



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

*Montana Board of
Housing*

*For the Fiscal Year Ended
June 30, 2016*

NOVEMBER 2016

LEGISLATIVE AUDIT
DIVISION

15-07B

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FINANCIAL AUDITS

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

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 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 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, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018. 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

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Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

November 2016

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the Montana Board of Housing (board) for the fiscal year ended June 30, 2016. We performed this audit of the board in accordance with §90-6-124, MCA. Our audit work included analyzing the financial statements and note disclosures, examining the underlying financial activity, and reviewing and testing selected control systems. 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/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
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
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		
	Mary Palkovich, Servicing Program Manager		

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

Bruce Brensdal, Executive Director
P.O. Box 200528
Helena, MT 59620-0528
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT

Montana Board of Housing

For the Fiscal Year Ended June 30, 2016

NOVEMBER 2016

15-07B

REPORT SUMMARY

The Montana Board of Housing issued approximately \$129 million in bonds and purchased approximately \$65.7 million of mortgages in its Single Family program during fiscal year 2016. This report contains one recommendation to the board related to internal controls over financial reporting.

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 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 two bonds, for approximately \$129 million, in fiscal year 2016. 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, 2016, the board was servicing approximately

\$345 million, or 78 percent, of the total outstanding principal balance for mortgage loans funded by the board's Single Family program.

Results

Our audit work included analyzing the financial statements and note disclosures, examining the underlying financial activity, and reviewing and testing selected control systems. Our audit effort focused primarily on activity related to bonds, investments, and mortgage loans.

Through this work, we determined the board's internal controls were not sufficient to ensure complete and accurate note disclosures, in accordance with governing generally accepted accounting principles. This report contains one recommendation to the board, related to this control deficiency.

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

For a complete copy of the report (15-07B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>

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Chapter I – Introduction

Audit Scope

We performed a financial audit of the Montana Board of Housing (board) for the fiscal year ended June 30, 2016. 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, 2016.
3. Determine whether the board complied with state laws having a direct impact on financial statement amounts.
4. Determine the implementation status of the recommendation made in the prior audit.

We addressed these objectives by focusing our audit effort on activity related to bonds, investments, and mortgage loans. Our audit work included analyzing the financial statements and note disclosures, examining the underlying financial activity, and testing selected control systems.

Background

The board is allocated to the Department of Commerce for administrative purposes. The board offers a 30-year, fixed-rate mortgage program, provides 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 board's programs are outline below:

- ◆ 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, 2015, the board's 30- and 60-day delinquent rates have decreased and the 90-day delinquent rate has increased. The foreclosure rate has remained fairly consistent, decreasing by only 0.01 percent.

Table 1
Delinquency and Foreclosure Rates

	30 days delinquent	60 days delinquent	90 days delinquent	Foreclosure in process
Montana Board of Housing *	1.71%	1.00%	2.22%	0.70%
Montana Mortgage Loans **	1.25%	0.38%	0.70%	0.71%
Mountain Region **	1.62%	0.53%	1.02%	0.97%
United States **	2.12%	0.74%	1.55%	1.74%

Source: Montana Board of Housing; unaudited.

* As of June 2016

** As of March 2016

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, 2015, contained one audit recommendation related to internal controls over financial reporting. The board partially implemented this recommendation during the current audit period. The board made changes to its procedures for preparing and reviewing the financial statements, and our audit work did not identify any significant errors in the board's financial statements for the fiscal year ended June 30, 2016. However, our audit work identified errors in the board's note disclosures, indicating a continued need to enhance internal controls in this area of financial reporting. We report on this in the recommendation starting on page 5.

Chapter II - Findings and Recommendations

Internal Controls Over Note Disclosures

The Board of Housing’s internal controls were not effective in ensuring complete and accurate note disclosures, in accordance with generally accepted accounting principles.

The Montana Board of Housing (board) is required to prepare financial statements, and related note disclosures, in accordance with provisions established in generally accepted accounting principles (GAAP). The purpose of note disclosures is to communicate information that, while not presented on the face of the financial statements, governmental accounting standard setters consider essential for fair presentation of the financial statements.

As part of our audit, we reviewed the board’s note disclosures for completeness and accuracy, based on the requirements in GAAP and the board’s financial activity for the fiscal year ended June 30, 2016. Through this work, we determined the board’s internal controls were not effective in ensuring complete and accurate note disclosures. Our audit work identified the errors outline below.

- ♦ **Note 4–Investments:** GAAP requires note disclosures over depository and investment risks, which the board discloses in Note 4. Although the board’s cash in the State Treasury is not exposed to the depository risks requiring disclosure under GAAP, the board included its approximate \$6.98 million of such cash within the scope of this note. As the board’s cash in the State Treasury is not exposed to the risks, it should not have been included in the note.
- ♦ **Note 5–Fair Value Measures:** The board implemented a new accounting standard in fiscal year 2016, related to fair value measurements for investments. Under the standard, the board was required to add note disclosures describing the valuation techniques used to determine the reported fair values of investments. The board’s note disclosures for this standard, contained in Note 5, did not contain this required information.
- ♦ **Note 12–Employee Benefit Plans:** The board’s employees participate in either the defined benefit or defined contribution retirement plans offered by the state. In fiscal year 2015, the board implemented a new accounting standard related to pension plans. The standard required new note disclosures, related to the board’s participation in defined benefit and defined contribution retirement plans, and outlined disclosures by plan type. The board’s note disclosures for this standard, contained in Note 12, did not include all GAAP-required elements for either plan type. Additionally, the disclosures reported incorrect amounts associated with the defined benefit plan for the state as a whole, ranging from approximately \$751.64 million to \$2.14 billion.

We communicated each of these errors to the board as part of the audit, and the board made the necessary adjustments to the notes to fully and accurately disclose its activity in accordance with GAAP. However, given the nature and significance of the errors, we consider the board to have a significant deficiency in its internal controls over financial reporting.

State accounting policy requires management to establish internal control policies and procedures designed to ensure the accuracy and reliability of financial data, such as note disclosures. While the board had a process in place for someone other than the preparer to review note disclosures, this review process did not include comparing the disclosures to the requirements in GAAP. Because note disclosure requirements may change periodically, based on newly-issued or modified accounting standards, this component of a review is important. The board should enhance its internal control procedures to ensure accurate and complete note disclosures.

RECOMMENDATION #1

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

Independent Auditor's Report and Board Financial Statements

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

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, 2016, 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.

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, 2016, 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-39, and the Pension Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions on page A-39 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-40 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 4, 2016, 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 4, 2016

**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, 2016**

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, 2016. Please read this section in conjunction with the financial statements and accompanying notes.

Summary

- 479 single-family mortgages were purchased for \$64.6 million.
- 121 Mortgage Credit Certificates were issued on a total loan amount of \$23.8 million.
- \$26.9 million of Low Income Housing Tax Credits were awarded providing equity to produce or preserve affordable rental housing.
- 3 Reverse Annuity Mortgage (RAM) Loans were originated in the amount of \$358 thousand. Since its inception the RAM program has assisted 209 elderly households.
- The Board issued \$129 million of new debt which included refunding as well as new money.
- Bond debt retired was \$123.4 million from prepayments and regular debt service.
- Bond debt payable decreased from \$476 million to \$471 million in the Single Family Program.
- Net position increased by \$2 million during 2016.

Fiscal Year 2016 Update

Homeownership Program:

Fiscal year 2016 had market rates for first mortgage loans remaining in the sub - 4% area. Due to these continued low rates, some of the loans previously purchased at the higher mortgage loan rates were paid off or refinanced causing a decline in mortgage receivable in FY 2016. The MBOH rate is now holding at 3.25% and with a slow increase in the market rates we are seeing lower payoffs and refinancing and a steady increase in new loan purchases.

MBOH is continuing its loan servicing service and adding loans to the servicing portfolio. During FY 2016 the Board serviced approximately 80% of the mortgage loans it owns.

Finance:

MBOH's investment income is continuing to have slow growth caused by enduring low investment rates. The low mortgage rates are continuing to affect loans owned by MBOH as borrowers refinance out of existing MBOH loans. MBOH is continuing to close the gap between the number of loans paid off and new loans purchased.

In spite of a decrease in revenue in FY 2016, MBOH had an increase in income due to a drop in expenses during that same period. The fiscal year ended with an operating income of \$2.1 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. As a result, 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.

Economic improvements, while still slow, have helped the MBOH and its programs to continue to help Montana's hard-working families and communities to have safe and affordable homes.

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.

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, 2016 and 2015**

	2016		2015
Assets:			
Current Assets	\$ 155,399,323	(A)	\$ 160,521,658
Noncurrent Assets	485,569,797		484,377,062
Total Assets	640,969,120		644,898,720
Deferred Outflow of Resources:	696,030		720,392
Liabilities:			
Current Liabilities	21,852,534		21,463,875
Noncurrent Liabilities	465,835,590	(B)	472,107,998
Total Liabilities	487,688,124		493,571,873
Deferred Inflows of Resources:	105,665		310,964
Net Position:			
Invested in Capital Assets	3,489		4,504
Restricted	153,867,872		151,731,771
Total Net Position	153,871,361		151,736,275
Operating Revenue:			
Interest on Loans	20,489,488		22,257,970
Federal Financial Assistance	51,478		623,358
Earnings from Investments	3,379,559		1,870,471
Fees and Charges	983,440		1,186,381
Other Income	50,354		105,559
Total Operating Revenue	24,954,319	(C)	26,043,739
Operating Expenses:			
Bond Expenses	15,560,471		18,404,947
Servicing Fees	907,112		1,253,067
General and Administrative	6,390,211		4,918,525
Total Expenses	22,857,794	(D)	24,576,539
Operating Income	2,096,525		1,467,200
Nonoperating revenue			
Pensions - nonemployer contributions	38,561		32,527
Total Nonoperating Income	38,561		32,527
Increase (Decrease) in Net Position	2,135,086		1,499,727
Net Position, Beginning of Year	151,736,275		151,748,705
Prior Period Adjustment - Pensions	0		(1,453,709)
Prior Period Adjustment	0		(58,448)
Net Position, End of Year	\$ 153,871,361	(E)	\$ 151,736,275

Discussion of Changes

- (A) Current assets decreased by 3.2% with decreases in all areas other than Cash and Equivalents and Prepaid Expenses due to slow economic growth and a drop in mortgage receivable.
- (B) Non-current liabilities decreased by 1.3% for a \$6.3 million reduction mainly due to a \$6 million reduction in long-term Net Bonds Payable.
- (C) Revenues decreased 4.2% from FY 15 due mainly to the decrease in interest on loans. Borrower refinancing and payoffs caused the MBOH loan portfolio to be less profitable during FY16.
- (D) Total expenses dropped 7% mainly due to the refunding of four higher interest bond issues with new lower interest bond issues.
- (E) Overall the \$2.1 million increase in net position was due in part to the decrease in expenses mainly from the strategic refunding of higher interest rate bond issues and an increase in fair market value of investment.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 84,936,452
Investments	52,738,216
Mortgage Loans Receivable	13,176,901
Interest Receivable	4,393,388
Due from Other Governments	6,583
Prepaid Expense	147,783
Total Current Assets	<u>155,399,323</u>

Noncurrent Assets

Investments	30,004,511
Mortgage Loans Receivable	452,330,932
Mortgage Backed Securities	1,023,829
Acquisition Costs	2,207,036
Capital Assets, Net	3,489
Total Noncurrent Assets	<u>485,569,797</u>

TOTAL ASSETS

640,969,120

DEFERRED OUTFLOW OF RESOURCES

Deferred Refunding Costs	512,761
Deferred Pension Outflow	183,269
TOTAL DEFERRED OUTFLOWS	<u>696,030</u>

LIABILITIES

Current Liabilities

Accounts Payable	2,059,657
Funds Held For Others	4,235,748
Accrued Interest - Bonds Payable	1,482,128
Bonds Payable, Net	13,550,000
Arbitrage Rebate Payable to U.S. Treasury Department	409,013
Accrued Compensated Absences	115,988
Total Current Liabilities	<u>21,852,534</u>

Noncurrent Liabilities

Bonds Payable, Net	463,463,931
Arbitrage Rebate Payable to U.S. Treasury Department	352,565
Accrued Compensated Absences	164,508
Net Pension Liability	1,451,587
Other Postemployment Benefits	402,999
Total Noncurrent Liabilities	<u>465,835,590</u>

TOTAL LIABILITIES

487,688,124

DEFERRED INFLOW OF RESOURCES

Deferred Pension Inflow	105,665
TOTAL DEFERRED INFLOWS	<u>105,665</u>

NET POSITION

Net Investment in Capital Assets	3,489
Restricted for Bondholders:	
Unrealized (losses) gains on investments	7,644,114
Single Family Programs	110,466,005
Various Recycled Mortgage Programs	13,582,094
Multifamily Programs	11,274,544
Multifamily Project Commitments	143,007
Reverse Annuity Mortgage Program	7,930,742
Restricted for Affordable Revolving Loan Program	2,827,366
TOTAL NET POSITION	<u>\$ 153,871,361</u>

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, 2016

	FY 2016
OPERATING REVENUES	
Interest Income - Mortgage Loans	\$ 20,489,488
Interest Income - Investments	1,720,734
Fee Income	983,440
Federal Financial Assistance	51,478
Net Increase (Decrease) in Fair Value of Investments	1,658,825
Other Income	50,354
Total Operating Revenues	<u>24,954,319</u>
 OPERATING EXPENSES	
Interest on Bonds	15,560,471
Servicer Fees	907,112
Contracted Services	791,884
Amortization of Refunding Costs	95,524
Bond Issuance Costs	1,365,816
General and Administrative	3,785,255
Arbitrage Rebate Expense	310,067
Other Post-Employment Benefits	41,665
Total Operating Expenses	<u>22,857,794</u>
Operating Income	<u>2,096,525</u>
 Nonoperating Revenues	
Pensions - nonemployer contributions	38,561
Nonoperating income	<u>38,561</u>
Increase (Decrease) in Net Position	2,135,086
Net Position, July 1	<u>151,736,275</u>
Net Position, End of Year	<u><u>\$ 153,871,361</u></u>

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, 2016

CASH FLOWS FROM OPERATING ACTIVITY:

Receipts for Sales and Services	\$ 987,552
Collections on Loans and Interest on Loans	87,530,536
Collection on Loan Escrow Accounts	(92,640)
Cash Payments for Loans	(64,591,613)
Federal Financial Assistance Receipts	(42,166)
Payments to Suppliers for Goods and Services	(2,416,226)
Payments to Employees	(1,885,039)
Other Operating Revenues	50,354
Net Cash Provided (Used) by Operating Activities	<u>19,540,758</u>

CASH FLOWS FROM NONCAPITAL**FINANCING ACTIVITIES:**

Payment of Principal and Interest on Bonds and Notes	(153,465,702)
Proceeds from Issuance of Bonds and Notes	129,045,000
Payment of Bond Issuance Costs	(1,365,816)
Premium Paid on Refunding of Bonds	3,014,530
Pension - Nonemployer Contributions	38,561
Pension - Deferred Inflows/Outflows	(276,461)
Transfers in (out)	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(23,009,888)</u>

CASH FLOWS FROM CAPITAL AND RELATED**FINANCING ACTIVITIES:**

Purchase of Mortgage Servicing Rights	(465,496)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(465,496)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of Investments	(349,821,023)
Proceeds from Sales or Maturities of Investments	371,585,551
Gain (Loss) on Sale of Investments	
Interest on Investments	3,431,865
Arbitrage Rebate Tax	(452,514)
Net Cash Provided (Used) by Investing Activities	<u>24,743,879</u>

Net Increase (Decrease) in Cash and Cash Equivalents	20,809,253
Cash and Cash Equivalents, July 1	64,127,199
Cash and Cash Equivalents, June 30	<u>\$ 84,936,452</u>

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, 2016

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income	\$	2,096,525
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**ADJUSTMENTS TO RECONCILE OPERATING
INCOME TO NET CASH PROVIDED BY
(USED FOR) OPERATING ACTIVITIES:**

Depreciation		1,016
Amortization		(380,755)
Interest Expense		17,273,740
Interest on Investments		(1,631,724)
Arbitrage Rebate Tax		310,067
Change in Assets and Liabilities:		
Decr (Incr) in Mortgage Loans Receivable		3,188,049
Decr (Incr) in Other Assets		238,267
Decr (Incr) in Fair Value of Investments		(1,658,830)
Incr (Decr) in Accounts Payable		(34,159)
Incr (Decr) Funds Held for Others		(203,410)
Incr (Decr) Pensions Payable		248,092
Incr (Decr) in Compensated Absences Payable		52,215
Incr (Decr) Other Postemployment Benefits		41,665
Net Cash Provided (Used) by Operating Activities	<u>\$</u>	<u>19,540,758</u>

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

MONTANA BOARD OF HOUSING
(A Component Unit of the State of Montana)
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2016

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. 72, *Fair Value Measurement and Application*. In accordance with this statement, certain assets and liability have been presented at fair value and the appropriate disclosures are included.

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 6 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 - 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 \$3,489 of net investment in capital assets and \$153,867,872 of restricted net position. All restricted funds are restricted by enabling legislation and agreements with bond holders.

Revenue and Expense Recognition:

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as 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

MONTANA BOARD OF HOUSING
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Fiscal Year Ended June 30, 2016

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 one federal grant, the National Foreclosure Mitigation Counseling (NeighborWorks America funded by the Congress of the United States).

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.

The Board values all of its investments at fair value with the exception of certain investments that have a remaining maturity at the time of purchase of one year or less which are measured at amortized cost.

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 9 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. 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, Allowance for Loan Losses and fair value of Investments.

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

MONTANA BOARD OF HOUSING
(A Component Unit of the State of Montana)
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2016

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, 2016, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

Program Funds:

Cash Deposited with State Treasury	\$ 6,976,884
Cash on Hand *	6,441
Short-Term Investments	<u>77,953,127</u>
	<u>\$84,936,452</u>

* Cash on hand is a combination of cash held for customer change and cash or checks received but not deposited on June 30, 2016.

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 2016, 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 2016 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 2016. Moreover, there were no losses during fiscal year 2016 resulting from a default of the borrowers or State Street.

During fiscal year 2016, 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, 2016, State Street Bank indemnified the BOI's credit risk exposure to borrowers.

On June 30, 2016 the Board of Housing there were no securities on loan with the BOI.

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 in accordance 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.

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	Fair Value June 30, 2016	Moody's Rating	Standard & Poor's Rating	Effective Duration
<u>Investment Contracts</u>				
Société Générale	\$ 2,200,000	NR	NR	NA
<u>Government Sponsored Enterprises</u>				
FNMA* Discount	3,581,085	Aaa	AA+	0.10
Federal Home Loan Bank Discount Notes	46,994,543	Aaa	AA+	0.45
FNMA* Medium Term Notes	17,428,506	Aaa	AA+	7.87
FNMA* Mortgage Backed Securities	1,023,829	Aaa	AA+	13.13
Federal Farm Credit Bank Notes	2,173,306	Aaa	AA+	5.73
FHLMC** Bond	3,366,247	Aaa	AA+	9.98
	<u>74,567,516</u>			
U. S. Treasury Bonds	7,036,451	Aaa	AA+	6.88
Trustee Cash & Money Market Accounts	77,953,128	NR	NR	NA
Total Investments	<u><u>\$161,757,095</u></u>			

* Federal National Mortgage Association

** Federal Home Loan Mortgage Corporation

***Includes cash on hand

NR Not Rated

NA Not Applicable

NOTE 5. FAIR VALUE MEASUREMENT

The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as follows:

- Level 1 – Quoted prices for identical assets or liabilities in active markets
- Level 2 – Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.
- Level 3 – Prices are determined using unobservable inputs.

MONTANA BOARD OF HOUSING
 (A Component Unit of the State of Montana)
 NOTES TO THE FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2016

	June 30, 2016	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
<u>Investments by Fair Value</u>				
Fixed Income Investment				
Treasuries	\$ 7,036,451	\$ 7,036,451		
Agency/Government Related Commercial Mortgage Backed Securities	73,543,687		\$ 73,543,687	
Investment Agreements	1,023,829		1,023,829	
Total Investments	<u>\$ 83,803,967</u>	<u>\$ 7,036,451</u>	<u>\$ 76,767,516</u>	<u>\$ 0.00</u>

Fixed income investments classified in Level 1 of the fair value hierarchy above are valued using prices quoted from live sources such as active markets and inter-dealer brokers. Fixed income investments classified in Level 2 of the fair value hierarchy are valued using matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

NOTE 6. 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, 2016 consist of the following:

Single Family Program	\$444,347,301
Multifamily Program	9,378,271
Housing Trust Program	3,713,745
Housing Montana Fund	<u>2,225,511</u>
	459,664,828
Net mortgage discounts and premiums	5,859,419
Allowance for losses and real estate owned (Note 7)	<u>(300,000)</u>
	<u>\$465,224,247</u>

MONTANA BOARD OF HOUSING
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NOTE 7. 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, 2016 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 4 real estate owned properties as of June 30, 2016. The properties' combined loan amounts were \$290,126 as of June 30, 2016. 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 6).

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

Balance as of June 30, 2015	\$ 300,000
Provision	-
Less: Net loans charged off	-
Balance as of June 30, 2016	\$ 300,000

NOTE 8. CAPITAL ASSETS

Capital assets consist primarily of computer software and equipment and other office equipment. Capital asset balances as of June 30, 2016 are as follows:

Capital Assets – Equipment	\$ 11,320
Accumulated Depreciation	(7,832)
Net Capital Assets	\$ 3,488

Depreciation expense included in general and administrative expense was \$1,016 for the year ended June 30, 2016.

NOTE 9. 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, 2016:

Single Family I Mortgage Bonds:	Original Amount	Balance
2007		
Series B serial and term bonds at 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	18,140,000
2007		
Series C serial and term bonds at 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	6,605,000

MONTANA BOARD OF HOUSING
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2007		
Series D serial and term bonds at 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	11,460,000
2015		
Series B-1 and B-2 serial and term bond at 0.50% to 4.0% maturing in scheduled semi-annual installments to December 1, 2026, December 1, 2030, December 1, 2038, and December 1, 2042.	64,400,000	61,025,000
2016		
Series A-1 and A2 serial and term bonds at 0.65% to 3.50% maturing in scheduled semi-annual installments to December 1, 2027, December 1, 2031, December 1, 2036, December 1, 2039, June 1, 2042, and June 1, 2044	64,645,000	64,645,000
Bonds outstanding Single Family I		\$161,875,000
Unamortized bond premium (discount)		<u>3,408,475</u>
Total Bonds Payable Single Family I		\$165,283,475

Single Family II Mortgage Bonds:	Original Amount	Balance
2008		
Series A serial and term bonds at 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	6,640,000
2013		
Series A-1, A-2, and A-3 serial and term bonds at 0.20% to 3.75% maturing in semi-annual installments to December 1, 2025, December 1, 2028, December 1, 2033, December 1, 2037, December 1, 2038 and December 1, 2043.	73,000,000	51,010,000
2013		
Series B-1 and B-2 serial and term bonds at 0.45% to 5.30% maturing in semi-annual installments to December 1, 2025, December 1, 2028, December 1, 2033, December 1, 2038 and December 1, 2043.	59,980,000	43,710,000
2014		
Series A-1, A-2 and A-3 serial and term bonds 0.25% to 4.15% maturing in semi-annual installments to December 1, 2025, December 1, 2029, June 1, 2032, December 1, 2035 and December 1, 2043.	71,500,000	59,965,000

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2015

Series A serial and term bonds at 0.20% to 3.50% maturing in semi-annual installments to December 1, 2026, December 1, 2029, December 1, 2034, June 1, 2040.	20,000,000	18,045,000
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Bonds outstanding Single Family II		\$179,370,000
Unamortized bond premium (discount)		<u>1,841,933</u>
Total Bonds Payable Single Family II		\$181,211,933

Single Family XI Mortgage Bonds:**2009**

	Original Amount	Balance
Series B term Bonds at 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	\$ 16,500,000

2009

Series C term Bonds at 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	12,555,000
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2009

Series D term Bonds at 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	16,325,000
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2009

Series E term Bonds at 2.67% maturing December 1, 2041. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	25,000,000	21,380,000
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2011

Series A serial and term bonds at 0.60% to 5.00%, maturing in semi-annual installments to December 1, 2022, December 1, 2026, June 1, 2028, and December 1, 2028.	16,400,000	8,565,000
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2011

Series B-1 and B-2 serial and term bonds, 1.00% to 5.00%, maturing in semi-annual installments to December 1, 2019, December 1, 2022, December 1, 2026, and December 1, 2027.	38,175,000	18,280,000
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2012

Series A-1 and A-2 serial and term bonds, 0.375% to 4.00%, maturing in semi-annual installments to December 1, 2024, December 1, 2027, December 1, 2030, December 1, 2038, and	56,280,000	30,325,000
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December 1, 2041.

Bonds outstanding Single Family XI		\$123,930,000
Unamortized bond premium (discount)		<u>653,088</u>
Total Bonds Payable Single Family XI		\$124,583,088

Single Family General Obligation Bonds:	Original Amount	Balance
2008 Series A General Obligation Private Placement Bonds	\$ 497,942	\$ 363,923

Total Single Family Mortgage Bonds Payable, Net **\$471,442,419**

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, 2016, \$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	\$ 235,000
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	5,370,000
Bonds outstanding Multifamily		\$5,605,000
Unamortized bond premium / discount		<u>(33,488)</u>
Total Multifamily Mortgage Bonds Payable, Net		<u>\$5,571,512</u>

All Multifamily mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 102%. The 1998A Multifamily bonds are general obligations of the Board.

Combined Total Single and Multifamily Bonds Payable, Net **\$477,013,931**

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The following is a summary of bond principal and interest requirements as of June 30, 2016:

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
2017	\$ 29,136,216	\$ 450,171	\$ 13,550,000	\$ 16,036,387
2018	30,612,311	453,744	15,325,000	15,741,055
2019	30,741,231	456,785	15,795,000	15,403,016
2020	30,816,111	459,174	16,265,000	15,010,285
2021	30,908,205	460,977	16,800,000	14,569,182
2022-26	158,691,522	2,316,352	96,575,000	64,432,874
2027-31	149,709,283	2,238,549	105,880,000	46,067,832
2032-36	122,399,121	2,052,394	98,100,000	26,351,515
2037-41	78,873,136	2,163,690	70,748,923	10,287,903
2042-46	23,261,442	0	22,105,000	1,156,442
Total	<u>\$ 685,148,578</u>	<u>\$ 11,051,836</u>	<u>\$ 471,143,923</u>	<u>\$ 225,056,491</u>

Cash paid for interest expenses during the year ended June 30, 2016 was \$17,410,583.

Changes in Bonds Payable

	6/30/2015 Balance	Additions	Reductions	6/30/2016 Balance
Single Family	\$ 476,963,432	\$ 129,045,000	\$ 134,566,013	\$ 471,442,419
Multi Family	5,759,359	-	187,847	5,571,512
Total	<u>\$ 482,722,791</u>	<u>\$ 129,045,000</u>	<u>\$ 134,753,860</u>	<u>\$ 477,013,931</u>

NOTE 10. BOND REDEMPTION

During the year ended June 30, 2016 the Board redeemed Single Family and Multi-Family mortgage program bonds prior to scheduled maturity as follows:

Single Family I	
December 1	\$ 22,970,000
June 1	38,425,000
November 2	<u>25,715,000</u>
	87,110,000
Single Family II	
December 1	12,660,000
June 1	<u>8,625,000</u>
	21,285,000
Single Family XI	
December 1	8,380,000
June 1	<u>6,575,000</u>
	<u>14,955,000</u>
Total	<u><u>\$123,350,000</u></u>

The 2006 Series A PAC was redeemed at 101.24%. All other such Bonds were redeemed at par or 100% of their compounded value to date of redemption.

NOTE 11. COMMITMENTS

Single Family Indentures - The Board has bond proceeds available for the purchase and reservation of single family mortgages of approximately \$30,636,734 in the Single Family I Indenture.

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

Foreclosure Prevention	\$ 45,635
Disabled Affordable Accessible Homeownership	862,950
Lot Refinance	726,440
Habitat for Humanity	1,000,000
80% Combined Program	5,000,000
Down Payment Assistance	708,969
Down Payment Pool	<u>10,767,068</u>
Total Single Family Commitments	<u><u>\$19,111,062</u></u>

Single Family I - Reverse Annuity Mortgage Program Future Loan Amounts \$2,287,895

Single Family I & II – \$180,000 of funding for Homebuyer Education for fiscal year 2017

Multifamily Program:

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Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD) \$143,007

Housing Trust Fund Program:
Reverse Annuity Mortgage Program Funds \$6,052,213

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

NOTE 12. EMPLOYEE BENEFIT PLANS

General Information about the Pension Plan

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pension*, employers and non-employer contributing entities 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 that contributing entities 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 either the PERS Defined Benefit Retirement Plan (DBRP) or the PERS Defined Contribution Retirement Plan (DCRP). Both the DBRP and the DCRP are administered by Montana Public Employee Retirement Administration (MPERA). The DBRP is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapter 2 & 3, Montana Code Annotated (MCA). The DCRP is a multiple-employer plan created by the 1999 legislature and made available to all active PERS members effective July 1, 2002. Both the DBRP and the DCRP provide retirement, disability, and death benefits to plan members and their beneficiaries.

All new PERS members are initially members of the DBRP and have a 12-month window during which they may choose to remain in the DBRP or join the DCRP by filing an irrevocable election. Benefits are established by state law and can only be amended by the Legislature. Members may not be participants of both the defined benefit and defined contribution retirement plans. For members that choose to join the DCRP, a percentage of the employer contributions will be used to pay down the liability of the DBRP.

The DBRP benefits are based on eligibility, years of service and highest average compensation. Member rights are vested after five years of service.

DCRP benefits depend upon eligibility and individual account balances. Participants are immediately vested in their own contributions and any income that results from the contributions. Participants are vested after five years of membership service for the employer's contributions to individual accounts and the resulting income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the DCRP.

At the plan level for the year ended June 30, 2016, the DCRP plan member contributions were \$9,970,012; employer contributions were \$6,494,143; and employers did not recognize any expenses and carry no liability for the defined contribution plan. Plan level non-vested forfeitures for the 289 employers that have participants in the DCRP totaled \$382,656.

For the purposes of measuring the net pension liability, deferred inflows/outflows of resources related to pensions, and pension expense, information about the fiduciary net position of 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

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benefit terms. Investments are reported at fair value. PERS adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

The State of Montana has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Tax Severance fund. All employers are required to report the portion of Coal Tax Severance income and earnings attributable to the employer.

Net Pension Liability

At June 30, 2016, the Board had a Net Pension Liability (NPL) of \$1,451,587 and the Boards proportionate share of the Defined Benefit Retirement Plan Net Pension Liability was 0.104%. The employer's proportion of the NPL was based on the employer's contributions received by PERS during the measurement period July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERS' participating employers.

Pension Expense:

At June 30, 2016, the Board recognized its proportionate share of the PERS' Pension Expense of \$116,353. The Board also recognized grant revenue of \$38,561 from Coal Tax Fund.

Deferred Pension Inflow/Outflow:

At June 30, 2016, the Board reported its proportionate share of PERS' deferred outflows of resources of \$183 thousand and pension deferred inflows was \$106. The factors leading to deferred inflows and deferred outflows relating to pensions were as follows:

	Deferred Outflows of Resources (in thousands)	Deferred Inflows of Resources (in thousands)
Actual vs. Expected Experience	\$ 0	\$ 7
Changes in Assumptions	0	0
Actual vs Expected Investment Earnings	0	99
Changes in Proportion Share and Differences between Employer Contributions and Proportionate Share of Contributions	69	0
Employer Contributions subsequent to the measurement date - # FY2016 Contributions	114	
Total	\$ 183	\$ 106

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, 2017. 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)
2017	\$ (33)
2018	(33)
2019	(33)
2020	32
2021	0
Thereafter	0

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Summary of Benefits

Member benefits are calculated using a formula based on salary and years of service as follows:

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.

Vesting – 5 years of membership service entitles employee to lifetime monthly benefit at retirement or refund of employee contributions plus interest only.

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

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):

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

3% for members hired prior to July 1, 2007

1.5% for members hired between July 1, 2007 and June 30, 2013

Members hired on or after July 1, 2013:

- a) 1.5% for each year PERS is funded at or above 90%;
- b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
- c) 0% whenever the amortization period for PERS is 40 years or more.

Overview of Contributions

The DBRP and the DCRP rates are specified by state law for periodic member and employer contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has the authority to establish and amend contribution rates to the plan. Member and employer contribution rates are shown below.

- 1) Member contributions to the system at a rate of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that 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.
- 2) Employer contributions to the system:
 - a. State of Montana employers were required to contribute 8.37% in fiscal year 2016.
 - b. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions, including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
 - c. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
 - d. The portion of employer contribution allocated to the Plan Choice Rate (PCR) is included in the employer's reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
- 3) Non-Employer Contributions:
 - a. Not Special Funding
 - i. The State contributes a portion of Coal Severance Tax income and earnings from the Coal Trust Permanent Trust Fund.

The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report (CAFR). The PERS CAFR is available from the PERB at 100 North Park, P O Box 200131, Helena, MT 59620-0131, (406) 444-3154

CAFR information including PERS stand-alone financial statements can be found on the PERS website (<http://mpera.mt.gov/annualReports.shtml>)

The latest actuarial valuation and experience study can be found on the MPERA website (<http://mpera.mt.gov/actuarialvaluations.shtml>)

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Assumptions and Other Inputs

Actuarial Assumptions:

The Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

Investment Return (net of admin expense)	7.75%
Administration Expense as % of Payroll	0.27%
General Wage Growth*	4%
*Includes Inflation at	3%
Merit Increases	0% to 6%
Post Retirement Increases	

Guaranteed Annual Benefit Adjustment (GABA)

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

3% for members hired prior to July 1, 2007

1.5% for members hired between July 1, 2007 and June 30, 2013

Members hired on or after July 1, 2013

- a) 1.5% for each year PERS is funded at or above 90%
- b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
- c) 0% whenever amortization period for PERS is 40 years or more

Mortality assumptions among contributing members, terminated vested members, service retired Members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality 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.

Discount Rate:

The discount rate used to measure 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. 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. 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 2123. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine Total Pension Liability. A municipal bond rate was not incorporated in the discount rate.

Target Allocations:

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period of fiscal years 2003 through 2009, is outlined in a report dated June 2010 and is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of 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 an 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

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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. Summarized in the table below are best estimates of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	(0.25%)
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

Sensitivity Analysis:

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	\$ 2,155,221	\$ 1,397,872	\$ 758,312
BOH	2,238	1,452	787

Summary of Significant Accounting Policies – DBRP:

The DBRP prepares its financial statements using the accrual basis of accounting. For the purposes of measuring Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due.

Changes in actuarial assumptions and methods:

There were no changes in assumptions or other inputs that affected measurement of TPL.

Changes in benefit terms:

Three have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share:

There were no changes between the measurement date of the collective Net Pension Liability and MBOH's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective TPL.

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.

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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 \$963 and \$1,260 per month depending on the medical plan selected, family coverage, and eligibility. Administratively established premiums vary between \$41.10 and \$70 per month for dental and between \$7.64 and \$22.26 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 20% 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 13. 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 made \$ 452,514 in arbitrage rebate cash payments to The United States Treasury Department in fiscal year 2016. The related liability was \$761,578 as of June 30, 2016.

Beginning Balance, July 1, 2015	\$ 904,024
Additions	310,068
Reductions	(452,514)
Ending Balance, June 30, 2016	<u>\$ 761,578</u>

NOTE 14. 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, 2016 are as follows:

Bond Series	Original Amount	Balance
Multifamily Housing Revenue Bonds Series 2007A	5,100,000	4,708,314

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Multifamily Housing Revenue Bonds Series 2008A	2,413,600	1,961,579
Multifamily Housing Revenue Bonds Series 2012 A-1	857,000	818,910
Multifamily Housing Revenue Bonds Series 2012 A-2	4,032,000	3,856,165
Multifamily Housing Revenue Bonds Series 2012 B-1	857,000	830,365
Multifamily Housing Revenue Bonds Series 2015A	15,500,000	2,672,619

NOTE 15. 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	\$ 512,761
Total unamortized	<u>\$ 512,761</u>

NOTE 16. 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

MONTANA BOARD OF HOUSING
(A Component Unit of the State of Montana)
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2016

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 12, Employee Benefit Plans, the following post-employment benefits are provided:

Montana Department of Administration established retiree medical premiums vary between \$416 and \$1,506 administratively established dental premiums vary between \$41.10 and \$70.00; vision hardware premiums vary between \$7.64 and 22.26 both premiums vary depending on the coverage selected. Basic life insurance in the amount of \$14,000 is provided until age 65 at a cost of \$1.90 per month to the retiree. The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Dental claims are reimbursed up to \$1,800 for diagnostic/preventative and 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 2016 ARC is calculated for all the plan's participants and then individually allocated to individual participants. The Board's 2016 ARC is estimated at \$51,979 and is based on the plan's current ARC rate of 3.34% percent of participants' annual covered payroll. The Board's 2016 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

MONTANA BOARD OF HOUSING
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NOTES TO THE FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2016

Statement No. 45, and liability is estimated at \$402,999 for the Board. (The actuarial accrued liability is the present value of future retiree benefits and expenses.)

Actuarial Methods and Assumptions:

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

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

The actuarial valuation method used is the projected unit credit funding method. The actuarial assumptions did not include an investment rate of return since no assets meet the definition of plan assets under GASB Statement No. 43 or No. 45. Annual healthcare cost trend rates of 9.5 percent for medical and 9.0 percent for prescription claims are used for the 2016 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 2016, the Board's allocated annual OPEB cost (expense) of \$41,665, 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
6/30/2016	55,439	25%	402,999

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

MONTANA BOARD OF HOUSING
 (A Component Unit of the State of Montana)
 NOTES TO THE FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2016

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)	\$ 461,765
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	461,765
Funded Ratio (Actuarial Value of Plan Assets/AAL)	-
Covered Payroll (Active Plan Members)	1,557,396
UAAL as a Percentage of Covered Payroll	29.65%

NOTE 17. INTERFUND BALANCES

The following interfund balances have been eliminated from the Combining Statement of Revenues, Expenses and Changes in Net Position to report the Statement of Revenues, Expenses and Changes in Net Position for all programs net of interfund activity for June 30, 2016:

Fee Income and Servicers Fees related to in-house loan servicing	\$1,273,149
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MONTANA BOARD OF HOUSING
(A Component Unit of the State of Montana)
REQUIRED SUPPLEMENTARY INFORMATION
Fiscal Year Ended June 30, 2016

Schedule of Funding Progress for Board of Housing
Other Post-Employment Benefits (Financial Statements Note 16)

As of June 30, 2016, the most recent actuarial valuation available that was completed by the state of Montana was as of November 10, 2015 for the fiscal year ending June 30, 2015. 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, 2016.

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%
1/1/2015	0	461,765	461,765	0	1,557,396	29.65%

*Projected unit credit funding method.

Pension Benefits (Financial Statement Note 12)

**Schedule of Proportionate Share of the Net Pension Liability
For the Last Ten Fiscal Years*
(Dollar amounts in thousands)**

	2016	2015
Proportionate share of Net Pension Liability as a percentage	0.10%	0.10%
Proportionate share of Net Pension Liability as an amount	\$ 1,452	\$ 1,203
Pensionable payroll	1,208	1,079
Proportionate share of the Net Pension Liability as a percentage of its Pensionable Payroll	120.20%	111.44%
Plan fiduciary net position as a percentage of total Pension Liability	78.4%	79.9%

**Schedule of Contributions
For the Last Ten Fiscal Years*
(Dollar amounts in thousands)**

	2016	2015
Contractually required contributions	\$ 106	\$ 89
Contributions made	106	89
Contribution deficiency (excess)	\$ 0	\$ 0
Share pensionable payroll	1,208	1,079
Contributions as a percentage of pensionable payroll	8.76%	8.80%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**MONTANA BOARD OF HOUSING
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COMBINING STATEMENT OF NET POSITION
AS OF JUNE 30, 2016**

	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	\$ 55,191,001	\$ 12,386,624	\$ 5,511,866	\$ 73,089,491	\$ 5,946,207	\$ 4,847,018	\$ 609,656	\$ 444,080	\$ -	\$ 84,936,452
Investments	6,394,459	41,135,121	1,717,742	49,247,322	3,490,894	-	-	-	-	52,738,216
Mortgage Loans Receivable	4,070,309	5,126,859	3,698,726	12,895,894	247,895	21,088	-	12,024	-	13,176,901
Interest Receivable	834,933	1,031,608	740,329	2,606,870	42,909	209,893	1,375,358	158,358	6,583	4,393,388
Due from Other Governments	47,327	47,385	-	94,712	6,290	26,319	20,462	-	-	147,783
Prepaid Expense	66,538,029	59,727,597	11,668,663	137,934,289	9,734,195	5,104,318	2,005,476	614,462	6,583	155,399,323
Total Current Assets										
Noncurrent Assets										
Investments	8,461,271	8,511,548	13,031,692	30,004,511	-	-	-	-	-	30,004,511
Mortgage Loans Receivable	147,731,082	177,349,176	111,930,569	437,010,827	9,130,374	262,504	3,713,743	2,213,484	-	452,330,932
Mortgage Backed Securities	-	1,023,829	-	1,023,829	-	-	-	-	-	1,023,829
Acquisition Costs	-	-	-	-	-	2,207,036	-	-	-	2,207,036
Capital Assets, Net	1,329	2,008	-	3,337	76	-	76	-	-	3,489
Total Noncurrent Assets	156,193,682	186,896,561	124,962,261	468,042,504	9,130,450	2,469,540	3,713,819	2,213,484	-	485,569,797
TOTAL ASSETS	222,731,711	246,614,158	136,630,924	605,976,793	18,864,645	7,573,858	5,719,295	2,827,946	6,583	640,969,120
DEFERRED OUTFLOW OF RESOURCES										
Deferred Refunding Costs	269,987	141,995	100,779	512,761	-	-	-	-	-	512,761
Deferred Pension Outflow	59,941	59,941	119,882	119,882	-	63,387	-	-	-	183,269
TOTAL DEFERRED OUTFLOWS	329,928	201,936	100,779	632,643	-	63,387	-	-	-	696,030
LIABILITIES										
Current Liabilities										
Accounts Payable	86,132	157,034	51,266	294,432	6,798	1,730,131	21,133	580	6,583	2,059,657
Funds Held For Others	-	-	-	-	1,712,448	2,523,300	-	-	-	4,235,748
Accrued Interest - Bonds Payable	487,137	508,078	340,402	1,335,617	146,511	-	-	-	-	1,482,128
Bonds Payable, Net	3,545,000	5,485,000	4,420,000	13,450,000	100,000	-	-	-	-	13,550,000
Arbitrage Rebate Payable to U.S. Treasury Department	34,276	-	374,737	409,013	-	-	-	-	-	409,013
Accrued Compensated Absences	26,442	26,442	52,884	52,884	3,324	40,942	18,838	580	-	115,988
Total Current Liabilities	4,178,987	6,176,554	5,186,405	15,541,946	1,969,081	4,294,373	39,971	580	6,583	21,852,554
Noncurrent Liabilities										
Bonds Payable, Net	161,738,475	176,090,856	120,163,088	457,992,419	5,471,512	-	-	-	-	463,463,931
Arbitrage Rebate Payable to U.S. Treasury Department	12,267	21,592	318,706	352,565	6,425	-	-	-	-	352,565
Accrued Compensated Absences	40,554	40,555	81,109	81,109	6,425	40,573	36,401	-	-	164,508
Net Pension Liability	503,207	503,207	-	1,006,414	-	445,173	-	-	-	1,451,587
OPEB Liability	191,703	191,703	-	383,406	-	19,593	-	-	-	402,999
Total Noncurrent Liabilities	162,486,206	176,847,913	120,481,794	459,815,913	5,477,937	505,339	36,401	-	-	465,835,590
TOTAL LIABILITIES	166,665,193	183,024,467	125,668,199	475,357,859	7,447,018	4,799,712	76,372	580	6,583	487,688,124
DEFERRED INFLOW OF RESOURCES										
Deferred Pension Inflow	56,762	56,762	-	113,524	-	(7,859)	-	-	-	105,665
TOTAL DEFERRED INFLOWS	56,762	56,762	-	113,524	-	(7,859)	-	-	-	105,665
NET POSITION										
Net Investment in Capital Assets Restricted for Bondholders:	1,329	2,008	-	3,337	76	-	76	-	-	3,489
Unrealized (losses) gains on Investments	1,908,040	2,340,319	3,395,755	7,644,114	-	-	-	-	-	7,644,114
Single Family Programs	45,351,373	54,601,491	7,667,749	107,620,613	-	2,845,392	-	-	-	110,466,005
Various Recycled Mortgage Programs	6,791,047	6,791,047	-	13,582,094	-	-	-	-	-	13,582,094
Multifamily Programs	-	-	-	-	11,274,544	-	-	-	-	11,274,544
Multifamily Project Commitments	-	-	-	-	143,007	-	-	-	-	143,007
Reverse Amort Mortgage Program	2,287,895	-	-	2,287,895	-	-	5,642,847	-	-	7,930,742
Restricted for Affordable Revolving Loan Progra	-	-	-	-	-	-	-	2,827,366	-	2,827,366
TOTAL NET POSITION	56,339,684	63,734,865	11,063,504	131,138,053	11,417,627	2,845,392	5,642,923	2,827,366	-	153,871,961

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, 2016

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL ASSISTANCE	TOTAL
OPERATING REVENUES										
Interest Income - Mortgage Loans	\$ 6,168,519	\$ 7,877,384	\$ 5,619,430	\$ 19,660,333	\$ 531,592	\$ -	\$ 254,434	\$ 43,129	\$ -	\$ 20,489,488
Interest Income - Investments	603,883	584,035	552,662	1,740,580	12,018	243	-	(32,107)	-	1,720,734
Fee Income	50,012	26,090	-	76,102	51,020	1,632,789	496,678	-	-	2,256,589
Federal Financial Assistance	-	309	-	309	49,238	-	-	-	1,931	51,478
Net Increase (Decrease) in Fair Value of Investments	474,982	269,684	914,159	1,658,825	-	-	-	-	-	1,658,825
Other Income	25,532	24,784	-	50,316	-	38	-	-	-	50,354
Total Operating Revenues	\$ 7,317,928	\$ 8,782,286	\$ 7,086,251	\$ 23,186,465	\$ 643,868	\$ 1,633,070	\$ 751,112	\$ 11,022	\$ 1,931	\$ 26,227,468
OPERATING EXPENSES										
Interest on Bonds	4,585,314	6,282,028	4,335,899	15,203,241	357,230	-	-	-	-	15,560,471
Servicer Fees	477,272	689,877	457,604	1,624,753	10,375	543,594	-	1,539	-	2,180,261
Contracted Services	169,126	358,537	-	527,663	20,102	172,514	69,642	32	1,931	791,884
Amortization of Deferred Refunding	37,096	21,299	37,129	95,524	-	-	-	-	-	95,524
Bond Issuance Costs	1,365,816	758,953	7,340	1,365,816	122,773	1,629,005	613,599	-	-	1,365,816
General and Administrative	653,585	8,806	247,998	1,419,878	-	-	-	-	-	3,785,255
Arbitrage Rebate Expense	53,263	12,648	-	310,067	-	16,369	-	-	-	310,067
Other Post-Employment Benefits	12,648	-	-	25,286	-	-	-	-	-	41,665
Total Operating Expenses	\$ 7,354,120	\$ 8,132,148	\$ 5,085,970	\$ 20,572,238	\$ 510,480	\$ 2,361,482	\$ 683,241	\$ 1,571	\$ 1,931	\$ 24,130,943
Operating Income (Loss)	(36,192)	650,138	2,000,281	2,614,227	133,388	(728,412)	67,871	9,451	-	2,096,525
Nonoperating Revenue										
Pensions - nonemployer contributions	10,486	10,486	-	20,972	-	17,589	-	-	-	38,561
Nonoperating Income (Loss)	10,486	10,486	-	20,972	-	17,589	-	-	-	38,561
Income (Loss) before Transfers	(25,706)	660,624	2,000,281	2,635,199	133,388	(710,823)	67,871	9,451	-	2,135,086
Transfers In (Out)	171,011	169,917	(340,928)	-	-	-	-	-	-	-
Increase (Decrease) in Net Position	145,305	830,541	1,659,353	2,635,199	133,388	(710,823)	67,871	9,451	-	2,135,086
Net Position, July 1	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
Net Position, End of Year	\$ 56,339,684	\$ 63,734,865	\$ 11,063,504	\$ 131,138,053	\$ 11,417,627	\$ 2,846,392	\$ 5,642,923	\$ 2,827,366	\$ -	\$ 153,871,361

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	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	\$ 50,012	\$ 26,090	\$ -	\$ 76,102	\$ 55,132	\$ 1,632,789	\$ 496,678	\$ -	\$ -	\$ 2,260,701
Collections on Loans and Interest on Loans	27,851,425	33,241,335	24,990,054	86,082,814	1,249,337	(233,726)	293,304	138,807	-	87,530,536
Collection on Loan Escrow Accounts	-	-	-	-	61,903	(154,543)	-	-	-	(92,640)
Cash Payments for Loans	(51,687,254)	(12,904,359)	-	(64,591,613)	(47,577)	-	-	-	-	(64,591,613)
Federal Financial Assistance Receipts	-	309	-	309	(47,577)	-	-	-	-	(42,166)
Payments to Suppliers for Goods and Services	(873,855)	(1,377,583)	(492,126)	(2,743,564)	(97,511)	(469,061)	(372,663)	(1,474)	5,102	(3,689,375)
Payments to Employees	(334,473)	(334,473)	-	(668,946)	(48,918)	(859,898)	(307,277)	-	-	(1,885,039)
Other Operating Revenues	25,532	24,784	-	50,316	38	-	-	-	-	50,354
Net Cash Provided (Used) by Operating Activities	(24,968,613)	18,676,103	24,497,928	18,205,418	1,172,366	(64,401)	110,042	137,333	-	19,540,758
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:										
Payment of Principal and Interest on Bonds and Notes	(95,466,188)	(33,308,311)	(24,141,532)	(152,916,031)	(549,671)	-	-	-	-	(153,465,702)
Proceeds from Issuance of Bonds and Notes	129,045,000	-	-	129,045,000	-	-	-	-	-	129,045,000
Payment of Bond Issuance Costs	(1,365,816)	-	-	(1,365,816)	-	-	-	-	-	(1,365,816)
Premium on Bonds	3,014,530	-	-	3,014,530	-	-	-	-	-	3,014,530
Due From (To) Other Funds*	-	-	-	-	-	-	-	-	-	-
Pension - Nonemployer contributions	10,486	10,486	-	20,972	-	17,589	-	-	-	38,561
Pension - Deferred Inflows/Outflows	(75,178)	(75,178)	-	(150,356)	-	(126,105)	-	-	-	(276,461)
Transfers in (out)	171,011	169,917	(340,928)	-	-	-	-	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	35,333,845	(33,203,086)	(24,482,460)	(22,351,701)	(549,671)	(108,516)	-	-	-	(23,009,888)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:										
Purchase of Fixed Assets	-	-	-	-	-	(465,496)	-	-	-	(465,496)
Purchase of Mortgage Servicing Rights	-	-	-	-	-	(465,496)	-	-	-	(465,496)
Net Cash Provided (Used) in Capital and Related Financing Activities	-	-	-	-	-	(465,496)	-	-	-	(465,496)
CASH FLOWS FROM INVESTING ACTIVITIES:										
Purchase of Investments	(210,179,365)	(105,443,586)	(28,810,163)	(344,433,114)	(5,387,909)	-	-	-	-	(349,821,023)
Proceeds from Sales or Maturities of Investments	232,465,340	103,797,289	27,443,276	363,725,905	7,859,046	-	-	-	-	371,585,551
Gain (Loss) from Sale of Investments	-	-	-	-	-	-	-	-	-	-
Interest on Investments	1,097,859	859,885	1,466,110	3,423,954	7,618	219	74	-	-	3,431,865
Arbitrage Rebate Tax	(452,514)	-	-	(452,514)	-	-	-	-	-	(452,514)
Net Cash Provided (Used) by Investing Activities	22,951,320	(786,312)	99,223	22,264,231	2,479,355	219	74	-	-	24,743,879
Net Increase (Decrease) in Cash and Cash Equivalents	33,316,552	(15,313,295)	114,691	18,117,948	3,102,050	(668,194)	110,116	137,333	-	20,809,253
Cash and Cash Equivalents, July 1	21,874,449	27,689,919	5,397,175	54,971,543	2,844,157	5,505,212	499,540	306,747	-	64,127,199
Cash and Cash Equivalents, June 30	\$ 55,191,001	\$ 12,386,624	\$ 5,511,866	\$ 73,089,491	\$ 5,946,207	\$ 4,847,018	\$ 609,656	\$ 444,080	\$ -	\$ 84,936,452

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	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
Operating Income (Loss)	\$ (36,192)	\$ 650,138	\$ 2,000,281	\$ 2,614,227	\$ 133,388	\$ (728,412)	\$ 67,871	\$ 9,451	\$ -	\$ 2,096,525
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES										
Depreciation	300	640	-	940	38	-	38	-	-	1,016
Amortization	186,273	(434,174)	(129,571)	(377,472)	(3,283)	-	-	-	-	(380,755)
Interest Expense	5,801,903	6,618,651	4,498,110	16,918,664	355,076	-	-	-	-	17,273,740
Interest on Investments	(615,653)	(465,185)	(548,173)	(1,629,011)	(2,470)	(243)	-	-	-	(1,631,724)
Arbitrage Rebate Tax	53,263	8,806	247,998	310,067	-	-	-	-	-	310,067
Change in Assets and Liabilities:										
Decr (Incr) Mortgage Loans Receivable	(29,927,687)	12,471,195	19,342,387	1,885,895	713,171	309,869	153,417	125,697	-	3,188,049
Decr (Incr) Other Assets	(41,571)	76,681	2,530	37,640	5,718	307,824	(118,173)	2,088	3,170	238,267
Decr (Incr) Fair Value of Investments	(474,982)	(269,688)	(914,160)	(1,658,830)	-	-	-	-	-	(1,658,830)
Incr (Decr) Accounts Payable	11,174	(55,520)	(1,474)	(45,820)	15,527	(3,470)	2,677	97	(3,170)	(34,159)
Incr (Decr) Funds Held for Others	-	-	-	-	(48,868)	(154,542)	-	-	-	(203,410)
Incr (Decr) Pensions Payable (prior period adj)	67,464	67,464	-	134,928	-	113,164	-	-	-	248,092
Incr (Decr) Compensated Absences Payable	(5,553)	(5,553)	-	(11,106)	4,069	55,040	4,212	-	-	52,215
Incr (Decr) Other Postemployment Benefits	12,648	12,648	-	25,296	-	16,369	-	-	-	41,665
Net Cash Provided by (Used for) Operating Activities	\$ (24,968,613)	\$ 18,676,103	\$ 24,497,928	\$ 18,205,418	\$ 1,172,366	\$ (84,401)	\$ 110,042	\$ 137,333	\$ -	\$ 19,540,758

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

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, 2016, 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 4, 2016.

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 attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control that we consider to be a significant deficiency. See the finding and recommendation starting on page 5 for a description of this significant deficiency.

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 finding 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 and 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 4, 2016

MONTANA BOARD OF
HOUSING

BOARD RESPONSE

HOUSING DIVISION – MONTANA BOARD OF HOUSING

November 21, 2016

Angus Maciver
Legislative Auditor
Room 160, State Capitol Building
P O Box 201705
Helena, MT 59620-1705

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LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver,

We have received and reviewed the financial audit of the Montana Board of Housing for the fiscal year ended June 30, 2016. We appreciate the professionalism and courtesy with which the audit was conducted. Our response to the audit recommendation follows:

Recommendation #1

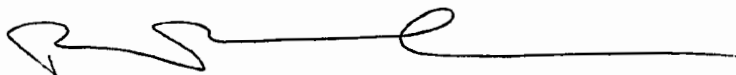
We recommend the Montana Board of Housing enhance internal control procedures, to ensure note disclosures are accurate and complete, in accordance with generally accepted accounting principles.

Response

The Board concurs and considers internal controls a priority. We will have two methods of approaching the enhanced internal control procedures recommended. Employees will continue to take training in regard to GASB Statements already in effect and new Statements released. We will also pursue the use of a GASB knowledgeable third party to review the footnotes with primary focus on new notes based on new GASB Statement implementation.

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

Sincerely,



Bruce Brensdal
Executive Director

