A Report
to the
Montana
Legislature

Financial-Compliance Audit

Montana Board of Housing

For the Fiscal Year Ended June 30, 2017

December 2017

Legislative Audit
Division

17-07A

Legislative Audit Committee

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§5-13-202(2), MCA

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Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) 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, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018.

Audit Staff

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Reports can be found in electronic format at:
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LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

December 2017

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Board of Housing (board) for the fiscal year ended June 30, 2017. We performed this audit of the board in accordance with §90-6-124, MCA. Our audit work included analyzing the board's financial statements and note disclosures, examining the underlying financial activity, and reviewing and testing selected control systems. We also tested compliance with state laws. This report does not contain any recommendations.

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

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Figures and Tables

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Appointed and Administrative Officials

			Term Expires
Montana Board of Housing	Pat Melby, Chair	Helena	2021
	Jeanette McKee, Vice Chair	Hamilton	2019
	Sheila Rice, Secretary	Great Falls	2019
	Bob Gauthier	Ronan	2019
	John McClusky	Billings	2021
	Eric Schindler	Helena	2021
	Amber Sundsted	Billings	2021

Department of Commerce Pam Haxby-Cote, Director

Board of Housing

Bruce Brensdal, Executive Director

Virginia Pfankuch, CPA, Accounting and Finance Manager

Mary Bair, Multifamily Program Manager

Stacy Collette, Operations Manager

Vicki Bauer, Single Family Program Manager

Mary Palkovich, Servicing Program Manager

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

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Montana Legislative Audit Division

Financial-Compliance Audit
Montana Board of Housing
For the Two Fiscal Years Ended June 30, 2017

December 2017 17-07A Report Summary

The Montana Board of Housing issued approximately $41.9 million in bonds during fiscal year 2017 and approximately $446.6 million in bonds remained outstanding at year-end. Approximately $53.7 million of mortgages were purchased in the Single Family program, which is the board's largest program.

Context

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

The powers of the board are vested in a seven-member board, appointed by the Governor, subject to the confirmation of the Senate. The board provides policy direction to the agency staff, authorizes bond issuances, and approves development financing. The board also administers the Single Family, Recycled Single Family, and Multifamily loan programs, as well as the Low Income Tax Credit and Reverse Annuity programs.

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

In January of 2017, the board switched bond trustees. Responsibilities of the trustee include administering bond issuances, monitoring bond document requirements, and providing regular statements to the board. During the fiscal year, the board issued bonds for approximately $41.9 million.

Results

Our audit work included analyzing the board's financial statements and note disclosures, examining the underlying financial activity, and reviewing and testing selected control systems. Our audit effort focused primarily on activity related to bonds, investments, and mortgage loans. We also determined compliance with selected state laws and regulations. This report does not contain any recommendations. We issued an unmodified opinion on the board's financial statements, which means the information presented within them can be relied upon.

We reviewed the recommendation made to the board in the prior financial-compliance audit of the board for the fiscal year ended June 30, 2016. We determined the board implemented the prior recommendation to enhance internal control procedures to ensure note disclosures are accurate and complete, in accordance with generally accepted accounting principles.

For a complete copy of the report (17-07A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to **lad@mt.gov**; or check the web site at **http://leg.mt.gov/audit**
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail **lad@mt.gov.**

Chapter I – Introduction

Audit Scope

We performed a financial audit of the Montana Board of Housing (board) for the fiscal year ended June 30, 2017. The objectives of our audit were to:

1. Determine whether the board's financial statements present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles, for the fiscal year ended June 30, 2017.
2. Obtain an understanding of the board's control systems to the extent necessary to support our audit of the board's financial statements and, if appropriate, make recommendations for improvement in management and internal controls of the board.
3. Determine whether the board complied with selected state laws and regulations.
4. Determine the implementation status of the recommendation made in the prior audit.

We addressed these objectives by focusing our audit effort on activity related to bonds, investments, and mortgage loans. Our audit work included analyzing the financial statements and note disclosures, examining the underlying financial activity, and testing selected control systems. We also determined compliance with selected state laws and regulations. We did not identify any significant errors in the board's financial statements or note disclosures for the fiscal year ended June 30, 2017.

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

Background

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

- The Homeownership Program offers a low interest rate, 30-year, fixed-rate mortgage to assist low and moderate income first-time home buyers in purchases homes in the state of Montana under the federal Mortgage Revenue Bond Program.
- The Montana Veterans' Home Loan Mortgage Program is designed to assist Montana residents who are National Guard members, reservists, or federally qualified veterans to purchase their first home.
- The Low Income Housing Tax Credit Program receives Montana's allocation of federal tax credits each year and distributes those credits to developers of multifamily housing according to a competitive application process.

  Generally, when a successful applicant is awarded credits, they are sold to an investor or syndicated group of investors, and the equity is used to reduce the amount of debt financing that the property owner will incur. This lowers the operating costs and makes it economically feasible to operate the property at affordable rates. In exchange for the financing provided through the tax credit, owners agree to keep rents affordable for a minimum period of 15 years for families and individuals with incomes at or below 60 percent of the area median income.
- The Reverse Annuity Mortgage Program provides senior Montana homeowners the ability to borrow the equity in their homes and use the additional monthly income. Lower income seniors who are 68 years old or older are eligible to apply.

The Homeownership Program and Montana Veterans' Home Loan Mortgage Program are accounted for in the board's Single Family Program funds. The Low Income Housing Tax Credit Program is accounted for in the board's Multifamily Program funds. The Reverse Annuity Mortgage Program is accounted for in the board's Housing Trust Fund.

The board's portfolio of loans has a low rate of default and potential foreclosures. Table 1 (see page 3) compares the delinquency and foreclosures rates of board loans to the averages of all mortgage loans in Montana, in the Mountain Region, and in the nation as a whole. Since June 30, 2016, the board's delinquency rates have decreased and the foreclosure rate has increased by 0.5 percent.

Table 1
Delinquency and Foreclosure Rates
as of June 2017

	30 Days Delinquent	60 days Delinquent	90 days Delinquent	Foreclosure in Process
Montana Board of Housing	1.32%	0.72%	1.42%	1.2%
Montana Mortgage Loans	1.4%	0.4%	0.55%	0.63%
Mountain Region	1.71%	0.51%	0.72%	0.67%
United States	2.27%	0.74%	1.2%	1.29%

Source: Montana Board of Housing; unaudited.

Prior Audit Recommendations

The audit report to the board for the fiscal year ended June 30, 2016, contained one audit recommendation related to internal control procedures for complete and accurate note disclosures. The board implemented this recommendation during the current audit period.

Independent Auditor's Report and Board's Financial Statements

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction
We have audited the accompanying Statement of Net Position of the Montana Board of Housing (board), a component unit of the state of Montana, as of June 30, 2017, the related Statement of Revenues, Expenses and Changes in Fund Net Position, and the Statement of Cash Flows for the fiscal year then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 2017, and the changes in net position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of Proportionate Share of the Net Pension Liability, and the Schedule of Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Combining Statement of Net Position; Combining Statement of Revenues, Expenses, and Changes in Fund Net Position; and Combining Statement of Cash Flows are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United

States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2017, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena MT

November 9, 2017, except as to Note 19, which is as of December 5, 2017.

Montana Board of Housing
Management's Discussion and Analysis,Financial Statements, Notes, Required Supplementary Information, and Supplementary Information

Montana Board of Housing
A Component Unit of the State of Montana
Management's Discussion and Analysis
Year Ended June 30, 2017

The following information presents management's discussion and analysis of the Montana Board of Housing (MBOH) program and financial activity during the fiscal year (FY) ended June 30, 2017. Please read this section in conjunction with the financial statements and accompanying notes.

Summary

- 427 single-family mortgages were purchased with the Bond Program for $55.3 million.
- 145 Mortgage Credit Certificates were issued on a total loan amount of $29.7 million.
- $27.1 million of Low Income Housing Tax Credits were awarded providing equity to produce or preserve affordable rental housing.
- 2 Reverse Annuity Mortgage (RAM) Loans were originated in the amount of $239 thousand. Since its inception the RAM program has assisted 214 elderly households.
- The Board issued $41.9 million of new debt which included refunding as well as new money.
- Bond debt retired was $58.9 million from refunding, prepayments and regular debt service.
- Bond debt payable decreased from $471.1 million to $441.0 million.
- Net position decreased by $542 thousand during 2017.

Fiscal Year 2017 Update

Homeownership Program:

Fiscal year 2017 had market rates rising to 4.46% in March for some markets and remaining in the 4% area through to the 2017 fiscal year-end. Because of the lower rates at the beginning of the year, some of the loans previously purchased at the higher mortgage loan rates were paid off or refinanced causing a temporary decline in mortgage receivable. The MBOH rate at fiscal year-end was 3.5% compared to 4.06% for the average market rate and we are seeing lower payoffs and refinancing and a steady increase in new loan purchases.

Loan Servicing Program:

MBOH is continuing to service Board Single Family, Board of Investment, and Multifamily loans and are adding loans to the servicing portfolio. During FY 2017 the Board serviced approximately 83% of the mortgage loans it owns.

Multifamily Program

The Montana Board of Housing offers a variety of financing options for the development of affordable multifamily rental units including Federal Housing Credits and permanent loan products. During fiscal year 2017, the MBOH allocated $27.1 million in tax credits to produce 229 rental units in Montana. The Board also issued $7.5 million in Multifamily Housing Revenue Bonds to fund a project that will produce an additional 96 residential units in Montana.

Finance:

The MBOH portfolio started out the fiscal year with 0.01% to 0.24% earnings on funds that were being held in money market. As the year progressed, short-term investments and money market earnings rose, with money market funds earning 0.15% to 0.54%. This change in market allowed the weighted average yield to increase 28 basis points during the year.

There was a decrease in both interest income from mortgage loans and the fair value of investments that caused an operating loss and an associated 0.35% drop in overall net position. MBOH reduced expenses from fiscal year 2016 to fiscal year 2017 which helped mitigate the reduction in revenues and fair value of investments and the overall unrealized gain on investments is $5.6 million.

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

Economic improvements over the last year have helped the MBOH and its programs to continue to help Montana's hard-working families and communities to have safe affordable homes.

Overview of the Financial Statements

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

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

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

Montana Board of Housing
Condensed Financial Information
Change in Net Position and Operating Income
Years Ended June 30, 2017 and 2016

		2017			2016
Assets:					
Current Assets	$	120,385,460		$	155,399,323
Noncurrent Assets		489,088,400			485,569,797
Total Assets		609,473,860			640,969,120
Deferred Outflow of Resources:		752,096			696,030
Liabilities:					
Current Liabilities		22,253,037			21,852,534
Noncurrent Liabilities		434,637,425			465,835,590
Total Liabilities		456,890,462			487,688,124
Deferred Inflows of Resources:		6,777	**(A)**		105,665
Net Position:					
Invested in Capital Assets		2,473			3,489
Restricted		153,326,244			153,867,872
Total Net Position		153,328,717			153,871,361
Operating Revenue:					
Interest on Loans		19,020,395			20,489,488
Federal Financial Assistance		116	**(B)**		51,478
Earnings from Investments		(49,378)	**(C)**		3,379,559
Fees and Charges		1,541,053			983,440
Other Income		39,745			50,354
Total Operating Revenue		20,551,931			24,954,319
Operating Expenses:					
Bond Expenses		15,466,874	**(D)**		17,331,878
Servicing Fees		878,895			907,112
General and Administrative		4,476,153			4,618,804
Total Expenses		20,821,922			22,857,794
Operating Income (Loss)		(269,991)	**(E)**		2,096,525
Nonoperating revenue					
Pensions - nonemployer contributions		35,867			38,561
Total Nonoperating Income		35,867			38,561
Increase (Decrease) in Net Position		(234,124)			2,135,086
Net Position, Beginning of Year		153,871,361			151,736,275
Restatement for Pension Reporting Requirements		(302,878)			-
Prior Period Adjustment		(5,642)	**(F)**		-
Net Position, End of Year	$	153,328,717		$	153,871,361

Discussion of Changes

(A) Deferred inflows of resources are due to differences between expected and actual experience in measuring the total pension liability and difference between projected and actual earnings on pension plan investments.

(B) The Montana Board of Housing no longer receives any federal grants but received federal indirect cost reimbursements on previous grants.

(C) Earnings from investments were $2,020,142. There was also a decrease in fair value of $2,069,520 for a total loss on Investments of $49,378 during fiscal year 2017.

(D) Bond expenses and general and administrative expenses were restated on table for fiscal year 2016 for comparison purposes. Bond expenses now include amortization of refunding costs, bond issuance costs, and arbitrage rebate expenses. General and administrative expenses have been reduced by those amounts.

(E) An operating loss was realized for fiscal year 2017 due mainly to a drop in the fair value of investments and restatement for pension reporting requirements.

(F) The $5,642 decrease in Net Position is due to a correction for RAM loan interest calculation beginning with fiscal year 2008. See Note 18.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 70,196,733
Investments	32,203,420
Mortgage Loans Receivable, Net	13,389,588
Interest Receivable	4,455,037
Prepaid Expense	140,682
Total Current Assets	120,385,460
Noncurrent Assets	
Investments	48,944,982
Mortgage Loans Receivable, Net	437,417,156
Mortgage Backed Securities	684,440
Acquisition Costs	2,039,349
Capital Assets, Net	2,473
Total Noncurrent Assets	489,088,400
TOTAL ASSETS	609,473,860
DEFERRED OUTFLOW OF RESOURCES	
Deferred Refunding Costs	417,236
Deferred Pension Outflow	334,860
TOTAL DEFERRED OUTFLOWS	752,096
LIABILITIES	
Current Liabilities	
Accounts Payable	1,197,603
Funds Held For Others	4,381,689
Accrued Interest - Bonds Payable	1,357,483
Bonds Payable, Net	14,860,000
Arbitrage Rebate Payable to U.S. Treasury Department	303,790
Accrued Compensated Absences	152,472
Total Current Liabilities	22,253,037
Noncurrent Liabilities	
Bonds Payable, Net	431,757,404
Arbitrage Rebate Payable to U.S. Treasury Department	256,609
Accrued Compensated Absences	131,074
Net Pension Liability	2,047,091
Other Postemployment Benefits	445,247
Total Noncurrent Liabilities	434,637,425
TOTAL LIABILITIES	456,890,462
DEFERRED INFLOW OF RESOURCES	
Deferred Pension Inflow	6,777
TOTAL DEFERRED INFLOWS	6,777
NET POSITION	
Net Investment in Capital Assets	2,473
Restricted for Bondholders:	
Unrealized (losses) gains on investments	5,574,595
Single Family Programs	109,634,843
Various Recycled Mortgage Programs	15,544,218
Multifamily Programs	11,219,698
Multifamily Project Commitments	140,973
Reverse Annuity Mortgage Program	8,343,108
Restricted for Affordable Revolving Loan Program	2,868,809
TOTAL NET POSITION	$ 153,328,717

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	FY 2017
OPERATING REVENUES	
Interest Income - Mortgage Loans	$ 19,020,395
Interest Income - Investments	2,020,122
Fee Income	1,541,053
Federal Financial Assistance	116
Net Increase (Decrease) in Fair Value of Investments	(2,069,520)
Other Income	39,745
Securities Lending Gross Income	20
Total Operating Revenues	20,551,931
OPERATING EXPENSES	
Interest on Bonds	14,616,527
Servicer Fees	878,895
Contracted Services	699,813
Amortization of Refunding Costs	95,524
Bond Issuance Costs	538,072
General and Administrative	3,734,081
Arbitrage Rebate Expense	216,751
Securities Lending Expense	10
Other Post-Employment Benefits	42,249
Total Operating Expenses	20,821,922
Operating Income	(269,991)
Nonoperating Revenues	
Pensions - nonemployer contributions	35,867
Nonoperating income	35,867
Increase (Decrease) in Net Position	(234,124)
Net Position, July 1 - as previously reported	153,871,361
Adjustments to Beginning Net Position (Note 18)	(308,520)
Net Position, July 1	153,562,841
Net Position, End of Year	$ 153,328,717

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITY:	
Receipts for Sales and Services	$ 1,544,900
Collections on Loans and Interest on Loans	86,986,981
Collection on Loan Escrow Accounts	207,175
Cash Payments for Loans	(52,794,302)
Federal Financial Assistance Receipts	(207,947)
Payments to Suppliers for Goods and Services	(3,297,138)
Payments to Employees	(2,007,213)
Other Operating Revenues	39,745
Net Cash Provided (Used) by Operating Activities	30,472,201
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Payment of Principal and Interest on Bonds and Notes	(87,785,427)
Proceeds from Issuance of Bonds and Notes	41,900,000
Payment of Bond Issuance Costs	(538,072)
Premium Paid on Refunding of Bonds	747,726
Pension - Nonemployer Contributions	51,299
Pension - Deferred Inflows/Outflows	(310,636)
Net Cash Provided (Used) by Noncapital Financing Activities	(45,935,110)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of Mortgage Servicing Rights	(434,557)
Net Cash Provided (Used) by Capital and Related Financing Activities	(434,557)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of Investments	(96,088,742)
Proceeds from Sales or Maturities of Investments	97,725,233
Gain (Loss) on Sale of Investments	(6)
Interest on Investments	(60,808)
Arbitrage Rebate Tax	(417,930)
Net Cash Provided (Used) by Investing Activities	1,157,747
Net Increase (Decrease) in Cash and Cash Equivalents	(14,739,719)
Cash and Cash Equivalents, July 1	84,936,452
Cash and Cash Equivalents, June 30	$ 70,196,733

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, 2017

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	$ (269,991)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:	
Depreciation	1,015
Amortization	(567,566)
Interest Expense	15,665,780
Interest on Investments	(1,876,534)
Arbitrage Rebate Tax	216,751
Change in Assets and Liabilities:	
Decr (Incr) in Mortgage Loans Receivable	15,634,625
Decr (Incr) in Other Assets	(41,659)
Decr (Incr) in Fair Value of Investments	2,069,520
Incr (Decr) in Accounts Payable	(741,503)
Incr (Decr) Funds Held for Others	(890)
Incr (Decr) Pensions Payable	337,351
Incr (Decr) in Compensated Absences Payable	3,053
Incr (Decr) Other Postemployment Benefits	42,249
Net Cash Provided (Used) by Operating Activities	$ 30,472,201

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

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

Basis of Presentation:

The financial statements of the Board are presented on a combined basis. Summary comparative financial information is contained in the Management Discussion and Analysis section. The accompanying financial statements have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The financial activities of the Board are recorded in funds established under various bond resolutions and the Montana Code Annotated (MCA). In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net position and revenues and expenses for the period.

Reporting Entity:

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

Fund Accounting:

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

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

Net Position – Restricted for Bondholders represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following describes the restrictions on the Net Position: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. Due to the nature of the Board's bonds, these funds and accounts are pledged as collateral for the bonds under the individual program indentures. The individual indentures also set certain mortgage and debt service reserve requirements, restricting funds for these purposes. As disclosed in Note 6 to the financial statements, the mortgage loans receivable are pledged as security for holders of the bonds. Certain indentures also require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture. Restricted Net Position also includes funds reserved by participants and funds committed to specific projects under various programs established by the Board and restricted by enabling legislation.

Net Position:

Restricted Net Position - Net position is considered restricted if it is limited as to the manner in or purpose for which funds may be used. The Statement of Net Position reports $2,473 of net investment in capital assets and $153,326,244 of restricted net position. All restricted funds are restricted by enabling legislation and agreements with bond holders.

Revenue and Expense Recognition:

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

Fund Structure:

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

Single Family Mortgage Program Funds

These funds, established under three separate trust indentures adopted on various dates, are established 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 must be insured by the Federal Housing Administration or guaranteed by Veterans Administration or Rural Development or private mortgage insurance.

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

Multifamily Mortgage Program Funds

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

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

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

Housing Trust Fund

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

Housing Montana

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

Cash and Cash Equivalents:

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

Investments:

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

The Board values 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 No. 72 regarding fair values.

Mortgage Loans Receivable:

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

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

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

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

The Board has pledged future revenues collected from mortgage receivable accounts to bondholders for repayment of the mortgage revenue bonds issued by the Board; see Note 9 for details. The Board issued these bonds to finance the mortgage loans purchased by the Board's various programs. In accordance with GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, the pledging of these revenues is considered a collateralized borrowing based on the Board retaining control of the receivables and evidenced by the Board's active management of these accounts.

Mortgage-Backed Securities:

Mortgage-backed securities reported in the Single-Family Programs are pass-through securities created by the Federal National Mortgage Association (FNMA) and purchased by the Board. FNMA pools and securitizes qualified Montana mortgage loans from the Board's Single-Family Programs. These securities are reported at fair value which may vary from the value of the securities if held to maturity.

Bonds Payable:

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

Estimates:

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

Capital Assets:

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

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

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

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

NOTE 2. CASH AND CASH EQUIVALENTS

The Board's cash and cash equivalents are held by trustees or by the State of Montana Treasury as cash or short-term investments having maturities of less than 90 days. At June 30, 2017, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

Program Funds:	
Cash Deposited with State Treasury	$ 7,246,898
Cash on Hand*	17,789
Short-Term Investments	62,932,046
	$ 70,196,733

* Cash on hand is a combination of cash held for customer change and cash or checks received but not deposited on June 30, 2017.

NOTE 3. SECURITIES LENDING

The Board invests in the State's Short-Term Investment Pool (STIP), managed by the Board of Investment (BOI), throughout the fiscal year. As of October 2016, STIP was no longer participating in the security lending program. STIP did not have securities on loan as of June 30, 2017. Security lending income and expense entries were recorded through October 2016.

BOI is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, "the Bank", to lend the BOI securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. On any day, including June 30th, the markets may move in a positive or negative direction resulting in under or over collateralization. The Bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The BOI and the Bank split the earnings, 80/20% respectively, on security lending activities. BOI retains all rights and risks of ownership during the loan period. State Street Indemnifies BOI's credit risk exposure to the borrowers.

During fiscal year 2017, the Bank loaned the BOI's public securities and received as collateral: U.S. dollar cash; U.S. Government and government sponsored agency securities; U.S. corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to sell collateral securities unless the borrower defaults.

BOI imposed no restrictions on the amount of securities available to lend during fiscal year 2017. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of Default of the Borrower. There were no losses during fiscal year 2017 resulting from a borrower default. As of June 30th, no securities were recalled and not yet returned.

The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in two investment funds, the Quality D Short Term Investment Fund and the Security Lending Quality Trust. Pension funds participated in the Quality D Short Term Investment Fund and non-pension entities participated in the Security Lending Quality Trust. During March 2017, participation in both funds was transitioned into the Navigator Securities Lending Government Money Market portfolio.

BOI and the borrowers maintain the right to terminate all securities lending transactions on notice. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. The average duration was 8 days and the average weighted final maturity was 49 days within the Navigator portfolio.

On June 30, 2017, the Board of Housing held no securities on loan with the BOI.

NOTE 4. INVESTMENTS

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

Power to Invest & Investment Policy:
Montana statute grants the Board the power to invest any funds not required for immediate use, subject to any agreements with its bondholders and note holders. The Board conducts its investing in accordance with an investment policy which is annually reviewed and follows bond indenture, Internal Revenue Code, and state

statutes. The policy prohibits the Board from investing in leveraged investments, including but not limited to derivatives. The Board's policy follows state law by limiting investments to the following:

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

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

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

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

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

	Fair Value June 30, 2017	Moody's Rating	Standard & Poor's Rating	Effective Duration
Government Sponsored Enterprises				
Federal Farm Credit Bank Notes	$ 2,096,887	Aaa	AA+	5.24
Federal Home Loan Bank	11,143,352	Aaa	AA+	4.41
Federal Home Loan Bank Discount Notes	1,289,941	Aaa	AA+	0.09
FHLMC[1] Bonds	3,407,665	Aaa	AA+	13.97
FHLMC Discount Notes[3]	2,364,060	Aaa	AA+	0.09
FNMA[2] Discount Notes	1,498,770	Aaa	AA+	0.09
FNMA Medium Term Notes	16,025,989	Aaa	AA+	9.74
FNMA Mortgage Backed Securities	684,440	Aaa	AA+	20.36
	$ 38,511,104			
U.S. Treasury Bonds	6,478,533	AAA	AA+	8.13
U.S Treasury Zeros	10,037,295	AAA	AA+	1.50
U.S. Treasury Bills – Short Term (at amortized cost)	21,811,086	AAA	AA+	0.40
U.S. Treasury Zeros – Short Term (at amortized cost)	4,994,824	AAA	AA+	0.88
Trustee Money Market Accounts (at amortized cost)[4]	61,420,611	NR	NR	NA
Total Investments	$ 143,253,453			

[1] Federal Home Loan Mortgage Corporation
[2] Federal National Mortgage Association
[3] Federal Home Loan Mortgage Corporation
[4] Money Market Accounts are included in Cash Equivalents on the financial statements
NR Not Rated
NA Not Applicable

NOTE 5. FAIR VALUE MEASUREMENT

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

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

	June 30, 2017	Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value				
Fixed income investments				
U.S. Treasuries	$ 16,515,828	$ 16,515,828		
Agency/Government Related	37,826,664		$ 37,826,664	
Commercial Mortgage Backed Securities	684,440		684,440	
Total fixed income investments	55,026,932	16,515,828	38,511,104	
Investments Measured at Amortized Cost				
Short Term U.S. Treasuries	26,805,910			
Money Market Accounts	61,420,611			
Total investments managed	$ 143,253,453			

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

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

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.

NOTE 6. 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.

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

In accordance with GASB Statement No. 48, the pledging of mortgage loans receivable is considered a collateralized borrowing. Collateralized mortgage loans receivable, as of June 30, 2017 consist of the following:

Single Family Program	$430,722,454
Multifamily Program	8,959,960
Housing Trust Program	3,393,669
Housing Montana Fund	2,166,022
	445,242,105
Net mortgage discounts and premiums	5,556,143
Allowances for losses and real estate owned (Note 7)	(300,000)
	450,498,248

NOTE 7. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

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

The June 30, 2017 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 5 real estate owned properties as of June 30, 2017. The properties' combined loan amounts were $423,053 as of June 30, 2017. Since Board real estate owned properties are insured or guaranteed by external organizations, Board loan losses are limited by insurance claims or sale of foreclosed properties. Real estate owned by the Board is included in the mortgages receivable balance (Note 6).

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

Balance as of June 30, 2016	$ 300,000
Plus: Additional provision	-
Less: Net loans charged off	-
Balance as of June 30, 2017	$ 300,000

NOTE 8. CAPITAL ASSETS

Capital assets consist primarily of computer software and equipment and other office equipment. Capital asset balances as of June 30, 2017 are as follows:

Capital Assets:	
Equipment	$ 11,320
Accumulated Depreciation	(8,847)
	$ 2,473

Depreciation expense included in general and administrative expense was $1,016 for the year ended June 30, 2017.

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, 2017:

Single Family I Mortgage Bonds:	Original Amount	Balance
2007 Series C serial and term bonds at 3.875% to 5.75% maturing in scheduled semi-annual installments to December 1, 2017, December 1, 2020, December 1, 2022, December 1, 2027, December 1, 2031, June 1, 2038, and December 1, 2038.	50,600,000	5,025,000
2007 Series D serial and term bonds at 3.75% to 5.50% maturing in scheduled semi-annual installments to December 1, 2014, December 1, 2015, December 1, 2016, December 1, 2017, December 1, 2022, December 1, 2027, June 1, 2038 and December 1, 2038.	56,600,000	9,810,000
2015 Series B-1 and B-2 serial and term bond at 0.50% to 4.0% maturing in scheduled semi-annual installments to December 1, 2026, December 1, 2030, December 1, 2038, and December 1, 2042.	64,400,000	54,005,000
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	62,555,000

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	41,900,000
Bonds outstanding Single Family I		$ 173,295,000
Unamortized bond premium (discount)		3,527,272
Total Bonds Payable Single Family I		**$ 176,822,272**

Single Family II Mortgage Bonds	Original Amount	Balance
2008 Series A serial and term bonds at 2.55% to 5.50% maturing in scheduled semi-annual installments to December 1, 2019, December 1, 2024, December 1, 2029, December 1, 2033, and December 1, 2039.	31,000,000	4,800,000
2013 Series A-1, A-2, and A-3 serial and term bonds at 0.20% to 3.75% maturing in semi-annual installments to December 1, 2025, December 1, 2028, December 1, 2033, December 1, 2037, December 1, 2038, December 1, 2043, and June 1, 2044.	73,000,000	44,950,000
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	37,515,000
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	53,620,000
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	16,305,000
Bonds outstanding Single Family II		$ 157,190,000
Unamortized bond premium (discount)		1,556,342
Total Bonds Payable Single Family II		**$ 158,746,342**

Single Family XI Mortgage Bonds:	Original Amount	Balance
2009 Series B Term Bonds at 3.70% maturing December 1, 2041, with 2011 Series A. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	24,600,000	13,890,000
2009 Series C Term Bonds at 2.47% maturing December 1, 2041, converted from 2009 Series A and issued concurrently with 2011 Series B. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	20,000,000	11,055,000
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	13,940,000
2009 Series E Term Bonds at 2.67% maturing December 1, 2041. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	25,000,000	18,750,000
2011 Series A serial and term bonds at 0.60% to 5.00%, maturing in semi-annual installments to December 1, 2022, December 1, 2026, June 1, 2028, and December 1, 2028.	16,400,000	6,395,000
2011 Series B-1 and B-2 serial and term bonds, 1.00% to 5.00%, maturing in semi-annual installments to December 1, 2022, December 1, 2026, and December 1, 2027.	38,175,000	14,780,000
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	25,885,000

Bonds outstanding Single Family XI	$ 104,695,000
Unamortized bond premium (discount)	516,246
Total Bonds Payable Single Family XI	**$ 105,211,246**

Single Family General Obligation Bonds:	Original Amount	Balance
2008		
Series A General Obligation Private Placement Bonds.	497,942	363,923
Total Single-Family Mortgage Bonds Payable, Net		**$ 441,143,783**

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

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

Board of Housing Essential Workers' Program
The Board has authorized the issuance of $1,000,000 of taxable general obligation bonds to finance second mortgage shared appreciation loans to provide assistance to Ravalli County teachers. As of June 30, 2017, $497,942 of bonds have been issued.

Multifamily Mortgage Bonds:	Original Amount	Balance
1998		
Series A 3.5% to 4.70% interest, serial and term bonds, maturing in scheduled annual installments to August 1, 2014 and on August 1, 2029.	1,625,000	225,000
1999		
Series A 4.95% to 8.45% interest, term bonds, maturing in scheduled semi-annual installments to August 1, 2008, August 1, 2010, August 1, 2016, August 1, 2025, August 1, 2030, August 1, 2037, August 1, 2039, and August 1, 2041.	9,860,000	5,280,000
Bonds outstanding Multifamily		$ 5,505,000
Unamortized bond premium (discount)		(31,379)
Total Multifamily Mortgage Bonds Payable, Net		**$ 5,473,621**

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	**$ 446,617,404**

MONTANA BOARD OF HOUSING
(A Component Unit of the State of Montana)
NOTES TO THE FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2017

The following is a summary of bond principal and interest requirements as of June 30, 2017:

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
2018	$ 29,248,752	$ 453,744	$ 14,860,000	$ 14,842,496
2019	29,442,571	456,785	15,355,000	14,544,356
2020	29,480,094	459,174	15,745,000	14,194,268
2021	29,576,743	460,976	16,240,000	13,797,719
2022	29,548,166	457,191	16,655,000	13,350,357
2023-2027	150,505,495	2,323,225	94,515,000	58,313,720
2028-2032	139,959,373	2,181,249	101,360,000	40,780,622
2033-2037	107,602,890	2,080,436	87,080,000	22,603,326
2038-2042	68,902,647	1,728,885	61,758,923	8,872,609
2043-2047	18,569,355	-	17,350,000	1,219,355
2048-2052	132,600	-	130,000	2,600
Total	**$ 632,968,686**	**$ 10,601,665**	**$ 441,048,923**	**$ 202,521,428**

Cash paid for interest expenses during the year ended June 30, 2017 was $15,790,427.

Summary of Changes in Long-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due in More Than One Year
Bonds payable						
Single Family	$ 465,538,923	$ 41,900,000	$ 71,895,000	$ 435,543,923	$14,750,000	$420,793,923
Multifamily	5,605,000	-	100,000	5,505,000	110,000	5,395,000
	471,143,923	41,900,000	71,995,000	441,048,923	14,860,000	426,188,923
Unamortized premium/discount	5,870,008	743,705	1,045,232	5,568,481	-	5,568,481
Total bonds/notes payable	$ 477,013,931	$ 42,643,705	$ 73,040,232	$ 446,617,404	$ 14,860,000	$ 431,757,404
Other liabilities						
Arbitrage rebate tax payable (1)	761,578	216,751	417,930	560,399	303,790	256,609
Compensated absences payable (1)	280,496	5,223	2,173	283,546	152,472	131,074
Net pension liability (1)	1,451,587	599,647	4,143	2,047,091	-	2,047,091
OPEB implicit rate subsidy (2)	402,999	42,248		445,247		445,247
Total other liabilities	$ 2,896,660	$ 863,869	$ 424,246	$ 3,336,283	$ 456,262	$ 2,880,021
Total Business-type activities long-term liabilities	$ 479,910,591	$ 43,507,574	$ 73,464,478	$ 449,953,687	$ 15,316,262	$ 434,637,425

(1) 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.

(2) 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.

NOTE 10. BOND REDEMPTIONS

During the year ended June 30, 2017 the Board redeemed Single Family and Multi-Family mortgage program bonds prior to scheduled maturity as follows:

Single Family I		
December 1	$	5,285,000
March 31		16,030,000
June 1		5,860,000
		27,175,000
Single Family II		
December 1		8,080,000
June 1		8,715,000
		16,795,000
Single Family XI		
December 1		7,775,000
June 1		7,125,000
		14,900,000
Total		58,870,000

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 $7,607,583 in the Single Family I Indenture.

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

Foreclosure Prevention	$	45,635
Disabled Affordable Accessible Homeownership		862,950
Lot Refinance		726,440
Habitat for Humanity		168,111
Score Advantage Second Mortgage		288,971
80% Combined Program		5,000,000
MBOH Plus Down Payment Assistance		912,750
Down Payment Set-Aside Pool		7,359,360
Total Single-Family Commitments	$	15,364,217

Single Family I - Reverse Annuity Mortgage Program Future Loan Amounts: $2,296,536

Single Family I & II – funding for Homebuyer Education for fiscal year 2018: $180,000

Housing Trust Fund Program:
Reverse Annuity Mortgage Program Funds: $6,046,572

Multifamily Program:
Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD): $140,973

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

NOTE 12. EMPLOYEE BENEFIT PLANS

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

The Board and its members contribute to either the PERS Defined Benefit Retirement Plan (DBRP) or the PERS Defined Contribution Retirement Plan (DCRP). Both the DBRP and the DCRP are administered by Montana Public Employee Retirement Administration (MPERA). The DBRP is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapter 2 & 3, Montana Code Annotated (MCA). The DCRP is a multiple-employer plan created by the 1999 legislature and made available to all active PERS members effective July 1, 2002. Both the DBRP and the DCRP provide retirement, disability, and death benefits to plan members and their beneficiaries.

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

The DBRP provides retirement benefits to covered employees of the State, and local governments, and certain employees of the Montana University System, and school districts. DBRP benefits are based on eligibility, years of service and highest average compensation. Member rights are vested after five years of service.

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

At the plan level for the year ended June 30, 2017, the DCRP plan member contributions were $11,827,865; employer contributions were $10,751,840; and employers did not recognize any expenses and carry no liability for the defined contribution plan. Plan level non-vested forfeitures for the 300 employers that have participants in the DCRP totaled $396,650.

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.

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

Net Pension Liability:

The Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of the June 30, 2016, with update procedures to roll forward the TPL to June 30, 2017. At June 30, 2017, the Board had a Net Pension Liability of $2,047,091 and the Boards proportionate share of the Defined Benefit Retirement Plan Net Pension Liability was 0.12% which was a -0.002% change in the percent of the collective NPL. The Board's proportion of the Net Pension Liability was based on the employer's contributions received by PERS during the measurement period of July 1, 2015, through July 30, 2016, relative to the total employer contributions received from all of PERS' participating employers.

Pension Expense:

At June 30, 2016, the Board recognized its proportionate share of the PERS' Pension Expense of $195,190. The Board also recognized grant revenue of $35,865 from Coal Tax Fund.

Changes in Actuarial Assumptions and Methods:

There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability (TPL).

Changes in Benefit Terms:

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

Deferred Pension Inflow/Outflow:
At June 30, 2016, 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 in measurement of TPL	$	11,045	$	6,777
Changes in Assumptions		-		-
Project vs. Actual Investment Earnings		192,590		-
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions		26,195		-
Employer Contributions Subsequent to the Measurement Date		105,030		-
Total	$	334,860	$	6,777

Amounts reported as deferred outflows of resources related to pension resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2018. 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
2017	$ 9,324
2018	9,324
2019	109,442
2020	68,769
2021	-
Thereafter	-

Summary of Benefits:

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

Eligibility for benefits

Service retirement:

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

Early Retirement

Early Retirement, actuarially reduced

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

Vesting

5 years of membership services

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:

1) 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.

2) 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.

1) 3% for members hired prior to July 1, 2007
2) 1.5% for members hired between July 1, 2007 and June 30, 2013
3) 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.

Overview of Contributions:

Member and employer 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 to the plan.

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1. 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.
2. Employer contributions to the system:
   a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
   b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
   c. 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.

3. Non-Employer Contributions:
   Not Special Funding: The State contributes a portion of the Coal Trust Permanent Trust Fund income and earnings from the Coal Severance Tax Fund.

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

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

The latest actuarial valuation and experience study can be found on the PERS website at http://mpera.mt.gov/actuarialvaluations.shtml

Actuarial Assumptions:
There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the actuarial experience study dated June 2010 for the six-year period July 1, 2003 to June 30, 2009 and no changes occurred in the June 30, 2016 actuarial experience study. Among those assumptions were the following:

Investment Return (net of admin expense)	7.75%
Administration Expense as % of Payroll	0.27%
General Wage Growth*	4.00%
*Includes Inflation at	3.00%
Merit Increases	0% to 6%

Asset valuation Method: Four-Year Smoothed Market
Actuarial Cost Method: Entry Age Normal

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, **inclusive** of other adjustments to the members' benefit.

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013
  a) 1.5% for each year PERS is funded at or above 90%
  b) 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
  c) 0% whenever amortization period for PERS is 40 years or more

- Mortality assumptions among contributing members, terminated vested members, service retired Members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate:
The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2117. 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 expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period of fiscal years 2003 through 2009, is outlined in a report dated June 2010 and is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public-sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Summarized in the table below are best estimates of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2016.

Asset Class	Target Asset Allocation	Real Rate of Return Arithmetic Basis	Long-Term Expected Real Rate of Return
	(a)	(b)	(a)x(b)
Cash Equivalents	2.60%	4.00%	0.10%
Domestic Equity	36.00%	4.55%	1.64%
Foreign Equity	18.00%	6.35%	1.14%
Fixed Income	23.40%	1.00%	0.23%
Private Equity	12.00%	7.75%	0.93%
Real Estate	8.00%	4.00%	0.32%
Total	100.0%		4.37%
Inflation			3.00%
Portfolio Return Expectation			7.37%

Sensitivity Analysis:
The sensitivity of the NPL to the discount rate is shown in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.75%, 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.

As of June 30, 2016 (Measurement Date)	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75)
DBRP Total Plan	$21,364,739	$14,723,400	$9,002,537
BOH	2,970,468	2,047,091	1,251,677

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

Changes in actuarial assumptions and methods:
There were no changes in assumptions or other inputs that affected measurement of TPL.

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

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

Deferred Compensation Plan:
The Board's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, Chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance was required by January 1, 1999.

Health Care: Board staff and dependents are eligible to receive medical and dental health care through the State Group Benefits Plan administered by the Montana Department of Administration Health Care & Benefits Division. Montana Department of Administration established medical premiums vary between $963 and $1,260 per month depending on the medical plan selected, family coverage, and eligibility. Administratively established premiums vary between $21.40 and $28.90 per month for dental and between $7.64 and $22.26 per month for an optional vision hardware plan depending on family coverage and eligibility. The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Eligible dental claims are reimbursed at 20% to 100% of the allowable charges, depending on the services provided. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs.

NOTE 13. ARBITRAGE REBATE LIABILITY

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

The Board made $ 417,930 in arbitrage rebate cash payments to The United States Treasury Department in fiscal year 2017. The related liability was $560,399 as of June 30, 2017.

Beginning Balance, July 1, 2016	$ 761,578
Additions	216,751
Reductions	(417,930)
Ending Balance, June 30, 2017	$ 560,399

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. Accordingly, these bonds are not reflected in the accompanying financial statements.

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

The outstanding balances of these bonds as of June 30, 2017 are as follows:

Bond Series	Original Amount	Balance
Multifamily Housing Revenue Bond Series 2006	$ 2,104,700	$ 1,708,867
Multifamily Housing Revenue Bond Series 2007	5,100,00	4,638,415
Multifamily Housing Revenue Bonds Series 2008 A	2,413,600	1,796,505
Multifamily Housing Revenue Bond Series 2012 A-1	857,000	803,160
Multifamily Housing Revenue Bond Series 2012 A-2	4,032,000	3,783,460
Multifamily Housing Revenue Bond Series 2012 B-1	857,000	830,365
Multifamily Housing Revenue Bond Series 2015 A	15,500,000	15,500,000
Multifamily Housing Revenue Bonds Series 2016	7,500,000	7,500,000

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.

On June 30, 2017, there were $417,236 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.

Refundings:
On March 15, 2017, the Board issued $41,900,000 of Single Family Program Bonds, Series 2017 A (1977 Single Family II Indenture, amended and restate as of May 1, 1997). Bond proceeds of $11,400,000 were used as a replacement refunding of the 2007 B series.

The refunding of this issue resulted in an economic gain of $1,266,795 and the difference in cash flow will be a reduction in total interest of $1,267,737.

NOTE 16. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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

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

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

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

In addition to the employee benefits described in Note 12, Employee Benefit Plans, the following postemployment benefits are provided:

Montana Department of Administration established retiree medical premiums vary between $439 and $1,633 administratively established dental premiums vary between $41.10 and $70.00; vision hardware premiums vary between $7.64 and 22.26 both premiums vary depending on the coverage selected. Basic life insurance in the amount of $14,000 is provided until age 65 at a cost of $1.90 per month to the retiree. The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Dental claims are reimbursed up to $1,800 for diagnostic/preventative and repair/reconstructive services annually. The State acts as secondary payer for retired Medicare-eligible claimants.

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

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

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

The amount of the estimated OPEB actuarial accrued liability is determined in accordance with the GASB Statement No. 45, and liability is estimated at $445,247 for the Board. (The actuarial accrued liability is the present value of future retiree benefits and expenses.)

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

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

The actuarial valuation method used is the projected unit credit funding method. The actuarial assumptions did not include an investment rate of return since no assets meet the definition of plan assets under GASB Statement No. 43 or No. 45. Annual healthcare cost trend rates of 9.0 percent for medical and 8.0 percent for prescription claims are used for the 2017 plan year. The unfunded actuarial accrued liability is amortized following a 30-year level percentage of payroll amortization schedule on an open basis beginning for calendar year 2014.

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

Annual OPEB Cost and Contributions:
The annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45) represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize unfunded actuarial liabilities over a period not to exceed 30 years. The current Board ARC of $52 thousand is 3.20% of annual covered payroll. The Board's annual covered payroll is $1.6 million.

Annual OPEB Cost & Changes in Net OPEB Obligation

Annual required contribution/OPEB cost	$52,205
Interest on net OPEB obligation	17,762
Amortization factor	(13,932)
Annual OPEB cost	$56,035
Retiree claims paid	(13,786)
Increase (decrease) in net OPEB obligation	42,249
Net OPEB obligation – beginning of year	402,999
Net OPEB obligation – end of year	$445,247

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/15	51,629	28%	361,335
6/30/16	55,439	25%	402,999
6/30/17	56,035	26%	445,247

Funded Status and Funding Progress:
The funded Status of the Board's allocation of the plan as of June 30, 2017, was as follows:

1	Actuarial Value of Plan Assets	$	-
2	Actuarial Accrued Liability (AAL)	$	573,858
3	Unfunded Actuarial Accrued Liability (UAAL) (2-1)	$	573,858
4	Fund Ratio (1÷2)		0.00%
5	Covered Payroll	$	1,631,923
6	Unfunded Actuarial Accrued Liability (UAAL) as a Percentage of Covered Payroll) [(2-1) ÷5]		35.16%

NOTE 17. INTERFUND BALANCES

The following interfund balances have been eliminated from the Combining Statement of Revenues, Expenses and Changes in Net Position to report the Statement of Revenues, Expenses and Changes in Net Position for all programs net of interfund activity for June 30, 2017:

Fee Income and Servicers Fees related to in-house loan servicing	$1,316,063

NOTE 18. ADJUSTMENTS TO BEGINNING NET POSITION

The June 30, 2016 prior period adjustment decreasing the Housing Trust Fund net position by $5,642 was due to interest calculation that were done incorrectly beginning in 2008.

The adjustments to the beginning net position of Single Family Indenture I, Single Family II and Mortgage Loan Servicing was a reclassification of each fund's proportionate share within Commerce and were as follows:

The adjustment to increase the beginning net position by $46,724 in Single Family Indenture I was for an increase in Pension Deferred Outflows of $1,479, a decrease in Pension Deferred Inflows of $13,955, and a decrease in Net Pension Liability of $31,290.

The adjustment to increase the beginning net position by $46,722 in Single Family Indenture II was for an increase in Pension Deferred Outflows of $1,479, a decrease in Pension Deferred Inflows of $13,954, and a decrease in Net Pension Liability of $31,289.

The adjustment to decrease the beginning net position by $396,324 in Mortgage Loan Servicing was for an increase in Pension Deferred Outflows of $1,744, an increase in Pension Deferred Inflows of $77,335, and an increase in Net Pension Liability of $320,733.

NOTE 19. SUBSEQUENT EVENTS

On June 26, 2017, a bond resolution in the amount not to exceed $75 million to finance single-family home loans was brought before the Board and approved for issuance. On September 7, 2017, a purchase contract for purchase, sale and delivery of $42.6 million in bonds closing on October 18, 2017. $11.9 million of the funds will be used to refund previous issues. $30.3 million will be used to purchase eligible Montana home loans. The remaining portion will be used to pay cost of issuance.

On November 20, 2017, a bond resolution to issue Convertible Option Bonds not to exceed $200 million was brought before the Board and approved for issuance. The bonds would be used for purchase of eligible Montana home loans over the next three years. As the Board purchases mortgages we would convert portions of these bonds to long-term obligations.

MONTANA BOARD OF HOUSING
(A Component Unit of the State of Montana)
REQUIRED SUPPLEMENTARY INFORMATION
Fiscal Year Ended June 30, 2017

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

As of June 30, 2017, the most recent actuarial valuation available that was completed by the state of Montana was as of January 1, 2015 for the year ending December 31, 2015. The State of Montana finances claims on a pay-as-you-go basis and does not advance fund the OPEB liability. Therefore, the funded ratio remains at 0% at June 30, 2017.

Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability* (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2009	$ -	$ 767,186	$ 767,186	0.0%	$ 859,031	89.31%
1/1/2011	-	480,731	480.731	0.0%	813,088	59.12%
1/1/2013	-	398,874	398,874	0.0%	1,201,965	33.19%
1/1/2015	-	461,765	461,765	0.0%	1,557,396	29.65%
1/1/2017	-	573,858	573,858	0.0%	1,631,923	35.16%

*Projected unit credit funding method.

Pension Benefits (Financial Statement Note 11)

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

	2017	2016	2015
Proportionate share of Net Pension Liability as a percentage	0.12%	0.10%	0.10%
Proportionate share of Net Pension Liability as an amount	$ 2,047	$ 1,452	$ 1,203
Pensionable payroll	$ 1,422	$ 1,208	$ 1,079
Proportionate share of the Net Pension Liability as a percentage of its Pensionable Payroll	143.92%	120.20%	111.44%
Plan fiduciary net position as a percentage of total Pension Liability	74.71%	78.40%	79.90%

MONTANA BOARD OF HOUSING
(A Component Unit of the State of Montana)
REQUIRED SUPPLEMENTARY INFORMATION
Fiscal Year Ended June 30, 2017

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

	2017	2016	2015
Contractually required contributions	$ 272	$ 106	$ 89
Contributions made	272	106	89
Contribution deficiency (excess)	$ -	$ -	$ -
Share pensionable payroll	$ 1,422	$ 1,208	$ 1,079
Contributions as a percentage of pensionable payroll	19.04%	8.76%	8.80%

**The amounts presented for each fiscal year were determined as of June 30.*
Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	TOTAL
ASSETS									
Current Assets									
Cash and Cash Equivalents (Note 2)	$ 35,187,667	$ 19,834,019	$ 4,468,038	$ 59,489,724	$ 3,937,117	$ 4,550,627	$ 1,673,292	$ 545,973	$ 70,196,733
Investments (Note 4)	6,233,816	17,763,642	3,053,191	27,050,649	5,152,771	-	-	-	32,203,420
Mortgage Loans Receivable, Net (Note 6)	4,937,111	4,924,540	3,119,859	12,981,510	253,194	143,094	-	11,790	13,389,588
Interest Receivable	898,898	889,509	662,800	2,451,207	41,085	347,610	1,458,034	157,101	4,455,037
Prepaid Expense	45,858	45,858	-	91,716	23,406	21,470	4,090	-	140,682
Total Current Assets	47,303,350	43,457,568	11,303,888	102,064,806	9,407,573	5,062,801	3,135,416	714,864	120,385,460
Noncurrent Assets									
Investments (Note 4)	12,875,851	24,039,128	12,030,003	48,944,982	-	-	-	-	48,944,982
Mortgage Loans Receivable, Net (Note 6)	173,624,676	156,343,163	93,029,246	422,997,085	8,706,767	165,402	3,393,669	2,154,233	437,417,156
Mortgage Backed Securities (Note 4)	-	684,440	-	684,440	-	-	-	-	684,440
Acquisition Costs	-	-	-	-	-	2,039,349	-	-	2,039,349
Capital Assets, Net (Note 8)	1,029	1,368	-	2,397	-	-	76	-	2,473
Total Noncurrent Assets	186,501,556	181,068,099	105,059,249	472,628,904	8,706,767	2,204,751	3,393,745	2,154,233	489,088,400
TOTAL ASSETS	233,804,906	224,525,667	116,363,137	574,693,710	18,114,340	7,267,552	6,529,161	2,869,097	609,473,860
DEFERRED OUTFLOW OF RESOURCES									
Deferred Refunding Costs (Note 15)	232,891	120,696	63,649	417,236	-	-	-	-	417,236
Deferred Pension Outflow (Note 12)	101,964	101,964	-	203,928	-	130,932	-	-	334,860
TOTAL DEFERRED OUTFLOWS	334,855	222,660	63,649	621,164	-	130,932	-	-	752,096
LIABILITIES									
Current Liabilities									
Accounts Payable	135,385	143,987	42,159	321,531	44,982	828,104	2,698	288	1,197,603
Funds Held For Others	503	-	-	503	1,499,381	2,881,805	-	-	4,381,689
Accrued Interest - Bonds Payable	473,561	452,564	287,391	1,213,516	143,967	-	-	-	1,357,483
Bonds Payable, Net (Note 9)	5,370,000	5,285,000	4,095,000	14,750,000	110,000	-	-	-	14,860,000
Arbitrage Rebate Payable to U.S. Treasury Department (Note 13)	-	-	303,790	303,790	-	-	-	-	303,790
Accrued Compensated Absences	29,484	29,484	-	58,968	27,979	65,525	-	-	152,472
Total Current Liabilities	6,008,933	5,911,035	4,728,340	16,648,308	1,826,309	3,775,434	2,698	288	22,253,037
Noncurrent Liabilities									
Bonds Payable, Net (Note 9)	171,452,272	153,825,265	101,116,246	426,393,783	5,363,621	-	-	-	431,757,404
Arbitrage Rebate Payable to U.S. Treasury Department (Note 13)	47,498	28,268	180,843	256,609	-	-	-	-	256,609
Accrued Compensated Absences	32,226	32,226	-	64,452	45,409	21,213	-	-	131,074
Net Pension Liability (Note12)	565,032	565,033	-	1,130,065	-	917,026	-	-	2,047,091
OPEB Liability (Note 16)	202,487	202,487	-	404,974	-	40,273	-	-	445,247
Total Noncurrent Liabilities	172,299,515	154,653,279	101,297,089	428,249,883	5,409,030	978,512	-	-	434,637,425
TOTAL LIABILITIES	178,308,448	160,564,314	106,025,429	444,898,191	7,235,339	4,753,946	2,698	288	456,890,462
DEFERRED INFLOW OF RESOURCES									
Deferred Pension Inflow (Note 12)	1,871	1,870	-	3,741	-	3,036	-	-	6,777
TOTAL DEFERRED INFLOWS	1,871	1,870	-	3,741	-	3,036	-	-	6,777
NET POSITION									
Net Investment in Capital Assets	1,029	1,368	-	2,397	-	-	76	-	2,473
Restricted for Bondholders:									
Unrealized (losses) gains on investments	1,367,057	1,809,726	2,399,667	5,576,450	(1,855)	-	-	-	5,574,595
Single Family Programs	44,392,711	54,598,940	8,001,690	106,993,341	-	2,641,502	-	-	109,634,843
Various Recycled Mortgage Programs (Note 11)	7,772,109	7,772,109	-	15,544,218	-	-	-	-	15,544,218
Multifamily Programs	-	-	-	-	10,739,883	-	479,815	-	11,219,698
Multifamily Project Commitments (Note 11)	-	-	-	-	140,973	-	-	-	140,973
Housing Trust Fund Program (Note 11)	2,296,536	-	-	2,296,536	-	-	6,046,572	-	8,343,108
Restricted for Affordable Housing Loan Program	-	-	-	-	-	-	-	2,868,809	2,868,809
TOTAL NET POSITION	$ 55,829,442	$ 64,182,143	$ 10,401,357	$ 130,412,942	$ 10,879,001	$ 2,641,502	$ 6,526,463	$ 2,868,809	$ 153,328,717

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	TOTAL
OPERATING REVENUES									
Interest Income - Mortgage Loans	$ 6,773,611	$ 6,751,987	$ 4,700,721	$ 18,226,319	$ 497,447	$ -	$ 254,281	$ 42,348	$ 19,020,395
Interest Income - Investments	625,736	776,841	581,706	1,984,283	29,057	1,248	5,534		2,020,122
Fee Income	49,035	20,375	-	69,410	143,521	2,028,309	615,876		2,857,116
Federal Financial Assistance	-	116	-	116	-	-	-	-	116
Net Increase (Decrease)									
in Fair Value of Investments	(540,983)	(530,594)	(996,088)	(2,067,665)	(1,855)	-	-	-	(2,069,520)
Other Income	19,807	19,807	-	39,614	-	131	-	-	39,745
Securities Lending Gross Income	-	-	-	-	4	-	16	-	20
Total Operating Revenues	6,927,206	7,038,532	4,286,339	18,252,077	668,174	2,029,688	875,707	42,348	21,867,994
OPERATING EXPENSES									
Interest on Bonds	4,934,373	5,601,855	3,730,564	14,266,792	349,735	-	-	-	14,616,527
Servicer Fees	595,461	603,810	382,638	1,581,909	9,931	602,265	-	853	2,194,958
Contracted Services	164,620	209,599	-	374,219	70,647	243,225	11,670	52	699,813
Amortization of Deferred Refunding	37,096	21,299	37,129	95,524	-	-	-	-	95,524
Bond Issuance Costs	538,072	-	-	538,072	-	-	-	-	538,072
General and Administrative	783,038	654,585	19,870	1,457,493	776,484	1,525,256	(25,152)	-	3,734,081
Arbitrage Rebate Expense	44,148	6,673	165,930	216,751	-	-	-	-	216,751
Securities Lending Expense	-	-	-	-	3	-	7	-	10
Other Post-Employment Benefits	10,784	10,784	-	21,568	-	20,681	-	-	42,249
Total Operating Expenses	7,107,592	7,108,605	4,336,131	18,552,328	1,206,800	2,391,427	(13,475)	905	22,137,985
Operating Income (Loss)	(180,386)	(70,073)	(49,792)	(300,251)	(538,626)	(361,739)	889,182	41,443	(269,991)
Nonoperating Revenue									
Pensions - nonemployer contributions	9,900	9,900	-	19,800	-	16,067	-	-	35,867
Nonoperating Income (Loss)	9,900	9,900	-	19,800	-	16,067	-	-	35,867
Income (Loss) before Transfers	(170,486)	(60,173)	(49,792)	(280,451)	(538,626)	(345,672)	889,182	41,443	(234,124)
Transfers In (Out)	(386,479)	460,728	(612,355)	(538,106)	-	538,106	-	-	-
Increase (Decrease) in Net Position	(556,965)	400,555	(662,147)	(818,557)	(538,626)	192,434	889,182	41,443	(234,124)
Net Position, July 1	56,339,684	63,734,865	11,063,504	131,138,053	11,417,627	2,845,392	5,642,923	2,827,366	153,871,361
Adjustments to Beginning Net Position (Note 18)	46,723	46,723	-	93,446	-	(396,324)	(5,642)	-	(308,520)
Net Position, July 1	56,386,407	63,781,588	11,063,504	131,231,499	11,417,627	2,449,068	5,637,281	2,827,366	153,562,841
Net Position, End of Year	$ 55,829,442	$ 64,182,143	$ 10,401,357	$ 130,412,942	$ 10,879,001	$ 2,641,502	$ 6,526,463	$ 2,868,809	$ 153,328,717

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:									
Receipts for Sales and Services	$ 49,035	$ 20,375	$ -	$ 69,410	$ 147,368	$ 2,028,309	$ 615,876	$ -	$ 2,860,963
Collections on Loans and Interest on Loans	30,057,372	31,144,435	24,265,675	85,467,482	917,695	8,095	490,618	103,091	86,986,981
Collection on Loan Escrow Accounts	503	-	-	503	(5,004)	211,676	-	-	207,175
Cash Payments for Loans	(50,054,352)	(2,739,950)	-	(52,794,302)	-	-	-	-	(52,794,302)
Federal Financial Assistance Receipts	-	116	-	116	(208,063)	-	-	-	(207,947)
Payments to Suppliers for Goods and Services	(1,093,242)	(1,029,558)	(420,986)	(2,543,786)	(426,851)	(1,618,148)	(23,218)	(1,198)	(4,613,201)
Payments to Employees	(360,915)	(360,915)	-	(721,830)	(345,427)	(914,947)	(25,009)	-	(2,007,213)
Other Operating Revenues	19,807	19,807	-	39,614	-	131	-	-	39,745
Net Cash Provided (Used) by Operating Activities	(21,381,792)	27,054,310	23,844,689	29,517,207	79,718	(284,884)	1,058,267	101,893	30,472,201
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:									
Payment of Principal and Interest on Bonds and Notes	(36,056,877)	(28,122,961)	(23,155,418)	(87,335,256)	(450,171)	-	-	-	(87,785,427)
Proceeds from Issuance of Bonds and Notes	41,900,000	-	-	41,900,000	-	-	-	-	41,900,000
Payment of Bond Issuance Costs	(538,072)	-	-	(538,072)	-	-	-	-	(538,072)
Premium on Bonds	747,726	-	-	747,726	-	-	-	-	747,726
Pension - Nonemployer contributions	25,334	9,900	-	35,234	-	16,067	-	-	51,301
Pension - Deferred Inflows/Outflows	(96,915)	(81,481)	-	(178,396)	-	(132,241)	-	-	(310,637)
Transfers in (out)	(386,480)	460,728	(612,355)	(538,107)	-	538,106	-	-	(1)
Net Cash Provided (Used) by Noncapital Financing Activities	5,594,716	(27,733,814)	(23,767,773)	(45,906,871)	(450,171)	421,932	-	-	(45,935,110)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:									
Purchase of Mortgage Servicing Rights	-	-	-	-	-	(434,557)	-	-	(434,557)
Net Cash Provided (Used) in Capital and Related Financing Activities	-	-	-	-	-	(434,557)	-	-	(434,557)
CASH FLOWS FROM INVESTING ACTIVITIES:									
Purchase of Investments	(16,925,644)	(63,999,350)	(9,219,834)	(90,144,828)	(5,936,930)	(6,984)	-	-	(96,088,742)
Proceeds from Sales or Maturities of Investments	12,671,707	71,885,418	8,886,074	93,443,199	4,275,050	6,984	-	-	97,725,233
Gain (Loss) from Sale of Investments	(6)	-	-	(6)	-	-	-	-	(6)
Interest on Investments	80,878	240,831	(412,247)	(90,538)	23,243	1,118	5,369	-	(60,808)
Arbitrage Rebate Tax	(43,193)	-	(374,737)	(417,930)	-	-	-	-	(417,930)
Net Cash Provided (Used) by Investing Activities	(4,216,258)	8,126,899	(1,120,744)	2,789,897	(1,638,637)	1,118	5,369	-	1,157,747
Net Increase (Decrease) in Cash and Cash Equivalents	(20,003,334)	7,447,395	(1,043,828)	(13,599,767)	(2,009,090)	(296,391)	1,063,636	101,893	(14,739,719)
Cash and Cash Equivalents, July 1	55,191,001	12,386,624	5,511,866	73,089,491	5,946,207	4,847,018	609,656	444,080	84,936,452
Cash and Cash Equivalents, June 30	$ 35,187,667	$ 19,834,019	$ 4,468,038	$ 59,489,724	$ 3,937,117	$ 4,550,627	$ 1,673,292	$ 545,973	$ 70,196,733

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	Single Family Indenture I	Single Family Indenture II	-1316063	SINGLE FAMILY PROGRAM FUND TOTALS	MULTI FAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	FEDERAL ASSISTANCE	TOTAL
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES										
Operating Income (Loss)	$ (180,386)	$ (70,073)	$ (49,792)	$ (300,251)	$ (538,626)	$ (361,739)	$ 889,182	$ 41,443	$ -	$ (269,991)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:										
Depreciation	300	640	-	940	75	-	-	-	-	1,015
Amortization	(20,374)	(422,753)	(107,727)	(550,854)	(16,696)	(16)	-	-	-	(567,566)
Interest Expense	5,563,302	5,887,447	3,867,405	15,318,154	347,626	-	-	-	-	15,665,780
Interest on Investments	(659,123)	(627,425)	(576,881)	(1,863,429)	(6,331)	(1,232)	(5,542)	-	-	(1,876,534)
Arbitrage Rebate Tax	44,148	6,673	165,930	216,751	-	-	-	-	-	216,751
Change in Assets and Liabilities:										
Decr (Incr) Mortgage Loans Receivable	(26,760,396)	21,505,551	19,480,189	14,225,344	418,311	617,050	314,432	59,488	-	15,634,625
Decr (Incr) Other Assets	(58,615)	158,088	78,584	178,057	(15,252)	(133,005)	(66,131)	1,255	(6,583)	(41,659)
Decr (Incr) Fair Value of Investments	540,983	530,594	996,088	2,067,665	1,855	-	-	-	-	2,069,520
Incr (Decr) Accounts Payable	49,253	(13,045)	(9,107)	27,101	38,184	(794,643)	(18,435)	(293)	6,583	(741,503)
Incr (Decr) Funds Held for Others	503	-	-	503	(213,069)	211,676	-	-	-	(890)
Incr (Decr) Pensions Payable (prior period adj)	93,115	93,115	-	186,230	-	151,121	-	-	-	337,351
Incr (Decr) Compensated Absences Payable	(5,286)	(5,286)	-	(10,572)	63,641	5,223	(55,239)	-	-	3,053
Incr (Decr) Other Postemployment Benefits	10,784	10,784	-	21,568	-	20,681	-	-	-	42,249
Net Cash Provided by (Used for) Operating Activities	$ (21,381,792)	$ 27,054,310	$ 23,844,689	$ 29,517,207	$ 79,718	$ (284,884)	$ 1,058,267	$ 101,893	$ -	$ 30,472,201

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

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

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Montana Board of Housing (board), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the board's basic financial statements, and have issued our report thereon dated November 9, 2017, except as to Note 19, which is as of December 5, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the board's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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

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weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 9, 2017

Montana Board of Housing

Board Response

PAM HAXBY-COTE
DIRECTOR

MONTANA
DEPARTMENT OF COMMERCE

STEVE BULLOCK
GOVERNOR

RECEIVED
DEC 11 2017
LEGISLATIVE AUDIT DIV.

December 11, 2017

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

Dear Mr. Maciver:

We have received and reviewed the financial-compliance audit report of the Montana Board of Housing for the fiscal year ended June 30, 2017. We appreciate the professionalism and courtesy with which the audit was conducted. The nature of the Boards business structure does require specialized work for the audit staff. We appreciate you and your staff's willingness to do all that is necessary for our bond issues, compliance and reporting to our investors.

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

Sincerely,

Bruce Brensdal
Executive Director