



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

Montana Board of Housing

*For the Fiscal Year Ended
June 30, 2022*

DECEMBER 2022

LEGISLATIVE AUDIT
DIVISION

22-07

FINANCIAL AUDITS

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

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2021, was issued June 21, 2022. The Single Audit Report for the two fiscal years ended June 30, 2023, will be issued by March 31, 2024.

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
William Soller

December 2022

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the Montana Board of Housing (board) for the fiscal year ended June 30, 2022. We performed this audit in accordance with §90-6-124, MCA. The objectives of this audit included determining if the financial statements present fairly the board's financial position on June 30, 2022, and the results of its operations for the fiscal year then ended.

The Board of Housing was created by the Montana Housing Act of 1975 and is allocated to the Housing Division within the Department of Commerce. The board issues tax-exempt bonds that provide funds to purchase home mortgages, make loans for rental housing projects, administer federal housing tax credit programs, and partner with other housing providers throughout Montana.

Our audit work included: analyzing the financial statements and note disclosures; examining the underlying financial activity of the board, which includes bonds, investments, and mortgages; reviewing and testing selected control systems; and testing compliance with laws that have a direct and material effect on the financial statements.

We issued an unmodified opinion on the board's financial statements for the fiscal year ended June 30, 2022, which means that the information presented within the statements can be relied upon for decision-making purposes. Additionally, we have made no recommendations to the board. The prior audit report also contained an unmodified opinion, and we issued no recommendations to the board. The Independent Auditor's Report can be found on page A-1, followed by the Management's Discussion and Analysis, the financial statements, accompanying notes, required supplementary information, and supplementary information. The Management's Discussion and Analysis, Other Post-Employment Benefits (OPEB), and Pension Benefits are supplementary information required by the Governmental Accounting Standards Board. The Combining Statements are supplementary information that is not required but is provided for the benefit of the reader. As disclosed in the Independent Auditor's Report, we did not audit the information and express no opinion on it.

We would like to thank the executive director and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

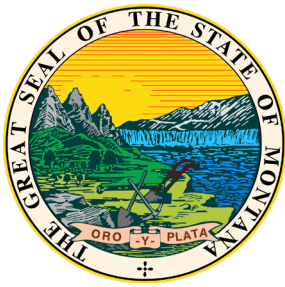
Angus Maciver
Legislative Auditor

APPOINTED AND ADMINISTRATIVE OFFICIALS

	<u>Name</u>	<u>City</u>	<u>Term Expires</u>
Montana Board of Housing	Sheila Rice, Chair	Great Falls	January 2023
	Bruce Posey, Vice Chair	Billings	2025
	Adam Hertz, Secretary	Missoula	2025
	Jeanette McKee	Hamilton	2023
	Tonya Plummer	Kalispell	2023
	John Wright	Billings	2025
	Cari Yturri	Great Falls	2025
Department of Commerce	Scott Osterman, Director		
Board of Housing	Cheryl Cohen, Executive Director		
	Virginia Pfankuch, CPA, Accounting and Finance Manager		
	Nicole McKeith, Multifamily Program Manager (through October 2022)		
	Jason Hanson, Multifamily Program Manager (effective September 2022)		
	Joe DeFilippis, Operations Manager		
	Vicki Bauer, Homeownership Program Manager		
	Mary Palkovich, Servicing Program Manager		

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

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 Montana Board of Housing
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 Helena, MT 59620-0528
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT

Montana Board of Housing
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

A report to the Montana Legislature

BACKGROUND

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

Revenues collected from mortgage loans are used by the board for repayment of issued bonds.

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

The powers of the board are vested in a seven-member board. Board members are appointed by the governor and are subject to Senate confirmation. The board provides policy direction to agency staff, authorizes bond issuances, and approves development financing.

The Montana Board of Housing (board) purchased approximately \$81.5 million of mortgages during fiscal year 2022 in the Single Family Program, the board’s largest program. Mortgage loan receivables decreased by roughly \$14.9 million in the fiscal year due to market conditions. In the first half of the fiscal year, lower interest rates allowed borrowers to refinance their mortgages using conventional financing.

AUDITOR’S OPINION (page A-1): UNMODIFIED

We found the board’s financial statements and note disclosures presented fairly the activity of the board, in all material respects, and issued an unmodified opinion on them. We also found the combining financial statements included in the report were reasonable in relation to the financial statements in all material respects. This means that a reader can rely on the information in the board’s financial statements, notes, and combining statements presented in this report.

RECOMMENDATIONS:

In this report, we issued no recommendations to the board. The prior audit report contained no recommendations.

SUMMARY OF AUDIT WORK:

We focused our audit effort on activity related to bonds, investments, and mortgage loans. Our audit work included analyzing the financial statements and note disclosures. We also examined the board’s underlying financial activity including bonds, investments, and mortgages. We reviewed new loan documentation, confirmed the reasonableness of outstanding bonds, and tested selected control systems. Additionally, we ensured that the value and classification of mortgages receivable and investments were accurate and supported.

FINANCIAL ACTIVITY SUMMARY:

As a self-supported entity, the board’s operations are influenced by the overall market conditions of bonds and mortgages. The mortgage rates the board can offer are determined by the market price of bonds they issue. When conventional mortgage rates decrease, the mortgage rates the board can offer based on bond pricing become less attractive to borrowers. Low conventional mortgage rates also incentivize borrowers to refinance existing Montana Board of Housing mortgages with a private lender.

(continued on back)

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

leg.mt.gov/lad

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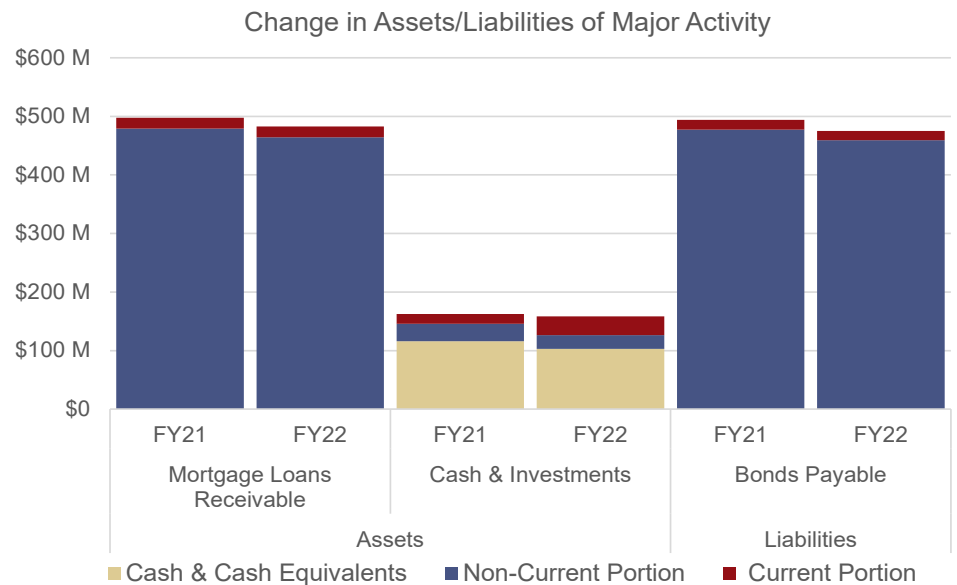
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These were the conditions the board experienced since the beginning of the COVID-19 public health emergency in the second half of fiscal year 2020. This caused a decrease in the number of new mortgage loans financed by the board and an increase in mortgage loan payoffs, resulting in decreased mortgage loans receivable. Bonds payable also decreased since less financing was needed to buy new mortgage loans.

Market conditions began to change in the second half of fiscal year 2022 as the federal reserve raised interest rates several times, and conventional mortgage rates followed. The mortgage rates offered by the board became more attractive because of favorable bond pricing, slowing the overall decrease in mortgage loans receivable for fiscal year 2022.



Bond provisions and federal tax law restrict the cash and investments of the board. These provisions direct where the cash and investments are held and how they can be used. The funds must be held in a trust and can only be spent on costs related to operating qualifying housing programs, buying qualifying mortgages, or paying bonds. They may also be held to meet debt service reserve requirements.

For the full context of the department’s financial activity, see the financial statements and notes beginning on page A-7.

REPORT ON INTERNAL CONTROL AND COMPLIANCE

(page B-1):

- In this report, we identified the following:
- Material Weaknesses in Internal Control: 0
- Significant Deficiencies in Internal Control: 0
- Material Non-Compliance: 0
- Other Matters: 0

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

Independent Auditor's Report and Board Financial Statements

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT AND BOARD FINANCIAL STATEMENTS
Independent Auditor’s Report A-1

**MONTANA BOARD OF HOUSING
MANAGEMENT’S DISCUSSION AND ANALYSIS, FINANCIAL STATEMENTS, NOTES,
REQUIRED SUPPLEMENTARY INFORMATION, AND SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**
Management’s Discussion and Analysis A-7
Statement of Net Position..... A-11
Statement of Revenues, Expenses, and Changes in Net Position A-12
Statement of Cash Flows A-13
Notes to the Financial Statements..... A-15
Required Supplementary Information A-50
Supplementary Information A-55

REPORT ON INTERNAL CONTROL AND COMPLIANCE
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* B-1

BOARD RESPONSE
Montana Board of HousingC-1

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of the Montana Board of Housing, a component unit of the state of Montana, which are comprised of the Statement of Net Position as of June 30, 2022, the related Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows for the fiscal year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 2022, and the changes in net position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- ◆ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ◆ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- ◆ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Montana Board of Housing's internal control. Accordingly, no such opinion is expressed.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- ◆ Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Montana Board of Housing's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on page A-7, Other Post-Employment Benefits–Total Board OPEB Liability and Related Ratios on page A-50, Pension Benefits–Schedule of Proportionate Share of the Net Pension Liability on page A-51, and Pension Benefits–Schedule of Contributions on page A-52 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consists of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the

basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Combining Statement of Net Position on page A-55; Combining Statement of Revenues, Expenses, and Changes in Net Position on page A-57; and Combining Statement of Cash Flows on page A-59 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information described above is fairly stated in all material respects in relation to the financial statements as a whole.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2022, on our consideration of the Montana Board of Housing's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Montana Board of Housing's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 28, 2022

**Montana Board of Housing
Management's Discussion and Analysis,
Financial Statements, Notes,
Required Supplementary Information, and
Supplementary Information
For the Fiscal Year Ended June 30, 2022**

**MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

The following information presents management's discussion and analysis of the Montana Board of Housing (Board) program and financial activity during the fiscal year ending June 30, 2022 (FY22). Please read this section in conjunction with the financial statements and accompanying notes.

Summary

- 593 Single-Family Mortgages were purchased with the Bond Program for \$81.5 million.
- 39 Mortgage Credit Certificates were issued on a total loan amount of \$10.9 million.
- A ten year \$29.4 million allocation of Low Income Housing Tax Credits, at \$2.9 million per year, was awarded during FY22, providing equity to produce or preserve affordable rental housing.
- 1 Reverse Annuity Mortgage (RAM) loan was originated in the amount of \$127.8 thousand. RAM is currently assisting 46 elderly households.
- The Board issued \$ 96.0 million of Single Family Mortgage Bonds.
- Bond debt retired was \$114.8 million from prepayments and regular debt service.
- Gross bond debt payable decreased from \$494.0 million to \$474.9 million.
- Net position, including a prior period adjustment described in note 19, increased \$54.9 thousand during FY22.

Fiscal Year 2022 Update

Single Family Program

The Board continued to experience a decrease in its overall portfolio in FY22, both in number of loans and unpaid principal balance, although loan production was up from the prior year. In the first half of the FY22, market rates were low and borrowers took advantage of them, refinancing into lower rate loans. However, in the second half of the year, market rates increased dramatically and the Board saw fewer payoffs. At the beginning of the fiscal year market rates were at 2.81%, and the Board received 535 payoffs in the first half of the year. By the end of FY22, the market rates had almost doubled to 5.32%, and the Board received 326 payoffs in the second half of the year. The Board experienced good pricing in the bond market which was reflected in the rates the Board was able to offer, which were consistently lower than market rates.

The biggest challenge the Board faced was a lack of affordable inventory for first time homebuyers to purchase. Sales prices increased dramatically around the state and in several counties prices were higher than the Board's purchase price limits. The lack of affordable housing supply prompted the Governor to establish a Housing Task Force via Executive Order No. 5-2022 to try to address the statewide housing supply challenges. The Board continues to explore opportunities to expand its programs and offer low interest rate loans and down payment assistance to first time homebuyers.

This year the Board updated its two down payment assistance programs in an attempt to assist more borrowers. In the 0% Deferred Program, which is funded from agency reserves, the maximum loan amount was increased from \$6,500 to \$10,000 and income limits were increased from \$55,000 for households of 1 or 2 people and \$65,000 for family size of 3 or more, to \$65,000 and \$75,000, respectively. The amortizing Bond Advantage DPA Program, which offers a 15 year amortizing loan with the same interest rate as the main mortgage loan, the maximum loan amount was increased from \$10,000 to \$12,500. The amortizing DPA is now being funded through bond proceeds.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022

Loan Servicing Program

The Board was servicing 98% of its Single Family loans and most of its Multifamily loans at the end of FY22. The Board also services residential loans and Veteran's Home Loan Program loans for Board of Investment, as well as Homeowner Assistance Fund loans for the Department of Commerce.

On July 1, 2021, Stockman Bank transferred the servicing of 589 loans to the Board. At the time, it increased the portfolio of loans being serviced by the Board by \$54 million.

The foreclosure moratorium put into place by the CARES Act ended on July 31, 2021. The Board worked with mortgage insurers as they updated their loss mitigation processes to assist mortgage holders that have been affected by COVID. July 1, 2021 we had 211 Formal Forbearances and by June 30, 2022 that number decreased to 95. COVID Partial Claims were offered by the insurers to bring loans current. Since May 1, 2020 to the end of the FY22, the Board processed \$2,007,278.60 in COVID Partial Claims.

The Homeowner Assistance Fund (HAF) program which was established by the American Rescue Plan Act of 2021, allocated \$50 million to the state of Montana to help homeowners remain in their homes. These funds were appropriated to the Department of Commerce through the passage of HB632. The Montana HAF Plan created a pilot program that was offered to Board of Housing borrowers. The HAF Pilot Program applications were sent to borrowers in January 2022, and by the end of FY22, 43 borrowers had received \$460,275.35 of HAF assistance.

Multifamily Program

The Board offers a variety of financing options for the development of affordable multifamily rental units including Federal Low Income Housing Tax Credits and permanent loan products. During FY22, the Board allocated \$29.4 million in housing credits to be used over ten years to produce 158 rental units in Montana.

The Board has seen an increase in the number of Low Income Housing Tax Credit properties funded with 4% tax credits and conduit bonds. In FY22, the Board issued \$47,347,504 million in conduit bonds to produce 330 additional rental units.

Under the guidance of our bond counsel and accounting staff, in FY22 Indenture 50 was collapsed and all of its assets were transferred (loans, cash and investments) to the 1998 General Obligation Indenture of Trust, to create the MBOH Combined Program Fund within Indenture 51. There are no longer any bonds outstanding under the Multi-Family Mortgage Bonds (General) Trust Indenture (Indenture 50). This allowed the creation of the Multifamily Loan Program, which allows for flexible lending and gap financing to Multifamily affordable housing projects.

The Multifamily Program closed on two loans utilizing two of our different loan programs. The first is a Coal Trust Homes Program first position loan for \$5,173,486 with interest only payments for 24 months during construction and then fully amortizing for a 30 year term at 2.25%. The second is a Housing Montana Fund gap financing loan for \$350,000 with a 30 year term and amortization and 4% interest rate.

Finance

The Board implemented GASB Statement 87, Leases, in fiscal year 2022 (FY22). The objective of this GASB statement is to increase the usefulness of the Board's financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. This was an increase to net assets and liabilities of approximately \$2.7 million related to the implementation.

The global outbreak of COVID-19 and measures taken by federal, state and local governments in response, are altering the behaviors of individuals and businesses in a manner that may have negative

**MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

effects on economic activity across the country and in the State. See Note 17, Operation Disruption Risk - COVID-19.

Interest rates were very volatile and ended the year on an upward trend which allowed the Board to obtain favorable rates on the purchase of US Treasury Bills. The nearing maturity of several long term investments caused a drop in the amount of long term investments in the Board investment portfolio. This, along with the purchase of short term US Treasury Bills, nearly doubled the short term investments in the portfolio.

The Board Investment Policy indicates that investments are to be made with the expectation that they will be held until maturity ensuring the Board will receive the full PAR, face value, of investments. GASB Statement 72, Fair Value Measurement and Application, requires that investments are shown on financial statements at fair value which is frequently less than the PAR value. This mark down to fair value shows as a \$3 million dollar loss in Decrease in Fair Value of Investments on the financial statement. This contributed to the overall loss on the financial statements.

The low mortgage interest rates at the beginning of the fiscal year caused a drop in the amount of long term Board mortgage loans receivable that contributed to the drop in revenue.

Board bonds payable decreased by nearly \$19 million dollars as some of the funds received from early payoffs and pay downs were used to call additional bonds on debt service dates. An additional \$96 million in bonds were issued that allowed purchase of new mortgage loans at lower interest rates that were more competitive on the market.

Overview of the Financial Statements

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

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

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

See Change in Net Position and Income on the Next Page

MONTANA BOARD OF HOUSING
CONDENSED FINANCIAL INFORMATION
CHANGE IN NET POSITION AND OPERATING INCOME
YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021 ¹
Assets:		
Current Assets	\$ 158,222,717	\$ 156,494,347
Non-current Assets	493,509,837 ²	511,010,383
Total Assets	651,732,554 ³	667,504,730
Deferred Outflows of Resources:	882,702	1,073,265
Liabilities:		
Current Liabilities	26,963,052	27,697,936
Non-current Liabilities	464,774,637 ⁴	480,568,519
Total Liabilities	491,737,689	508,266,455
Deferred Inflows of Resources:	744,938	204,270
Net Position:		
Invested in Capital Assets	(46,529) ⁵	2,589
Restricted	160,179,158	160,104,681
Total Net Position	160,132,629	160,107,270
Operating Revenue:		
Interest on Loans	16,554,778 ⁶	18,949,898
Earnings from Investments	(1,579,973) ⁷	(169,366)
Fees and Charges	2,625,424	2,581,752
Other Income	19,046	29,539
Total Operating Revenue	17,619,275	21,391,823
Operating Expenses:		
Bond Expenses	13,651,704	16,321,671
Servicing Fees	104,315	628,706
General and Administrative	4,239,980	4,869,149
Total Expenses	17,995,999 ⁸	21,819,526
Operating Income (Loss)	(376,724)	(427,703)
Non-operating revenue		
Pensions - Non-employer Contributions	40,662	126,640
Total Non-operating Income	40,662	126,640
Income (Loss) before transfers	(336,062)	(301,063)
Transfer From Other Agency	—	501,433
Increase (Decrease) in Net Position	(336,062)	200,370
Net Position, Beginning of Year	160,107,270	159,913,448
Adjustments to Beginning Net Position	361,421 ⁹	(6,548)
Net Position, End of Year	\$ 160,132,629	\$ 160,107,270

¹ Prior year was not adjusted for implementation of GASB 87

² Non-current assets decreased by \$17 million in FY22. Two factors were the increase in mortgage payoffs reducing mortgage receivable by \$14.9 million and non-current investments that are nearing maturity and are now included in the current asset section. The fund received from mortgage payoffs and some investment maturities are used to call additional bonds.

³ A decrease in assets of \$16 million during FY22 was due in part from the increased payoffs during the period when new low interest mortgage loans were available. See footnote 1 above.

⁴ Funds received from mortgage loan payoffs and other funds previously held in money market funds were used to recall additional bonds at the debt service dates. This decreased the non-current liabilities and the overall liabilities during FY22.

⁵ Net Capital assets is currently negative as the present value of leases is more than the present value of the right-of-use asset.

⁶ The decrease in the mortgages in the Board portfolio had a negative effect on the amount of interest collected on mortgage loans decreasing this revenue over \$2 million from FY21.

⁷ Earnings from investments include a mark down to fair value of most investment that will be recovered at maturity. This mark down is required by GASB Statement 72.

⁸ The decrease in bonds payable also reduced total expenses for FY22 by \$3.9 million dollars.

⁹ Adjustment to beginning net position is explained in Note 19 to the financial statements.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2022

ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 103,002,684
Investments	31,908,004
Mortgage Loans Receivable, Net	18,354,355
Servicing Related Advances	860,035
Interest Receivable	3,905,673
Prepaid Expense	191,966
Total Current Assets	<u>158,222,717</u>
Non-current Assets	
Investments	23,374,755
Mortgage Loans Receivable, Net	464,428,923
Mortgage Backed Securities	252,073
Purchase of Mortgage Servicing Rights	2,300,480
Capital Assets, net	864
Intangible Right-of-Use Asset, Net	3,152,742
Total Non-current Assets	<u>493,509,837</u>
TOTAL ASSETS	<u>651,732,554</u>
DEFERRED OUTFLOW OF RESOURCES	
Deferred Refunding Costs	99,851
Deferred OPEB Outflows	293,539
Deferred Pension Outflow	489,312
TOTAL DEFERRED OUTFLOWS	<u>882,702</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	4,081,900
Funds Held For Others	5,166,544
Accrued Interest - Bonds Payable	1,126,563
Bonds Payable, Net	15,695,000
Arbitrage Rebate Payable to U.S. Treasury Department	617,712
Accrued Compensated Absences	144,134
Lease Payable - Current	131,199
Total Current Liabilities	<u>26,963,052</u>
Non-current Liabilities	
Bonds Payable, Net	459,227,826
Arbitrage Rebate Payable to U.S. Treasury Department	426,499
Accrued Compensated Absences	196,765
Net Pension Liability	1,535,939
Other Postemployment Benefits	318,672
Leases payable - non current	3,068,936
Total Non-current Liabilities	<u>464,774,637</u>
TOTAL LIABILITIES	<u>491,737,689</u>
DEFERRED INFLOW OF RESOURCES	
Deferred OPEB Inflow	111,596
Deferred Pension Inflow	633,342
TOTAL DEFERRED INFLOWS	<u>744,938</u>
NET POSITION	
Net Investment in Capital Assets	(46,529)
Restricted for Bondholders:	
Unrealized (losses) gains on investments	2,251,788
Single Family Programs	128,848,437
Various Recycled Mortgage Setaside Programs	3,350,958
Multifamily Programs	13,653,720
Reverse Annuity Program	8,515,576
Restricted for Affordable Revolving Loan Program	3,558,679
TOTAL NET POSITION	<u>\$ 160,132,629</u>

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2022

OPERATING REVENUES	
Interest Income - Mortgage Loans	\$ 16,554,778
Interest Income - Investments	1,524,246
Fee Income	2,625,424
Net Increase (Decrease) in Fair Value of Investments	(3,104,219)
Other Income	<u>19,046</u>
Total Operating Revenues	<u>17,619,275</u>
OPERATING EXPENSES	
Interest on Bonds	12,128,497
Servicer Fees	104,315
Contracted Services	729,346
Amortization of Refunding Costs	51,380
Bond Issuance Costs	1,188,230
General and Administrative	3,310,768
Arbitrage Rebate Expense	283,597
Pension Expense	143,634
Other Post-Employment Benefits	<u>56,232</u>
Total Operating Expenses	<u>17,995,999</u>
Operating Income (Loss)	<u>(376,724)</u>
Nonoperating Revenues (Expenses)	
Pensions - nonemployer contribution	<u>40,662</u>
Nonoperating Income (Loss)	<u>40,662</u>
Income (Loss) before transfers	(336,062)
Increase (Decrease) in Net Position	<u>(336,062)</u>
Net Position, July 1 - as previously reported	160,107,270
Adjustments to Beginning Net Position (Note 18)	<u>361,421</u>
Net Position, July 1 as restated	<u>160,468,691</u>
Net Position, End of Year	<u>\$ 160,132,629</u>

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

**MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022**

CASH FLOWS FROM OPERATING ACTIVITY:	
Receipts for Sales and Services	\$ 4,405,430
Collections (Payouts - Reverse Annuity) on Loans and Interest on Loans	115,223,829
Collection (Disbursement) on Loan Escrow Accounts	95,258
Cash Payments for Loans	(83,399,908)
HUD Rental Adjustment Expense	(3,600)
Payments to Suppliers for Goods and Services	(3,301,206)
Payments to Employees	(2,320,849)
Corporate (Advances) Repayments	65,938
Other Operating Revenues	<u>19,046</u>
Net Cash Provided (Used) by Operating Activities	<u>30,783,938</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Payment of Principal and Interest on Bonds and Notes	(130,214,307)
Proceeds from Issuance of Bonds and Notes	96,000,000
Payment of Bond Issuance Costs	(1,188,230)
Premium Received on Bonds	2,392,640
Purchase of Mortgage Servicing Rights	<u>(878,435)</u>
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(33,888,332)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal payments on Leases	(181,642)
Interest payments on Leases	<u>(49,380)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(231,022)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of Investments	(55,316,000)
Proceeds from Sales or Maturities of Investments	46,932,501
Gain (Loss) on Sale of Investments	3,523
Change in Interest on Investments	<u>(1,209,795)</u>
Net Cash Provided (Used) by Investing Activities	<u>(9,589,771)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(12,925,187)
Cash and Cash Equivalents, July 1	115,927,871
Cash and Cash Equivalents, June 30	<u><u>\$ 103,002,684</u></u>

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

**MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022**

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

Operating Income	\$ (376,724)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:	
Amortization	(1,142,217)
Interest Expense	14,744,086
Interest on Investments	(1,608,227)
Arbitrage Rebate Tax	283,597
Change in Assets and Liabilities:	
Decr (Incr) in Mortgage Loans Receivable	15,324,075
Decr (Incr) in Other Assets	868,163
Decr (Incr) in Fair Value of Investments	3,104,219
Incr (Decr) Accounts Payable	624,802
Incr (Decr) Funds Held for Others	95,258
Incr (Decr) Pensions Payable	(1,018,351)
Incr (Decr) in Compensated Absences Payable	(53,193)
Incr (Decr) Other Postemployment Benefits	(61,550)
Net Cash Provided (Used) by Operating Activities	<u>\$ 30,783,938</u>

Noncash Investing, capital, and financing activities: During FY22, Board investments decreased in fair value by \$3,104,219. The fair value decrease was not realized in cash during FY22.

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

**MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022**

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 is attached for administrative purposes to the Housing Division, Department of Commerce.

Basis of Presentation

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

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

Recent GASB Pronouncements

In June 2017, GASB released GASB Statement No. 87 on Leases. The statement enhances the relevance and consistency of reporting for the Board's leasing activity by establishing requirements for lease accounting based on the principle that leases are financing of underlying right-to-use assets. A lessee is required to recognize a lease liability and right-to-use lease asset. The guidance in this statement was originally effective for reporting periods beginning after December 15, 2019. In May of 2020, GASB released GASB Statement No. 95 which postponed the effective date of GASB 87 by 18 months. MBOH has instituted GASB 87 for fiscal year 2022.

Reporting Entity

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

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.

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

Net Position

Restricted Net Position - Net position is considered restricted if it is limited as to the manner in or purpose for which funds may be used. The Statement of Net Position reports \$(46,529) of net investment in capital assets and \$160,179,158 of restricted net position.

The following describes the restrictions on the Net Position: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. Due to the nature of the Board's bonds, these funds and accounts are pledged as collateral for the bonds under the individual program indentures. The individual indentures also set certain mortgage and debt service reserve requirements, restricting funds for these purposes.

Revenue and Expense Recognition

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

Fund Structure

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

Single Family Mortgage Program Funds

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

The assets of each individual Single Family Mortgage Program Fund are restricted by the fund's respective trust indenture; therefore, the total does not indicate that the Single Family Mortgage Program Funds' assets are available in any manner other than provided for in the individual trust indentures. The Board

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

has reserved funds for specific loan programs. These loans will be originated from funds available in Single Family I, II and XI Indentures.

Multifamily Mortgage Program Funds

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

Housing Trust Fund

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

Current programs include, but are not limited to, the Reverse Annuity Mortgage Program (RAM) for senior Montana homeowners, the Cash Assistance Program (CAP) and the Disabled Assistance program (DAAHP) to assist individuals and families in the purchase of a single-family home. The Housing Trust Fund includes all revenues and expenses for the Low Income Housing Tax Credit Program.

Housing Montana

Under MCA 90-6-133, a Revolving Loan Account was established. The account was established in the State special revenue fund in the State Treasury. Senate Bill 243 of the 2003 Legislature moved the Revolving Loan Account to the enterprise fund, effective July 1, 2003. During the 2007 legislative session, the account was renamed "Housing Montana." 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 3 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 Statement 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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

fees earned after 1988 are amortized using the interest method over the life of the mortgage loans and are accreted to interest income on mortgages. Mortgage discounts for all other program funds are amortized using the straight-line method over the remaining life of the mortgage loans and accreted to interest income.

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

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

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

The Board has pledged future revenues collected from mortgage receivable accounts to bondholders for repayment of the mortgage revenue bonds issued by the Board; see Note 5 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 purchases, pools and securitizes qualified Montana mortgage loans from the Board's Single-Family Programs. These securities are reported at fair value which may vary from the value of the securities if held to maturity.

Bonds Payable

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These statements contain estimates for compensated absences liability, net pension liability, deferred pension inflows and outflows, deferred other post-employment benefits (OPEB) inflows and outflows, OPEB benefits liability, arbitrage rebate liability, allowance for loan losses and fair value of investments.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

Capital Assets

Capital assets are recorded at historical cost and depreciation is computed using the straight-line method over estimated useful lives of 5 to 10 years or up to 50 years for buildings. The majority of capital assets consist of computers, software and copy machines. 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.

Leases

GASB Statement No. 87 regarding leases requires lessees to recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset is measured at the amount of the initial measurement of the lease liability, plus any payment made to the lessor at or before the commencement of lease term and certain direct costs.

The Board adopted this guidance retroactively for the year ended June 30, 2022. The adoption of this guidance did not affect the beginning net position for the year ended June 30, 2022 and accordingly, the restatement of beginning July 1, 2022 net position was not necessary.

The lease liability will be reduced as payments are made and the lease asset will be amortized in a systematic manner over the shorter of the lease term or the useful life of the underlying asset.

The present value of the current building lease was calculated using the InterCap Rate provided by the Montana Board of Investments at the time of inception of GASB Statement 87.

The Board currently leases a portion of a building on Park Avenue in Helena, Montana. The portion of the lease associated with the Board is calculated on the bases of square footage.

Other information on BOH leases is available in Note 8.

Funds Held for Others

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

Pensions

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

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, 2022, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

Program Funds:	
Cash Deposited with State Treasury	\$ 7,890,456
Custodial Cash	5,872,160
Cash on Hand ¹⁰	23,268
Trustee Cash ¹¹	(2,000)
Cash Held at Other Fiscal Agent	700,000
Cash Equivalents - Money Market	88,518,800
Total Cash and Cash Equivalents	<u>\$ 103,002,684</u>

NOTE 3. INVESTMENTS

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

Power to Invest & 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.

¹⁰ Cash on hand is checks received but not deposited on June 30, 2022.

¹¹ Negative trustee cash is an amount used by the Trustee to purchase money markets that was not available in the associated account.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

Credit Risk

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment with a single investment provider. Board investment policy follows the prudent expert principle as contained in Title 17, Chapter 6, Montana Code Annotated. This principle instructs investing entities to diversify investment holding to minimize the risk of loss. The Board's investments are all issued or explicitly guaranteed by the U.S. Government and are excluded from this requirement.

Custodial Credit Risk

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

	Fair Value June 30, 2022	Moody's Rating	S&P Rating	Effective Duration
<u>Government Sponsored Enterprises</u>				
FHLMC Bonds ¹²	\$ 2,762,916	Aaa	AA+	17.39
FNMA Medium Term Notes ¹³	14,045,142	Aaa	AA+	17.70
FNMA ² Mortgage Backed Securities	252,073	Aaa	AA+	29.83
	<u>\$ 17,060,131</u>			
U.S. Treasury Bonds	5,343,415	Aaa	AA+	19.75
U.S. Treasury Notes	4,719,050	Aaa	AA+	1.88
U.S Treasury Zeros	606,193	Aaa	AA+	1.11
U.S. Treasury Bills – Short Term (at amortized cost) ¹⁴	27,806,043	Aaa	A-1+	0.88
Trustee Money Market Accounts (at amortized cost) ¹⁵	88,518,800	NR ¹⁶	NR	N/A ¹⁷
Total Investments (including Money Market)	<u>\$ 144,053,632</u>			

¹² Federal Home Loan Mortgage Corporation

¹³ Federal National Mortgage Association

¹⁴ Amortized cost is the acquisition value less the amortization of premiums/discounts

¹⁵ Money Market Accounts are included in Cash Equivalents on the financial statements

¹⁶ Not rated

¹⁷ Not applicable

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4. FAIR VALUE MEASUREMENT

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

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

	June 30, 2022	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1) ¹⁸	Significant Other Observable Inputs (Level 2) ¹⁹	Significant Unobservable Inputs (Level 3)
Investments by Fair Value				
Fixed income investments				
U.S. Treasuries	\$ 10,668,658	\$ 10,668,658		
Agency/Government Related	16,808,058		\$ 16,808,058	
Commercial Mortgage Backed Securities	252,073		252,073	
Total fixed income investments	\$ 27,728,789	\$ 10,668,658	\$ 17,060,131	\$ —
Investments Measured at Amortized Cost²⁰				
Short Term U.S. Treasuries	27,806,043			
Money Market Accounts	88,518,800			
Total investments managed	\$144,053,632			

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

NOTE 5. MORTGAGE LOANS RECEIVABLE

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

All Board mortgage loans purchased are for properties located within Montana and held to maturity. Board loans are secured by first liens on real property and are insured by the Federal Housing Administration (FHA), are guaranteed by the Veterans’ Administration (VA), United States Department of Agriculture Rural

¹⁸ 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.

¹⁹ Fixed income investments classified in Level 2 of the fair value hierarchy are valued using matrix pricing technique. Matrix pricing is used to value securities based on the securities’ relationship to benchmark quoted prices.

²⁰ Investments measured at amortized cost are included to account for U.S. Treasuries that have a remaining maturity of one year or less upon acquisition and highly liquid investments such as money market.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

Development (RD) program, private mortgage insurance (Single Family 1977 Indenture only), or are uninsured if the mortgages have a loan to value of less than 80%.

In accordance with GASB Statement No. 48, the pledging of mortgage loans receivable is considered a collateralized borrowing. Collateralized mortgage loans receivable, as of June 30, 2022, consist of the following:

Single Family Program	\$ 468,113,791
Multifamily Program	5,579,520
Housing Trust Program	2,606,040
Housing Montana Fund	2,419,140
	<hr/> 478,718,491
Net mortgage discounts and premiums	3,844,541
Allowances for losses and real estate owned (Note 6)	(300,000)
Net Collateralized Mortgage Loans Receivable	<hr/> 482,263,032 <hr/>
Mortgage loans receivable not pledged to bond holders	520,246

NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

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

The June 30, 2022 allowances for loan losses include \$100,000 for mortgage bad debt and \$200,000 for future estimated losses on real estate owned property. The Board held zero () real estate owned properties as of June 30, 2022. Since Board real estate owned properties are insured or guaranteed by external organizations, Board loan losses are limited by insurance claims or sale of foreclosed properties. Real estate owned by the Board is included in the mortgages receivable balance (Note 5).

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

Balance as of June 30, 2021	\$ 300,000
Plus: Additional provision	—
Less: Net loans charged off	—
Balance as of June 30, 2022	<hr/> \$ 300,000 <hr/>

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 7. CAPITAL ASSETS AND RIGHT-OF-USE ASSETS

Capital assets consist primarily of computer software and equipment and other office equipment used for the business activities of MBOH. Capital leases are for a portion of a Building based on square foot usage used for business activities of MBOH. Capital asset balances as of June 30, 2021 are as follows:

	Beginning Balances as of July 1, 2021	Increases	Decreases	Ending Balances
Capital Assets:				
Equipment	\$ 29,984	\$ —	\$ (18,664)	\$ 11,320
Intangible Right-of-Use Building	3,333,761	—	—	3,333,761
Total Capital Assets	3,363,745	—	(18,664)	3,345,081
Less Accumulated Depreciation/ Amortization for:				
Equipment	\$ (19,005)	\$ —	\$ 8,549	\$ (10,456)
Intangible Right-of-use Buildings	—	(181,019)	—	(181,019)
Total Depreciation /amortization	\$ (19,005)	\$ (181,019)	\$ 8,549	\$ (191,475)
Capital Assets and Intangible Right-of- Use Assets, Net	\$ 3,344,740	\$ (181,019)	\$ (10,115)	\$ 3,153,606

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

Amortization expense included in general and administrative expense was \$181,018.69 for the year ended June 30, 2022.

NOTE 8. LEASES

A lease was made between the State of Montana, Department of Commerce to lease the premise at 301 South Park Avenue, Helena Montana beginning December 1, 2019 through November 30, 2039. The adoption of the GASB 87 Lease guidance was implemented on July 1, 2022 for FY22.

The current net present value of the portion allocated to the Board of Housing as of the remaining duration of the lease is \$2,762,477. Payments are due in monthly installments beginning at \$15,251 increasing three times over the life of the lease to a final payments of \$20,294 at the end of the lease. These calculations are with imputed interest of 1.65% which is derived from the Montana Board of Housing InterCap Rate at the time of inception of GASB Statement 87.

	Principal	Interest	Total
2023	\$ 131,197	\$ 51,813	\$ 183,010
2024	133,378	49,632	183,010
2025	135,596	47,414	183,010
2026	148,599	45,116	193,715
2027	158,812	42,550	201,362
2028-2032	866,796	171,860	1,038,656
2033-2037	1,049,171	93,141	1,142,312
2038-2042	576,583	11,968	588,551
Totals	\$ 3,200,132	\$ 513,494	\$ 3,713,626

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

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, 2022.

Single Family I Mortgage Bonds:	Original Amount	Balance
2015		
Series B-1 and B-2 serial and term bond at 0.50% to 4.0% maturing in scheduled semi-annual installments to December 1, 2026, December 1, 2030, December 1, 2038, and December 1, 2042.	\$ 64,400,000	\$ 17,900,000
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	\$ 34,165,000
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	\$ 16,920,000
2017		
Series B-1 and B-2 serial and term bonds at 0.85% to 4.00% maturing in scheduled semi-annual installments to December 1, 2029, December 1, 2032, December 1, 2037, December 1, 2042, December 1, 2047, and December 1, 2048	\$ 42,600,000	\$ 20,530,000
2018		
Series B serial and term bonds at 1.65% to 4.0% maturing in scheduled semi-annual installments to December 1, 2029, December 1, 2033, June 1, 2037, and December 1, 2043	\$ 50,000,000	\$ 21,025,000
2019		
Series B serial and term bonds at 1.30% to 4.00% maturing in scheduled semi-annual installments to December 1, 2034, December 1, 2039, December 1, 2044, December 1, 2049, and June 1, 2050.	\$ 30,000,000	\$ 18,075,000
2020		
Series A-1 and A-2 serial and term bonds at 1.10% to 3.50% maturing in scheduled semi-annual installments to December 1, 2034, December 1, 2039, December 1, 2044, December 1, 2049 and June 1, 2050.	\$ 42,425,000	\$ 29,570,000

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

2020

Series B serial and term bonds at 0.75% to 4.00% maturing in scheduled semi-annual installments to December 1, 2035, December 1, 2040, December 1, 2045, June 1, 2050, and December 1, 2050.	\$ 37,200,000	\$ 27,355,000
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2020

Series C serial and term bonds at 0.15% to 3.00% maturing in scheduled semi-annual installments to December 1, 2035, December 1, 2040, December 1, 2045, June 1, 2050, and December 1, 2050	\$ 30,000,000	\$ 27,665,000
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2021

Series A serial and term bonds at 0.30% to 3.00% maturing in scheduled semi-annual installments to December 1, 2036, December 1, 2041, December 1 2046, December 1, 2050, and June 1, 2051	\$ 43,410,000	\$ 39,775,000
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2021

Series B serial and term bonds at 0.10% to 3.00% maturing in scheduled semi-annual installments to December 1 2033, December 1, 2036, December 1, 2041, December 1, 2046, June 1, 2051, and December 1, 2051.	\$ 32,000,000	\$ 31,610,000
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2022

Series A serial and term bonds at 0.30% to 3.00% maturing in scheduled semi-annual installments to December 1 2034, December 1, 2037, December 1, 2042, December 1, 2047, December 1, 2051, and June 1, 2052.	\$ 32,000,000	\$ 32,000,000
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2022

Series B serial and term bonds at 2.05% to 5.00% maturing in scheduled semi-annual installments to December 1, 2034, December 1, 2037, December 1, 2042, December 1, 2047, and June 1, 2052.	\$ 32,000,000	\$ 32,000,000
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Bonds outstanding Single Family I		\$ 348,590,000
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Unamortized bond premium (discount)		8,643,847
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Total Bonds Payable Single Family I		\$ 357,233,847
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Single Family II Mortgage Bonds

Original Amount

Balance

2013

Series A-1, A-2, and A-3 serial and term bonds at 0.20% to 3.75% maturing in semi-annual installments to December 1, 2025, December 1, 2028, December 1, 2033, December 1, 2037, December 1, 2038, December 1, 2043, and June 1, 2044.	\$ 73,000,000	\$ 19,980,000
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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	\$ 11,275,000
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MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

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	\$ 26,885,000
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2015

Series A serial and term bonds at 0.20% to 3.50% maturing in semi-annual installments to December 1, 2026, December 1, 2029, December 1, 2034, and June 1, 2040.	\$ 20,000,000	\$ 2,580,000
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2018

Series A serial and term bonds at 1.65% to 4.00% maturing in semi-annual installments to December 1, 2030, December 1, 2033, December 1, 2038, December 1, 2043, December 1, 2048, and June 1, 2049.	\$ 38,450,000	\$ 21,625,000
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2019

Series A serial and term bonds at 1.85% to 4.25% maturing in semi-annual installments to December 1, 2030, December 1, 2033, December 1, 2038, June 1, 2045, and December 1, 2045.	\$ 40,000,000	\$ 20,185,000
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Bonds outstanding Single Family II		\$ 102,530,000
Unamortized bond premium (discount)		1,183,476
Total Bonds Payable Single Family II		\$ 103,713,476

Single Family XI Mortgage Bonds:

2009

	Original Amount	Balance
Series D Term Bonds at 2.79% maturing December 1, 2041, converted from 2009 Series A and issued concurrently with 2012 Series A. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	\$ 25,000,000	\$ 5,745,000

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	\$ 7,920,000
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Bonds outstanding Single Family XI		\$ 13,665,000
Unamortized bond premium (discount)		74,137
Total Bonds Payable Single Family XI		\$ 13,739,137

Single Family General Obligation Bonds:

2008

Series A General Obligation Private Placement Bonds.	\$ 497,942	\$ 86,366
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Total Single-Family Mortgage Bonds Payable, Net		\$ 474,772,826
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MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

All single-family mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 106%.

Single Family I, II and XI mortgage bonds are general obligation bonds of the Board 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, 2022, \$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	\$ 150,000
Total Multifamily Mortgage Bonds Payable, Net		\$ 150,000

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

Combined Total Single and Multifamily Bonds Payable, Net	\$ 474,922,826
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The following is a summary of bond principal and interest requirements as of June 30, 2022:

Fiscal year ending	Single Family Principal & Interest Total	Multifamily Principal and Interest Total	Single and Multifamily Principal Only Total	Single and Multifamily Interest Only Total
June 30:				
2023	\$ 30,036,700	\$ 22,410	\$ 15,695,000	\$ 14,364,110
2024	31,146,794	26,500	17,055,000	14,118,294
2025	30,833,430	25,460	17,105,000	13,753,890
2026	33,339,688	24,420	20,000,000	13,364,108
2027	31,501,583	23,380	18,690,000	12,834,963
2028-2032	153,841,104	58,510	98,320,000	55,579,614
2033-2037	129,939,784	—	89,935,000	40,004,784
2038-2042	104,574,901	—	78,586,366	25,988,535
2043-2047	78,811,031	—	65,450,000	13,361,031
2048-2052	47,148,623	—	43,600,000	3,548,623
2053-2057	599,625	—	585,000	14,625
Total	\$ 671,773,263	\$ 180,680	\$ 465,021,366	\$ 206,932,577

Cash paid for interest expenses during the year ended June 30, 2022 was \$14,984,288.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

Summary of Changes in Long-term Liabilities:

	Beginning Balance July 1, 2022	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due in More Than One Year
Bonds payable						
Single Family, net	\$489,686,918	\$95,757,756	\$110,671,848	\$474,772,826	\$ 15,680,000	\$ 459,092,826
Multifamily, net	4,275,706	19,294	4,145,000	150,000	15,000	135,000
Total bonds/notes payable, net	493,962,624	95,777,050	114,816,848	474,922,826	15,695,000	459,227,826
Arbitrage Payable	760,614	283,597	—	1,044,211	617,712	426,499
Compensated absences payable ²¹	362,587	—	21,687	340,900	144,134	196,766
Net pension liability	2,554,290	—	1,018,351	1,535,939	—	1,535,939
OPEB implicit rate subsidy ²²	380,223	—	61,551	318,672	—	318,672
Lease Obligation	3,200,132	183,027	183,024	3,200,135	131,199	3,068,936
Total other liabilities	7,257,846	466,624	1,284,613	6,439,857	893,045	5,546,812
Total Business-type activities long-term liabilities	<u>\$501,220,470</u>	<u>\$96,243,674</u>	<u>\$116,101,461</u>	<u>\$481,362,683</u>	<u>\$ 16,588,045</u>	<u>\$ 464,774,638</u>

²¹ 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.

²² 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.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 10. BOND REDEMPTIONS

During the year ended June 30, 2022 the Board redeemed Single Family and Multi-Family mortgage program bonds prior to scheduled maturity as follows:

Single Family I	
December 1	\$ 35,195,000
June 1	25,710,000
	60,905,000
 Single Family II	
December 1	18,201,850
June 1	12,585,000
	30,786,850
 Single Family XI	
December 1	1,950,000
June 1	1,255,000
	3,205,000
 Multifamily	
August 1	4,130,000
	4,130,000
 Total	 \$ 99,026,850

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 \$34,028,690 in the Single Family I and II Indentures.

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

Foreclosure Prevention	\$ 50,000
Disabled Affordable Accessible Homeownership	862,950
Lot Refinance	726,440
Habitat for Humanity	1,531,567
Total Single-Family Commitments	\$ 3,170,957

Single Family I - Reverse Annuity Mortgage Program Future Loan Amounts: \$ 3,106,283

Single Family I & II - funding for Homebuyer Education for fiscal year 2022: \$180,000

Housing Trust Fund Program - Reverse Annuity Mortgage Program Funds: \$5,409,293

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 12. EMPLOYEE BENEFIT PLANS

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

Montana Public Employee Retirement Administration (MPERA) prepared its financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the Net Pension Liability (NPL); Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions; Pension Expense; the Fiduciary Net Position; and, Additions to or Deductions from Fiduciary Net Position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements. MPERA applied all applicable pronouncements of GASB.

General Information about the Pension Plan

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

All new PERS members are initially members of the PERS - DBRP and have a 12-month window during which they may choose to remain in the PERS - DBRP or join the PERS - Defined Contribution Retirement Plan (DCRP) by filing an irrevocable election. 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.

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

Service Retirement:

- | | |
|--|--|
| <ul style="list-style-type: none"> • Hired prior to July 1, 2011: • Hired on or after July 1, 2011 | <ul style="list-style-type: none"> Age 60, 5 years of membership service Age 65, regardless of membership Any age, 30 years of membership Age 65, 5 years of membership service; Age 70, regardless of membership |
|--|--|

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

Early Retirement:

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

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

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

Member's highest average compensation (HAC)

- Hired prior to July 1, 2011: HAC during any consecutive 36 months
- Hired on or after July 1, 2011: HAC during any consecutive 60 months

Compensation Cap

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

Monthly benefit formula

- Members hired prior to July 1, 2011:
 - Less than 25 years of membership service: 1.785% of HAC per year of service credit;
 - 25 years of membership service or more: 2% of HAC per year of service credit.

- Members hired on or after July 1, 2011:
 - Less than 10 years of membership service: 1.5% of HAC per year of service credit;
 - 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit
 - 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)*

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

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
 - 1.5% for each year PERS is funded at or above 90%;
 - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
 - 0% whenever the amortization period for PERS is 40 years or more.

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

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

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

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

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

- Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
- Employer contributions to the system:
 - Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following 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.
 - Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
 - The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.
- Non-Employer Contributions:
 - Special Funding
 - The State contributed 0.1% of members' compensation on behalf of local government entities.
 - The State contributed 0.37% of members' compensation on behalf of school district entities.
 - The State contributed a Statutory Appropriation for the General Fund of \$34,290,660.

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

GASB Statement 68 allows a measurement date of up to 12 months before the employer's fiscal year-end can be utilized to determine the Plan's Total Pension Liability (TPL). The basis for the TPL as of June 30, 2021, was determined by taking the results of the June 30, 2020, actuarial valuation and applying standard

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

roll forward procedures. The roll forward procedure uses a calculation that adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, and then applies the expected investment rate of return for the year. The roll forward procedure will include the affects of any assumption changes and legislative changes. The update procedures are in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). The proportionate share of the Board's and the State of Montana's NPL as of the measurement date for June 30, 2021 are displayed below. The measurement date used throughout has a one year delay to the reporting date for pension information throughout. The Board's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The State's proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total State contributions paid. The Board recorded a liability of \$1,535,939 and the employers proportionate share of the collective NPL was 0.085% percent.

As of measurement date	Net Pension Liability as of June 30, 2021	Net Pension Liability as of June 30, 2020	Percent of Collective NPL as of June 30 2021	Percent of Collective NPL as of June 30, 2020	Change in Percent of Collective NPL
Board of Housing Proportionate Share	\$ 1,535,939	\$ 2,554,290	0.085 %	0.081 %	0.057 %
State of Montana Proportionate Share associated with the Board	434,788	774,355	0.024 %	0.024 %	0.003 %
Total	\$ 1,970,727	\$ 3,328,645	0.109 %	0.105 %	0.060 %

Changes in actuarial assumptions and methods - The following changes in assumptions or other inputs were made that affected the measurement of TPL.

1. The discount rate was lowered from 7.34% to 7.06%
2. The investment rate of return was lowered from 7.34% to 7.06%

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

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

Pension Expense - At June 30, 2021, the Board recognized \$143,635 for its proportionate share of the Plan's pension expense. Additionally, the Board recognized grant revenue of \$138,628 from the State Statutory Appropriations from the General fund.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

Recognition of deferred inflows and outflows - At June 30, 2021, 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	\$ 16,391	\$ 11,119
Projected Investment Earning vs. Actual Investment Earnings	—	622,223
Changes in assumptions	227,501	—
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions	109,759	—
Employer Contributions Subsequent to the Measurement Date	135,660	—
Total	<u>\$ 489,311</u>	<u>\$ 633,342</u>

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	
2022	\$	64,411
2023	\$	4,810
2024	\$	(150,283)
2025	\$	(198,629)
Thereafter	\$	—

Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions.

Investment Return (net of admin expense)	7.06%
Administration Expense as a Percentage of Payroll	0.28%
General Wage Growth*	3.50%
*Includes Inflation at	2.40%
Merit Increases	0% to 4.80%

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

Postretirement Benefit Increases

Guaranteed Annual Benefit Adjustment (GABA) each January

- After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to member the member's benefit.
 - Members hired prior to July 1, 2007 3.0%
 - Members hired between July 1, 2007 & June 30, 2013 1.5%
 - Members hired on or after July 1, 2013
 - For each year PERS is funded at or above 90% - the 1.5% is reduced by 0.1% for each 2.0% PERS is below 90% 1.5%
 - 0% whenever the amortization period for PERS is 40 years or more 0.0%

Mortality

- Contributing members, service retired members & beneficiaries RP-2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, set back one year for males
- Disabled Members RP-2000 Combined Mortality Tables, with no projections

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.06%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.10% of salaries for local governments and 0.37% for school districts. In addition, the State contributes a statutory appropriation from the general fund. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2126. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Target Allocations

The long-term rate of return as of June 30, 2021 was calculated using the average long-term capital market assumptions published in the *Survey of Capital Market Assumptions 2021 Edition* by Horizon Actuarial Service, LLC, yielding a median real rate of 4.66%. The assumed inflation is based on the intermediate inflation assumption of 2.40% in the 2021` *OASDI Trustees Report* used by the Chief Actuary for Social Security to produce 75-year cost projections. Combining these two results yields a nominal return of 7.06%. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2021, are summarized in the following table.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

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

Sensitivity Analysis

The following presents the Board's sensitivity of the NPL to the discount rate in the table below. A small change in the discount rate can create a significant change in liability. The NPL was calculated using the discount rate of 7.06%, as well as what the NPL would be if it were calculated using a discount rate 1.00% lower or 1.00% higher than the current rate.

	1.0% Decrease (6.06%)	Current Discount Rate (7.06%)	1.0% Increase (8.06%)
DBRP Total Plan	\$ 19,830,974	\$ 12,493,179	\$ 6,338,473
BOH	\$ 1,933,910	\$ 1,535,939	\$ 779,266

Disclosure for the defined contribution plan

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

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

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

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the PERS-DCRP.

At the plan level for the year ended June 30, 2021, the Board did not recognize a net pension liability or any pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 340 employers that have participants in the DCRP totaled \$1,103,889.

Pension Plan Fiduciary Net Position

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

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 premiums for medical, basic vision and dental coverage for employees at \$30 per month. Administratively established medical premiums for the spouse of employee and employee's family vary between \$202 and \$250 per month depending on the medical plan selected, family coverage, and eligibility. Administratively established premiums vary between \$19.90 and \$28.90 per month for spouse and family dental coverage and between \$7.64 and \$22.26 per month for an optional vision hardware plan depending on family coverage and eligibility.

The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Eligible dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs.

NOTE 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.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

The Board made \$— in arbitrage rebate cash payments, from the arbitrage rebate and yield liability accounts, to The United States Treasury Department in FY 22. The related liability was \$1,044,211 as of June 30, 2022.

Balance as of June 30, 2021	\$760,614
Plus: Increases	283,597
Less: Reductions	—
Balance as of June 30, 2022	\$1,044,211

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, 2022 are as follows:

Bond Series	Original Amount	Balance
Multifamily Housing Revenue Bond Series 2007 (South Forty Apartments)	\$ 5,100,000	\$ 4,222,054
Multifamily Housing Revenue Bond Series 2012 A-1 (Rainbow/Silver Bow Apartments)	\$ 857,000	\$ 712,850.18
Multifamily Housing Revenue Bond Series 2012 A-2 (Rainbow/Silver Bow Apartments)	\$ 4,032,000	\$ 3,368,681.83
Multifamily Housing Revenue Bond Series 2012 B-1 (Rainbow/Silver Bow Apartments)	\$ 850,713	\$ 830,364.54
Multifamily Housing Revenue Bond Series 2015 A (Larkspur Commons Apartments)	\$ 15,500,000	\$ 11,272,936.49
Multifamily Housing Revenue Bond Series 2017 (Big Sky Manor Apartments)	\$ 4,500,000	\$ 3,766,441.83
Multifamily Housing Revenue Bond Series 2018 (Rockcross Commons Apartments)	\$ 15,000,000	\$ 8,627,196.56
Multifamily Housing Revenue Bond Series 2018 (Starnier Gardens Apartments)	\$ 15,000,000	\$ 10,858,713.5
Multifamily Housing Revenue Bond Series 2020 (Emporda Apartments)	\$ 3,600,000	\$ 3,182,083.87
Multifamily Housing Revenue Bond Series 2020 (Ponderosa Acres)	\$ 20,915,000	\$ 16,550,000
Multifamily Housing Revenue Bond Series 2020 (Butte I Affordable Owner I)	\$ 13,200,000	\$ 13,200,000
Multifamily Housing Revenue Bond Series 2020 (Butte Affordable Owner II)	\$ 29,300,000	\$ 29,300,000

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

Bond Series	Original Amount	Balance
Multifamily Housing Revenue Bond Series 2020 (Arrowleaf Park Apartments)	\$ 26,000,000	\$23,538,794.77
Multifamily Housing Revenue Bond Series 2020 (Perennial Park Apartments)	\$ 19,000,000	\$14,593,531.62
Multifamily Housing Revenue Bond Series 2021 (Trinity Apartments)	\$ 36,000,000	\$15,515,939.69
Multifamily Housing Revenue Bond, Series 2021 (Bitterroot Valley Project)	\$ 5,363,504	\$ 4,274,271.17
Multifamily Housing Revenue Bond, Series 2021 (DMS Portfolio Project)	\$ 28,500,000	\$ 28,500,000
Multifamily Housing Revenue Bond, Series 2021 (Villagio Apartments)	\$ 43,000,000	\$ 43,000,000
Multifamily Housing Revenue Bond, Series 2021 (Boulevard Apartments)	\$ 7,000,000	\$ 7,000,000
Multifamily Housing Revenue Bond Series 2021 (Castlebar Apartments)	\$ 13,525,000	\$ 10,525,000
Multifamily Housing Revenue Bond, Series 2022 (Junegrass)	\$ 22,500,000	\$ 137,148.16
Multifamily Housing Revenue Bond, Series 2022 (Spruce Grove)	\$ 5,959,000	\$ 5,959,000

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.

Deferred Bond Costs

On June 30, 2022, there were \$99,850 in unamortized deferred refunding costs from prior years' refundings. These costs are associated with the refundings and were deferred. They are being amortized under the GASB Statement No. 23 and GASB Statement No. 65 guidelines.

NOTE 16. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

General Information Non-trust Plan

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

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

Plan Description

The OPEB plan is reported as a single-employer plan. The Board pays for post-employment healthcare benefits on a pay-as-you-go basis. Section 2-18-8, MCA gives authority for establishing and amending the funding policy to the Montana Department of Administration for the State group health insurance plan. The healthcare OPEB plan allows retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in reporting the total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plan or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plan.

As listed in the Montana State 2020 Retirement Health Benefits Planning Book, the retiree medical premiums varied between \$466 and \$2,272 per month, depending on coverage selected and Medicare eligibility. Administratively established dental contributions vary between \$41.10 and \$70.00 and vision hardware contributions vary between \$7.64 and \$22.26 depending on coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. The premium changes were based on actual claims experience and actuarial projections based on the experience and trends.

Benefits Provided

Non-Medicare retirees may continue the core plan, which includes medical, dental and basic life insurance. Vision coverage is optional. Medical, dental and/or vision coverage is optional for dependents. Medicare eligible retirees may continue medical coverage. Dental and vision coverage is optional, and no life insurance is available. Medical, dental and/or vision coverage is optional for dependents. Medicare eligible retirees must enroll in both Part A and Part B Medicare coverage.

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

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

Basis of Accounting

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

The plan states that an employee enrolled in the OPEB plan who (a) at least meets the early retirement criteria defined by the Montana Public Employees' Retirement Administration (MPERA); and (b) makes arrangements with the benefit office, within 60 days of the date active employee coverage ends, to continue post-retirement coverage, may continue with the OPEB plan on a self-pay basis, retroactive back to the date

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

active employee coverage was lost, and adhere to these provisions. Therefore, each plan does not include terminated employees who have accumulated benefits but are not yet receiving them. There have been no significant changes in the number covered or the type of coverage as of June 30, 2022.

As of December 31, 2020, there are 36 active employees and 3 retired employees, spouses and surviving spouses for a total of 39 participating in the plan.

Schedule of Changes in Total OPEB Liability

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

Beginning Balance		
April 1, 2020	\$	380,223
Service Cost		23,396
Interest		9,076
Difference between expected and actual experience		—
Changes of assumptions or other inputs		(100,849)
Benefit Payments		6,826
Net Changes	\$	(61,551)
Balances at		
June 30, 2022	\$	<u>318,672</u>

Actuarial methods and assumptions

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

The schedule of changes in the Board's TOL and related ratios, presented as required supplementary information following the notes to the financial statements, is designed to present multi-year trend information about whether the actuarial value of the plan TOL is increasing or decreasing over time relative to the actuarial liabilities for benefits. The schedule of changes in the Boards' TOL and related ratios are based on the substantive plan (the plan as understood by the employer and the plan members). This includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

The State's OPEB plan TOL actuarial valuation on December 31, 2020, rolled forward to March 31, 2022, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Contributions (in thousands):	Retiree/Surviving Spouse	Spouse
Before Medicare eligibility	\$15,505	\$3,025
After Medicare eligibility	3,238	1,573
Actuarial valuation date	December 31, 2020 rolled forward to March 31, 2022	
Measurement date	March 31, 2022	
Actuarial funding method	Entry age normal	
Amortization Method	Level percent of payroll, open basis	
Asset valuation	Not applicable since no assets meet the definition of plan assets under GASB 75	
Actuarial assumptions:		
Interest / discount rate	3.31%	
Projected payroll increases	2.50%	
Average retirement age		
Active Employees	62.57	
Inactive Employees	65.63	
Participation	40% of future retirees and 70% of future retirees who elect medical coverage and are married are assumed to elect spousal coverage as well.	
Marital status	Actual spouse information is used for current retirees. Marital status at retirement for future members assumed to be 70%. Males are assumed to be 3 years older than females.	
Healthcare cost trend rates	The current medical health care cost trend rate is 6.0%. Annual decreases begin in 2022 with an ultimate rate of 3.8%. The current Prescription health care cost trend rate is 9.0%. Annual decreases start in 2021, with an ultimate rate of 3.8%.	
Retiree Contribution Increases	Current year was based on actual trend. For retiree/surviving spouse and spouse the increase is 0.00% in 2021 increasing up to 7.1% and then decreasing up to 0.03% per year to an ultimate rate of 3.8%	

Mortality - Healthy: Healthy mortality rate is assumed to follow the RP2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality - Disabled: The disabled mortality rate assumed to follow the RP2000 Combined Mortality Table with no projections.

Changes in actuarial assumptions and methods since last measurement date: an inflow of \$100,849 due to an increase in the interest rate from 2.23% to 3.31%

Changes Since Prior Valuation: None

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

Sensitivity of Net OPEB Liability to Changes in the Discount Rate

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

		State Total OPEB Liability	BOH OPEB Liability
1.0% Decrease	2.31%	\$ 153,036,459	\$ 402,427
Current Discount Rate	3.31%	\$ 123,634,105	\$ 318,672
1.0% Increase	4.31%	\$ 101,273,012	\$ 255,160

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

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

		State Total OPEB Liability	BOH OPEB Liability
1.0% Decrease	5.00%	\$ 97,646,572	\$ 245,579
Current Discount Rate	6.00%	\$ 123,634,105	\$ 318,672
1.0% Increase	7.00%	\$ 159,528,645	\$ 420,132

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

For the year ended June 30, 2022, the Board had an OPEB expense of \$56,234. At June 30, 2022, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs Actual	\$ 201,665	\$ 5,499
Changes in assumptions	87,804	106,097
Contributions	4,070	
Total	<u>\$ 293,539</u>	<u>\$ 111,596</u>

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

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

Year Ended June 30	Amount recognized in OPEB expense as an increase or (decrease) to OPEB expense	
2022	\$	(8,031)
2023	\$	(8,031)
2024	\$	(8,031)
2025	\$	(8,031)
2026	\$	(8,031)
2026	\$	(8,031)
Thereafter	\$	(52,663)

Payable to the OPEB Plan

At March 31, 2022, the Board reported a payable of \$318,672 for the outstanding amount of contributions to the Department of Administration required for the year ended June 30, 2022. The Board's employer contributions between April 1, 2022 and June 30, 2022 were \$4,736.

Net OPEB Liability

The Board's net OPEB liability of \$318,672 is approximately 0.26% of the total primary government OPEB liability of \$123,634,105 as measured on March 31, 2022 as a basis of the total group insurance premiums paid. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as December 31, 2020 with a rolled forward actuarial valuation measurement date of March 31, 2022.

General Information about the DCRP OPEB Plan

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

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

A separate trust has been established for purposes of providing disability benefits to PERS-DCRP Disability plan members, and it is accounted for as a fiduciary fund. The assets are held in a trust capacity for the beneficiaries. The Public Employee Retirement System issues publicly available annual report, which include

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

financial statements and required supplemental information for the plan. Those reports may be obtained online (<http://mpera.mt.gov>) or by contacting the following:

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

NOTE 17. INTERFUND BALANCES

The following interfund balances have been eliminated from the Combined Statement of Revenues, Expenses and Changes in Net Position to report the Statement of Revenues, Expenses and Changes in Net Position for all programs net of interfund activity for June 30, 2022:

Fee Income and Servicers Fees related to in-house loan servicing \$ 1,780,005

NOTE 18. OPERATION DISRUPTION RISK - COVID-19

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

One such external event is the recent global outbreak of COVID-19 ("COVID-19"), a respiratory disease declared in 2020 to be a pandemic (the "Pandemic") by the World Health Organization, and an emergency by federal and state governments. Since the start of the Pandemic, Presidential administrations, Congress, the Federal Reserve, HUD/FHA (including GNMA), the Federal Housing Finance Agency (including Fannie Mae and Freddie Mac), USDA Rural Development, VA, the Centers for Disease Control, and the Consumer Financial Protection Bureau, along with the State, have enacted legislation and/or issued orders or directives (collectively, "Governmental Actions") to alleviate the effects of COVID-19 on homeowners, renters,, landlords, servicers and lenders. Governmental Actions have included loan servicing assistance, rental assistance, and homeownership loan assistance. Such legislation and/or orders have been extended and/or modified, and other have expired or been enjoined. While it is generally expected that new legislation may be enacted, new orders may be issued, and existing and new orders may be extended modified, litigated, or allowed to expire, no guarantee can be made with regards to the duration and/or effectiveness of any such legislation or orders.

For the period from March 1, 2020 through June 30, 2022, the Board received 511 requests for forbearance with respect to Mortgage Loans held under all Single Family Programs. As of June 30, 2022, forbearance remained in effect for 94 of such Existing Mortgage Loans held under all Single Family Programs (representing approximately 2.51% of the Existing Mortgage Loans held under all Single Family Programs, by principal amount) and foreclosure actions will need to be initiated or restarted for 8 Mortgage Loans held

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

under the Single Family indenture. The Board may approve additional forbearance requests during the Pandemic.

The Governmental Actions, and other future federal, state, and local measures may have both adverse and positive effects on the Board's operations, financial condition and bond ratings. In addition, unemployment in the State, business closures and/or restrictions in the State and market fluctuation during the Pandemic may have an adverse effect on existing and future loans in the Board's portfolio. The Board continues to review the possible impacts of these various actions and event on it operations, financial condition, and bond ratings.

The Pandemic is an ongoing situation. At this time the Board cannot predict (i) the duration or extent of the Pandemic or any other outbreak emergency; (ii) the duration or expansion of any foreclosure or eviction moratorium affecting the Board's ability to foreclose and collect on delinquent mortgage loans; the number of mortgage loans that will be in forbearance or default as a result of the Pandemic and subsequent federal, state and local responses thereto, including the CARES Act; (iv) whether and to what extent the Pandemic or other outbreak or emergency may disrupt the local or global economy, real estate markets, manufacturing, or supply chain, or whether any such disruption may adversely impact the Board or its operations; (v) whether or to what extent the Board or other government agencies may provide additional deferrals, forbearances, adjustments, or other changes to payments on mortgage loans; or (vi) the effect of the Pandemic on the State budget, or whether any such effect may adversely impact the Board or its operations. However, the continuation of the Pandemic and the resulting containment and mitigation efforts could have a material adverse effect on the Board, its programs and its operations.

NOTE 19. ADJUSTMENTS TO BEGINNING NET POSITION

During fiscal year 2022, an error in the calculation of the amortization of Mortgage Release Premiums (MSR) was discovered and corrected. The correction increased Servicing net position by \$336,881. An additional adjustment to the beginning net position was made due to the incorrect allocation of personnel costs for certain employees in the amount of \$24,540. The total adjustment to beginning net position is \$361,421.

NOTE 20 . SUBSEQUENT EVENTS

On July 1, 2022, a Montana Board of Housing Multifamily Housing Revenue private placement conduit bond was issued. The Bridger Peaks Apartment Project, Series 2022 was issued in the amount of \$7,385,000.

On November 17, 2022, a Montana Board of Housing Multifamily Housing Revenue private placement conduit bond was issued. The Comstock Apartments Project, Series 2022 was issued in the amount of \$11,862,000.

During the September 13, 2022 Board meeting, Oakwood Village in Havre, MT, requested a decrease to their Coal Trust loan from \$3.6 million to \$2.1 million. They also requested a \$1.5 million loan from the Multifamily Loan Program funds to cover the decrease in Coal Trust funds. The change was due to a property tax issue related to the Coal Trust funds loan that was unknown until close to closing. This deal closed on November 1, 2022.

The Board is scheduled to close the \$40 million, 2022 Series C (non-AMT) bond on December 21, 2022. The bonds will be issued under and secured by the Trust Indentured dated, March 10, 1977, as amended and restated and will primarily be used to purchase additional mortgage loans and down payment assistance loans for Montana residents.

**MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDING JUNE 30, 2022**

Other Post-Employment Benefits (Financial Statements Note 16):

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

**Total Board OPEB Liability and Related Ratios
Last 10 Fiscal Years²³**

For the fiscal year ended June 30	Total Board OPEB Liability	Proportionate share of the collective total OPEB liability as a a Percentage	Covered Employee Payroll	Share Covered Employee Payroll
2018	\$ 51,602	0.10 %	\$ 774,320	6.66 %
2019	\$ 54,230	0.10 %	\$ 684,204	7.93 %
2020	\$ 64,138	0.14 %	\$ 753,654	8.56 %
2021	\$ 380,223	0.26 %	\$ 1,882,278	20.33 %
2022	\$ 318,672	0.27 %	\$ 1,952,120	16.32 %

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

Factors that significantly affect trends in the amounts reported for OPEB Liabilities:

2022 Changes in Assumptions include:

- An inflow of \$100,849 to the plan due to an increase in the interest rate from 2.23% to 3.31%

²³ Schedules are intended to present 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
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDING JUNE 30, 2022**

Pension Benefits (Financial Statement Note 12):

**Schedule of Proportionate Share of the Net Pension Liability
For the Last Ten Fiscal Years²⁴
(Dollar amounts in thousands)**

As of the measurement date June 30	2014	2015	2016	2017	2018
Proportionate share of net pension liability (NPL) as a percentage	0.10 %	0.10 %	0.12 %	0.12 %	0.12 %
Board proportionate share of NPL	\$ 1,203	\$ 1,452	\$ 2,047	\$ 2,279	\$ 1,836
State of Montana share of NPL associated with the Board	—	—	—	—	590.00
Total Board Share NPL	\$ 1,203	\$ 1,452	\$ 2,047	\$ 2,279	\$ 2,426
Pensionable payroll	\$ 1,079	\$ 1,208	\$ 1,422	\$ 1,434	\$ 1,431
Proportionate share of the NPL as a percentage of its pensionable payroll	111.44 %	120.20 %	143.92 %	158.88 %	169.08 %
Plan fiduciary net position as a percentage of total pension liability	79.90 %	78.40 %	74.71 %	73.75 %	73.47 %

Continued on next page

²⁴ Schedules are intended to present 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
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDING JUNE 30, 2022

As of the measurement date June 30	2019	2020	2021
Proportionate share of net pension liability (NPL) as a percentage	0.09 %	0.10 %	0.12 %
Board proportionate share of NPL	\$ 1,871	\$ 2,554	\$ 1,535
State of Montana share of NPL associated with the Board	586	774	435
Total Board Share NPL	\$ 2,457	\$ 3,328	\$ 1,970
Pensionable payroll	\$ 1,460	\$ 1,606	\$ 1,468
Proportionate share of the NPL as a percentage of its pensionable payroll	128.12 %	159.05 %	104.65 %
Plan fiduciary net position as a percentage of total pension liability	73.85 %	68.90 %	79.91 %

Schedule of Contributions
For the Last Ten Fiscal Years²⁵
(Dollar amounts in thousands)

As of June 30,	Contractually required contributions	Contributions made	Contribution deficiency (excess)	Share pensionable payroll	Contributions as a percentage of pensionable payroll
2014	\$ 89	\$ 89	\$ —	\$ 1,079	8.80 %
2015	\$ 106	\$ 106	\$ —	\$ 1,208	8.76 %
2016	\$ 272	\$ 272	\$ —	\$ 1,422	19.04 %
2017	\$ 123	\$ 123	\$ —	\$ 1,434	8.58 %
2018	\$ 125	\$ 125	\$ —	\$ 1,431	8.74 %
2019	\$ 131	\$ 131	\$ —	\$ 1,460	9.00 %
2020	\$ 162	\$ 162	\$ —	\$ 1,606	10.09 %
2021	\$ 133	\$ 133	\$ —	\$ 1,468	9.03 %

²⁵ Schedules are intended to present 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
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDING JUNE 30, 2022**

Factors that significantly affect trends in the amounts reported for Pension Liabilities:

Changes in benefit Terms

The following changes to the plan provision were made as identified:

2017:

Working Retiree Limitations – for PERS

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

Refunds

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

Interest credited to member accounts

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

Lump-sum payouts

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

Disabled PERS Defined Contribution (DC) Members

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

Changes in Actuarial Assumptions and Methods

- Method and assumptions used in calculations of actuarially determined contributions

**MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDING JUNE 30, 2022**

The following Actuarial Assumptions were adopted from the June 30, 2019 actuarial valuation:

General Wage Growth *	3.50%
Investment Rate of Return *	7.65%
* Includes inflation at	2.75%
Merit salary increase	0% to 8.47%
Asset Valuation method	Four-year smoothed market
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Mortality (Healthy members)	For Males and Females: RB 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year
Mortality (Disabled members)	For Males and Females: RP 2000 Combined Mortality Table, with no projections
Admin Expense as % of Payroll	0.28%

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF NET POSITION
AS OF JUNE 30, 2022

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	Single Family Program Totals	Multifamily Program Fund
Assets					
Current Assets					
Cash and Cash Equivalents	\$ 63,780,659	\$ 18,562,621	\$ 1,677,483	\$ 84,020,763	\$ 5,238,096
Investments	16,416,027	11,561,740	337,504	28,315,271	3,592,733
Mortgage Loans Receivable, Net	11,359,785	6,211,937	325,990	17,897,712	230,114
Servicing Related Advances	15,177	—	—	15,177	—
Interest Receivable	1,358,162	630,518	167,409	2,156,089	70,527
Prepaid Expense	57,954	57,412	—	115,366	2,348
Total Current Assets	92,987,764	37,024,228	2,508,386	132,520,378	9,133,818
Non-current Assets					
Investments	11,361,807	6,587,321	5,425,627	23,374,755	—
Mortgage Loans Receivable, Net	322,769,474	116,824,283	14,166,864	453,760,621	5,349,405
Mortgage Backed Securities	—	252,073	—	252,073	—
Purchase of Mortgage Servicing Rights	—	—	—	—	—
Capital Assets, Net	424	424	—	848	—
Intangible Right-Of-Use Asset, net	488,675	488,675	—	977,350	162,892
Total Non-current Assets	334,620,380	124,152,776	19,592,491	478,365,647	5,512,297
Total Assets	427,608,144	161,177,004	22,100,877	610,886,025	14,646,115
Deferred Outflow of Resources					
Deferred Refunding Costs	71,983	14,200	13,668	99,851	—
Deferred OPEB Outflow	47,616	47,616	—	95,232	14,837
Deferred Pension Outflow	82,036	82,036	—	164,072	27,345
Total Deferred Outflows	201,635	143,852	13,668	359,155	42,182
Liabilities					
Current Liabilities					
Accounts Payable	230,601	193,678	5,837	430,116	6,594
Funds Held For Others	503	—	—	503	1,283,709
Accrued Interest - Bonds Payable	765,474	321,952	35,887	1,123,313	3,250
Bonds Payable, Net	10,280,000	4,205,000	1,195,000	15,680,000	15,000
Arbitrage Rebate Payable to U.S. Treasury Department	—	—	617,712	617,712	—
Accrued Compensated Absences	27,170	27,170	—	54,340	7,153
Leases Payable - Current	20,336	20,336	—	40,672	6,779
Total Current Liabilities	11,324,084	4,768,136	1,854,436	17,946,656	1,322,485
Non-current Liabilities					
Bonds Payable, Net	346,953,847	99,594,842	12,544,137	459,092,826	135,000
Arbitrage Rebate Payable to U.S. Treasury Department	415,041	11,458	—	426,499	—
Accrued Compensated Absences	41,187	41,187	—	82,374	10,843
Net Pension Liability	257,508	257,508	—	515,016	85,836
OPEB Liability	55,676	55,676	—	111,352	14,115
Leases Payable - Non-current	475,685	475,685	—	951,370	158,562
Total Non-current Liabilities	348,198,944	100,436,356	12,544,137	461,179,437	404,356
Total Liabilities	359,523,028	105,204,492	14,398,573	479,126,093	1,726,841
Deferred Inflow of Resources					
Deferred OPEB Inflow	17,630	17,630	—	35,260	5,877
Deferred Pension Inflow	106,183	106,183	—	212,366	35,394
Total Deferred Inflows	123,813	123,813	—	247,626	41,271
Net Position					
Net Investment in Capital Assets Restricted for Bondholders: Unrealized (losses) gains on Investments	(6,922)	(6,922)	—	(13,844)	(2,449)
Single Family Programs	1,071,257	535,132	651,413	2,257,802	(6,014)
Various Recycled Mortgage Setaside Programs	62,316,841	53,788,862	7,064,559	123,170,262	—
Multifamily Programs	1,675,479	1,675,479	—	3,350,958	—
Reverse Annuity Program	—	—	—	—	12,928,648
Restricted for Affordable Housing Loan Program	3,106,283	—	—	3,106,283	—
Total Net Position	\$ 68,162,938	\$ 55,992,551	\$ 7,715,972	\$ 131,871,461	\$ 12,920,185

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF NET POSITION
AS OF JUNE 30, 2022

(continued)	Mortgage Loan Servicing	Housing Trust Fund	Housing Montana Fund	TOTAL
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 10,102,969	\$ 2,681,483	\$ 959,373	\$ 103,002,684
Investments	—	—	—	31,908,004
Mortgage Loans Receivable, Net	201,376	—	25,153	18,354,355
Servicing Related Advances	844,858	—	—	860,035
Interest Receivable	313,018	1,185,427	180,612	3,905,673
Prepaid Expense	33,531	40,721	—	191,966
Total Current Assets	11,495,752	3,907,631	1,165,138	158,222,717
Non-current Assets				
Investments	—	—	—	23,374,755
Mortgage Loans Receivable, Net	318,870	2,606,041	2,393,986	464,428,923
Mortgage Backed Securities	—	—	—	252,073
Purchase of Mortgage Servicing Rights	2,300,480	—	—	2,300,480
Capital Assets, Net	—	16	—	864
Intangible Right-Of-Use Asset, net	1,523,825	488,675	—	3,152,742
Total Non-current Assets	4,143,175	3,094,732	2,393,986	493,509,837
Total Assets	15,638,927	7,002,363	3,559,124	651,732,554
Deferred Outflow of Resources				
Deferred Refunding Costs	—	—	—	99,851
Deferred OPEB Outflow	138,961	44,509	—	293,539
Deferred Pension Outflow	215,859	82,036	—	489,312
Total Deferred Outflows	354,820	126,545	—	882,702
Liabilities				
Current Liabilities				
Accounts Payable	3,627,455	17,290	445	4,081,900
Funds Held For Others	3,882,332	—	—	5,166,544
Accrued Interest - Bonds Payable	—	—	—	1,126,563
Bonds Payable, Net	—	—	—	15,695,000
Arbitrage Rebate Payable to U.S. Treasury Department	—	—	—	617,712
Accrued Compensated Absences	56,847	25,794	—	144,134
Leases Payable - Current	63,412	20,336	—	131,199
Total Current Liabilities	7,630,046	63,420	445	26,963,052
Non-current Liabilities				
Bonds Payable, Net	—	—	—	459,227,826
Arbitrage Rebate Payable to U.S. Treasury Department	—	—	—	426,499
Accrued Compensated Absences	64,447	39,101	—	196,765
Net Pension Liability	677,578	257,509	—	1,535,939
OPEB Liability	150,860	42,345	—	318,672
Leases Payable - Non-current	1,483,319	475,685	—	3,068,936
Total Non-current Liabilities	2,376,204	814,640	—	464,774,637
Total Liabilities	10,006,250	878,060	445	491,737,689
Deferred Inflow of Resources				
Deferred OPEB Inflow	52,829	17,630	—	111,596
Deferred Pension Inflow	279,399	106,183	—	633,342
Total Deferred Inflows	332,228	123,813	—	744,938
Net Position				
Net Investment in Capital Assets Restricted for Bondholders: Unrealized (losses) gains on Investments	(22,906)	(7,330)	—	(46,529)
Single Family Programs	5,678,175	—	—	128,848,437
Various Recycled Mortgage Setaside Programs	—	—	—	3,350,958
Multifamily Programs	—	725,072	—	13,653,720
Reverse Annuity Program	—	5,409,293	—	8,515,576
Restricted for Affordable Housing Loan Program	—	—	3,558,679	3,558,679
Total Net Position	\$ 5,655,269	\$ 6,127,035	\$ 3,558,679	\$ 160,132,629

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET
POSITION FOR THE YEAR ENDED JUNE 30, 2022

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	Single Family Program Totals	Multifamily Program Fund
OPERATING REVENUES					
Interest Income - Mortgage Loans	\$ 10,545,878	\$ 4,774,037	\$ 724,327	\$ 16,044,242	\$ 279,284
Interest Income Investments	705,447	494,916	282,584	1,482,947	34,120
Fee Income	92,966	61,938	—	154,904	884,913
Net Increase (Decrease) in Fair Value of Investments	(367,875)	(911,644)	(1,821,136)	(3,100,655)	(3,564)
Other Income	15,279	3,750	—	19,029	—
Total Operating Revenues	10,991,695	4,422,997	(814,225)	14,600,467	1,194,753
OPERATING EXPENSES					
Interest on Bonds	7,512,692	4,080,273	487,869	12,080,834	47,663
Servicer Fees	1,179,655	485,894	60,032	1,725,581	5,371
Contracted Services	214,518	175,682	—	390,200	93,882
Amortization of Deferred Refunding	26,176	21,299	3,905	51,380	—
Bond Issuance Costs	1,188,230	—	—	1,188,230	—
General and Administrative	398,928	415,527	—	814,455	172,482
Arbitrage Rebate Expense	199,744	(12,774)	96,627	283,597	—
Pension Expense	24,081	24,081	—	48,162	8,027
Other Post-Employment Benefits	8,221	8,221	—	16,442	2,740
Total Operating Expenses	10,752,245	5,198,203	648,433	16,598,881	330,165
Operating Income (Loss)	239,450	(775,206)	(1,462,658)	(1,998,414)	864,588
Nonoperating Revenue (Expenses)					
Pensions - Non-employer Contributions	6,817	6,817	—	13,634	2,272
Non-operating Income (Loss) Income (Loss) before transfers	6,817	6,817	—	13,634	2,272
	246,267	(768,389)	(1,462,658)	(1,984,780)	866,860
Transfers From (To) Other Fund	3,411,572	(939,927)	(3,471,645)	(1,000,000)	—
Total Transfers	3,411,572	(939,927)	(3,471,645)	(1,000,000)	—
Increase (Decrease) in Net Position	3,657,839	(1,708,316)	(4,934,303)	(2,984,780)	866,860
Net Position, July 1	64,498,253	57,694,021	12,650,275	134,842,549	12,053,681
Adjustments to Beginning Net Position (Note 19)	6,846	6,846	—	13,692	(356)
Net Position, July 1, as restated	64,505,099	57,700,867	12,650,275	134,856,241	12,053,325
Net Position, End of Year	\$ 68,162,938	\$ 55,992,551	\$ 7,715,972	\$ 131,871,461	\$ 12,920,185

Continued on next page

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET
POSITION FOR THE YEAR ENDED JUNE 30, 2022

(continued)	Mortgage Loan Servicing	HOUSING TRUST FUND	HOUSING MONTANA FUND	ELIMINATION ²⁶	TOTAL
OPERATING REVENUES					
Interest Income - Mortgage Loans	\$ —	\$ 185,708	\$ 45,544	\$ —	\$ 16,554,778
Interest Income Investments	1,167	4,456	1,556	—	1,524,246
Fee Income	2,505,855	859,757	—	(1,780,005)	2,625,424
Net Increase (Decrease) in Fair Value of Investments	—	—	—	—	(3,104,219)
Other Income	—	—	17	—	19,046
Total Operating Revenues	2,507,022	1,049,921	47,117	(1,780,005)	17,619,275
OPERATING EXPENSES					
Interest on Bonds	—	—	—	—	12,128,497
Servicer Fees	152,676	—	692	(1,780,005)	104,315
Contracted Services	184,257	61,059	(52)	—	729,346
Amortization of Deferred Refunding	—	—	—	—	51,380
Bond Issuance Costs	—	—	—	—	1,188,230
General and Administrative	1,410,870	912,961	—	—	3,310,768
Arbitrage Rebate Expense	—	—	—	—	283,597
Pension Expenses	63,364	24,081	—	—	143,634
Other Post-Employment Benefits	28,829	8,221	—	—	56,232
Total Operating Expenses	1,839,996	1,006,322	640	(1,780,005)	17,995,999
Operating Income (Loss)	667,026	43,599	46,477	—	(376,724)
Nonoperating Revenue (Expenses)					
Pensions - Non-employer					
Contributions	17,939	6,817	—	—	40,662
Nonoperating Income (Loss)	17,939	6,817	—	—	40,662
Income (Loss) before transfers	684,965	50,416	46,477	—	(336,062)
Transfers From (To) Other Fund	1,000,000	—	—	—	—
Total Transfers	1,000,000	—	—	—	—
Increase (Decrease) to Net Position	1,684,965	50,416	46,477	—	(336,062)
Net Position, July 1	3,620,865	6,077,973	3,512,202	—	160,107,270
Adjustments to Beginning Net Position (Note 19)	349,439	(1,354)	—	—	361,421
Net Position, July 1, as restated	3,970,304	6,076,619	3,512,202	—	160,468,691
Net Position, End of Year	\$ 5,655,269	\$ 6,127,035	\$ 3,558,679	\$ —	\$ 160,132,629

²⁶ Interfund transactions are eliminated in order to tie to the Statement of Revenues, Expense and Changes in Net Position, see Note 16

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts for Sales and Services	\$ 92,966	\$ 61,939	\$ —	\$ 154,905	\$ 884,913
Collections (Disbursements) on Loans and Interest on Loans	71,916,450	38,156,900	4,024,634	114,097,984	486,076
Collection (Disbursements) for Loan Escrow Accounts	—	—	—	—	107,567
Cash Payments for Loans	\$ (80,723,377)	(2,676,531)	—	(83,399,908)	—
HUD Rental Adjustment Expense	—	—	—	—	(3,600)
Payments to Suppliers for Goods and Services	(1,607,015)	(904,013)	(62,298)	(2,573,326)	(42,437)
Payments to Employees	(333,976)	(270,468)	—	(604,444)	(206,772)
Corporate (Advances) Repayments	7,158	(51)	—	7,107	—
Other Operating Revenues	15,279	3,750	—	19,029	—
Net Cash Provided (Used)					
Operating Activities	(10,632,515)	34,371,526	3,962,336	27,701,347	1,225,747
CASH FLOWS FROM NON-CAPITAL ACTIVITIES:					
Payment of Principal and Interest on Bonds and Notes	(80,325,485)	(40,591,225)	(5,021,385)	(125,938,095)	(4,276,212)
Proceeds from Issuance of Bonds and Notes	96,000,000	—	—	96,000,000	—
Payment of Bond Issuance Costs	(1,188,230)	—	—	(1,188,230)	—
Premium Received on Bonds	2,392,640	—	—	2,392,640	—
Transfers From (To) Other Funds	3,411,572	(939,927)	(3,471,645)	(1,000,000)	—
Purchase of Mortgage Servicing Rights	—	—	—	—	—
Net Cash Provided (Used) by					
Non-capital Financing Activities	20,290,497	(41,531,152)	(8,493,030)	(29,733,685)	(4,276,212)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Principal payments on Leases	(28,680)	(28,058)	—	(56,738)	(9,353)
Interest payments on Leases	(7,654)	(7,654)	—	(15,308)	(2,551)
Net Cash Provided (Used) in Capital and Related Financing Activities	(36,334)	(35,712)	—	(72,046)	(11,904)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investments	(32,524,000)	(21,320,000)	(1,375,000)	(55,219,000)	(97,000)
Proceeds from Sales or Maturities of Investments	20,411,683	19,999,432	6,462,600	46,873,715	58,786
Gain (Loss) from Sale of Investments	—	—	—	—	—
Change in Interest on Investments	679,895	(431,019)	(1,520,340)	(1,271,464)	59,602
Net Cash Provided (Used) by					
Investing Activities	(11,432,422)	(1,751,587)	3,567,260	(9,616,749)	21,388
Net Increase (Decrease) in Cash and Cash Equivalents	(1,810,774)	(8,946,925)	(963,434)	(11,721,133)	(3,040,981)
Cash and Cash Equivalents, July 1	65,591,433	27,509,546	2,640,917	95,741,896	8,279,077
Cash and Cash Equivalents, June 30	\$ 63,780,659	\$ 18,562,621	\$ 1,677,483	\$ 84,020,763	\$ 5,238,096

Continued on next page

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

(continued)	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts for Sales and Services	\$ 2,505,855	\$ 859,757	\$ —	\$ 4,405,430
Collections (Payouts - Reverse Annuity) on Loans and Interest on Loans	608,827	278,115	(247,173)	115,223,829
Collection (Payouts) for Loan Escrow Accounts	(12,309)	—	—	95,258
Cash Payments for Loans	—	—	—	(83,399,908)
HUD Rental Adjustment Expense	—	—	—	(3,600)
Payments to Suppliers for Goods and Services	(395,361)	(289,475)	(607)	(3,301,206)
Payments to Employees	(1,111,769)	(397,864)	—	(2,320,849)
Corporate (Advances) Repayments	58,831	—	—	65,938
Other Operating Revenues	—	—	17	19,046
Net Cash Provided (Used)				
Operating Activities	<u>1,654,074</u>	<u>450,533</u>	<u>(247,763)</u>	<u>30,783,938</u>
CASH FLOWS FROM NON-CAPITAL ACTIVITIES:				
Payment of Principal and Interest on Bonds and Notes	—	—	—	(130,214,307)
Proceeds from Issuance of Bonds and Notes	—	—	—	96,000,000
Payment of Bond Issuance Costs	—	—	—	(1,188,230)
Premium Received on Bonds	—	—	—	2,392,640
Transfers From (To) Other Funds	1,000,000	—	—	—
Purchase of Mortgage Servicing Rights	(878,435)	—	—	(878,435)
Net Cash Provided (Used) by non-capital Financing Activities	<u>121,565</u>	<u>—</u>	<u>—</u>	<u>(33,888,332)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal payments on Leases	(87,493)	(28,058)	—	(181,642)
Interest payments on Leases	(23,867)	(7,654)	—	(49,380)
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>(111,360)</u>	<u>(35,712)</u>	<u>—</u>	<u>(231,022)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Investments	—	—	—	(55,316,000)
Proceeds from Sales or Maturities of Investments	—	—	—	46,932,501
Gain (Loss) from Sale of Investments	—	3,523	—	3,523
Interest on Investments	709	—	1,358	(1,209,795)
Net Cash Provided (Used) by Investing Activities	<u>709</u>	<u>3,523</u>	<u>1,358</u>	<u>(9,589,771)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,664,988	418,344	(246,405)	(12,925,187)
Cash and Cash Equivalents, July 1	8,437,981	2,263,139	1,205,778	115,927,871
Cash and Cash Equivalents, June 30	<u>\$ 10,102,969</u>	<u>\$ 2,681,483</u>	<u>\$ 959,373</u>	<u>\$ 103,002,684</u>

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTI FAMILY PROGRAM FUNDS
Operating Income (Loss)	\$ 239,450	\$ (775,206)	\$ (1,462,658)	\$ (1,998,414)	\$ 864,588

ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH (USED FOR) OPERATING ACTIVITIES

Amortization	(791,184)	(508,020)	(18,164)	(1,317,368)	74,331
Interest Expense	9,550,556	4,645,532	519,629	14,715,717	28,369
Interest on Investments	(713,141)	(506,475)	(292,275)	(1,511,891)	(89,157)
Arbitrage Rebate Tax	199,744	(12,774)	96,627	283,597	—
Change in Assets and Liabilities:					
Decr (Incr) Mortgage Loans Receivable	(19,390,392)	30,561,148	3,271,715	14,442,471	218,735
Decr (Incr) Other Assets	238,661	463,617	28,551	730,829	(40,149)
Decr (Incr) Fair Value of Investments	367,875	911,644	1,821,136	3,100,655	3,564
Incr (Decr) Accounts Payable	62,672	(11,184)	(2,225)	49,263	35,836
Incr (Decr) Funds Held for Others	—	—	—	—	107,567
Incr (Decr) Pensions Payable	(380,038)	(380,038)	—	(760,076)	27,011
Incr (Decr) Compensated Absences Payable	(3,865)	(3,865)	—	(7,730)	(664)
Incr (Decr) Other Post Employment Benefits	(12,853)	(12,853)	—	(25,706)	(4,284)
Operating Activities	<u>\$ (10,632,515)</u>	<u>\$ 34,371,526</u>	<u>\$ 3,962,336</u>	<u>\$ 27,701,347</u>	<u>\$ 1,225,747</u>

Continued on next page

**MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022**

(continued)	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	TOTAL
Operating Income (Loss)	\$ 667,026	\$ 43,599	\$ 46,477	\$ (376,724)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH (USED FOR) OPERATING ACTIVITIES				
Amortization	76,339	24,481	—	(1,142,217)
Interest Expense	—	—	—	14,744,086
Interest on Investments	(1,167)	(4,456)	(1,556)	(1,608,227)
Arbitrage Rebate Tax	—	—	—	283,597
Change in Assets and Liabilities:				
Decr (Incr) Mortgage Loans Receivable	856,737	90,451	(284,319)	15,324,075
Decr (Incr) Other Assets	(39,707)	225,589	(8,399)	868,163
Decr (Incr) Fair Value of Investments	—	—	—	3,104,219
Incr (Decr) Accounts Payable	516,237	23,432	34	624,802
Incr (Decr) Funds Held for Others	(12,309)	—	—	95,258
Incr (Decr) Pensions Payable	(366,320)	81,034	—	(1,018,351)
Incr (Decr) Compensated Absences Payable	(24,055)	(20,744)	—	(53,193)
Incr (Decr) Other Post Employment Benefits	(18,707)	(12,853)	—	(61,550)
Operating Activities	<u>\$ 1,654,074</u>	<u>\$ 450,533</u>	<u>\$ (247,763)</u>	<u>\$ 30,783,938</u>

Noncash Investing, capital, and financing activities: During FY22, the Board investments decreased in fair value by \$3,104,219. The fair value increase was not realized in cash during the FY22.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

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, 2022, 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 28, 2022.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 28, 2022

MONTANA BOARD OF
HOUSING

BOARD RESPONSE

GREG GIANFORTE
GOVERNOR



SCOTT OSTERMAN
DIRECTOR

December 13, 2022

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

RECEIVED
December 16, 2022
LEGISLATIVE AUDIT DIV.

Mr. Maciver,

We have received and reviewed the financial-compliance audit of the Montana Board of Housing for the fiscal year ended June 30, 2022. We appreciate the professionalism and courtesy with which the audit was conducted. The nature of the Board's business structure requires specialized skills on the part of audit staff. They communicated with our staff during the audit through questions and comments to ensure they understand the processes of our programs. We appreciate you and your staff's continued 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 Montana Board of Housing.

Sincerely

A handwritten signature in black ink, appearing to read "Cheryl Cohen", written over a light blue horizontal line.

Cheryl Cohen
Executive Director

cc: Sheila Rice

