,479
Collections on Loans and Interest on Loans	35,841,238	32,737,012	25,559,176	94,137,426	577,672	(49,084)	36,291	(241,860)	-	94,460,445
Collection on Loan Escrow Accounts	-	-	-	-	1,747,360	670,123	-	-	-	2,417,483
Cash Payments for Loans	(2,207,752)	(31,319,750)	-	(33,527,502)	(155,281)	-	(144,874)	-	-	(33,827,657)
Federal Financial Assistance Receipts		61,766	-	61,766	84,599	-	-	-	481,224	627,589
Payments to Suppliers for Goods and Services	(957,381)	(1,309,895)	(489,711)	(2,756,987)	(84,407)	(1,554,013)	(340,813)	(1,708)	(481,224)	(5,219,152)
Payments to Employees	(592,514)	(592,514)	-	(1,185,028)	(34,342)	(304,416)	(281,287)	-	-	(1,805,073)
Other Operating Revenues	11,329	21,232	-	32,561	-	-	-	-	-	32,561
Net Cash Provided (Used) by Operating Activities	32,115,250	(285,073)	25,070,072	56,900,249	2,154,018	668,773	(277,074)	(240,291)	-	59,205,675
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:										
Payment of Principal and Interest on Bonds and Notes	(30,581,062)	(28,129,311)	(25,781,951)	(84,492,324)	(565,490)	-	-	-	-	(85,057,814)
Proceeds from Issuance of Bonds and Notes	-	20,200,000	-	20,200,000	-	-	-	-	-	20,200,000
Payment of Bond Issuance Costs	-	(287,149)	(37,129)	(324,278)	-		-	-	-	(324,278)
Premium on Bonds		-	-	-	-		-	-	-	-
Pension - Nonemployer contributions	11,777	11,777	-	23,554	-	8,973	-	-	-	32,527
Pension - Deferred Inflows/Outflows	71,999	71,999	-	143,998	-	54,859	-	-	-	198,857
Transfers in (out)	(1,374,931)	2,267,831	(892,900)	-	-	-	-		-	-
Net Cash Provided (Used) by Noncapital Financing Activities	(31,872,217)	(5,864,853)	(26,711,980)	(64,449,050)	(565,490)	63,832	-	-	-	(64,950,708)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:										
Purchase of Mortgage Servicing Rights	-	-	-	-	-	(249,387)	-	-	-	(249,387)
Net Cash Provided (Used) in Capital and Related Financing Activities	-	-	-	-	-	(249,387)	-	-	-	(249,387)
CASH FLOWS FROM INVESTING ACTIVITIES:										
Purchase of Investments	(99,487,269)	(143,853,665)	(29,385,419)	(272,726,353)	(40,995)	-	-	-	-	(272,767,348)
Proceeds from Sales or Maturities of Investments	104,213,046	134,254,603	28,891,483	267,359,132	183,045	-	-	-	-	267,542,177
Interest on Investments	809,548	447,452	539,381	1,796,381	2,859	113	486	-	-	1,799,839
Net Cash Provided (Used) by Investing Activities	5,535,325	(9,151,610)	45,445	(3,570,840)	144,909	113	486	-	-	(3,425,332)
Net Increase (Decrease) in Cash and Cash Equivalents	5,778,358	(15,301,536)	(1,596,463)	(11,119,641)	1,733,437	483,331	(276,588)	(240,291)	-	(9,419,752)
Cash and Cash Equivalents, July 1	16,096,091	43,001,455	6,993,638	66,091,184	1,110,720	5,021,881	776,128	547,038	-	73,546,951
Cash and Cash Equivalents, June 30	$ 21,874,449	$ 27,699,919	$ 5,397,175	$ 54,971,543	$ 2,844,157	$ 5,505,212	$ 499,540	$ 306,747	$ -	$ 64,127,199

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	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 ASSISTANCE	TOTAL
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES										
Operating Income	$ (525,949)	$ 258,749	$ 1,369,072	$ 1,101,872	$ 189,269	$ 135,415	$ 4,559	$ 36,085	$ -	$ 1,467,200
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:										
Depreciation	300	640	-	940	38	-	-	-	-	978
Amortization	(353,145)	280,896	(146,283)	(218,532)	163	-	-	-	-	(218,369)
Interest Expense	6,777,818	6,713,747	5,156,256	18,647,821	365,891	-	-	-	-	19,013,712
Interest on Investments	(638,515)	(647,774)	(719,698)	(2,005,987)	(410)	(114)	(486)	-	-	(2,006,997)
Arbitrage Rebate Tax	98,796	12,786	-	111,582	-	-	-	-	-	111,582
Change in Assets and Liabilities:										
Decr (Incr) Mortgage Loans Receivable	26,756,710	(6,850,280)	18,925,062	38,831,492	(121,266)	442,638	(144,873)	(276,488)	-	38,731,503
Decr (Incr) Other Assets	189,646	(49,842)	162,199	302,003	(2,077)	(75)	(162,347)	-	(4,231)	133,273
Decr (Incr) Fair Value of Investments	(93,469)	35,861	87,899	30,291	-	-	-	-	-	30,291
Incr (Decr) Accounts Payable	(6,939)	57,252	235,565	285,878	1,737,623	(906,664)	(352)	112	4,231	1,120,828
Incr (Decr) Funds Held for Others	-	-	-	-	-	670,123	-	-	-	670,123
Incr (Decr) Pensions Payable (prior period adj)	(22,113)	(22,114)	-	(44,227)	-	332,008	-	-	-	287,781
Incr (Decr) Compensated Absences Payable	(18,771)	(21,983)	-	(40,754)	(15,213)	4,370	26,425	-	-	(25,172)
Incr (Decr) Other Postemployment Benefits	(49,119)	(53,011)	-	(102,130)	-	(8,928)	-	-	-	(111,058)
Net Cash Provided by (Used for) Operating Activities	$ 32,115,250	$ (285,073)	$ 25,070,072	$ 56,900,249	$ 2,154,018	$ 668,773	$ (277,074)	$ (240,291)	$ -	$ 59,205,675

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Montana Board of Housing (board) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the board's basic financial statements, and have issued our report thereon dated November 24, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the board's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control. Accordingly, we do not express an opinion on the effectiveness of the board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of 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 a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying document, we identified certain

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

deficiencies in internal control that we consider to be a material weakness. We consider the deficiency described in Recommendation #1 starting on page 5 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Montana Board of Housing Response to Findings

The board's response to the findings identified in our audit are described on page C-1 of this report. The board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 24, 2015

Montana Board of Housing

Board Response

MEG O'LEARY
DIRECTOR

STEVE BULLOCK
GOVERNOR

MONTANA
DEPARTMENT OF COMMERCE

HOUSING DIVISION – MONTANA BOARD OF HOUSING

December 31, 2015

RECEIVED
DEC 31 2015
LEGISLATIVE AUDIT DIV.

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

Dear Ms. Hunthausen

We have received and reviewed the financial audit of the Montana Board of Housing for the fiscal year ended June 30, 2015. We appreciate the professionalism and courtesy with which the audit was conducted. Our response to the audit recommendation follows:

Recommendation #1

We recommend the Montana Board of Housing enhance internal control procedures to ensure accurate and complete financial reporting, in accordance with generally accepted accounting principles.

Response

The Board concurs and considers internal controls a priority. We have established procedures for preparation and internal review of financial statements that will ensure errors in the analysis of the underlying accounting and related records do not occur. These methods include new financial statement spreadsheets that simplify preparation and review of statements. Preparation and review of statements will be assigned to different accounting staff creating a separation of duties and enhancing the internal control process.

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

Sincerely,

Bruce Brensdal

Bruce Brensdal
Executive Director

http://housing.mt.gov
housing@mt.gov
301 S. PARK AVE. | PO BOX 200528 | HELENA, MT 59620-0528 | P: (406) 841-2840 | F: (406) 841-2841 | TDD: (406) 841-2702