A Report
to the
Montana
Legislature

Financial Audit

Montana Board of Housing

For the Fiscal Year Ended June 30, 2023

January 2024

Legislative Audit Division

23-07

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 and many staff members hold Certified Public Accountant (CPA) certificates.

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 reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2021, was issued June 21, 2022. The submission deadline for the Single Audit Report for the two fiscal years ended June 30, 2023, is March 31, 2024.

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LEGISLATIVE AUDIT DIVISION

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Cindy Jorgenson
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January 2024

The Legislative Audit Committee
of the Montana State Legislature:

We are pleased to present our financial audit report for the Montana Board of Housing (board) for the fiscal year ended June 30, 2023. Our audit work included:

- Analyzing the financial statements and note disclosures,
- Examining the underlying financial activity of the board which includes bonds, investments, and mortgages, and
- Reviewing and testing selected control systems.

This report includes three recommendations related to information system controls, the separation of duties within the information system, and internal controls to identify related parties of board members. The report contains an unmodified opinion on the board's 2023 financial statements, which means that the information presented within the statements can be relied upon for decision-making purposes.

The board's written response to these recommendations is included in the audit report on page C-1. We would like to thank the executive director and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Figures and Tables

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Appointed and Administrative Officials

	Name	City	Term Expires January
Montana Board of Housing	Bruce Posey, Chair	Billings	2025
	Sheila Rice, Vice Chair	Great Falls	2027
	Amber Parish, Secretary	Billings	2025
	John Grant	Helena	2025
	Cari Yturri	Great Falls	2025
	Jeanette McKee	Hamilton	2027
	Tonya Plummer	Kalispell	2025

Department of Commerce
Scott Osterman, Director (through December 2023)
Mandy Rambo, Acting Director (as of December 2023)

Board of Housing
Cheryl Cohen, Executive Director

Vicki Bauer, Acting Accounting and Finance Manager (as of October 2023)
Homeownership Program Manager (through October 2023)

Virginia Pfankuch, CPA, Accounting and Finance Manager (through October 2023)

Catherine Koch, Accounting and Finance Manager (through October 2023)

Jason Hanson, Multifamily Program Manager

Joe DeFilippis, Operations Manager

Charles Brown, Acting Home Ownership Program Manager (as of October 2023)

Mary Palkovich, Servicing Program Manager

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

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Montana Board of Housing
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT
Montana Board of Housing
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

A report to the Montana Legislature

BACKGROUND
The Montana Board of Housing works with community partners across the state to ensure Montana families have access to safe and affordable housing. The board is self-supporting and does not receive any general fund appropriations. The board finances most of its operations and programs by selling tax-exempt bonds in the private sector. These tax-exempt bonds provide funds to purchase home mortgages, make loans for rental housing projects, administer federal housing tax credit programs, and work in partnership with other housing providers throughout the state.

The board uses revenues collected from mortgage loans for repayment of issued bonds.

The board is allocated to the Department of Commerce for administrative purposes.

The powers of the board are vested in a seven-member board. The Governor appoints board members and the Senate confirms them. The board provides policy direction to agency staff, authorizes bond issuances, and approves development financing.

The Montana Board of Housing (board) purchased approximately $73.2 million of mortgages during fiscal year 2023 in the Single Family Program, the board's largest program. The board is more competitive when market mortgage rates are high, so as interest rates rose throughout the year, the refinancing of board-owned mortgages with conventional lenders slowed. This, combined with increased demand for board mortgages, increased the mortgage loan receivables by roughly $26.5 million. Our audit contains two recommendations about information system controls and one regarding internal controls to identify related parties.

AUDITOR'S OPINION (page A-1): UNMODIFIED
We found the board's financial statements and note disclosures presented fairly the activity of the board, in all material respects, and issued an unmodified opinion on them. We also found the combining financial statements included in the report were reasonable in relation to the financial statements in all material respects. This means that a reader can rely on the information in the board's financial statements, notes, and combining statements presented in this report.

For the full context of the board's financial activity, see the financial schedules and notes beginning on page A-5.

RECOMMENDATIONS:
In this report, we issued the following recommendations:
To the board: 3
To the legislature: 0

The prior audit report contained no recommendations.

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

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The mission of the Legislative Audit Division is to increase public trust in state government by reporting timely and accurate information about agency operations, technology, and finances to the Legislature and the citizens of Montana.

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Recommendation #1 (page 5):
Internal Control
We recommend the Montana Board of Housing:

A. Document and disseminate information system control policies and procedures for the management of access and system changes as required by state policy.
B. Assess compliance of information system controls with state policy.
C. Remove user access when no longer needed.

Board response: **Concur**

Recommendation #2 (page 6):
Internal Control
We recommend the Montana Board of Housing:

A. Grant user access permissions on an as-needed basis only.
B. Enhance internal controls to prevent or detect unauthorized changes of mortgage loan information.

Board response: **Concur**

Recommendation #3 (page 7):
Internal Control
We recommend the Montana Board of Housing enhance internal controls to identify related party transactions of board members that may require disclosure in the financial statements.

Board response: **Concur**

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):
In this report, we identified the following:

Material Weaknesses in Internal Control: 0
Significant Deficiencies in Internal Control: 3
Material Non-Compliance: 0
Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction and Background

Introduction

We performed a financial audit of the Montana Board of Housing (board) for the fiscal year ended June 30, 2023. The objectives of our audit were to:

1. Determine whether the board's financial statements fairly present the financial position, results of operations, and cash flows for the fiscal year ended June 30, 2023.
2. Obtain an understanding of the board's internal controls to the extent necessary to support our audit of the board's financial statements and, if appropriate, make recommendations for improvements in internal and management controls of the board.
3. Determine whether the board complied with state laws, rules, and regulations that directly affect the determination of material financial statement amounts.

Our primary focus was on the board's activity related to bonds, investments, and mortgages. We audited this activity by analyzing the financial statements and note disclosures, examining the underlying activity, tying balances to third party support, performing a sample of new loans, and testing the board's significant internal controls.

Our office performs special engagements for the board throughout the year in addition to the annual financial audit. 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.

Financial Activity Summary

Market interest rates continued to rise throughout fiscal year 2023. As corresponding conventional mortgage rates also increased, the mortgage rates offered by the board became more competitive. This also slowed the recent trend of borrowers refinancing their board owned loans for a lower conventional mortgage rate.

The board purchased 481 single family mortgages worth $73.2 million in fiscal year 2023. This is fewer mortgages purchased than in fiscal year 2022, which saw the board purchase 593 mortgages worth $81.5 million. Despite market conditions allowing the

Figure 1
Mortgage Loans Receivable
Fiscal Years 2021-2023

Increases in interest rates slowed loan payoffs in FY23, resulting in an **increase in mortgages owned by the board**.

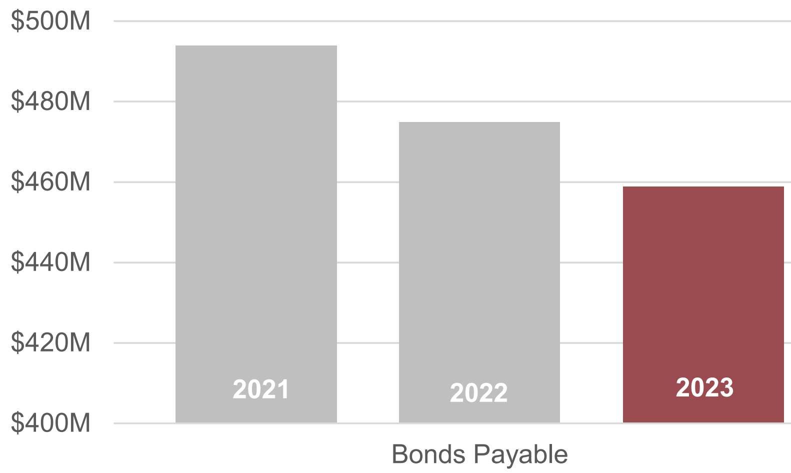
Source: Compiled by the Legislative Audit Division.

board to offer rates much lower than conventional mortgage rates, IRS regulations require the board follow purchase price limits. Rising home prices reduce the affordable home inventory eligible for a mortgage with the board.

The board issued one bond series during fiscal year 2023 with a $40 million face value. Bond proceeds are used to purchase mortgages and bond market pricing determines the mortgage rates the board can offer. The board also used the proceeds from loan payoffs to call additional bonds, reducing the overall bond liability of the board.

Figure 2
Bonds Payable Balances
Fiscal Years 2021-2023

Early redemptions of bonds in FY23 **reduced outstanding bond balances**.



Source: Compiled by the Legislative Audit Division.

Background

The board is allocated to the Department of Commerce for administrative purposes per §2-15-1814, MCA. The board issues tax-exempt bonds that provide funds to purchase home mortgages, make loans for rental housing projects, administer federal housing tax credit programs, and partner with other housing providers throughout Montana. Mortgage loans are primarily for first-time home buyers. The board's programs and services are outlined below:

- The Single-Family Program helps make home ownership affordable for eligible Montana homebuyers through low-interest mortgages, down payment assistance, and other various loan programs. Borrowers must meet eligibility requirements set by the Internal Revenue Service (IRS) as the loans are purchased using proceeds from tax-exempt Mortgage Revenue Bonds (MRB's). Some of the Home Loan Programs available to borrowers are:
    - **Regular Bond Program:** A 30-year low-interest, fixed-rate mortgage geared towards low- and moderate-income first-time homebuyers.
    - **Down Payment Assistance:** This loan can be combined with other loan programs the board offers to help Montana homebuyers with funds for down payment and closing cost assistance.
    - **Montana Veterans' Home Loan Program:** This program assists first-time homeowners who have served or are currently serving in the military through the federal armed services or the Montana National Guard. Program funds are provided by the principal of the Montana Coal Tax Fund.
- The Reverse Annuity Mortgage Program allows senior Montana homeowners, 68 years of age or older, to borrow against the equity in their homes. The loan proceeds are advanced to borrowers monthly and are based on a 10-year term. These loans allow senior homeowners the financial flexibility to stay in their homes and live in the manner they choose.

- The Multifamily Program offers a variety of financing options for the development of affordable multifamily rental units. The board offers multifamily loans to produce rental housing. This funding consists of payments received on prior multifamily loans, the Housing Montana Fund, the Coal Trust Multifamily Home Program, and Multifamily Bonds.
- The Low-Income Housing Tax Credit Program receives Montana's allocation of federal tax credits each year. It distributes those credits to multifamily housing developers using a competitive application process. Investors purchase the awarded credits and the property owner uses the proceeds from the sale of the credits to reduce debt financing. This makes it economically feasible to operate the property at affordable rates.
- The board's in-house Mortgage Servicing provides Montana homeowners the benefit of local, easy-to-access servicing staff. The staff specializes in servicing government loans and assisting and educating first-time homeowners. The Mortgage Servicing Program can provide Montana borrowers with contact information for resources such as real estate professionals, attorneys, and counselors.

Chapter II – Accounting Findings and Recommendations

Information System

Information system controls do not conform to information security policy.

The Montana Board of Housing uses an older, off-the shelf software package to conduct and account for all aspects of their housing finance authority operations. The system is comprised of 15 modules, each tailored to a specific aspect of operations. Some modules are considered legacy while others have been upgraded by the software vendor. The underlying software architecture varies among the modules, and most modules' access and permissions must be managed independently.

State information security policy requires information system owners to document and disseminate system control policies and procedures. The board's business operations rely on Department of Commerce IT staff to manage the system as part of their internal control structure, but as the system owner, the board is responsible for establishing and maintaining controls within the system. While there is system documentation describing functionality of the system, complete and well-managed policies and procedures are lacking. Control policies related to user access management and system changes are not documented, increasing the likelihood of inconsistency and misalignment with state security standards. When controls are not formally documented and disseminated, the information system could be intentionally or unintentionally changed or misused. The board would benefit from documenting system controls as policy the same way they document operational controls.

System User Accounts

As part of our audit work, we reviewed active user accounts in critical legacy modules. Of the 81 active user accounts, 34 belonged to employees no longer working for the board. Of these 34 accounts, 30 could edit files with a significant impact on accounting records and included four key accounting positions. The terminated employees with active user accounts left the board between August 2019 and October 2023, and the median termination date was two years before the report was run. A recent re-organization of the Department of Commerce moved supervision of the IT employee responsible for system access from the board to Commerce's IT department. Board management thought system access was being removed upon employee termination. Maintaining user accounts when they are no longer needed could allow active employees to circumvent system controls.

System Password Requirements

The board's system modules generally fall into two categories: network modules and legacy modules. While the network modules utilize the state's single sign-on capabilities, the legacy modules run locally and cannot take advantage of the state's single sign-on. During the audit period, passwords for legacy modules did not meet state password requirements. As a result of our audit, the board has initiated the process with the software vendor to change the system so it is able to meet state policy requirements. Simple passwords are easier to decode and could result in unauthorized access to the information system.

State information security policy requires the system owner to conduct risk assessments of the system and document the results in the system security plan. Risk assessments could have identified the issues with user access described above. While we did not see evidence of unauthorized access or changes, state information security policy is based on national security standards and is designed to reduce risks associated with information systems. The objective of these policies is for the board to implement and execute internal controls that reduce the risk of system errors or misuse. The board can improve internal controls by complying with state information security standards.

Recommendation #1

We recommend the Montana Board of Housing:

A. *Document and disseminate information system control policies and procedures for the management of access and system changes as required by state policy.*

B. *Assess compliance of information system controls with state standards.*

C. *Remove user access when no longer needed.*

Separation of Duties in the Information System

User access permissions did not create an adequate separation of duties within the board's key information system.

The board's home loan servicing program collects monthly mortgage payments from board customers. Billed amounts are based on mortgage loan information entered into the servicing module of the board's information system. The home loan servicing program is responsible for the information in this module. Similar information is also maintained in the mortgage portfolio management module, which is the responsibility of the homeownership program.

Each month, mortgage loan information from the servicing module is reconciled against information in the mortgage portfolio management module. This reconciliation is designed to detect unauthorized changes in mortgage loan information made in one of these modules and is an important control activity of the board's operations.

We reviewed user access permissions in the two modules. We observed all 11 servicing program employees had user access permissions allowing them to change mortgage loan information in both the servicing and mortgage portfolio management modules. Two of the six homeownership program employees also had this combination of user permissions. A user with permissions to edit loan information in both modules could make unauthorized changes that would go undetected by the monthly reconciliation of mortgage loan information between the modules.

When IT staff creates new user accounts in a module, they copy the combination of permissions from another active user. The necessity of permissions for the new user is not discussed with board management. There may be a legitimate business need for employees to have access to both modules. However, unless these employees are required to make changes, their user permissions should be restricted to read-only. If employees require permissions to make changes in both modules, the board should consider additional controls to detect and prevent unauthorized changes. The system can produce a report with all the changes made to mortgage loan information, but currently, there is no process in place to review this report. We obtained the report for the audit period and did not observe any significant changes to mortgage loan information stored in the servicing module.

Recommendation #2

We recommend that the Montana Board of Housing:

A. *Grant user access permissions on an as-needed basis only.*

B. *Enhance internal controls to prevent or detect unauthorized changes of mortgage loan information.*

Controls to Identify Related Parties

The board does not have internal controls to identify board member relationships that may require disclosure in the financial statements.

Generally accepted accounting principles (GAAP) require transactions conducted with parties related to the board be disclosed in the notes to the financial statements if they are significant in form or substance. Although conducting transactions with related parties may be a common occurrence throughout the normal course of business, one cannot presume that they were carried out on an arm's length basis because the terms of business dealings with a related party may not be arrived at through competitive, free-market conditions. Related-party transactions carry more risk, and therefore require more transparency in financial reporting.

The board requires staff members to complete an annual conflict of interest form, which identifies the significant related parties of staff members. However, this requirement is not extended to board members. Instead, the board relied on conflict-of-interest training and self-disclosure for board members. Board members are selected partly for their strong backgrounds in various aspects of the housing industry. These experiences result in a higher probability of relationships with people and entities seeking approval from the board.

Board members and board staff indicated that when potential conflicts arise at board meetings, they are often discussed with the director and legal counsel beforehand and board members may recuse themselves from a vote pertaining to a related party. However, this relies on voluntary self-disclosure which may not allow financial reporting staff to adequately consider the need for the related party disclosure in the notes to the financial statements.

We performed additional inquiries, listened to board meetings, and reviewed financial records of the board. As a result, we identified parties related to board members that were not disclosed to us when we requested a list of board relationships, indicating those responsible for financial reporting may not be aware of these relationships. This includes, but is not limited to, board members who have worked for organizations eligible for board-approved tax credits and funding. While we did not identify any significant related party transactions that require disclosure in the financial statements, the potential exists for these types of transactions to be overlooked.

Recommendation #3

We recommend the Montana Board of Housing enhance internal controls to identify related party transactions of board members that may require disclosure in the financial statements.

Independent Auditor’s Report and Board Financial Statements

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Kenneth E. Varns, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller
Miki Cestnik

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of the Montana Board of Housing, a component unit of the state of Montana, which are comprised of the Statement of Net Position as of June 30, 2023, the related Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows for the fiscal year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Montana Board of Housing and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Montana Board of Housing's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Montana Board of Housing's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Montana Board of Housing's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on page A-7, Other Post-Employment Benefits–Total Board OPEB Liability and Related Ratios on page A-51, Pension Benefits–Schedule of Proportionate Share of the Net Pension Liability on page A-52, and Pension Benefits–Schedule of Contributions on page A-52 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 the 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 consists 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 basic 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 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.

Report on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2023, on our consideration of the Montana Board of Housing'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 solely 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 Montana Board of Housing's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 12, 2023

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 DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023

The following information presents management's discussion and analysis of the Montana Board of Housing (Board) program and financial activity during the fiscal year ending June 30, 2023 (FY23). Please read this section in conjunction with the financial statements and accompanying notes.

Summary

- 481 Single Family Mortgages were purchased with the Bond Program for $73.2 million.
- 39 Mortgage Credit Certificates were issued on a total loan amount of $10.6 million.
- A ten-year $31.7 million allocation of Low Income Housing Tax Credits, at $3.2 million per year, was awarded during FY23, providing equity to produce or preserve affordable rental housing.
- 2 Reverse Annuity Mortgage (RAM) loans were originated in the amount of $205.9 thousand. RAM is currently assisting 44 elderly households.
- The Board issued $40.0 million of Single Family Mortgage Bonds.
- Bond debt retired was $55.4 million from prepayments and regular debt service.
- Gross bond debt payable decreased from $474.9 million to $458.9 million.
- Net position, including a prior period adjustment described in Note 19, increased $3.6 million during FY23.

Fiscal Year 2023 Update

Single Family Program

The Board experienced an increase in its overall portfolio in FY23, both in number of loans and unpaid principal balance, even though loan production was down from the prior year. Throughout FY23, market rates were between 5% and 7%, much higher than they have been in prior years; therefore, borrowers were not able to refinance their lower interest rate loans. The Board received 48% fewer payoffs in FY23 than it did in FY22. The Board experienced good pricing in the bond market, as was reflected in the rates the Board was able to offer, which were consistently lower than market rates.

The biggest challenge the Board faced was a lack of affordable inventory for first time homebuyers to purchase. Sales prices continue to be very high around the state and, in several counties, prices were higher than the Board's purchase price limits. In order to try to provide borrowers with the best options, the Board increased their purchase price limits in both January and May, as allowed by the IRS. In January 2023, the Board increased the limits by 12% and, in May 2023, the Board increased the limits by 23%. In May 2023, the Board increased income limits by 10% in the majority of counties. The Board continues to explore opportunities to expand its programs and offer low interest rate loans and down payment assistance to first time homebuyers.

During FY23, the Board updated its two down payment assistance programs in an attempt to assist more borrowers. In the 0% Deferred Program, which is funded from agency reserves, the maximum loan amount was increased from $10,000 to $15,000. In the amortizing Bond Advantage DPA Program (DPA), which offers a 15-year amortizing loan with the same interest rate as the main mortgage loan, the maximum loan amount was increased from $12,500 to $15,000. The amortizing DPA is now being funded through bond proceeds.

Loan Servicing Program

The Board was servicing 99% of its Single Family loans and most of its Multifamily loans at the end of FY23. The Board also services residential loans and Veteran's Home Loan Program loans for the Board of Investment, as well as Homeowner Assistance Fund loans for the Department of Commerce.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023

The foreclosure moratorium put into place by the CARES Act ended on July 31, 2021. The Board worked with mortgage insurers as they updated their loss mitigation processes to assist mortgage holders that have been affected by COVID. On July 1, 2021, we had 211 Formal Forbearances, and by June 30, 2023, this number decreased to 95. COVID Partial Claims were offered by the insurers to bring loans current. In FY23, the Board processed $1,383,845.05 in COVID Partial Claims.

The Homeowner Assistance Fund (HAF) program which was established by the American Rescue Plan Act of 2021, allocated $50 million to the State of Montana to help homeowners remain in their homes. These funds were appropriated to the Department of Commerce through the passage of House Bill 632. The Montana HAF Plan created a pilot program that was offered to Board of Housing borrowers. The HAF Plan pilot program applications were sent to borrowers in January 2022, and by the end of FY23, 177 borrowers had received $2,075,993 in HAF assistance.

Multifamily Program

The Board offers a variety of financing options for the development of affordable multifamily rental units including Federal Low Income Housing Tax Credits and permanent loan products. During FY23, the Board allocated $31.7 million in housing credits to be used over ten years to produce 139 rental units in Montana.

The Board has seen an increase in the number of Low Income Housing Tax Credit properties funded with 4% tax credits and conduit bonds. In FY23, the Board issued $49.9 million in conduit bonds to produce 288 additional rental units.

The Multifamily Program closed on two loans utilizing two of our different loan programs. The first is a Coal Trust Homes Program first position loan for $1.5 million for a 20-year term at 2.3833%. The second is a Multifamily loan for $2.1 million with a 20-year term and amortization and 1.9458% interest rate.

Finance

The Board implemented GASB Statement No. 91, *Conduit Debt Obligations*, in fiscal year 2023 (FY23). The objective of this GASB statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. Because the Board has no commitment on all of the Board's conduit debt obligations, the Board's accounting and financial reporting practices on conduit debt obligations have met the requirements. There is no actual change in accounting and note disclosure.

Interest rates continue to hike throughout the fiscal year which allows the Board to obtain favorable rates on the purchase of U.S. Treasury Bills. The investment interest earnings were tripled in the fiscal year compared to the prior fiscal year. The nearing maturity of several long-term investments caused a drop in the amount of long-term investments in the Board's investment portfolio. The cash proceeds from matured investments, along with new money the Board obtained, were used to increase the mortgage loans.

The Board Investment Policy indicates that investments are to be made with the expectation that they will be held until maturity ensuring the Board will receive the full PAR value of investments. GASB Statement No. 72, *Fair Value Measurement and Application*, requires that investments are shown on financial statements at fair value, which is frequently less than the PAR value. This investment depreciation to fair value shows as a $1.4 million dollar loss in Decrease in Fair Value of Investments on the Statement of Cash Flows. Because interest earnings from both mortgage loans and investments were higher in FY23 than they were in FY22, the Board's net position increased.

The bonds interest expenses were $1.4 million higher than in FY23 than they were in FY22. The bond issuance costs in FY23 were less than they were in FY22 because there was only one new series issued in

FY23. The general and administrative expenses were $1.0 million higher than in FY23 than they were in FY22. The primary reasons for the change in the general and administrative expenses were the pension contribution made and the fund proportion change allocation in FY23 increased $433.2 thousand and the personal service expenses increased $415.7 thousand in FY23.

Board bonds payable decreased by nearly $16.0 million dollars as some of the funds received from early payoffs and pay downs were used to call additional bonds on debt service dates. An additional $40 million in bonds were issued that allowed purchase of new mortgage loans at lower interest rates that were more competitive on the market.

Overview of the Financial Statements

The Board is a self-supporting entity and uses no State of Montana government general fund appropriations to operate. The Board is classified as an enterprise fund, which is a fund financed and operated in a manner similar to a private business enterprise.

Net Position – Restricted for Bondholders represents 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 Board, citizens, taxpayers, legislatures, customers, clients, investors, and creditors, with an overview of the Board operations and to demonstrate accountability for the resources with which the Board is entrusted.

See Change in Net Position and Income on the Next Page

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
CONDENSED FINANCIAL INFORMATION
CHANGE IN NET POSITION AND OPERATING INCOME
YEARS ENDED JUNE 30, 2023 and 2022

	2023		2022
Assets:			
Current Assets	$ 119,845,180	[1]	$ 158,222,717
Capital Assets	2,347,663		3,153,606
Other Non-current Assets	515,432,313		490,356,231
Total Assets	637,625,156	[2]	651,732,554
Deferred Outflows of Resources:	738,048		882,702
Liabilities:			
Current Liabilities	26,273,550		26,963,052
Non-current Liabilities	447,848,372	[3]	464,774,637
Total Liabilities	474,121,922		491,737,689
Deferred Inflows of Resources:	495,656		744,938
Net Position:			
Invested in Capital Assets	(76,795)	[4]	(46,529)
Restricted	163,822,421		160,179,158
Total Net Position	$ 163,745,626		$ 160,132,629
Operating Revenue:			
Interest on Loans	$ 17,774,967		$ 16,554,778
Earnings (Loss) from Investments	3,769,126	[5]	(1,579,973)
Fees and Charges	2,682,881		2,625,424
Other Income	12,894		19,046
Total Operating Revenue	24,239,868		17,619,275
Operating Expenses:			
Bond Expenses	14,560,676		13,651,704
Servicing Fees	658,484		104,315
General and Administrative	5,481,993		4,239,980
Total Expenses	20,701,153		17,995,999
Operating Income (Loss)	3,538,715		(376,724)
Non-operating Revenue			
Pensions - Non-employer Contributions	62,954		40,662
Total Non-operating Income	62,954		40,662
Income (Loss) Before Transfers	3,601,669		(336,062)
Increase (Decrease) in Net Position	3,601,669		(336,062)
Net Position, Beginning of Year	160,132,629		160,107,270
Adjustments to Beginning Net Position	11,328	[6]	361,421
Net Position, End of Year	$ 163,745,626		$ 160,132,629

[1] Current assets decreased by $38 million in FY23. The primary reason was the cash collections on loans and interests on loans were about 58% of the collections in FY22. The additional collections from FY22 were used to pay down debt in FY23 as noted in footnote 3 below.

[2] Total assets decreased by $14 million in FY23 due in part from the decreased collections on loans during the period. See footnote 1 above.

[3] Funds received from mortgage loan payoffs and other funds previously held in money market funds were used to recall additional bonds at the debt service dates. This decreased the non-current liabilities and the overall liabilities during FY23.

[4] Net Capital Assets is currently negative as the present value of the outstanding leases is more that the book value of the right-to-use asset.

[5] Earnings (Loss) from Investments includes a depreciation to fair value of most investment that will be recovered at maturity. This investment depreciation is required by GASB Statement 72. Earnings from Investments also includes the interest income that was tripled in FY23 due to the interest rate hikes in FY23.

[6] Adjustment to beginning net position is explained in Note 19 to the financial statements.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023

ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 90,110,845
Investments	7,437,845
Mortgage Loans Receivable, Net	16,917,914
Servicing Related Advances	976,510
Accounts Receivable	7,517
Interest Receivable	4,164,078
Prepaid Expense	230,471
Total Current Assets	119,845,180
Non-current Assets	
Investments	20,629,880
Mortgage Loans Receivable, Net	492,316,650
Mortgage Backed Securities	232,694
Purchase of Mortgage Servicing Rights	2,253,089
Intangible Right-To-Use Asset, Net	2,347,663
Total Non-current Assets	517,779,976
TOTAL ASSETS	637,625,156
DEFERRED OUTFLOW OF RESOURCES	
Deferred Refunding Costs	55,570
Deferred OPEB Outflows	267,185
Deferred Pension Outflow	415,293
TOTAL DEFERRED OUTFLOWS	738,048
LIABILITIES	
Current Liabilities	
Accounts Payable	1,648,548
Funds Held For Others	6,341,541
Accrued Interest - Bonds Payable	1,241,065
Bonds Payable, Net	16,725,000
Arbitrage Rebate Payable to U.S. Treasury Department	46,664
Accrued Compensated Absences	165,364
Lease Payable - Current	105,368
Total Current Liabilities	26,273,550
Non-current Liabilities	
Bonds Payable, Net	442,184,811
Arbitrage Rebate Payable to U.S. Treasury Department	942,807
Accrued Compensated Absences	205,703
Net Pension Liability	2,113,757
Other Postemployment Benefits	82,204
Leases payable - non current	2,319,090
Total Non-current Liabilities	447,848,372
TOTAL LIABILITIES	474,121,922
DEFERRED INFLOW OF RESOURCES	
Deferred OPEB Inflow	340,910
Deferred Pension Inflow	154,746
TOTAL DEFERRED INFLOWS	495,656
NET POSITION	
Net Investment in Capital Assets	(76,795)
Restricted for Bondholders:	
Single Family Programs	133,155,322
Various Recycled Mortgage Setaside Programs	3,323,620
Multifamily Programs	14,955,099
Reverse Annuity Program	8,741,009
Restricted for Affordable Revolving Loan Program	3,647,371
TOTAL NET POSITION	$ 163,745,626

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 REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023

OPERATING REVENUES	
Interest Income - Mortgage Loans	$ 17,774,967
Interest Income - Investments	5,188,332
Net Increase (Decrease) in Fair Value of Investments	(1,419,206)
Fee Income	2,682,881
Other Income	12,894
Total Operating Revenues	24,239,868
OPERATING EXPENSES	
Interest on Bonds	13,490,152
Servicer Fees	658,484
Contracted Services	778,538
Amortization of Refunding Costs	44,281
Bond Issuance Costs	525,041
General and Administrative	4,318,154
Arbitrage Rebate Expense	501,202
Pension Expense	362,291
Other Post-Employment Benefits	23,010
Total Operating Expenses	20,701,153
Operating Income (Loss)	3,538,715
NONOPERATING REVENUES (EXPENSES)	
Pensions - Nonemployer Contribution	62,954
Nonoperating Income (Loss)	62,954
Income (Loss) Before Transfers	3,601,669
Increase (Decrease) in Net Position	3,601,669
Net Position, July 1 - as previously reported	160,132,629
Adjustments to Beginning Net Position (Note 19)	11,328
Net Position, July 1 as restated	160,143,957
Net Position, End of Year	$ 163,745,626

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, 2023

CASH FLOWS FROM OPERATING ACTIVITY:	
Receipts for Sales and Services	$ 4,419,666
Collections (Payouts - Reverse Annuity) on Loans and Interest on Loans	66,932,288
Collections (Disbursement) on Loan Escrow Accounts	392,663
Cash Payments for Loans	(74,974,948)
Payments to Suppliers for Goods and Services	(6,278,353)
Payments to Employees	(2,850,219)
Corporate (Advances) Repayments	(116,475)
Other Operating Revenues	12,894
Net Cash Provided by (Used for) Operating Activities	(12,462,484)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Payment of Principal and Interest on Bonds and Notes	(70,311,475)
Proceeds from Issuance of Bonds and Notes	40,000,000
Payment of Bond Issuance Costs	(525,041)
Premium Received on Bonds	922,811
Purchase of Mortgage Servicing Rights	(570,224)
Net Cash Provided by (Used for) Non-capital Financing Activities	(30,483,929)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal Payments on Leases	(103,645)
Interest Payments on Leases	(40,931)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(144,576)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of Investments	(40,138,567)
Proceeds from Sales or Maturities of Investments	66,565,619
Interests and Dividends on Investments	4,328,040
Payments for Arbitrage Rebate Tax	(555,942)
Net Cash Provided by (Used for) Investing Activities	30,199,150
Net Increase (Decrease) in Cash and Cash Equivalents	(12,891,839)
Cash and Cash Equivalents, July 1	103,002,684
Cash and Cash Equivalents, June 30	$ 90,110,845

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, 2023

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating Income	$	3,538,715
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Amortization		(797,632)
Interest Expense		15,041,907
Interest on Investments		(5,188,332)
Arbitrage Rebate Tax		501,202
Change in Assets and Liabilities:		
Decr (Incr) in Mortgage Loans Receivable		(25,058,442)
Decr (Incr) in Other Assets		(166,077)
Decr (Incr) in Fair Value of Investments		1,419,206
Incr (Decr) Accounts Payable		(2,431,251)
Incr (Decr) Funds Held for Others		392,663
Incr (Decr) Net Pension Liability and Related Accounts		236,186
Incr (Decr) in Compensated Absences Payable		30,169
Incr (Decr) Total OPEB Liability and Related Accounts		19,202
Net Cash Provided by (Used for) Operating Activities	$	(12,462,484)

Noncash Investing, capital, and financing activities: During FY23, the Board investments decreased in fair value by $1,419,206. The fair value decrease was not realized in cash during FY23.

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

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 dollar amount of notes and bonds outstanding at any time may not exceed $1.5 billion. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor the taxing power of the State of Montana (State) may be pledged for payment of amounts so issued. The Board 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 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.

Recent GASB Pronouncements

In May 2019, GASB released GASB Statement No. 91, *Conduit Debt Obligations*. The statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. Since the Board has no commitment on all of the Board's conduit debt obligations, no actual changes are associated with the Board's current practice and financial reporting.

In March 2020, GASB released GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The statement improves financial reporting by establishing the definitions of public-private and public-public partnership arrangements (PPPs) and availability payment arrangements (APAs) and providing uniform guidance on accounting and financial reporting for transactions that meet those definitions. As of June 30, 2023, the Board has not engaged in any of these transactions.

In May 2020, GASB released GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The statement improves financial reporting by establishing a definition for subscription-based information technology arrangements (SBITAs) and providing uniform guidance for accounting and financial reporting for transactions that meet this definition. As of June 30, 2023, the Board has not engaged in any of these transactions.

Reporting Entity

In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Board as a reporting entity. The financial statements of the Board are presented as a discretely presented component unit in the State of Montana’s Annual Comprehensive Financial Report. The enterprise fund of the Board 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, recordkeeping, 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's 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 comprise each fund’s assets, deferred outflows of resources, liabilities, deferred inflows 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.

As disclosed in Note 5 to the financial statements, the mortgage loans receivable are pledged as security for holders of the bonds. Certain indentures also require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture. Restricted Net Position also includes funds reserved by participants and funds committed to specific projects under various programs established by the Board and restricted by enabling legislation.

Net Position

Restricted Net Position — Net position is considered restricted if it is limited as to the manner in or purpose for which funds may be used. The Statement of Net Position reports $(76,795) of net investment in capital assets and $163,822,421 of restricted net position.

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.

Revenue and Expense Recognition

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services relating to a proprietary fund’s principal ongoing operations. Revenues and expenses not meeting this definition, if they occur, are reported as non-operating revenues or expenses. The Board records all revenues and expenses related to mortgages, investments, and bonds as operating revenues and expenses.

Fund Structure

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

Single Family Mortgage Program Funds

These funds, established under three separate trust indentures adopted on various dates, are established to account 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 are generally insured by the Federal Housing Administration (FHA), guaranteed by Veterans Administration (VA), Rural Development (RD), 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

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.

Housing Trust Fund

The Housing Trust Fund was established as a separate trust fund by a resolution of the Montana Board of Housing, adopted February 16, 1989. The Housing Trust Fund was created to finance, in whole or in part, future housing needs including the establishment of new programs as deemed necessary by the Board and any loans or projects that will provide housing for lower income persons and families with special housing needs. Housing Trust Fund accounts are held in the State Treasury.

Current programs include, but are not limited to, the Reverse Annuity Mortgage Program (RAM) for senior Montana homeowners, the Cash Assistance Program (CAP), and the Disabled Assistance program (DAAHP) to assist 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. During the 2007 legislative session, the account was renamed Housing Montana Fund. 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.

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 cash equivalents are described in Note 2 to the 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 3 to the financial statements.

The Board values its investments at fair value except for certain investments that have a remaining maturity at the time of purchase of one year or less which are measured at amortized cost. This presentation conforms to the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*.

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 Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA), Rural Development (RD), Housing and Urban Development (HUD), private mortgage insurance, or have a 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 mortgage receivable accounts to bondholders for repayment of the mortgage revenue bonds issued by the Board. 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. Further detail related to mortgage loans receivable is provided in Note 5.

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 purchases, 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, deferred pension inflows and outflows, deferred other post-employment benefits (OPEB) inflows and outflows, total OPEB liability, arbitrage rebate liability, allowance for loan losses, and fair value of investments.

Capital Assets

Capital assets are recorded at historical cost and depreciation is computed using the straight-line method over estimated useful lives of 5 to 10 years or up to 50 years for buildings. The capitalization threshold for recording capital assets varies between $5,000 and $500,000 for building/land improvements/others depending on the type of asset purchased. The capitalization threshold for intangible right-to-use lease assets is $100,000. Purchases under these thresholds are recorded as expenses in the current period. As of June 30, 2023, the Board currently has an intangible right-to-use lease asset as mentioned below. Further detail related to capital assets is provided in Note 7.

Leases

GASB Statement No. 87, *Leases*, regarding leases requires lessees to recognize a lease liability and a right-to-use lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). The right-to-use lease asset is measured at the amount of the initial measurement of the lease liability, plus any payment made to the lessor at or before the commencement of the lease term and certain direct costs. The lease liability will be reduced as payments are made and the lease asset will be amortized in a systematic manner over the shorter of the lease term or the useful life of the underlying asset. The present value of the current building lease was calculated using the Intercap Rate provided by the Montana Board of Investments at the time of inception of GASB Statement 87. The Board currently leases a portion of a building on Park Avenue in Helena, Montana. The portion of the lease associated with the Board is calculated on the basis of square footage. Other information on the Board lease is available in Note 8.

Funds Held for Others

The Board started to service Board loans during fiscal year 2012. The servicing fund holds hazard insurance premiums and property taxes collected from mortgage loan borrowers' monthly payments until premiums and property taxes are due. Multifamily reserves are held to be used for repairs on the Multifamily properties as a requirement of the loan type. Expenditures from the Multifamily reserves have to be approved and documented by the Board.

Pensions

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

Compensated Absences

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

OPEB

The Board's is an participating employer in the State of Montana OPEB plan. For the purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the total OPEB liability of the Board's is available via the Montana Department of Administration. Member contributions are recognized in the period in which the contributions are made. 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. The State OPEB plan adheres to all applicable GASB statements.

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, 2023, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

Program Funds:		
Cash Deposited with State Treasury	$	6,937,522
Custodial Cash		5,896,879
Cash on Hand[7]		23,261
Cash Equivalents - Money Market		77,253,183
Total Cash and Cash Equivalents	$	90,110,845

NOTE 3. INVESTMENTS

The Board invests the following funds: mortgage loan collections until debt service payment dates, and reserves and operating funds until needed. The Board follows GASB Statement No. 40 and GASB Statement No. 72 regarding fair values. The applicable investment risk disclosures are described in the following paragraphs.

Power to Invest and 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

[7] Cash on hand is checks received but not deposited on June 30, 2023.

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.

Concentration of Credit Risk

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 Board's investments are all issued or explicitly guaranteed by the U.S. Government and are excluded from this requirement.

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 the 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 N/A (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, 2023	Moody's Rating	S&P Rating	Effective Duration
Government Sponsored Enterprises				
FHLMC Bonds[8]	$ 2,584,671	Aaa	AA+	9.04
FNMA Medium Term Notes[9]	13,048,209	Aaa	AA+	3.76
FNMA [9] Mortgage Backed Securities	232,694	Aaa	AA+	13.70
	$ 15,865,574			
U.S. Treasury Bonds	4,997,000	Aaa	AA+	2.13
U.S. Treasury Notes	1,228,274	Aaa	AA+	0.96
U.S. Treasury Bills – Short Term (at amortized cost)[10]	6,209,571	Aaa	A-1+	0.12
Trustee Money Market Accounts (at amortized cost)[11]	77,253,183	NR[12]	NR	N/A[13]
Total Investments (including Money Market)	$ 105,553,602			

[8] Federal Home Loan Mortgage Corporation

[9] Federal National Mortgage Association

[10] Amortized cost is the acquisition value less the amortization of premiums/discounts

[11] Money Market Accounts are included in Cash Equivalents on the financial statements

[12] Not rated

[13] Not applicable

NOTE 4. 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.

		Fair Value Measurement Using		
	June 30, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)[14]	Significant Other Observable Inputs (Level 2)[15]	Significant Unobservable Inputs (Level 3)
Investments by Fair Value				
Fixed income investments				
U.S. Treasuries	$ 6,225,274	$ 6,225,274	$ —	$ —
Agency/Government Related	15,632,880	—	$ 15,632,880	—
Commercial Mortgage Backed Securities	232,694	—	232,694	—
Total fixed income investments	$ 22,090,848	$ 6,225,274	$ 15,865,574	$ —
Investments Measured at Amortized Cost [16]				
Short Term U.S. Treasuries	6,209,571			
Money Market Accounts	77,253,183			
Total investments managed	$105,553,602			

Note: Money Market are included in cash equivalents on the financial statements

NOTE 5. MORTGAGE LOANS RECEIVABLE

The Board's Single Family, Multifamily, Housing Trust Fund, and Housing Montana Fund mortgage loans receivable are pledged in accordance with individual program indentures as security for holders of the bonds. The loans held for servicing by the Servicing program are not deemed pledged mortgages and are not included in the Net Collateralized Mortgage Loans Receivable amount but are listed separately.

All Board mortgage loans purchased are for properties located within Montana and held to maturity. Board loans are secured by first liens on real property, are insured by the Federal Housing Administration (FHA),

[14] 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.

[15] Fixed income investments classified in Level 2 of the fair value hierarchy are valued using the matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

[16] Investments measured at amortized cost are included to account for U.S. Treasuries that have a remaining maturity of one year or less upon acquisition and highly liquid investments such as money market.

and are guaranteed by the Veterans' Administration (VA), United States Department of Agriculture Rural Development (RD) program, private mortgage insurance (Single Family 1977 Indenture only), 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. Collateralized mortgage loans receivable, as of June 30, 2023, consist of the following:

Single Family Program	$	492,821,744
Multifamily Program		6,801,430
Housing Trust Program		2,678,792
Housing Montana Fund		2,365,970
		504,667,936
Net mortgage discounts and premiums		3,653,093
Allowances for losses and real estate owned (Note 6)		(320,000)
Net Collateralized Mortgage Loans Receivable	$	508,001,029
Mortgage loans receivable **not** collateralized.	$	1,233,535

NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

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

The June 30, 2023, 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 zero (0) real estate owned properties as of June 30, 2023. Since Board real estate owned properties are insured or guaranteed by external organizations, Board loan losses are limited by insurance claims or sale of foreclosed properties. Real estate owned by the Board is included in the mortgages receivable balance (Note 5). In FY23, the Board increased allowances $10,000 for each of the Loan Servicing Program and Housing Trust Fund.

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

Balance as of June 30, 2022	$	300,000
Plus: Additional provision		20,000
Less: Net loans charged off		—
Balance as of June 30, 2023	$	320,000

NOTE 7. CAPITAL ASSETS

Capital assets consist primarily of computer software and equipment and other office equipment used for the business activities of the Board. Intangible right-to-use lease building is for a portion of a building based on square foot usage used for business activities of the Board. Capital asset balances as of June 30, 2023, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balances
Capital Assets:				
Equipment	$ 11,320	$ —	$ (11,320)	$ —
Intangible Right-To-Use Building [17]	2,633,671	—	—	2,633,671
Total Capital Assets	2,644,991	—	(11,320)	2,633,671
Less Accumulated Depreciation/ Amortization for:				
Equipment	(10,456)	—	10,456	—
Intangible Right-To-Use Buildings [17]	(143,004)	(143,004)	—	(286,008)
Total Depreciation /amortization	(153,460)	(143,004)	10,456	(286,008)
Capital Assets, Net	$ 2,491,531	$ (143,004)	$ (864)	$ 2,347,663

Depreciation expense included in general and administrative expense was zero for the year ended June 30, 2023. The change in equipment and depreciation from fiscal year 2022 included removal of retired equipment. No gain or loss was realized for those transactions.

Amortization expense included in general and administrative expense was $143,004 for the year ended June 30, 2023.

NOTE 8. LEASES

A lease was made between the State of Montana, Department of Commerce and the Helena Montana Associates to lease the premise at 301 South Park Avenue, Helena Montana beginning December 1, 2019, through November 30, 2039. Based on the square footage used by the Board, the Board has 41.4% of the lease allocated to it.

The current net present value of the portion allocated to the Board of Housing as of the remaining duration of the lease is $2,424,458. Payments are due in monthly installments beginning at $12,048 increasing three times over the life of the lease to a final payments of $16,033 at the end of the lease. These calculations are with imputed interest of 1.65% which is derived from the Montana Board of Housing Intercap Rate at the time of inception of GASB Statement 87.

[17] The beginning balances of the intangible right-to-use building and accumulated amortization have been restated due to the correction of the intangible right-to-use lease asset.

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	Principal	Interest	Total
2024	$ 105,368	$ 39,209	$ 144,577
2025	107,120	37,457	144,577
2026	117,393	35,641	153,034
2027	125,461	33,615	159,076
2028	127,547	31,529	159,076
2029-2033	712,164	124,264	836,428
2034-2038	860,187	59,669	919,856
2039-2043	269,218	3,344	272,562
Totals	$ 2,424,458	$ 364,728	$ 2,789,186

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NOTE 9. LONG-TERM DEBT

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, 2023.

Single Family I Mortgage Bonds:	Original Amount	Balance
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	$ 14,055,000
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	29,995,000
2017		
Series A-1 and A-2 serial and term bonds at 1.00% to 4.00% maturing in scheduled semi-annual installments to December 1, 2028, December 1, 2032, December 1, 2037, and December 1, 2045.	41,900,000	13,825,000
2017		
Series B-1 and B-2 serial and term bonds at 0.85% to 4.00% maturing in scheduled semi-annual installments to December 1, 2029, December 1, 2032, December 1, 2037, December 1, 2042, December 1, 2047, and December 1, 2048	42,600,000	17,115,000
2018		
Series B serial and term bonds at 1.65% to 4.0% maturing in scheduled semi-annual installments to December 1, 2029, December 1, 2033, June 1, 2037, and December 1, 2043	50,000,000	17,940,000
2019		
Series B serial and term bonds at 1.30% to 4.00% maturing in scheduled semi-annual installments to December 1, 2034, December 1, 2039, December 1, 2044, December 1, 2049, and June 1, 2050.	30,000,000	15,620,000
2020		
Series A-1 and A-2 serial and term bonds at 1.10% to 3.50% maturing in scheduled semi-annual installments to December 1, 2034, December 1, 2039, December 1, 2044, December 1, 2049 and June 1, 2050.	42,425,000	26,580,000
2020		
Series B serial and term bonds at 0.75% to 4.00% maturing in scheduled semi-annual installments to December 1, 2035, December 1, 2040, December 1, 2045, June 1, 2050, and December 1, 2050.	37,200,000	23,635,000
2020		
Series C serial and term bonds at 0.15% to 3.00% maturing in scheduled semi-annual installments to December 1, 2035, December 1, 2040, December 1, 2045, June 1, 2050, and December 1, 2050	30,000,000	23,680,000
2021		
Series A serial and term bonds at 0.30% to 3.00% maturing in scheduled semi-annual installments to December 1, 2036, December 1, 2041, December 1 2046, December 1, 2050, and June 1, 2051	43,410,000	36,090,000

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2021		
Series B serial and term bonds at 0.10% to 3.00% maturing in scheduled semi-annual installments to December 1 2033, December 1, 2036, December 1, 2041, December 1, 2046, June 1, 2051, and December 1, 2051.	32,000,000	30,095,000
2022		
Series A serial and term bonds at 0.30% to 3.00% maturing in scheduled semi-annual installments to December 1 2034, December 1, 2037, December 1, 2042, December 1, 2047, December 1, 2051, and June 1, 2052.	32,000,000	30,860,000
2022		
Series B serial and term bonds at 2.05% to 5.00% maturing in scheduled semi-annual installments to December 1, 2034, December 1, 2037, December 1, 2042, December 1, 2047, and June 1, 2052.	32,000,000	31,580,000
2022		
Series C serial and term bonds at 3.00% to 6.00% maturing in scheduled semi-annual installments to December 1, 2034, December 1, 2037, December 1, 2042, December 1, 2047, December 1, 2052, and June 1, 2053.	40,000,000	40,000,000
Bonds outstanding Single Family I		351,070,000
Unamortized bond premium (discount)		8,306,139
Total Bonds Payable Single Family I		$ 359,376,139

Single Family II Mortgage Bonds	Original Amount	Balance
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, December 1, 2043, and June 1, 2044.	$ 73,000,000	$ 17,225,000
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, December 1, 2043, and December 1, 2044.	59,980,000	8,820,000
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	23,385,000
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, and June 1, 2040.	20,000,000	1,740,000
2018		
Series A serial and term bonds at 1.65% to 4.00% maturing in semi-annual installments to December 1, 2030, December 1, 2033, December 1, 2038, December 1, 2043, December 1, 2048, and June 1, 2049.	38,450,000	18,665,000

2019		
Series A serial and term bonds at 1.85% to 4.25% maturing in semi-annual installments to December 1, 2030, December 1, 2033, December 1, 2038, June 1, 2045, and December 1, 2045.	40,000,000	17,255,000
Bonds outstanding Single Family II		87,090,000
Unamortized bond premium (discount)		950,853
Total Bonds Payable Single Family II		$ 88,040,853

Single Family XI Mortgage Bonds:	Original Amount	Balance
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	$ 5,030,000
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, and December 1, 2038.	56,280,000	6,185,000
Bonds outstanding Single Family XI		11,215,000
Unamortized bond premium (discount)		56,453
Total Bonds Payable Single Family XI		$ 11,271,453

Single Family General Obligation Bonds:	Original Amount	Balance
2008		
Series A general obligation private placement bonds.[18]	$ 497,942	$ 86,366
Total Single Family Mortgage Bonds Payable, Net		$ 458,774,811

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 106%.

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

[18] 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, 2023, $497,942 of bonds have been issued.

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Multifamily Mortgage Bonds:	Original Amount	Balance
1998		
Series A serial and term bonds at 3.5% to 4.70% interest, maturing in scheduled annual installments to August 1, 2014, and on August 1, 2029.	$ 1,625,000	$ 135,000
Total Multifamily Mortgage Bonds Payable, Net		$ 135,000

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	**$ 458,909,811**

The following is a summary of bond principal and interest requirements as of June 30, 2023:

Fiscal year ending June 30:	**Single Family Principal & Interest Total**	**Multifamily Principal and Interest Total**	**Single and Multifamily Principal Only Total**	**Single and Multifamily Interest Only Total**
2024	$ 31,476,697	$ 26,500	$ 16,725,000	$ 14,778,197
2025	31,219,368	25,460	16,825,000	14,419,828
2026	33,452,426	24,420	19,440,000	14,036,846
2027	31,798,921	23,380	18,300,000	13,522,301
2028	32,150,787	27,210	19,170,000	13,007,997
2029-2033	150,493,530	31,300	94,375,000	56,149,830
2034-2038	126,030,246	—	85,166,366	40,863,880
2039-2043	100,843,265	—	73,615,000	27,228,265
2044-2048	79,246,945	—	64,695,000	14,551,945
2049-2053	45,006,700	—	41,285,000	3,721,700
Total	**$ 661,718,885**	**$ 158,270**	**$ 449,596,366**	**$ 212,280,789**

Cash paid for interest expenses during the year ended June 30, 2023 was $14,886,474.

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Summary of Changes in Long-term Liabilities:

	Beginning Balance July 1, 2022	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due in More Than One Year
Bonds payable						
Single Family, net	474,772,826	$39,411,986	$ 55,410,001	458,774,811	$ 16,705,000	$ 442,069,811
Multifamily, net	150,000	—	15,000	135,000	20,000	115,000
Total Bonds/Notes Payable, net	474,922,826	39,411,986	55,425,001	458,909,811	16,725,000	442,184,811
Arbitrage Payable [18]	1,044,211	501,202	555,942	989,471	46,664	942,807
Compensated Absences Payable[19]	340,900	195,531	165,364	371,067	165,364	205,703
Net Pension Liability [18]	1,535,939	577,818	—	2,113,757	—	2,113,757
Total OPEB Liability[20]	318,672	—	236,468	82,204	—	82,204
Lease Payable[21]	2,528,103	—	103,645	2,424,458	105,368	2,319,090
Total other liabilities	5,767,825	1,274,551	1,061,419	5,980,957	317,396	5,663,561
Total Business-type activities long-term liabilities	$480,690,651	$40,686,537	$ 56,486,420	$464,890,768	$ 17,042,396	$ 447,848,372

[19] The compensated absences liability and pension liability will be liquidated by several enterprise funds. The arbitrage rebate tax payable will be liquidated by various rebate funds.

[20] The OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an “implicit rate” subsidy on the related financial statements. While this liability is disclosed for financial purposes, it does not represent a legal liability of the Board.

[21] The beginning balance has been restated due to the correction of the lease liability.

NOTE 10. BOND REDEMPTIONS

During the year ended June 30, 2023, the Board redeemed Single Family and Multi-Family Mortgage Program bonds prior to scheduled maturity as follows:

Single Family I	
December 1	$ 15,315,000
June 1	12,115,000
	27,430,000
Single Family II	
December 1	6,060,000
June 1	5,310,000
	11,370,000
Single Family XI	
December 1	650,000
June 1	625,000
	1,275,000
Total	$ 40,075,000

All 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 $5,625,107 in the Single Family I and II Indentures.

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

Foreclosure Prevention	$ 50,000
Disabled Affordable Accessible Homeownership	862,950
Lot Refinance	726,440
Habitat for Humanity	1,469,230
Total Single Family Commitments	$ 3,108,620

Single Family I — Reverse Annuity Mortgage Program Future Loan Amounts: $3,212,812

Single Family I & II — funding for Homebuyer Education for fiscal year 2023: $215,000

Housing Trust Fund Program — Reverse Annuity Mortgage Program Funds: $5,528,197

NOTE 12. EMPLOYEE BENEFIT PLANS

Summary of Significant Accounting Policies – Defined Benefit Retirement Plan (DBRP)

Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the Net Pension Liability (NPL)); Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and Additions to or Deductions from Fiduciary Net

Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements. MPERA applied all applicable pronouncements of GASB.

General Information about the Pension Plan

Plan Description — The PERS-DBRP, administered by MPERA, is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, Chapters 2 and 3, Montana Code Annotated (MCA). This plan provides retirement benefits to covered employees of the State, employees of local governments, and certain employees of the Montana University System and school districts. Benefits are established by State law and can only be amended by the Legislature.

All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-Defined Contribution Retirement Plan (DCRP) by filing an irrevocable election. Members may not be participants of both the *defined benefit* and *defined contribution* retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP).

Benefits provided — The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service, and highest average compensation (HAC). Members rights are vested after five years of service.

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:

• 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.

Second Retirement (requires returning to PERS-covered employer or PERS service)

- Retire before January 1, 2016, and accumulate less than 2 years additional service credit or retire on or after January 1, 2016, and accumulate less than 5 years additional service credit:
  - A refund of member's contributions plus return interest (currently 2.02% effective July 1, 2018)
  - No service credit for second employment;
  - Start the same benefit amount the month following termination; and
  - Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.
- Retire before January 1, 2016, and accumulate at least 2 years of additional service credit:
  - A recalculated retirement benefit based on provisions in effect after the initial retirement; and
  - GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.
- Retire on or after January 1, 2016, and accumulate 5 or more years of service credit:
  - The same retirement as prior to the return to service;
  - A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
  - GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

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

Compensation Cap

- Hired on or after July 1, 2013: 110% annual cap on compensation considered as a part of a member's highest average compensation

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

Contributions — The State Legislature has the authority to establish and amend contribution rates. Member and employer contribution rates are specified by Montana Statute and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.

Special Funding — The State of Montana, as the non-employer contributing entity, paid to the Plan additional contributions that qualify as special funding. Those employers, including the Board, who received special funding are all participating employers.

Not Special Funding — Per Montana law, state agencies and universities, including the Board, paid their own additional contributions. The employer paid contributions are not accounted for as special funding, but are reported as employer contributions.

Member and employer contribution rates are shown in the table below.

Fiscal Year	Member		Employer
	Hired < 07/01/11	Hired > 07/01/11	
2023	7.900%	7.900%	9.070%
2022	7.900%	7.900%	8.970%
2021	7.900%	7.900%	8.870%
2020	7.900%	7.900%	8.770%
2019	7.900%	7.900%	8.670%
2018	7.900%	7.900%	8.570%
2017	7.900%	7.900%	8.470%
2016	7.900%	7.900%	8.370%
2015	7.900%	7.900%	8.270%
2014	7.900%	7.900%	8.170%
2012 - 2013	6.900%	7.900%	7.170%
2010 - 2011	6.900%		7.170%
2008 - 2009	6.900%		7.035%
2000 - 2007	6.900%		6.900%

- Member contributions to the system 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.
- Employer contributions to the system:
  - 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 actuary valuation results that show the amortization period has dropped below 25

years and would remain below the 25 years following the reduction of both the additional employer and additional member contributions rates.

- Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
- The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

- Non-Employer Contributions:
  - Special Funding
    - The State contributed 0.1% of members' compensation on behalf of local government entities.
    - The State contributed 0.37% of members' compensation on behalf of school district entities.
    - The State contributed a Statutory Appropriation from the General Fund of $34,633,570.

Pension Liabilities, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's Total Pension Liability (TPL). The basis for the TPL as of June 30, 2022, is on an actuarial valuation performed by the Plan's actuary as of June 30, 2022.

The TPL minus the Fiduciary Net Position equals the Net Pension Liability (NPL). The proportionate share of the Board's and the State of Montana's NPL as of the measurement dates for June 30, 2022, and June 30, 2021, are displayed below. The measurement date used throughout has a one-year delay to the reporting date for pension information. The Board's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The State's proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total State contributions paid. The Board recorded a liability of $2,113,757 and the employers proportionate share of the collective NPL was 0.089% percent.

As of measurement date	Net Pension Liability as of June 30, 2022	Net Pension Liability as of June 30, 2021	Percent of Collective NPL as of June 30, 2022	Percent of Collective NPL as of June 30, 2021	Change in Percent of Collective NPL
Board of Housing Proportionate Share	$ 2,113,757	$ 1,535,939	0.089 %	0.085 %	0.004 %
State of Montana Proportionate Share associated with the Board	607,359	434,788	0.026 %	0.024 %	0.002 %
Total	$ 2,721,116	$ 1,970,727	0.115 %	0.109 %	0.006 %

<u>*Changes in actuarial assumptions and methods*</u> — The following changes in assumptions or other inputs were made that affected the measurement of TPL.

1. The discount rate was increased from 7.06% to 7.30%.
2. The investment rate of return was increased from 7.06% to 7.30%.
3. Updated all mortality tables to the PUB2010 tables for general employees.
4. Updated the rates of withdrawal, retirement, and disability.
5. Lowered the payroll growth assumption from 3.50% to 3.25%.
6. The inflation rate was increased from 2.40% to 2.75%.

Changes in benefit terms - There have been no changes in benefit terms since the previous measurement period.

Changes in proportionate share - There were no changes to the Plan between the measurement date of the collective NPL and the Board's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

Pension Expense - At June 30, 2023, the Board recognized the total pension expense of $362,291, including $299,337 for its proportionate share of the Plan's pension expense. Additionally, the Board recognized grant revenue of $62,954 for the support provided by the State for its proportionate share of the pension expense associated with the Board.

Recognition of deferred inflows and outflows - At June 30, 2023, the Board reported its proportionate share of the Plan’s deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. Actual Experience	$ 26,946	$ —
Projected Investment Earning vs. Actual Investment Earnings	62,122	—
Changes in assumptions	78,771	154,746
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions	97,759	—
Employer Contributions Subsequent to the Measurement Date	149,695	—
Total	$ 415,293	$ 154,746

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Measurement Year Ended June 30:	Recognition of Deferred Outflows and Deferred Inflows in Future Years as an Increase or (Decrease) to the Pension Expense
2023	$ 98,675
2024	$ (62,261)
2025	$ (67,002)
2026	$ 141,440
Thereafter	$ —

Actuarial Assumptions

The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions:

Investment Return (net of admin expense, including inflation)	7.30%
Administration Expense as a Percentage of Payroll	0.29%
General Wage Growth (including inflation)	3.50%
Inflation	2.75%
Merit Increases	0% to 4.80%

Postretirement Benefit Increases	
Guaranteed Annual Benefit Adjustment (GABA) each January	
• 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 all other adjustments to the member's benefit.	
◦ Members hired prior to July 1, 2007	3.0%
◦ Members hired between July 1, 2007 and June 30, 2013	1.5%
◦ Members hired on or after July 1, 2013	
▪ For each year PERS is funded at or above 90% — the 1.5% is reduced by 0.1% for each 2.0% PERS is below 90%	1.5%
▪ 0% whenever the amortization period for PERS is 40 years or more	0.0%
Mortality	
• Active Participants	PUB-2010 General Amount Weighted Employer Mortality projected to 2021 for males and females. Projected generationally using MP-2021.
• Disabled Retirees	PUB-2010 General Amount Weighted Disabled Retiree Mortality table, projected to 2021 with ages set forward one year for both males and females.
• Contingent Survivors	PUB-2010 General Amount Weighted Contingent Survivor Mortality projected to 2021 with ages set forward one year for males and females. Projected generationally using MP-2021.
• Healthy Retirees	PUB-2010 General Amount Weighted Healthy Retiree Mortality table projected to 2021, with ages set forward one year and adjusted 104% for generationally using PM-2021.

The actuarial assumptions and methods utilized in the June 30, 2022, valuation were developed in the five-year experience study for the period ending 2021.

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.30%. 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 0.10% of salaries for local governments and 0.37% for school districts. In addition, the State contributes a statutory appropriation from the general fund. 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 2126. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term rate of return on pension plan investments is reviewed as part of regular experience studies prepared for the Plan about every five years. The long-term rate of return as of June 30, 2022, is based on analysis in the experience study report dated May 2, 2022, without consideration for the administrative expense analysis shown. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future rate of return assumption including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class. These ranges were combined to develop the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the underlying inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of the most recent experience study, are summarized in the following table.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash	3.00 %	-0.33%
Domestic Equity	30.00 %	5.90%
International Equity	17.00 %	7.14%
Private Investments	15.00 %	9.13%
Real Assets	5.00 %	4.03%
Real Estate	9.00 %	5.41%
Core Fixed Income	15.00 %	1.14%
Non-Core Fixed Income	6.00 %	3.02%
Total	100.0 %	

Sensitivity Analysis

The following presents the Board's sensitivity of the NPL to the discount rate in the table below. A small change in the discount rate can create a significant change in liability. The NPL was calculated using the discount rate of 7.30%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

	1.0% Decrease (6.30%)	**Current Discount Rate (7.30%)**	**1.0% Increase (8.30%)**
Board of Housing	$ 3,047,080	$ 2,113,757	$ 1,330,711

Disclosure for the Defined Contribution Plan

The Board contributed to the State of Montana Public Employee Retirement System Defined Contribution Retirement Plan (PERS-DCRP) for employees that have elected the DCRP. The PERS-DCRP is administered by the Public Employees Retirement Board (PERB) and is reported as a multiple-employer plan established July 1, 2002, and governed by Title 19, chapters 2 and 3, MCA.

All new PERS members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be participants of both the *defined benefit* and *defined contribution* retirement plans.

Member and employer contribution rates are specified by State law 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.

Benefits are dependent upon eligibility and individual account balances. Participants are vested immediately in their own contributions and attributable income. Participants are vested after 5 years of membership service for the employer's contribution to individual accounts and the attributable 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 PERS-DCRP.

At the plan level for the year ended June 30, 2022, the Board did not recognize a net pension liability or any pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 344 employers that have participants in the PERS-DCRP totaled $1,681,603.

Pension Plan Fiduciary Net Position

The stand-alone financial statements of the Montana Public Employees Retirement Board (PERB) Annual Comprehensive Financial Report and the GASB 68 Report disclose the Plan's fiduciary net position. The reports are available from the PERB at P.O. Box 200131, Helena, Montana 59620-0131, (460) 444-3154 or both are available on the MPERA website at https://mpera.mt.gov/about/annualreports1/annualreports

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.

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 premiums for medical, basic vision and dental coverage for employees at $30 per month. Administratively established medical premiums for the spouse of employee and employee's family vary between $101 and $327 per month depending on the medical plan selected, family coverage, and eligibility. Administratively established premiums vary between $19.90 and $28.90 per month for spouse and family dental coverage and between $7.64 and $22.26 per month for an optional vision hardware plan depending on family coverage and eligibility.

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 $555,942 in arbitrage rebate cash payments, from the arbitrage rebate and yield liability accounts, to the United States Treasury Department in FY23. The related liability was $989,471 as of June 30, 2023.

Balance as of June 30, 2022	$1,044,211
Plus: Increases	501,202
Less: Reductions	555,942
Balance as of June 30, 2023	$989,471

NOTE 14. NO-COMMITMENT DEBT

The Board is authorized by the State of Montana to issue bonds 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 and no additional or voluntary commitments of its resources have been extended by the Board. 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 and 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, 2023, are as follows:

Bond Series	Original Amount	Balance
Multifamily Housing Revenue Bond Series 2007 (South Forty Apartments)	$ 5,100,000	$ 4,123,498
Multifamily Housing Revenue Bond Series 2012 A-1 (Rainbow/Silver Bow Apartments)	857,000	692,575
Multifamily Housing Revenue Bond Series 2012 A-2 (Rainbow/Silver Bow Apartments)	4,032,000	3,278,977
Multifamily Housing Revenue Bond Series 2012 B-1 (Rainbow/Silver Bow Apartments)	850,713	830,365
Multifamily Housing Revenue Bond Series 2015 A (Larkspur Commons Apartments)	15,500,000	11,102,154
Multifamily Housing Revenue Bond Series 2017 (Big Sky Manor Apartments)	4,500,000	3,679,859
Multifamily Housing Revenue Bond Series 2018 (Rockcress Commons Apartments)	15,000,000	8,510,162

MONTANA BOARD OF HOUSING

A COMPONENT UNIT OF THE STATE OF MONTANA

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Bond Series	Original Amount	Balance
Multifamily Housing Revenue Bond Series 2018 (Starner Gardens Apartments)	15,000,000	10,734,816
Multifamily Housing Revenue Bond Series 2020 (Emporda Apartments)	3,600,000	3,143,351
Multifamily Housing Revenue Bond Series 2020 (Ponderosa Acres)	20,915,000	16,550,000
Multifamily Housing Revenue Bond Series 2020 (Butte I Affordable Owner I)	13,200,000	6,650,000
Multifamily Housing Revenue Bond Series 2020 (Butte Affordable Owner II)	29,300,000	19,950,000
Multifamily Housing Revenue Bond Series 2020 (Arrowleaf Park Apartments)	26,000,000	20,567,881
Multifamily Housing Revenue Bond Series 2020 (Perennial Park Apartments)	19,000,000	12,808,779
Multifamily Housing Revenue Bond Series 2021 (Trinity Apartments)	36,000,000	31,253,478
Multifamily Housing Revenue Bond Series 2021 (DMS Portfolio Project)	28,500,000	19,430,000
Multifamily Housing Revenue Bond Series 2021 (Villagio Apartments)	43,000,000	43,000,000
Multifamily Housing Revenue Bond Series 2021 (Boulevard Apartments)	7,000,000	4,165,000
Multifamily Housing Revenue Bond Series 2021 (Castlebar Apartments)	13,525,000	12,257,365
Multifamily Housing Revenue Bond Series 2022 (Junegrass)	22,500,000	8,923,919
Multifamily Housing Revenue Bond Series 2022 (Spruce Grove)	5,959,000	5,959,000
Multifamily Housing Revenue Bond Series 2022 (Bridger Peaks)	7,500,000	7,385,000
Multifamily Housing Revenue Bond Series 2022 (Comstock Project)	11,862,000	11,862,000
Multifamily Housing Revenue Bond Series 2023 (South Forty Project)	14,666,000	14,666,000
Multifamily Housing Revenue Bond Series 2023 (Great Falls Project)	15,381,160	10,176,509
Total No-Commitment Bonds Outstanding		$ 291,700,688

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.

Deferred Bond Costs

On June 30, 2023, there were $55,570 in unamortized deferred refunding costs from prior years' refundings. These costs are associated with the refundings and were deferred. They are being amortized under the GASB Statement No. 23 and GASB Statement No. 65 guidelines.

NOTE 16. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

General Information Non-trust Plan

The Board provides optional post-employment (OPEB) healthcare benefits in accordance with Section 2-18-704, MCA. This coverage applies to the following employees and dependents who elect to continue coverage and pay administratively established contributions: 1) employees and dependents who retire under applicable retirement provisions and 2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. The plan is not administered through a trust; as such, there are no plan assets accumulated to offset the total OPEB liability.

In accordance with Section 2-18-704, MCA, the Board provides post-retirement health insurance benefits to eligible employees who receive retirement benefits from the Public Employees' Retirement System (PERS), and elect to start medical coverage within 60 days of leaving employment. Spouses, unmarried dependent children, and surviving spouses are also eligible for the plan. Detail on retirement plans is available in Note 12.

Plan Description

The OPEB plan is reported as a single-employer plan for the State of Montana. The Board is a participating employer under the State OPEB plan. The Board pays for post-employment healthcare benefits on a pay-as-you-go basis. Section 2-18-812, MCA gives authority for establishing and amending the funding policy to the Montana Department of Administration for the State group health insurance plan. The healthcare OPEB plan allows retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in reporting the total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plan or for associated liabilities, but are a measure of the difference in retiree payments into the plan and actual medical costs associated with those individuals paid for by the plan.

As listed in the Montana State 2023 Retirement Health Benefits Planning Book, the retiree medical premiums varied between $484.00 and $2,362.00 per month, depending on coverage selected and Medicare eligibility. Administratively established dental contributions vary between $42.37 and $71.27, and vision hardware contributions vary between $7.64 and $22.26, depending on coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use participating or non-participating providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. The premium changes were based on actual claims experience and actuarial projections based on the experience and trends.

Benefits Provided

Non-Medicare retirees may continue the core plan, which includes medical, dental, and basic life insurance. Vision coverage is optional.

Medicare-eligible retirees may continue medical coverage. Dental and vision coverage is optional, and no life insurance is available. Medicare eligible retirees must enroll in both Part A and Part B Medicare coverage.

Medical, dental and/or vision coverage is optional for dependents.

A retiree may continue coverage for a spouse who does not work for the State. If coverage is not continued, the spouse may only be added when the spouse loses eligibility for other coverage. If the retiree and spouse both work for the State, the retiree may elect to be covered under the working spouse and retains the right to exercise the transfer option. Dependent medical or dental coverage can only be continued if the retiree continues medical and/or dental coverage.

A surviving spouse may elect to continue their medical, dental, and/or vision coverage until Medicare age, at which time they will be offered COBRA and no longer be eligible for the plan. For surviving spouses already of Medicare age, they will be offered COBRA and lose eligibility under the plan at the end of the offering month.

Basis of Accounting

Total OPEB liability is reported on an accrual basis on the Board financial statement. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The plan states that an employee enrolled in the OPEB plan who (a) at least meets the early retirement criteria defined by the Montana Public Employees' Retirement Administration (MPERA); and (b) makes arrangements to continue post-retirement coverage with the benefit office within 60 days of the date active employee coverage ends, may continue with the OPEB plan on a self-pay basis, retroactive back to the date active employee coverage was lost, and adhere to these provisions. Therefore, each plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2023.

As of December 31, 2022, there are 30 active employees and 3 retired employees, spouses and surviving spouses for a total of 33 participating in the plan.

Schedule of Changes in Total OPEB Liability

The following table presents the other items related to, and changes in, the total OPEB liability:

Balances at	
June 30, 2022	$ 318,672
Service Cost	15,413
Interest	10,970
Differences in Experience	(155,325)
Changes of Assumptions or Other Inputs	(102,139)
Benefit Payments	(5,387)
Net Changes in TOL	(236,468)
Balances at	
June 30, 2023	$ 82,204

Actuarial Methods and Assumptions

The total OPEB liability (TOL) measured under GASB 75 is based upon service cost and more standardized reporting assumptions than prior GASB Statements. For a pay-as-you-go public entity, GASB 75 requires a 20-year current municipal bond discount rate to establish an Actuarially Determined Contribution (ADC). The GASB 75 valuation is further required to show both historical and projected future net changes in TOL, as well as sensitivity to changes in key underlying assumptions. Actuarially determined amounts are subject to continual revisions, meaning actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The schedule of changes in the Board's TOL and related ratios, presented as required supplementary information following the notes to the financial statements, is designed to present multi-year trend information about whether the actuarial value of the plan TOL is increasing or decreasing over time relative to the actuarial liabilities for benefits. The schedule of changes in the Boards' TOL and related ratios are based on the substantive plan (the plan as understood by the employer and the plan members). This includes 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 State's OPEB plan TOL actuarial valuation on December 31, 2022, rolled forward to the measurement date March 31, 2023, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

	Retiree/Surviving Spouse	Spouse
Contributions (weighted average):		
Before Medicare eligibility	$15,372	$7,370
After Medicare eligibility	$5,592	$5,213
Actuarial valuation date	December 31, 2022	
Measurement date	March 31, 2023	
Actuarial funding method	Entry age normal	
Amortization method	Level percent of payroll, open basis	
Asset valuation method	Not applicable since no assets meet the definition of plan assets under GASB 75	
Actuarial assumptions:		
Interest/discount rate	3.98%	
Projected payroll increases	3.50%	
Average retirement age		
Active Employees	61.88	
Inactive Employees	66.63	
Participation	40% of future retirees and 70% of future retirees who elect medical coverage and are married are assumed to elect spousal coverage as well.	
Marital status	Actual spouse information is used for current retirees. Marital status at retirement for future members assumed to be 70%. Males are assumed to be 3 years older than females.	
Healthcare cost trend rates	The current medical health care cost trend rate is 6.5%. Annual decreases begin in 2024 with an ultimate rate of 3.9%. The current prescription health care cost trend rate is 9.0%. Annual decreases start in 2024, with an ultimate rate of 3.9%.	
Retiree Contribution Increases	Current year was based on actual trend. For pre-65 contributions, it starts with 4.0% in 2023, increases to 6.7% in 2024 and then decreases annually with an ultimate rate of 3.9%. For post-65 contributions, it starts with 3.9% in 2023, increases to 6.7% in 2024 and then decreases annually with an ultimate rate of 3.9%.	

Mortality - Contributing Members: For general MPERA members, mortality follows the Pub-2010 General Employee table, projected generationally using MP-2021.

Mortality - Retired: For general MPERA retirees, mortality follows the Pub-2010 General Retiree table set forward 1 year and adjusted 104% for males, or adjusted 103% for females, projected generationally using MP-2021.

Mortality - Surviving Beneficiaries: For general MPERA survivors, mortality follows the Pub-2010 Contingent Survivor table set forward 1 year for males and females, projected generationally using MP-2021.

Mortality - Disabled: For general MPERA retirees, mortality follows the Pub-2010 General Disabled table set forward 1 year for males and females, projected generationally using MP-2021.

Changes in actuarial assumptions and methods since last measurement date:

1. An inflow of $87,533 due to updated trend in future years;
2. an inflow of $15,814 due to an increase in the interest rate from 3.31% to 3.98%;
3. an inflow of $328 due to an increase in the inflation rate from 2.50% to 3.50%; and
4. an outflow of $1,536 due to MPERA decrement assumptions.

Changes Since Prior Valuation: The new trend projections are based on 2023 Getzen model.

Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Board, as well as what the Board's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (DR-1 percent) or 1-percentage-point higher (DR+1 percent) than the current discount rate:

		State Total OPEB Liability	BOH Total OPEB Liability
1.0% Decrease	2.98%	$ 41,353,260	$ 115,064
Current Discount Rate	3.98%	$ 30,997,160	$ 82,204
1.0% Increase	4.98%	$ 23,565,570	$ 58,975

Sensitivity of Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability of the Board, as well as what the Board's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Trend Rate for medical	Trend Rate for pharmacy	State Total OPEB Liability	BOH Total OPEB Liability
1.0% Decrease	5.50%	8.00%	$ 23,693,536	$ 59,050
Current Discount Rate	6.50%	9.00%	$ 30,997,160	$ 82,204
1.0% Increase	7.50%	10.00%	$ 41,396,189	$ 115,485

The Board's total OPEB liability of $82,204 is approximately 0.27% of the total State's total OPEB liability of $30,997,160 as measured on March 31, 2023, as a basis of the total group insurance premiums paid.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2023, the Board had an OPEB expense of $23,010. At June 30, 2023, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 155,083	$ 146,363
Changes of assumptions or other inputs	109,611	194,547
Contributions subsequent to the measurement date	2,491	—
Total	$ 267,185	$ 340,910

The Board's employer contributions and benefit expenses between April 1, 2023, and June 30, 2023, were $4,621 and $7,112, respectively, resulting a net benefit payment amount of $2,491 to be recognized as deferred outflows.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30		Amount recognized in OPEB expense as an increase or (decrease) to OPEB expense
2024	$	(3,374)
2025	$	(3,374)
2026	$	(3,374)
2027	$	(3,374)
2028	$	(3,374)
Thereafter	$	(59,346)

General Information About the DCRP OPEB Plan

General Information — Section 19-3-2141, MCA, establishes a long-term disability plan trust fund (PERS-DCRP Disability) for all State of Montana employees that participate in the Public Employee's Retirement System-Defined Contribution Retirement Plan (PERS-DCRP). All new PERS members are initially members of the Public Employee's Retirement System-Defined Benefit Retirement Plan (PERS-DBRP) and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. Only those participants that choose the PERS-DCRP are covered by the PERS-DCRP Disability plan.

Plan Description — The PERS-DCRP Disability is a multiple-employer, cost-sharing plan that covers employees of the State, local governments, and certain employees of the university system and school districts, who are not covered by a separate retirement system governed by Title 19, MCA. The PERS-DCRP Disability plan provides disability benefits to PERS-DCRP plan members who are vested in the plan and are currently ineligible for retirement.

A separate trust has been established for purposes of providing disability benefits to PERS-DCRP Disability plan members, and it is accounted for as a fiduciary fund. The assets are held in a trust capacity for the beneficiaries. The Public Employee Retirement System issues a publicly available annual report, which includes financial statements and required supplemental information for the plan. Those reports may be obtained online (http://mpera.mt.gov) or by contacting the following:

Public Employees' Retirement Board
100 North Park, Suite 200
PO Box 200131
Helena, MT 59620-0131

NOTE 17. INTERFUND BALANCES

The following interfund balances have been eliminated from the Combined 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, 2023:

Fee Income and Servicers Fees related to in-house loan servicing	$	1,736,787

NOTE 18. OPERATION DISRUPTION RISK

Certain external events, such as pandemics, natural disasters, severe weather, technological emergencies, riots, acts of war or terrorism, or other circumstances, could potentially disrupt the Board’s ability to conduct its business. A prolonged disruption in the Board’s operations could have an adverse effect on the Board’s financial condition and results of operations. To plan for and to mitigate the impact such an event may have on its operations, the Board has developed a Montana Board of Housing Business Continuity Plan and a Housing Division Business Continuity Plan (collectively, the “Plan”). The Plan is designed to (i) evaluate the impact of such an event on the Board’s business function and processes, (ii) provide a priority ranking of these functions and processes to assist the Board’s leadership in allocating recovery resources based upon such priorities, and (iii) provide procedures to protect, restore or recover, as the case may be, the Board’s business functions and processes. No assurances can be given that the Board’s efforts to mitigate the effects of an emergency or other event will be successful in preventing any and all disruptions to its operations in the event of an emergency.

The Board is dependent on electronic information technology systems to deliver high quality, coordinated, and cost efficient services. These systems may contain sensitive information or support critical operational functions which may be valued for unauthorized purposes. As a result, the electronic systems and networks of the Board may be targets of cyberattack. Because the Board operates within the State of Montana Department of Commerce, the State has taken, and continues to take, measures to protect its information technology systems, and the private, confidential information that those systems may contain, against cyberattack. While the State employs information technology professionals and utilizes operational safeguards that are tested periodically, no assurance can be given that such measures will protect the Board against all cybersecurity threats and attacks.

NOTE 19. ADJUSTMENTS TO BEGINNING NET POSITION

During fiscal year 2023, the Statewide Accounting Bureau instructed agencies to separate the non-lease components in a lease contract and to account for the lease with only the lease components. Because the Park Avenue Building lease includes a non-lease component, the intangible right-to-use lease asset and lease liability as of July 1, 2022, have been restated in Note 7 and Note 9. This correction resulted an adjustment to beginning net position total of $9,934. Another $1,394 in adjustments to beginning net position were to adjust receivables. The total adjustment to beginning net position is $11,328.

NOTE 20 . SUBSEQUENT EVENTS

On July 10, 2023, the Board approved the North 3rd Apartments Project Bond Resolution 23-0710-MF06 in an amount not to exceed $66.6 million. This project subsequently closed on November 15, 2023 for an amount not to exceed $49.0 million.

On July 10, 2023, the Board approved the Bozeman Apartments Project Bond Resolution 23-0710-MF07 in an amount not to exceed $35.0 million. This project is scheduled to close on December 14, 2023.

On July 25, 2023, the Union Place project bonds closed for an amount not to exceed $8.9 million.

On August 3, 2023, the Board issued Single Family Mortgage Bonds, 2023 Series A (non-AMT), in the aggregate principal amount of $41.0 million. The 2023 Series A bonds were issued and secured by the Trust Indenture dated March 10, 1977, as amended and restated as of May 1, 1997, between the Board and Wilmington Trust, National Association, as amended and supplemented, and a 2023 Series A Supplemental Trust Indenture, dated as of August 1, 2023. The proceeds of the bonds are primarily used for the purpose of acquiring Additional Mortgage Loans and Down Payment Assistance Loans for eligible Montana residents.

On August 14, 2023, the Board approved the Parkview Apartments Project Bond Resolution 23-0814-MF08 in an amount not to exceed $15.0 million. The project subsequently closed on October 6, 2023 for an amount not to exceed $11.5 million.

On August 14, 2023, the Board approved the Bond Resolution for the Single Family Mortgage Bonds, 2023 Series B (non-AMT), in the aggregate principal amount not to exceed $75.0 million. On October 24, 2023, the Board issued the 2023 Series B (non-AMT) bonds in the aggregate principal amount of $43.0 million. The 2023 Series B bonds were issued and secured by the Trust Indenture dated March 10, 1977, as amended and restated as of May 1, 1997, between the Board and Wilmington Trust, National Association, as amended and supplemented, and a 2023 Series B Supplemental Trust Indenture, dated as of October 1, 2023. The proceeds of the bonds are primarily used for the purpose of acquiring Additional Mortgage Loans and Down Payment Assistance Loans for eligible Montana residents.

On September 12, 2023, the Board approved the Baxter Apartments Project Bond Resolution 23-0912-MF09 in an amount not to exceed $9.0 million. This project subsequently closed on November 17, 2023 for an amount not to exceed $7.3 million.

On October 12, 2023, the Highland Manor project bonds closed for an amount not to exceed $4.0 million.

On November 13, 2023, the Board approved the Bond Resolution for the Single Family Mortgage Bonds, Series C (non-AMT), in the aggregate principal amount not to exceed $75.0 million. The Board expects to issue the 2023 Series C (non-AMT) bonds in the aggregate principal amount of $43.0 million on December 14, 2023.

On November 13, 2023, the Board approved The Manor project bond resolution 23-1113-MF10 in an amount not to exceed $8.5 million.

MONTANA BOARD OF HOUSING
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Other Post-Employment Benefits (Financial Statements Note 16):

The State of Montana State Employee Group Benefits (SEGB) OPEB plan allows retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes.

Total Board OPEB Liability and Related Ratios
Last 10 Fiscal Years[22]

For the Fiscal Year Ended June 30	Board Total OPEB Liability	Proportionate Share of the Collective Total OPEB Liability as a Percentage	Covered Employee Payroll	Share Covered Employee Payroll
2018	$ 51,602	0.10 %	$ 774,320	6.66 %
2019	$ 54,230	0.10 %	$ 684,204	7.93 %
2020	$ 64,138	0.14 %	$ 753,654	8.56 %
2021	$ 380,223	0.26 %	$ 1,882,278	20.33 %
2022	$ 318,672	0.27 %	$ 1,952,120	16.32 %
2023	$ 82,204	0.27 %	$ 1,839,557	4.51 %

Note to Schedule: No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Factors that Significantly Affect Trends in the Amounts Reported for Total OPEB Liabilities:

2023 Changes in Assumptions include:

1. An inflow of $87,533 due to updated trend in future years.
2. An inflow of $15,814 due to an increase in the interest rate from 3.31% to 3.98%.
3. An inflow of $328 due to an increase in the inflation rate from 2.50% to 3.50%.
4. An outflow of $1,536 due to updates to MPERA decrement assumptions.

[22] Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

MONTANA BOARD OF HOUSING
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REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Pension Benefits (Financial Statement Note 12):

Schedule of Proportionate Share of the Net Pension Liability
For the Last Ten Fiscal Years [23]
(Dollar amounts in thousands)

As of Measurement Date June 30,	Board's Proportion of Net Pension Liability (NPL) as a Percentage	Board's NPL	State's NPL	Total Board's NPL	Covered Payroll	Board's NPL as a Percent of Covered Payroll	Plan Fiduciary Net Position as a Percent of Total Pension Liability
2014	0.10 %	$ 1,203	$ —	$ 1,203	$ 1,079	111.54 %	78.87 %
2015	0.10 %	$ 1,452	$ —	$ 1,452	$ 1,174	123.65 %	78.40 %
2016	0.12 %	$ 2,047	$ —	$ 2,047	$ 1,208	169.52 %	74.71 %
2017	0.12 %	$ 2,279	$ —	$ 2,279	$ 1,399	162.82 %	73.75 %
2018	0.09 %	$ 1,836	$ 590	$ 2,426	$ 1,445	127.05 %	73.47 %
2019	0.09 %	$ 1,871	$ 586	$ 2,457	$ 1,443	129.66 %	73.85 %
2020	0.10 %	$ 2,554	$ 774	$ 3,328	$ 1,498	170.50 %	68.90 %
2021	0.08 %	$ 1,536	$ 435	$ 1,971	$ 1,828	84.01 %	79.91 %
2022	0.09 %	$ 2,114	$ 607	$ 2,721	$ 1,512	139.76 %	73.66 %

Schedule of Contributions
For the Last Ten Fiscal Years [24]
(Dollar amounts in thousands)

As of June 30,	Contractually Required Contributions	Contributions Made	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percent of Covered Payroll
2015	$ 104	$ 104	$ —	$ 1,174	8.83 %
2016	$ 106	$ 106	$ —	$ 1,208	8.77 %
2017	$ 119	$ 119	$ —	$ 1,399	8.47 %
2018	$ 124	$ 124	$ —	$ 1,445	8.56 %
2019	$ 126	$ 126	$ —	$ 1,443	8.70 %
2020	$ 133	$ 133	$ —	$ 1,498	8.86 %
2021	$ 165	$ 165	$ —	$ 1,828	9.03 %
2022	$ 137	$ 137	$ —	$ 1,512	9.05 %
2023	$ 150	$ 150	$ —	$ 1,646	9.10 %

[23] Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.
[24] Schedules are intended to present information for 10 years. Additional years will be displayed as they become available.

MONTANA BOARD OF HOUSING
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Factors that Significantly Affect Trends in the Amounts Reported for Pension Liabilities:

Changes in Benefit Terms

The following changes to the Plan provisions were made as identified:

2017:

Working Retiree Limitations – for PERS

Effective July 1, 2017, if a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

Refunds

- Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.
- Terminating members with accumulated contributions between $200 and $1,000 who wish to rollover their refund must do so within 90 days of termination of service.
- Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump-sum payment.

Interest Credited to Member Accounts

- Effective July 1, 2017, the interest rate credited to member accounts increased from 0.25% to 0.77%.

Lump-sum Payouts

- Effective July 1, 2017, lump-sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

Disabled PERS Defined Contribution (DC) Members

- PERS members hired after July 1, 2011, have a normal retirement age of 65. PERS DC members hired after July 1, 2011 who became disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach age 70, thus ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011, who have a normal retirement age of 60 and are eligible for a disability benefit until age 65.

Changes in Actuarial Assumptions and Methods

- Methods and assumptions used in calculations of actuarially determined contributions:

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The following Actuarial Assumptions were adopted from the June 30, 2021 actuarial valuation:

General Wage Growth *	3.50%
Investment Rate of Return *	7.65%
* Includes inflation at	2.75%
Merit Salary Increase	0% to 8.47%
Asset Valuation Method	Four-year smoothed market
Actuarial Cost Method	Entry age Normal
Amortization Method	Level percentage of payroll, open
Remaining Amortization Period	30 years
Mortality (Healthy Members)	For Males and Females: RB 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year
Mortality (Disabled Members)	For Males and Females: RP 2000 Combined Mortality Table, with no projections
Admin Expense as % of Payroll	0.29%

Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the system. This amount varies from year-to-year, based on the prior year's actual administrative expenses.

The actuarial assumptions and methods utilized in the June 30, 2021 valuation, were developed in the six-year experience study for the period ending 2016.

MONTANA BOARD OF HOUSING
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COMBINING STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	Single Family Program Totals	Multifamily Program Fund
Assets					
Current Assets					
Cash and Cash Equivalents	$ 44,963,478	$ 27,631,004	$ 1,152,226	$ 73,746,708	$ 4,093,326
Investments	1,783,359	783,644	74,338	2,641,341	4,796,504
Mortgage Loans Receivable, Net	10,580,573	5,115,870	228,486	15,924,929	237,840
Servicing Related Advances	18,267	—	—	18,267	—
Accounts Receivable	6,311	41	—	6,352	1,124
Interest Receivable	1,709,491	644,897	166,491	2,520,879	34,472
Prepaid Expense	82,072	57,824	—	139,896	5,347
Total Current Assets	59,143,551	34,233,280	1,621,541	94,998,372	9,168,613
Non-current Assets					
Investments	9,468,790	6,129,609	5,031,481	20,629,880	—
Mortgage Loans Receivable, Net	363,139,611	104,625,506	12,488,875	480,253,992	6,563,590
Mortgage Backed Securities	—	232,694	—	232,694	—
Purchase of Mortgage Servicing Rights	—	—	—	—	—
Intangible Right-To-Use Asset, net	363,888	363,888	—	727,776	121,296
Total Non-current Assets	372,972,289	111,351,697	17,520,356	501,844,342	6,684,886
Total Assets	432,115,840	145,584,977	19,141,897	596,842,714	15,853,499
Deferred Outflow of Resources					
Deferred Refunding Costs	45,807	—	9,763	55,570	—
Deferred OPEB Outflow	45,969	45,969	—	91,938	13,279
Deferred Pension Outflow	76,383	76,383	—	152,766	17,434
Total Deferred Outflows	168,159	122,352	9,763	300,274	30,713
Liabilities					
Current Liabilities					
Accounts Payable	289,059	124,986	4,000	418,045	9,080
Funds Held For Others	503	—	—	503	1,278,704
Accrued Interest - Bonds Payable	931,892	276,946	29,302	1,238,140	2,925
Bonds Payable, Net	11,735,000	3,890,000	1,080,000	16,705,000	20,000
Arbitrage Rebate Payable to U.S. Treasury Department	—	46,664	—	46,664	—
Accrued Compensated Absences	29,662	29,662	—	59,324	6,324
Leases Payable - Current	16,332	16,332	—	32,664	5,444
Total Current Liabilities	13,002,448	4,384,590	1,113,302	18,500,340	1,322,477
Non-current Liabilities					
Bonds Payable, Net	347,641,139	84,237,219	10,191,453	442,069,811	115,000
Arbitrage Rebate Payable to U.S. Treasury Department	803,174	—	139,633	942,807	—
Accrued Compensated Absences	60,545	60,545	—	121,090	9,643
Net Pension Liability	388,772	388,772	—	777,544	88,735
OPEB Liability	14,143	14,143	—	28,286	4,085
Leases Payable - Non-current	359,459	359,459	—	718,918	119,820
Total Non-current Liabilities	349,267,232	85,060,138	10,331,086	444,658,456	337,283
Total Liabilities	362,269,680	89,444,728	11,444,388	463,158,796	1,659,760
Deferred Inflow of Resources					
Deferred OPEB Inflow	58,654	58,654	—	117,308	16,943
Deferred Pension Inflow	28,462	28,462	—	56,924	6,496
Total Deferred Inflows	87,116	87,116	—	174,232	23,439
Net Position					
Net Investment in Capital Assets	(11,903)	(11,903)	—	(23,806)	(3,968)
Restricted for Bondholders:					
Single Family Programs	65,064,484	54,525,578	7,707,272	127,297,334	—
Various Recycled Mortgage Setaside Programs	1,661,810	1,661,810	—	3,323,620	—
Multifamily Programs	—	—	—	—	14,204,981
Reverse Annuity Program	3,212,812	—	—	3,212,812	—
Restricted for Affordable Housing Loan Program	—	—	—	—	—
Total Net Position	$ 69,927,203	$ 56,175,485	$ 7,707,272	$ 133,809,960	$ 14,201,013

Continued on next page

MONTANA BOARD OF HOUSING
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COMBINING STATEMENT OF NET POSITION
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(continued)	Mortgage Loan Servicing	Housing Trust Fund	Housing Montana Fund	TOTAL
Assets				
Current Assets				
Cash and Cash Equivalents	$ 8,380,044	$ 2,796,584	$ 1,094,183	$ 90,110,845
Investments	—	—	—	7,437,845
Mortgage Loans Receivable, Net	728,705	—	26,440	16,917,914
Servicing Related Advances	958,243	—	—	976,510
Accounts Receivable	—	41	—	7,517
Interest Receivable	242,502	1,178,534	187,691	4,164,078
Prepaid Expense	34,162	51,066	—	230,471
Total Current Assets	10,343,656	4,026,225	1,308,314	119,845,180
Non-current Assets				
Investments	—	—	—	20,629,880
Mortgage Loans Receivable, Net	490,746	2,668,792	2,339,530	492,316,650
Mortgage Backed Securities	—	—	—	232,694
Purchase of Mortgage Servicing Rights	2,253,089	—	—	2,253,089
Intangible Right-To-Use Asset, net	1,134,703	363,888	—	2,347,663
Total Non-current Assets	3,878,538	3,032,680	2,339,530	517,779,976
Total Assets	14,222,194	7,058,905	3,647,844	637,625,156
Deferred Outflow of Resources				
Deferred Refunding Costs	—	—	—	55,570
Deferred OPEB Outflow	120,195	41,773	—	267,185
Deferred Pension Outflow	175,300	69,793	—	415,293
Total Deferred Outflows	295,495	111,566	—	738,048
Liabilities				
Current Liabilities				
Accounts Payable	1,194,637	26,313	473	1,648,548
Funds Held For Others	5,062,334	—	—	6,341,541
Accrued Interest - Bonds Payable	—	—	—	1,241,065
Bonds Payable, Net	—	—	—	16,725,000
Arbitrage Rebate Payable to U.S. Treasury Department	—	—	—	46,664
Accrued Compensated Absences	65,470	34,246	—	165,364
Leases Payable - Current	50,928	16,332	—	105,368
Total Current Liabilities	6,373,369	76,891	473	26,273,550
Non-current Liabilities				
Bonds Payable, Net	—	—	—	442,184,811
Arbitrage Rebate Payable to U.S. Treasury Department	—	—	—	942,807
Accrued Compensated Absences	54,654	20,316	—	205,703
Net Pension Liability	892,243	355,235	—	2,113,757
OPEB Liability	36,981	12,852	—	82,204
Leases Payable - Non-current	1,120,893	359,459	—	2,319,090
Total Non-current Liabilities	2,104,771	747,862	—	447,848,372
Total Liabilities	8,478,140	824,753	473	474,121,922
Deferred Inflow of Resources				
Deferred OPEB Inflow	153,359	53,300	—	340,910
Deferred Pension Inflow	65,320	26,006	—	154,746
Total Deferred Inflows	218,679	79,306	—	495,656
Net Position				
Net Investment in Capital Assets	(37,118)	(11,903)	—	(76,795)
Restricted for Bondholders:				
Single Family Programs	5,857,988	—	—	133,155,322
Various Recycled Mortgage Setaside Programs	—	—	—	3,323,620
Multifamily Programs	—	750,118	—	14,955,099
Reverse Annuity Program	—	5,528,197	—	8,741,009
Restricted for Affordable Housing Loan Program	—	—	3,647,371	3,647,371
Total Net Position	$ 5,820,870	$ 6,266,412	$ 3,647,371	$ 163,745,626

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	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	Single Family Program Totals	Multifamily Program Fund
OPERATING REVENUES					
Interest Income - Mortgage Loans	$ 12,433,268	$ 4,162,184	$ 626,805	$ 17,222,257	$ 293,234
Interest Income Investments	2,982,133	1,499,572	360,423	4,842,128	226,871
Net Increase (Decrease) in Fair Value of Investments	(652,936)	(388,408)	(383,876)	(1,425,220)	6,014
Fee Income	22,401	9,683	—	32,084	965,156
Other Income	9,712	3,000	—	12,712	—
Total Operating Revenues	14,794,578	5,286,031	603,352	20,683,961	1,491,275
OPERATING EXPENSES					
Interest on Bonds	9,655,314	3,441,141	386,612	13,483,067	7,085
Servicer Fees	1,300,936	419,147	51,849	1,771,932	5,083
Contracted Services	280,332	174,324	—	454,656	51,196
Amortization of Deferred Refunding	26,176	14,200	3,905	44,281	—
Bond Issuance Costs	525,041	—	—	525,041	—
General and Administrative	792,410	720,867	52	1,513,329	157,141
Arbitrage Rebate Expense	388,133	35,207	77,862	501,202	—
Pension Expense	66,634	66,634	—	133,268	15,209
Other Post-Employment Benefits	3,959	3,959	—	7,918	1,144
Total Operating Expenses	13,038,935	4,875,479	520,280	18,434,694	236,858
Operating Income (Loss)	1,755,643	410,552	83,072	2,249,267	1,254,417
Nonoperating Revenue (Expenses)					
Pensions - Non-employer Contributions	11,579	11,579	—	23,158	2,643
Nonoperating Income (Loss)	11,579	11,579	—	23,158	2,643
Income (Loss) Before Transfers	1,767,222	422,131	83,072	2,272,425	1,257,060
Transfers From (To) Other Fund	14,005	(222,233)	(91,772)	(300,000)	—
Increase (Decrease) in Net Position	1,781,227	199,898	(8,700)	1,972,425	1,257,060
Net Position, July 1	68,162,938	55,992,551	7,715,972	131,871,461	12,920,185
Adjustments to Beginning Net Position (Note 19)	(16,962)	(16,964)	—	(33,926)	23,768
Net Position, July 1, as restated	68,145,976	55,975,587	7,715,972	131,837,535	12,943,953
Net Position, End of Year	$ 69,927,203	$ 56,175,485	$ 7,707,272	$ 133,809,960	$ 14,201,013

Continued on next page

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023

(continued)	Mortgage Loan Servicing	HOUSING TRUST FUND	HOUSING MONTANA FUND	ELIMINATION[25]	TOTAL
OPERATING REVENUES					
Interest Income - Mortgage Loans	$ —	$ 202,406	$ 57,070	$ —	$ 17,774,967
Interest Income Investments	11,620	75,450	32,263	—	5,188,332
Net Increase (Decrease) in Fair Value of Investments	—	—	—	—	(1,419,206)
Fee Income	2,528,342	894,086	—	(1,736,787)	2,682,881
Other Income	182	—	—	—	12,894
Total Operating Revenues	2,540,144	1,171,942	89,333	(1,736,787)	24,239,868
OPERATING EXPENSES					
Interest on Bonds	—	—	—	—	13,490,152
Servicer Fees	617,615	—	641	(1,736,787)	658,484
Contracted Services	210,207	62,479	—	—	778,538
Amortization of Deferred Refunding	—	—	—	—	44,281
Bond Issuance Costs	—	—	—	—	525,041
General and Administrative	1,716,213	931,471	—	—	4,318,154
Arbitrage Rebate Expense	—	—	—	—	501,202
Pension Expenses	152,928	60,886	—	—	362,291
Other Post-Employment Benefits	10,351	3,597	—	—	23,010
Total Operating Expenses	2,707,314	1,058,433	641	(1,736,787)	20,701,153
Operating Income (Loss)	(167,170)	113,509	88,692	—	3,538,715
Nonoperating Revenue (Expenses)					
Pensions - Non-employer Contributions	26,573	10,580	—	—	62,954
Nonoperating Income (Loss)	26,573	10,580	—		62,954
Income (Loss) Before Transfers	(140,597)	124,089	88,692		3,601,669
Transfers From (To) Other Fund	300,000	—	—	—	—
Increase (Decrease) to Net Position	159,403	124,089	88,692	—	3,601,669
Net Position, July 1	5,655,269	6,127,035	3,558,679	—	160,132,629
Adjustments to Beginning Net Position (Note 19)	6,198	15,288	—		11,328
Net Position, July 1, as restated	5,661,467	6,142,323	3,558,679	—	160,143,957
Net Position, End of Year	$ 5,820,870	$ 6,266,412	$ 3,647,371	$ —	$ 163,745,626

25 Interfund transactions are eliminated in order to tie to the Statement of Revenues, Expense and Changes in Net Position, see Note 17.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts for Sales and Services	$ 22,401	$ 9,683	$ —	$ 32,084	$ 965,156
Collections (Payouts - Reverse Annuity) on Loans and Interest on Loans	42,897,443	20,450,752	2,420,031	65,768,226	566,439
Collections (Disbursements) for Loan Escrow Accounts	—	—	—	—	(7,971)
Cash Payments for Loans	$ (70,236,322)	(2,918,716)	—	(73,155,038)	(1,500,000)
Payments to Suppliers for Goods and Services	(1,848,620)	(913,573)	(53,738)	(2,815,931)	(86,681)
Payments to Employees	(457,876)	(436,366)	—	(894,242)	(120,760)
Corporate (Advances) Repayments	(3,090)	—	—	(3,090)	—
Other Operating Revenues	9,712	3,000	—	12,712	—
Net Cash Provided by (Used for)					
Operating Activities	(29,616,352)	16,194,780	2,366,293	(11,055,279)	(183,817)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:					
Payment of Principal and Interest on Bonds and Notes	(48,269,414)	(19,158,770)	(2,860,881)	(70,289,065)	(22,410)
Proceeds from Issuance of Bonds and Notes	40,000,000	—	—	40,000,000	—
Payment of Bond Issuance Costs	(525,041)	—	—	(525,041)	—
Premium Received on Bonds	922,811	—	—	922,811	—
Transfers from (to) Other Funds	14,005	(222,233)	(91,772)	(300,000)	—
Purchase of Mortgage Servicing Rights	—	—	—	—	—
Net Cash Provided by (Used for)					
Non-capital Financing Activities	(7,857,639)	(19,381,003)	(2,952,653)	(30,191,295)	(22,410)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Principal Payments on Leases	(16,065)	(16,065)	—	(32,130)	(5,355)
Interest Payments on Leases	(6,344)	(6,344)	—	(12,688)	(2,115)
Net Cash Provided by (Used for)					
Capital and Related Financing Activities	(22,409)	(22,409)	—	(44,818)	(7,470)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investments	(20,173,230)	(11,260,448)	(2,665,634)	(34,099,312)	(6,039,255)
Proceeds from Sales or Maturities of Investments	36,326,000	22,354,619	2,960,000	61,640,619	4,925,000
Interests and Dividends on Investments	2,526,449	1,182,844	322,679	4,031,972	183,182
Payments for Arbitrage Rebate Tax	—	—	(555,942)	(555,942)	—
Net Cash Provided by (Used for)					
Investing Activities	18,679,219	12,277,015	61,103	31,017,337	(931,073)
Net Increase (Decrease) in Cash and Cash Equivalents	(18,817,181)	9,068,383	(525,257)	(10,274,055)	(1,144,770)
Cash and Cash Equivalents, July 1	63,780,659	18,562,621	1,677,483	84,020,763	5,238,096
Cash and Cash Equivalents, June 30	$ 44,963,478	$ 27,631,004	$ 1,152,226	$ 73,746,708	$ 4,093,326

Continued on next page

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023

(continued)	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts for Sales and Services	$ 2,528,342	$ 894,084	$ —	$ 4,419,666
Collections (Payouts - Reverse Annuity) on Loans and Interest on Loans	33,373	459,580	104,670	66,932,288
Collections (Disbursements) for Loan Escrow Accounts	400,634	—	—	392,663
Cash Payments for Loans	—	(319,910)	—	(74,974,948)
Payments to Suppliers for Goods and Services	(2,974,078)	(401,050)	(613)	(6,278,353)
Payments to Employees	(1,267,736)	(567,481)	—	(2,850,219)
Corporate (Advances) Repayments	(113,385)	—	—	(116,475)
Other Operating Revenues	182	—	—	12,894
Net Cash Provided by (Used for) Operating Activities	(1,392,668)	65,223	104,057	(12,462,484)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Payment of Principal and Interest on Bonds and Notes	—	—	—	(70,311,475)
Proceeds from Issuance of Bonds and Notes	—	—	—	40,000,000
Payment of Bond Issuance Costs	—	—	—	(525,041)
Premium Received on Bonds	—	—	—	922,811
Transfers from (to) Other Funds	300,000	—	—	—
Purchase of Mortgage Servicing Rights	(570,224)	—	—	(570,224)
Net Cash Provided by (Used for) Non-capital Financing Activities	(270,224)	—	—	(30,483,929)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Payments on Leases	(50,095)	(16,065)	—	(103,645)
Interest Payments on Leases	(19,784)	(6,344)	—	(40,931)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(69,879)	(22,409)	—	(144,576)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investments	—	—	—	(40,138,567)
Proceeds from Sales or Maturities of Investments	—	—	—	66,565,619
Interests and Dividends on Investments	9,846	72,287	30,753	4,328,040
Payments for Arbitrage Rebate Tax	—	—	—	(555,942)
Net Cash Provided by (Used for) Investing Activities	9,846	72,287	30,753	30,199,150
Net Increase (Decrease) in Cash and Cash Equivalents	(1,722,925)	115,101	134,810	(12,891,839)
Cash and Cash Equivalents, July 1	10,102,969	2,681,483	959,373	103,002,684
Cash and Cash Equivalents, June 30	$ 8,380,044	$ 2,796,584	$ 1,094,183	$ 90,110,845

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTI FAMILY PROGRAM FUNDS
Operating Income (Loss)	$ 1,755,643	$ 410,552	$ 83,072	$ 2,249,267	$ 1,254,417
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY(USED FOR) OPERATING ACTIVITIES					
Amortization	(686,703)	(195,825)	(13,778)	(896,306)	7,389
Interest Expense	10,922,176	3,680,108	404,295	15,006,579	9,200
Interest on Investments	(2,982,133)	(1,499,572)	(360,423)	(4,842,128)	(226,871)
Arbitrage Rebate Tax	388,133	35,207	77,862	501,202	—
Change in Assets and Liabilities:					
Decr (Incr) Mortgage Loans Receivable	(39,596,476)	13,294,903	1,775,492	(24,526,081)	(1,221,911)
Decr (Incr) Other Assets	(202,879)	74,538	17,734	(110,607)	(7,883)
Decr (Incr) Fair Value of Investments	652,936	388,408	383,876	1,425,220	(6,014)
Incr (Decr) Accounts Payable	57,698	(68,791)	(1,837)	(12,930)	5,453
Incr (Decr) Funds Held for Others	—	—	—	—	(7,971)
Incr (Decr) Net Pension Liability and Related Accounts	58,530	58,531	—	117,061	7,790
Incr (Decr) Compensated Absences Payable	11,252	11,250	—	22,502	2,914
Incr (Decr) Total OPEB Liability and Related Accounts	5,471	5,471	—	10,942	(330)
Net Cash Provided by (Used for) Operating Activities	$ (29,616,352)	$ 16,194,780	$ 2,366,293	$ (11,055,279)	$ (183,817)

Continued on next page

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

(continued)	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	TOTAL
Operating Income (Loss)	$ (167,170)	$ 113,509	$ 88,692	$ 3,538,715
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
Amortization	69,119	22,166	—	(797,632)
Interest Expense	19,784	6,344	—	15,041,907
Interest on Investments	(11,620)	(75,450)	(32,263)	(5,188,332)
Arbitrage Rebate Tax	—	—	—	501,202
Change in Assets and Liabilities:				
Decr (Incr) Mortgage Loans Receivable	699,172	(62,792)	53,170	(25,058,442)
Decr (Incr) Other Assets	(41,729)	(288)	(5,570)	(166,077)
Decr (Incr) Fair Value of Investments	—	—	—	1,419,206
Incr (Decr) Accounts Payable	(2,432,825)	9,023	28	(2,431,251)
Incr (Decr) Funds Held for Others	400,634	—	—	392,663
Incr (Decr) Net Pension Liability and Related Accounts	67,719	43,616	—	236,186
Incr (Decr) Compensated Absences Payable	(1,170)	5,923	—	30,169
Incr (Decr) Total OPEB Liability and Related Accounts	5,418	3,172	—	19,202
Net Cash Provided by (Used for) Operating Activities	$ (1,392,668)	$ 65,223	$ 104,057	$ (12,462,484)

Noncash Investing, Capital, and Financing Activities: During FY23, the Board investments decreased in fair value by $1,419,206. The fair value decrease was not realized in cash during the FY23.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Kenneth E. Varns, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller
Miki Cestnik

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, 2023, and the related notes to the financial statements, which collectively comprise the board's basic financial statements, and have issued our report thereon dated December 12, 2023.

Report on 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 as a basis for designing 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 have not been identified. Given these limitations, during our audit we did not identify any

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deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below, that we consider to be significant deficiencies.

- The board's information system controls did not comply with state information security control policy, which requires documentation of system control activities, assessment of system risks, passwords of a certain complexity, and removal of access when it is not needed.
- The board's user access permissions did not create an adequate separation of duties within the board's key information system. Thirteen user accounts had user permissions that allowed modification of mortgage loan information that could not be detected by the board's internal control procedures.
- The board does not have internal controls to identify board member relationships for consideration for disclosure in the financial statements. Financial reporting staff may be unaware of significant related-party transactions required to be disclosed in the notes to the financial statements.

Report on 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 financial statements. 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's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the board's response to the findings identified in our audit as 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

December 12, 2023

Montana Board of Housing

Board Response

GREG GIANFORTE
GOVERNOR

MONTANA HOUSING

PAUL GREEN
DIRECTOR

January 22, 2024

Angus Maciver
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

Dear Mr. Maciver:

In response to your letter dated January 8, 2024, the Montana Board of Housing has prepared the following response to the Legislative Audit Division's recommendations stemming from our FY23 audit:

Recommendation #1
Internal Control

We recommend the Montana Board of Housing:

A. Document and disseminate information system control policies and procedures for the management of access and system changes as required by state policy.
B. Assess compliance of information system controls with state policy.
C. Remove user access when no longer needed.

Board response:
The Montana Board of Housing ("MBOH") is allocated to the Montana Department of Commerce ("Commerce") for administrative purposes pursuant to 2-15-121, MCA. As part of a Commerce wide reorganization in 2021, the MBOH IT Systems Analyst position was consolidated within the Commerce IT team. This reorganization shifted the line of supervisor for the IT Systems Analyst position from the MBOH Accounting and Finance Manager to the Commerce Chief Information Officer (CIO).

Currently, MBOH and Commerce each separately establish and maintain an Internal Control Plan which contains policies for the management of access and system changes as required by state policy. Applicable state policy includes but is not limited to:

- Information Security Controls Standard (MT-BASE), revised June 10, 2023
- Information Security Risk Management Framework Standard (RMF), revised June 13, 2023
- Information Security Program Management (PM) Standard, revised June 13, 2023
- Information Security-Security Policy, revised July 31, 2023
- Enterprise Identify and Access Management (IAM), revised September 12, 2023

SCOTT OSTERMAN
DIRECTOR

MONTANA HOUSING

GREG GIANFORTE
GOVERNOR

MBOH concurs with the recommendations outlined above and is taking the following correction actions:

Step One: MBOH and Commerce IT will review access control policy sections currently captured within the MBOH Internal Control Plan as well as the Commerce Internal Control Plan. During this review, discrepancies between the two Internal Control Plans will be identified. Additionally, these sections will be reviewed against applicable state policy to ascertain any gaps or areas of misalignment (Recommendation #1, B).

Estimated Completion Date: February 16, 2024

Step Two: MBOH and Commerce IT will draft updates to the MBOH Internal Control Plan to address any gaps or areas of misalignment as identified in Step One, as well as adjustments needed to align with the Commerce Internal Control Plan. These updates will specifically note any information system limitations or challenges in complying with state policy and how MBOH and Commerce IT will resolve those limitations or challenges internally and/or via pursuit of enhancements with MBOH's information system vendor. Upon completion, the updated and approved MBOH Internal Control Plan will be disseminated to all MBOH staff via a ServiceNow policy acknowledgement workflow. (Recommendation #1, A).

Estimated Completion Date: March 15, 2024

Step Three: Upon completion of the updated and approved MBOH Internal Control Plan, MBOH and Commerce IT will identify the specific information system procedures that need to be updated or newly drafted to align with the MBOH Internal Control Plan information system access control policies. These new or updated procedures will be documented and distributed to appropriate staff. (Recommendation #1, A).

Estimated Completion Date: April 12, 2024

Step Four: On November 17, 2023, the Commerce IT Systems Analyst who is lead over the MBOH AOD/Emphasys system completed a review of all users in the modules to match our active director group. All former employees have been deactivated in the system. Documentation of the user account changes was provided to Legislative Auditors on December 5, 2023.

Currently, many AOD/Emphasys modules lack the functional ability to connect user access to state of Montana active directory, so the user activation and deactivation process is manual at this time.

SCOTT OSTERMAN
DIRECTOR

MONTANA HOUSING

GREG GIANFORTE
GOVERNOR

While we concur that this situation did illustrate a lapse in internal controls, as outlined in the Emphasys Access Controls document provided to Legislative Auditors, "BOH staff must successfully access state network and pass security before attempting to access Emphasys". This access must be either on premises or via a SITSD-approved remote access vehicle such as Citrix or VPN. Therefore, these former employees did not have access to the AOD/Emphasys system after they ended their employment with the state, even though their AOD/Emphasys user accounts had not been timely deactivated at end of employment.

MBOH and Commerce IT will assess state policy requirements with respect to removal of user access under Step One above and will document and disseminate and a user access review procedure, with reviews to occur no less than semi-annually.

Estimated Completion Date: December 5, 2023 with semi-annual reviews of all user accounts going forward.

Recommendation #2
Internal Control

We recommend the Montana Board of Housing:

A. Grant user access permissions on an as-needed basis only.
B. Enhance internal controls to prevent or detect unauthorized changes of mortgage loan information.

Board response:
MBOH concurs with Recommendation #2. During the course of the audit, it was discovered that some MBOH employee users had permissions to edit informational fields in both the Single-Family module ("SF") and mortgage servicing module ("SV"). With this combination of permissions, the employee user does not have the ability to delete a record, and critical financial fields such as principal balance cannot be edited except under very specific circumstances.

The principal balance can be adjusted when the loan is in new status on the system and before it becomes an active loan and payments are applied. From time to time a loan will be initially entered with data that needs to be adjusted prior to payments being received. One example was a loan transferred from Stockman Bank. As MBOH prepared for the transfer of several hundred loans, data was input in advance and then updated with the most current principal balance information on the effective date of the transfer.

MBOH will review the SF and SV User Guides and module functionality with our Commerce IT Systems Analyst and AOD/Emphasys staff to ensure all appropriate controls limiting editing rights to critical financial fields like principal balance are in place. Additionally, a written procedure outlining internal controls to prevent or detect unauthorized changes of critical mortgage loan information will be documented and disseminated.

SCOTT OSTERMAN
DIRECTOR

MONTANA HOUSING

GREG GIANFORTE
GOVERNOR

Estimated Date of Completion: April 12, 2024 (written procedure to be incorporated in Recommendation #1, Step Three).

Recommendation #3
Internal Control

We recommend the Montana Board of Housing enhance internal controls to identify related party transactions of board members that may require disclosure in the financial statements.

Board response:
MBOH concurs with this internal control recommendation, and corrective action has been taken. At the January 8, 2024 Board meeting, MBOH's general counsel, Greg Gould with Jackson, Murdo and Grant, provided a Conflict of Interest training which was attended by all Board members. A new "Montana Board of Housing (MBOH) Member's Annual Conflict of Interest Disclosure Statement" was distributed to all Board members on January 8, 2024 with the direction to complete and submit no later than the February 12, 2024 Board meeting. As of January 17, 2024, all Board members have submitted their completed COI Disclosure Statement. The Executive Director and General Counsel have reviewed all completed COI Disclosure Statements and have determined no action is required at this time.

Enclosed: MBOH Board Conflict of Interest Training
MBOH Conflict Disclosure Statement

Date of Completion: January 17, 2024

In closing, we would like to thank the Legislative Audit Division staff for their thorough review of our FY23 financial statements and note disclosures, and their review and testing of selected control systems. My team and I view these engagements as collaborative opportunities to assess and improve the administration and compliance of our various programs.

Regards,

Cheryl Cohen
Executive Director
(406) 841-2844

cc: Vicki Bauer, Acting Accounting and Finance Manager
Bruce Posey, Board Chair

GREG GIANFORTE
GOVERNOR

MONTANA HOUSING

MANDY RAMBO
ACTING DIRECTOR

Montana Board of Housing (MBOH)
Member's Annual Conflict of Interest Disclosure Statement

The Montana Board of Housing expects and trusts its members to respect their public office and to act in an ethical manner in accordance with the rules applicable to Montana public officers. Members must use sound judgment and awareness regarding the discharge of their public duties to the citizens of Montana, avoiding any activities that compromise the public trust. All members must report any conflict of interest annually or as soon as a potential conflict becomes known to them.

Members must disclose and unless determined otherwise by the Board must not participate in Board action involving a direct benefit to the member or any person with whom the member has a personal or family relationship. This includes, but is not limited to, Board action involving the award of contracts, loans or tax credits.

The undersigned Member hereby acknowledges, represents and states:

1. The Member acknowledges and accepts the responsibility to follow all state laws and applicable policies regarding ethical conduct of public officials and MBOH members.
2. As a member of the Montana Board of Housing, I may not:

   - Use public time, facilities, equipment, supplies, personnel, or funds for private business purposes.
   - Engage in a substantial financial transaction for my private business purposes with a person whom I inspect or supervise in the course of my official duties.
   - Disclose or use confidential information acquired in the course of my official duties for my personal economic interests.
   - Perform an official act that will directly and substantially affect the economic benefit of a business or other undertaking in which I have a substantial financial interest or am engaged as counsel, consultant, representative, or agent.
   - Acquire an interest in any business or undertaking I have reason to believe may be directly and substantially affected to its economic benefit by actions taken by the Board.
   - Perform an official action which directly and substantially harms a business when I have a substantial personal interest in a competing business.
   - Accept gifts, use or disclose confidential information, or receive duplicate compensation of overlapping public positions in violation of applicable law or policies.
   - Take any official action related to MBOH that would result in the receipt of a substantial financial benefit to myself or my family, relatives, related parties, property or business or employment interests.

GREG GIANFORTE
GOVERNOR

MONTANA HOUSING

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ACTING DIRECTOR

3. I must disclose to the Board in a public meeting and, except as otherwise approved by the Board, recuse myself from participation and/or voting in any Board action involving a possible conflict of interest.

4. I have the following personal or family relationships within MBOH or the Department of Commerce:

   For each person, state the person's name and job title and the nature of relationship with the person. If none, state "NONE."

   ____

   ____

   ____

5. I have the following relationships (including personal, business, ownership, governance or other) with the following persons or entities participating or potentially participating in or providing services to the Board in connection with Board programs, contracts, loans, tax credit awards or other Board programs or benefits:

   For each person or entity, state the name of the person or entity, describe the nature of relationship (*e.g.*, family relationship, ownership interest in business, parent/ subsidiary of owned business, contractual relationship with entity, director or other governance role in entity, etc.) and identify the related MBOH program. If none, state "NONE."

   ____

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   ____

6. I have read and understand the Code of Ethics and Standards of Conduct found in §§ 2-2-101 through 2-2-304, MCA.

Submitted for Year: 20___

DATED: ______________________, 20___

____
Print Board Member Name: ____

MONTANA BOARD OF HOUSING
BOARD MEMBERSHIP TRAINING

CONFLICT OF INTEREST

JANUARY 8, 2024

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Board Membership – Background Principles

A few important points that may affect conflict of interest issues:

1. Governor appoints members informed and experienced in housing, economics or finance.

   Members are not considered to have conflict of interest under state ethics law *merely* because member is stockholder, officer or employee of a lending institution that may participate in Board's programs.

2. The Board is a "quasi-judicial board":

   A majority of Board membership constitutes a quorum; a favorable vote of at least a majority of *all Board members* is required to adopt any resolution, motion or other decision.

Ethics Rules: Code of Ethics/Standards of Conduct

1. Mont. Code Ann. Title 2, Chapter 2 – Code of Conduct for Public Officers - conflict of interest rules are one part of the ethical conduct rules for public officers.

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2. The rules are intended to prohibit conflict between **public duty** and **private interest**:

Public Duty: The holding of public office or employment is a public trust, created by the confidence that the electorate reposes in the integrity of judicial officers, public officers, legislators, and public employees. **A public officer shall carry out the individual's duties for the benefit of the people of the state.**

Private Interest: an interest held by an individual include:

(a) an ownership interest in a business;

(b) a creditor interest in an insolvent business;

(c) an employment or prospective employment for which negotiations have begun;

(d) an ownership interest in real property;

(e) a loan or other debtor interest; or

(f) a directorship or officership in a business.

3. Potential conflicts of interest that could arise for MBOH members include:

a. *Acceptance of Gifts*: Public officer may not accept a gift of substantial value or a substantial economic benefit tantamount to a gift:

(i) that would tend improperly to influence a reasonable person in the person's position to depart from the faithful and impartial discharge of the person's public duties; or

(ii) that the person knows or that a reasonable person in that position should know under the circumstances is primarily for the purpose of rewarding the person for official action taken.

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"Gift of substantial value" means a gift with a value of $100 or more for an individual (threshold increased to $100 from $50 in HB 412, 2023 Legislature).

An "economic benefit tantamount to a gift" includes without limitation a loan at a rate of interest substantially lower than the commercial rate then currently prevalent for similar loans and compensation received for private services rendered at a rate substantially exceeding the fair market value of the services. Campaign contributions reported as required by statute are not gifts or economic benefits tantamount to gifts.

Exceptions:

- Don't use gift - return within 30 days after receipt;
- Food and beverages consumed on occasion when participation in charitable, civic or community event bears relationship to office or member attends in an official capacity;
- Award presented publicly in recognition of public service;
- Educational material related directly to public service;
- Educational activity that (i) does not place or appear to place the recipient under obligation; (ii) clearly serves the public good; and (iii) is not lavish or extravagant.

b. *Confidential Information*: Disclosure or use of confidential information acquired in the course of official duties in order to further substantially the individual's personal economic interests.

c. *Overlapping Employment Compensation*: a public officer, legislator, or public employee may not receive salaries from two separate public employment positions that overlap for the hours being compensated, unless:

(i) the public officer, legislator, or public employee reimburses the public entity from which the employee

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is absent for the salary paid for performing the function from which the officer, legislator, or employee is absent; or

(ii) the public officer's, legislator's, or public employee's salary from one employer is reduced by the amount of salary received from the other public employer in order to avoid duplicate compensation for the overlapping hours.

In order to determine compliance a public officer shall disclose the amounts received from the two separate public employment positions to the commissioner of political practices.

Exception: a public officer may receive income from the use of accrued leave or compensatory time during the period of overlapping employment.

d. *Use of Public Resources.* A public officer may not use public time, facilities, equipment, state letterhead, supplies, personnel, or funds for the officer's private business purposes.

e. *Advocacy for Compensation.* A public officer may not assist any person for a fee or other compensation in obtaining a contract, claim, license, or other economic benefit from the officer's agency.

f. *Related Parties.* A public officer may not **perform an official act directly and substantially affecting to its economic benefit a business or other undertaking in which the officer either has a substantial financial interest or is engaged as counsel, consultant, representative, or agent.**

g. *Competing Parties.* A public officer or public employee may not perform an official act directly and substantially affecting a business or other undertaking to its economic detriment when the officer or employee has a substantial personal interest in a competing firm or undertaking.

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h. *Acquisition of Interest*. A public officer may not acquire an interest in any business or undertaking that the officer has reason to believe may be directly and substantially affected to its economic benefit by official action to be taken by the officer's agency.

See also attached discussion regarding Board member ownership of MBOH bonds.

4. Addressing Conflicts of Interest.

   a. If the member, a family member, a member business interest or an organization in which the member has a role would realize a substantial economic benefit from a proposed Board action, the member may have a conflict of interest.

   b. Consult with Executive Director and/or Board Counsel for guidance.

   c. Members are not considered to have conflict of interest under state ethics law *merely* because member is stockholder, officer or employee of a lending institution that may participate in Board's programs, but there may be more facts that indicate a conflict.

   d. If there is a conflict or an appearance of a conflict, the member must *at a minimum* disclose the specific conflict on the record at a public meeting. Generally, the member must also recuse themself from participation in and voting on the specific matter.

   e. Recusal may not be required if the member's participation is necessary to establish a quorum or administer a statute and if the conflict is disclosed.

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5. Annual Conflict Disclosure. MBOH is adopting and requiring an annual Conflict of Interest Disclosure. See attached.

6. Enforcement of Ethics Rules.

   a. Complaint to COPP.

   b. Investigation.

   c. Informal Contested Case hearing – open to public.

   d. COPP decision.

   e. Judicial review.

   f. Penalties. Administrative penalty of not less than $50 or more than $1,000 (but $500 to $10, 000 for improper use of public resources for PSA with officer's name/picture/voice).

Avoidance of Board action. A Board action taken in violation of these rules could potentially be voided in Court action.

A Board member potentially could incur personal liability for taking official action without disclosing a conflict.

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PURCHASE OR OWNERSHIP OF MBOH BONDS BY BOARD MEMBER

Question: Is the purchase or ownership of MBOH bonds by a Board member permitted under applicable conflict of interest rules?

Answer: Board members may purchase and hold MBOH bonds. However, a member should purchase MBOH bonds only if they intend to hold the bonds to maturity and should refrain from buying and selling MBOH bonds on a regular basis. Board members holding or intending to purchase MBOH bonds should not ask or otherwise communicate with staff or Board advisors regarding MBOH bonds that will be redeemed. A Board member holding MBOH bonds may be required to disclose such ownership and recuse themself from participating in Board action where the Board action would directly and substantially benefit the member economically.

Assumptions

MBOH routinely and frequently issues bonds pursuant to its statutory authority to finance the purchase of single family mortgage loans.

- The Board has engaged or entered into relationships with various professional advisors and firms with respect to its bond issues and related processes, including bond legal counsel, financial advisors and bond underwriters.

- Bond issues are structured and bond resolutions and related documents are prepared and recommended by and based upon the design and advice of these professionals.

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- Generally, the Board authorizes each bond issue by approval of a resolution setting forth the general terms of the bonds.

- Provisions relating to redemption of existing bonds may be included on the recommendation of professional advisors, but the Board and its members generally do not discuss, deliberate or take specific action on such details except through global approval of the bond resolution.

The Board does not set bond sale prices by Board action.

- MBOH bonds are sold to bond underwriters pursuant to bond purchase contracts which set the bond purchase price after a separate underwriter pricing process.

- The Board itself does not sell the bonds to individual investors; the bonds are sold by the underwriters to individuals or other investors.

A Board member purchasing MBOH bonds in the primary market would not receive any discount or special pricing.

- A Board member would purchase and hold MBOH bonds on the same arms-length terms generally available to members of the public.

- Board members are not provided with any non-public information that would create any advantage in selecting bonds for purchase.

Analysis

February 22, 2000 opinion (attached) concluded that there is no conflict of interest where a member of the Board is a stockholder, officer or

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employee of a financial institution that purchases bonds issued by the Board.

- Opinion relied upon the language in Mont. Code Ann. § 2-15-1814 stating that a Board member does not have a conflict of interest merely because the Board member is a stockholder, officer or employee of a lending institution that participates in the Board's programs.

- However, that provision from 2-15-1814 would not apply to a Board member who directly purchases and holds MBOH bonds.

The standards of conduct potentially applicable include the following:

> Section 2-2-105(2) provides that "... a public officer or public employee may not acquire an interest in any business or undertaking that the officer or employee has reason to believe may be directly and substantially affected to its economic benefit by official action to be taken by the officer's or employee's agency.
>
> Section 2-2-121(2)(e) provides that a public officer or employee "may not … perform an official act directly and substantially affecting to its economic benefit a business or other undertaking in which the officer or employee either has a substantial financial interest or is engaged as counsel, consultant, representative, or agent…"
>
> Section 2-2-201(1) provides that a state officer or employee "may not be interested in any contract made by them in their official capacity or by any body, agency, or board of which they are members or employees if they are directly involved with the contract."

  - An MBOH bond could be considered a contract made by the Board, but Board members do not take any actions that

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constitute direct involvement with the bonds as defined in the statute.

- Section 2-2-201(2)(c) provides that the phrase “directly involved" means “the person directly monitors a contract, extends or amends a contract, audits a contractor, is responsible for conducting the procurement or for evaluating proposals or vendor responsibility, or renders legal advice concerning the contract.” (The statute was amended in 2001, after the opinion referenced above, to limit the prohibition to cases where the public officer is “directly involved in the contract.” Sec. 1, Ch. 181, L. 2001.)

When a Board member purchases MBOH bonds, the ownership of the bonds is subject to the terms already established in the bond resolution and documents.

The member’s interest in the bonds generally would not be “directly and substantially affected to its economic benefit” by official action to be taken later by the Board or Board member, and the Board generally would not have occasion to take official action that directly and substantially affects to its economic benefit previously issued bonds owned by a Board member.

In my opinion, Montana’s statutory standards of conduct do not prohibit a Board member from purchasing or owning MBOH bonds or from taking official action on bond resolutions simply because they have purchased and own MBOH bonds from one or more previous MBOH bond issues.

However:

- While Board members generally are not prohibited from purchasing and owning MBOH bonds or acting upon bond resolutions because of such purchase or ownership, issues could

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potentially come before the Board that would present a conflict of interest precluding such a member from participating.

- For example, a member owning certain MBOH bonds should not participate in a Board action selecting bonds to be redeemed from among various choices that include the bonds held by the member, because the action may directly and substantially benefit the member economically with respect to previously issued and purchased bonds.

- In such a case, the member would be required to disclose the conflict and would be advised to recuse themselves from voting unless their participation were required to allow the Board to act.

Federal securities laws prohibit a bondholder from taking advantage of inside information if they buy or sell a bond on the secondary market.

- Board members are presumed to have all of the knowledge of the agency itself, so if there is any question later about a Board member selling their bond because the agency has knowledge of adverse information, the Board member may be liable for damages to the secondary market purchaser.

- Board members generally have no knowledge of which bonds will be called and to minimize insider trading liability risk, Board members should not ask staff or the Board's advisors which bonds will be redeemed.

- To further minimize insider trading liability risk, Board members should only buy MBOH bonds if they intend to hold the bonds to maturity and should not buy and sell the bonds on a regular basis.