A Report
to the
Montana
Legislature

Financial Audit

Montana Board of Housing

For the Fiscal Year Ended June 30, 2018

December 2018

Legislative Audit Division

17-07B

Legislative Audit Committee

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Members serve until a member's legislative term of office ends or until a successor is appointed, whichever occurs first.

§5-13-202(2), MCA

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Financial Audits

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) 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, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

Audit Staff

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Reports can be found in electronic format at:
http://leg.mt.gov/audit

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

December 2018

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the Montana Board of Housing for the fiscal year ended June 30, 2018. We performed this audit of the board in accordance with §90-6-124, MCA. Our audit work included analyzing the board's financial statements and note disclosures, examining the underlying financial activity, and reviewing and testing selected control systems. This report contains one recommendation related to inter-entity loans.

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

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Appointed and Administrative Officials

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

Department of Commerce Pam Haxby-Cote, Director

Board of Housing Bruce Brensdal, Executive Director

Virginia Pfankuch, CPA, Accounting and Finance Manager

Mary Blair, Multifamily Program Manager

Cheryl Cohen, Operations Manager

Vicki Bauer, Single Family Program Manager

Mary Palkovich, Servicing Program Manager

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

Bruce Brensdal, Executive Director
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Montana Legislative Audit Division

Financial Audit
Montana Board of Housing
For the Fiscal Year Ended June 30, 2018

December 2018 17-07B Report Summary

The Montana Board of Housing introduced a new Down Payment Assistance program during fiscal year 2018. All mortgage loans purchased by the board are secured by first liens on real property. This new program provides assistance, in the form of a loan, for down payment and closing costs by placing a second mortgage lien on the property. Because the assistance is offered in conjunction with first mortgage loans, the program contributed to an increase in mortgage loans purchased in 2018. During the year, there were 133 households that received assistance for a total loan amount of $778,671.

Context

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

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

The board issues tax-exempt bonds to provide funds to purchase home mortgages, 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 the mortgage loans are used by the board for repayment of issued bonds.

During the fiscal year, the board issued bonds for approximately $81 million. At fiscal year-end, approximately $452 million in bonds payable and $467 million in mortgage loans receivable remained outstanding.

Results

Our audit work included analyzing the financial statements and note disclosures, examining the underlying financial activity, and reviewing and testing selected control systems. Our audit effort focused primarily on activity related to bonds, investments, and mortgage loans. We issued an unmodified opinion on the board's financial statements which means that the information presented within them can be relied upon.

There were no prior audit recommendations. This report contains one recommendation related to an inter-entity loan obtained at fiscal year-end. The loan was obtained from a source prohibited by state law.

(continued on back)

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

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

Chapter I – Introduction

Audit Objectives

We performed a financial audit of the Montana Board of Housing (board) for the fiscal year ended June 30, 2018. The objectives of our audit were to:

1. Determine whether the board's financial statements present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles, for the fiscal year ended June 30, 2018.
2. Obtain an understanding of the board's controls systems to the extent necessary to support our audit of the board's financial statements and, if appropriate, make recommendations for improvement in management and internal controls of the board.

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

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

Background

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

- The Homeownership Program offers a low interest rate, 30-year, fixed-rate mortgage to assist low and moderate income first-time home buyers in purchasing homes in the state of Montana under the federal Mortgage Revenue Bond Program.
- The Montana Veterans' Home Loan Mortgage Program is designed to assist Montana residents who are National Guard members, reservists, or federally qualified veterans to purchase their first home.

- The Multifamily Program offers a variety of financing options for the development of affordable multifamily rental units. The board offers multifamily loans to produce rental housing using proceeds from the sale of multifamily bonds and issues credits under the Low Income Housing Tax Credit Program.
- The Low Income Housing Tax Credit Program receives Montana's allocation of federal tax credits each year and distributes those credits to developers of multifamily housing according to a competitive application process. Generally, the awarded credits are sold to an investor and the equity is used to reduce the amount of debt financing incurred by the property owner. This makes it economically feasible to operate the property at affordable rates.
- The Reverse Annuity Mortgage Program provides senior Montana homeowners the ability to borrow the equity in their homes and use the additional monthly income. Lower income seniors who are 68 years old or older are eligible to apply.
- Down Payment Assistance Programs provide assistance to borrowers, in the form of a loan, for down payment and closing costs. The assistance is provided by partners of the board such as cities, counties, nonprofits, and lenders that receive funding from the board. Such assistance may be a second loan that requires payment or may be deferred until the home is sold. The Score Advantage, NeighborWorks Montana, and MBOH Plus programs differ in the interest and loan amounts offered as well as borrower eligibility requirements.

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

The board's portfolio of loans has a low rate of default and potential foreclosures. The following table (see page 3) compares the delinquency and foreclosure rates of board loans to the averages of all mortgage loans in Montana, in the Mountain Region, and in the nation as a whole. Since June 30, 2017, the board's overall delinquency rates have decreased by 0.52 percent, and the foreclosure rate has decreased by 0.72 percent.

Table 1

Delinquency and Foreclosure Rates as of June 2018

	30 Days Delinquent	60 Days Delinquent	90 Days Delinquent	Foreclosure in Process
Montana Board of Housing	1.74%	0.62%	0.58%	0.48%
Montana Mortgage Loans	1.46%	0.42%	0.52%	0.59%
Mountain Region	1.73%	0.50%	0.62%	0.54%
United States	2.33%	0.74%	1.25%	1.05%

Source: Montana Board of Housing, unaudited.

Chapter II – Findings and Recommendations

Inter-Entity Loans

The board obtained an inter-entity loan from a source prohibited by state law.

Section 17-2-107, MCA, does not allow a fund to have a negative cash balance at fiscal year-end. A temporary loan may be allowed in these instances given that it can be repaid in one calendar year and is recorded in the state accounting records. In addition, state policy requires that an inter-entity loan must first be taken from the agency's own unrestricted funds, when administratively feasible, prior to requesting a loan from the General Fund.

Near fiscal year-end, the Mortgage Loan Servicing fund had a negative cash balance due to the timing of payments and deposits. The Montana Board of Housing (board) obtained an inter-entity loan from the Housing Trust Fund for $90,000 to cover the negative cash balance. However, because all of the board's funds are restricted funds, obtaining an inter-entity loan from the Housing Trust Fund was not permissible. As such, the board is not in compliance with state law as such loans must come from unrestricted funds.

Restricted funds are those that can be spent only for the specific purposes stipulated by external resource providers or imposed by law through constitutional provisions or enabling legislation. The board's funds are required to be used for program purposes as prescribed by individual bond indentures or to specific projects established by the board and restricted by enabling legislation. Unrestricted funds are those that are not stipulated to be used for specific purposes.

The board stated that because the loan was between two funds that were restricted for the same purpose, which are for bondholder payments, they did not need to go outside the agency for a loan. While all of the board's funds are restricted as collateral for bondholder payments, each fund is further restricted for different purposes. As shown on the Combining Statement of Net Position on Page A-50, the Housing Trust Fund is restricted for Multifamily Program and Housing Trust Fund Program purposes. The Mortgage Loan Servicing fund is restricted for Single Family Program purposes.

The processing of an inter-entity loan from one fund to another, both of which are restricted for different purposes, could result in funds being used for a purpose that is not intended. Instead, the board could have requested the loan from unrestricted funds of the Department of Commerce or from the General Fund.

RECOMMENDATION #1

We recommend that the Board of Housing comply with state law and policy by obtaining inter-entity loans from unrestricted funds or the General Fund.

Independent Auditor's Report and Board's Financial Statements

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Statement of Net Position of the Montana Board of Housing (board), a component unit of the state of Montana, as of June 30, 2018, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 2018, and the changes in net position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 30, 2018

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

The following information presents management's discussion and analysis of the Montana Board of Housing (MBOH) program and financial activity during the fiscal year (FY) ended June 30, 2018. Please read this section in conjunction with the financial statements and accompanying notes.

Summary

- 617 Single-Family Mortgages were purchased with the Bond Program for $73 million.
- 150 Mortgage Credit Certificates were issued on a total loan amount of $30.4 million.
- $29.5 million of Low Income Housing Tax Credits were awarded providing equity to produce or preserve affordable rental housing.
- 3 Reverse Annuity Mortgage (RAM) Loans were originated in the amount of $246 thousand . Since its inception the RAM program has assisted 216 elderly households.
- The Board issued $81.1 million of new debt which included refunding as well as new money.
- Bond debt retired was $76.6 million from refunding, prepayments and regular debt service.
- Gross bond debt payable increased from $441.0 million to $445.5 million.
- Net position increased by approximately $190 thousand during 2018.

Fiscal Year 2018 Update

Homeownership Program:

In the first half of fiscal year 2018, market rates remained between 3.5% and 4.0% with little advantage to the rates being offered by Montana Board of Housing so our production and portfolio size remained steady. However, in the second half of the fiscal year, the market rate rose at a faster rate than the Board rate so the Board saw increased production. The Board rate at fiscal year-end was 4%, compared to 4.40% for the average market rate, and we are experiencing lower payoffs and refinancing and a steady increase in new loan purchases. Montana Board of Housing also introduced a new down payment assistance program that consists of a 0% deferred 30 year 2nd mortgage that helped increase the production of first mortgages because the DPA has to be paired with an MBOH first.

Loan Servicing Program:

MBOH is continuing to service Board Single Family, Board of Investment, and Multifamily loans and are adding loans to the servicing portfolio. During FY 2018 the Board serviced approximately 85% of the mortgage loans it owns. 4846 loans were being serviced at the end of fiscal year 2018, with 640 new loans added during the year.

Multifamily Program

The Montana Board of Housing offers a variety of financing options for the development of affordable multifamily rental units including Federal Housing Credits and permanent loan products. During fiscal year 2018, the MBOH allocated $29.5 million in tax credits to produce 173 rental units in Montana.

Finance:

The MBOH portfolio yields continue to improve on many investments. There was a write down in fair value of investments at the end of the fiscal year which contributed to the operating loss. This write downs were primarily in longer term investments. This should not be a cause for concern because the Board investment policy states that investments are to be made with the expectation they will be held to maturity. We anticipate that the long-term investments will regain their value as they reach maturity.

The Board experienced an increase in net position despite the fair value adjustments to investments. This was due, in part, to the implementation of GASB Statement 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). The reallocation of liabilities, expenses and deferrals associated with this implementation included an adjustment to prior period of over $300 thousand. The final increase in net position for the fiscal year is nearly $190 thousand.

There was a slight decrease in mortgage interest income and an increase in investment interest income. These and other factors drove revenue for fiscal year slightly higher than the prior fiscal year. However, expenses rose from the prior fiscal year as well leaving the operating loss previously discussed.

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

Through new and existing programs, the MBOH is proud to continue helping Montana's hard-working families and communities to have safe affordable homes.

Overview of the Financial Statements

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

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

MONTANA BOARD OF HOUSING
CONDENSED FINANCIAL INFORMATION
CHANGE IN NET POSITION AND OPERATING INCOME
YEARS ENDED JUNE 30, 2018 AND 2017

	2018		2017
Assets:			
Current Assets	$ 124,740,023		$ 120,385,460
Noncurrent Assets	492,269,430		489,088,400
Total Assets	617,009,453		609,473,860
Deferred Outflows of Resources:	827,217		752,096
Liabilities:			
Current Liabilities	23,563,214		22,253,037
Noncurrent Liabilities	440,674,154	(A)	434,637,425
Total Liabilities	464,237,368		456,890,462
Deferred Inflows of Resources:	80,704	(B)	6,777
Net Position:			
Invested in Capital Assets	1,456		2,473
Restricted	153,517,142		153,326,244
Total Net Position	153,518,598		153,328,717
Operating Revenue:			
Interest on Loans	18,177,417		19,020,395
Federal Financial Assistance	—		116
Earnings from Investments	1,125,017	(C)	(49,378)
Fees and Charges	1,461,750		1,541,053
Other Income	54,310		39,745
Total Operating Revenue	20,818,494		20,551,931
Operating Expenses:			
Bond Expenses	15,414,407		15,466,874
Servicing Fees	902,672		878,895
General and Administrative	4,681,485		4,476,153
Total Expenses	20,998,564		20,821,922
Operating Income (Loss)	(180,070)		(269,991)
Nonoperating revenue			
Pensions - nonemployer contributions	32,599		35,867
Total Nonoperating Income	32,599		35,867
Increase (Decrease) in Net Position	(147,471)		(234,124)
Net Position, Beginning of Year	153,328,717		153,871,361
Adjustments to Beginning Net Position	337,352	(B)	(308,520)
Net Position, End of Year	$ 153,518,598	(D)	$ 153,328,717

Discussion of Changes

(A) The Board issued two new bond series during fiscal year 2018 (FY18) which increased the associated liabilities and allowed purchases of mortgage loans for Montana residents.

(B) GASB Statement 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was implemented for FY18. This implementation increased the deferrals of resources markedly and required an adjustment of beginning net position.

(C) Interest earnings from investments continued to increase during FY18 with improving markets.

(D) Despite losses in some programs, the Board saw an overall increase in net position from the prior fiscal year.

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET POSITION
AS OF JUNE 30, 2018

ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 87,556,164
Investments	15,061,395
Mortgage Loans Receivable, Net	16,340,066
Corporate Advance	921,801
Interest Receivable	4,697,538
Prepaid Expense	163,059
Total Current Assets	124,740,023
Noncurrent Assets	
Investments	39,373,583
Mortgage Loans Receivable, Net	450,428,643
Mortgage Backed Securities	555,796
Acquisition Costs	1,909,952
Capital Assets, Net	1,456
Total Noncurrent Assets	492,269,430
TOTAL ASSETS	617,009,453
DEFERRED OUTFLOW OF RESOURCES	
Deferred Refunding Costs	324,480
Deferred OPEB Outflows	12,023
Deferred Pension Outflow	490,714
TOTAL DEFERRED OUTFLOWS	827,217
LIABILITIES	
Current Liabilities	
Accounts Payable	427,229
Funds Held For Others	7,212,780
Accrued Interest - Bonds Payable	1,465,267
Bonds Payable, Net	14,265,000
Arbitrage Rebate Payable to U.S. Treasury Department	40,628
Accrued Compensated Absences	152,310
Total Current Liabilities	23,563,214
Noncurrent Liabilities	
Bonds Payable, Net	437,604,415
Arbitrage Rebate Payable to U.S. Treasury Department	611,290
Accrued Compensated Absences	128,120
Net Pension Liability	2,278,727
Other Postemployment Benefits	51,602
Total Noncurrent Liabilities	440,674,154
TOTAL LIABILITIES	464,237,368
DEFERRED INFLOW OF RESOURCES	
Deferred Pension Inflow	80,704
TOTAL DEFERRED INFLOWS	80,704
NET POSITION	
Net Investment in Capital Assets	1,456
Restricted for Bondholders:	
Unrealized (losses) gains on investments	3,927,113
Single Family Programs	110,298,453
Various Recycled Mortgage Programs	16,370,276
Multifamily Programs	11,283,730
Multifamily Project Commitments	136,966
Reverse Annuity Mortgage Program	8,610,688
Restricted for Affordable Revolving Loan Program	2,889,916
TOTAL NET POSITION	$ 153,518,598

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

OPERATING REVENUES	
Interest Income - Mortgage Loans	$ 18,177,417
Interest Income - Investments	2,772,499
Fee Income	1,461,750
Net Increase (Decrease) in Fair Value of Investments	(1,647,482)
Other Income	54,310
Total Operating Revenues	20,818,494
OPERATING EXPENSES	
Interest on Bonds	13,892,053
Servicer Fees	902,672
Contracted Services	763,714
Amortization of Refunding Costs	92,756
Bond Issuance Costs	1,034,291
General and Administrative	3,922,285
Arbitrage Rebate Expense	395,309
Other Post-Employment Benefits	(4,516)
Total Operating Expenses	20,998,564
Operating Income (Loss)	(180,070)
Nonoperating Revenues (Expenses)	
Pensions - nonemployer contribution	32,599
Nonoperating Income (Loss)	32,599
Increase (Decrease) in Net Position	(147,471)
Net Position, July 1 - as previously reported	153,328,717
Adjustments to Beginning Net Position (Note 18)	337,352
Net Position, July 1 as restated	153,666,069
Net Position, End of Year	$ 153,518,598

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITY:	
Receipts for Sales and Services	$ 2,837,486
Collections on Loans and Interest on Loans	76,591,046
Collection on Loan Escrow Accounts	514,317
Cash Payments for Loans	(74,042,480)
Federal Adjustment Factor Expense	(5,040)
Payments to Suppliers for Goods and Services	(2,753,433)
Payments to Employees	(2,327,435)
Corporate Advances	(921,801)
Other Operating Revenues	54,306
Net Cash Provided (Used) by Operating Activities	(53,034)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Payment of Principal and Interest on Bonds and Notes	(91,397,090)
Proceeds from Issuance of Bonds and Notes	81,050,000
Payment of Bond Issuance Costs	(1,002,470)
Premium Received on Bonds	1,814,833
Pension - Nonemployer Contributions	32,599
Pension - Deferred Inflows/Outflows Payments	(34,169)
Net Cash Provided (Used) by Noncapital Financing Activities	(9,536,297)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of Mortgage Servicing Rights	(538,888)
Net Cash Provided (Used) by Capital and Related Financing Activities	(538,888)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of Investments	(41,522,877)
Proceeds from Sales or Maturities of Investments	68,262,989
Interest on Investments	1,051,327
Arbitrage Rebate Tax	(303,789)
Net Cash Provided (Used) by Investing Activities	27,487,650
Net Increase (Decrease) in Cash and Cash Equivalents	17,359,431
Cash and Cash Equivalents, July 1	70,196,733
Cash and Cash Equivalents, June 30	$ 87,556,164

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, 2018

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$	(180,070)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation		1,016
Amortization		(282,793)
Interest Expense		14,930,861
Interest on Investments		(2,448,515)
Arbitrage Rebate Tax		395,309
Change in Assets and Liabilities:		
Decr (Incr) in Mortgage Loans Receivable		(15,231,416)
Decr (Incr) in Other Assets		(1,052,834)
Decr (Incr) in Fair Value of Investments		1,647,482
Incr (Decr) Accounts Payable		1,507,448
Incr (Decr) Funds Held for Others		537,732
Incr (Decr) Pensions Payable		562,554
Incr (Decr) in Compensated Absences Payable		(424,122)
Incr (Decr) Other Postemployment Benefits		(15,686)
Net Cash Provided (Used) by Operating Activities	$	(53,034)

Noncash Investing, capital, and financing activities: During fiscal year 2018, the Board investments decrease in fair value by $1,647,482 due to unfavorable market conditions mainly for long-term investments. The fair value decrease was not realized in cash during the fiscal year. We anticipate the long-term investment will regain their previous value as they

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

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

Basis of Presentation:

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

The Montana Board of Housing has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* In accordance with this statement, the Board's proportionate amount of the liability, expense, and deferrals associated with OPEB have been reported and the appropriate disclosures are included.

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

Reporting Entity:

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

Fund Accounting:

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

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

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

Net Position:

Restricted Net Position - Net position is considered restricted if it is limited as to the manner in or purpose for which funds may be used. The Statement of Net Position reports $1,456 of net investment in capital assets and $153,517,142 of restricted net position. All restricted funds are restricted by enabling legislation and agreements with bond holders.

Revenue and Expense Recognition:

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

Fund Structure:

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

Single Family Mortgage Program Funds

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

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

Multifamily Mortgage Program Funds

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

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

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

Housing Trust Fund

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

Housing Montana

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

Cash and Cash Equivalents:

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

Investments:

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

The Board values its investments at fair value except for certain investments that have a remaining maturity at the time of purchase of one year or less which are measured at amortized cost. This presentation conforms to the provisions of GASB 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 fees earned after 1988 are amortized using the interest method over the life of the mortgage loans and are accreted to interest income on mortgages. Mortgage discounts for all other program funds are amortized using the straight-line method over the remaining life of the mortgage loans and accreted to interest income.

The Board purchases mortgage loans secured by residences located throughout the State of Montana. Loans must be insured by the FHA (Federal Housing Administration) or private mortgage insurance or guaranteed by the VA (Veterans Administration) or RD (Rural Development) or Housing and Urban Development (HUD) or have 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 9 for details. The Board issued these bonds to finance the mortgage loans purchased by the Board's various programs. In accordance with GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, the pledging of these revenues is considered a collateralized borrowing based on the Board retaining control of the receivables and evidenced by the Board's active management of these accounts.

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

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

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

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

Funds Held for Others:

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

Pensions:

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

Compensated Absences:

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

NOTE 2. CASH AND CASH EQUIVALENTS

The Board's cash and cash equivalents are held by trustees or by the State of Montana Treasury as cash or short-term investments having maturities of less than 90 days. At June 30, 2018, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

Program Funds:	
Cash Deposited with State Treasury	$ 4,626,175
Custodial Cash	4,993,991
Cash on Hand*	36,612
Short-Term Investments	77,899,386
Total Cash and Cash Equivalents	$ 87,556,164

* Cash on hand is a combination of cash held for customer change and cash or checks received but not deposited on June 30, 2018.

NOTE 3. SECURITIES LENDING

The Board invests in the State's Short-Term Investment Pool (STIP), managed by the Board of Investment (BOI), throughout the fiscal year. As of October 2016, STIP was no longer participating in the security lending program. STIP did not have securities on loan as of June 30, 2018.

NOTE 4. INVESTMENTS

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

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

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

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

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

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

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

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO THE FINANCIAL STATEMENTS
AS OF JUNE 30, 2018

	Fair Value June 30, 2018	Moody's Rating	S&P Rating	Effective Duration
Government Sponsored Enterprises				
Federal Farm Credit Bank Notes	$ 2,022,722	Aaa	AA+	4.24
Federal Home Loan Bank	10,818,982	Aaa	AA+	3.41
FHLMC[1] Bonds	2,977,873	Aaa	AA+	14.04
FHLMC[1] Discount Notes	617,616	P1	A-1+	0.49
FNMA[2] Medium Term Notes	15,384,238	Aaa	AA+	8.75
FNMA[2] Mortgage Backed Securities	555,796	Aaa	AA+	19.17
	$ 32,377,227			
U.S. Treasury Notes	4,365,822	Aaa	AA+	0.98
U.S. Treasury Bonds	6,052,696	Aaa	AA+	7.13
U.S Treasury Zeros	10,453,423	Aaa	AA+	0.50
U.S. Treasury Zeros – Short Term (at amortized cost)	1,741,606	Aaa	A-1+	0.38
Trustee Money Market Accounts (at amortized cost)[3]	77,899,386	NR	NR	N/A
Total Investments (including Money Market)	$ 132,890,160			

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

NOTE 5. FAIR VALUE MEASUREMENT

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

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

		Fair Value Measurement Using		
	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value				
Fixed income investments				
U.S. Treasuries	$ 20,871,941	$ 20,871,941		
Agency/Government Related	31,821,431		$ 31,821,431	
Commercial Mortgage Backed Securities	555,796		555,796	
Total fixed income investments	53,249,168	20,871,941	32,377,227	
Investments Measured at Amortized Cost				
Short Term U.S. Treasuries	1,741,606			
Money Market Accounts	77,899,386			
Total investments managed	132,890,160			

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

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

Investments measured at amortized cost are included to account for U.S. Treasuries that have a remaining maturity of one year or less upon acquisition.

NOTE 6. MORTGAGE LOANS RECEIVABLE

The Board's Single Family, Multifamily, Housing Trust Fund and Housing Montana Fund mortgage loans receivable are pledged in accordance with individual program indentures as security for holders of the bonds. Those loans held for servicing by the Servicing program are not deemed pledged mortgages and are not included in the table below.

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 or private mortgage insurance (Single Family 1977 Indenture only); or are guaranteed by the Veterans' Administration or United States Department of Agriculture Rural Development program; or are uninsured if the mortgages have a loan to value of less than 80%.

In accordance with GASB Statement No. 48, the pledging of mortgage loans receivable is considered a collateralized borrowing. Collateralized mortgage loans receivable, as of June 30, 2018 consist of the following:

Single Family Program	$ 447,709,101
Multifamily Program	8,138,987
Housing Trust Program	3,015,692
Housing Montana Fund	1,922,297
	460,786,077
Net mortgage discounts and premiums	5,472,937
Allowances for losses and real estate owned (Note 7)	(300,000)
Net Collateralized Mortgage Loans Receivable	465,959,014

NOTE 7. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

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

The June 30, 2018 Allowances for Loan Losses include $100,000 for mortgage bad debt and $200,000 for future estimated losses on real estate owned property. The Board held 4 real estate owned properties as of June 30, 2018. The properties' combined loan amounts were $340,256 as of June 30, 2018. Since Board real estate owned properties are insured or guaranteed by external organizations, Board loan losses are limited by insurance claims or sale of foreclosed properties. Real estate owned by the Board is included in the mortgages receivable balance (Note 6).

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

Balance as of June 30, 2017	$ 300,000
Plus: Additional provision	—
Less: Net loans charged off	—
Balance as of June 30, 2018	$ 300,000

NOTE 8. CAPITAL ASSETS

Capital assets consist primarily of computer software and equipment and other office equipment. Capital asset balances as of June 30, 2018 are as follows:

Capital Assets:		
Equipment	$	11,319
Accumulated Depreciation		(9,863)
	$	1,456

Depreciation expense included in general and administrative expense was $1,016 for the year ended June 30, 2018.

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, 2018:

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		46,825,000
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		58,055,000
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		38,450,000
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		42,235,000
Bonds outstanding Single Family I		$	185,565,000
Unamortized bond premium (discount)			3,904,334
Total Bonds Payable Single Family I		**$**	**189,469,334**

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		38,940,000
2013			
Series B-1 and B-2 serial and term bonds at 0.45% to 5.30% maturing in semi-annual installments to December 1, 2025, December 1, 2028, December 1, 2033, December 1, 2038, December 1, 2043, and December 1, 2044.	59,980,000		30,450,000
2014			
Series A-1, A-2 and A-3 serial and term bonds 0.25% to 4.15% maturing in semi-annual installments to December 1, 2025, December 1, 2029, June 1, 2032, December 1, 2035 and December 1, 2043.	71,500,000		47,165,000
2015			
Series A serial and term bonds at 0.20% to 3.50% maturing in semi-annual installments to December 1, 2026, December 1, 2029, December 1, 2034, and June 1, 2040.	20,000,000		12,805,000
2018			
Series A Serial and term bonds at 1.65% to 4.00% maturing in semi-annual installments to December 1, 2030, December 1, 2033, December 1, 2038, December 1, 2043, December 1, 2048, and June 1, 2049.	38,450,000		38,450,000
Bonds outstanding Single Family II		$	167,810,000
Unamortized bond premium (discount)			2,062,455
Total Bonds Payable Single Family II		**$**	**169,872,455**

Single Family XI Mortgage Bonds:	Original Amount	Balance
2009		
Series B Term Bonds at 3.70% maturing December 1, 2041, with 2011 Series A. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	24,600,000	11,200,000
2009		
Series C Term Bonds at 2.47% maturing December 1, 2041, converted from 2009 Series A and issued concurrently with 2011 Series B. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	20,000,000	9,665,000
2009		
Series D Term Bonds at 2.79% maturing December 1, 2041, converted from 2009 Series A and issued concurrently with 2012 Series A. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	25,000,000	12,170,000

2009			
Series E Term Bonds at 2.67% maturing December 1, 2041. Bonds are issued as part of the Housing Finance Authority Initiative - New Issue Bond Program.	25,000,000		16,180,000
2011			
Series A serial and term bonds at 0.60% to 5.00%, maturing in semi-annual installments to December 1, 2022, December 1, 2026, June 1, 2028, and December 1, 2028.	16,400,000		4,715,000
2011			
Series B-1 and B-2 serial and term bonds, 1.00% to 5.00%, maturing in semi-annual installments to December 1, 2022, December 1, 2026, and December 1, 2027.	38,175,000		11,690,000
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		21,605,000
Bonds outstanding Single Family XI		$	87,225,000
Unamortized bond premium (discount)			402,036
Total Bonds Payable Single Family XI		**$**	**87,627,036**

Single Family General Obligation Bonds:	**Original Amount**		**Balance**
2008			
Series A General Obligation Private Placement Bonds.	497,942		299,910
Total Single-Family Mortgage Bonds Payable, Net		**$**	**447,268,735**

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, 2018, $497,942 of bonds have been issued.

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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		210,000
1999			
Series A 4.95% to 8.45% interest, term bonds, maturing in scheduled semi-annual installments to August 1, 2008, August 1, 2010, August 1, 2016, August 1, 2025, August 1, 2030, August 1, 2037, August 1, 2039, and August 1, 2041.	9,860,000		4,415,000
Bonds outstanding Multifamily		$	4,625,000
Unamortized bond premium (discount)			(24,320)
Total Multifamily Mortgage Bonds Payable, Net		**$**	**4,600,680**

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	**$**	**451,869,415**

The following is a summary of bond principal and interest requirements as of June 30, 2018:

Fiscal year ending June 30:		Single Family Principal & Interest Total		Multifamily Principal and Interest Total		Single and Multifamily Principal Only Total		Single and Multifamily Interest Only Total
2019	$	28,835,960	$	372,143	$	14,265,000	$	14,943,102
2020		29,976,718		376,222		15,845,000		14,507,940
2021		30,104,260		379,714		16,335,000		14,148,974
2022		30,006,741		377,618		16,645,000		13,739,359
2023		30,094,751		380,229		17,200,000		13,274,980
2024-2028		152,601,042		1,938,570		96,885,000		57,654,613
2029-2033		138,810,768		1,736,478		100,075,000		40,472,246
2034-2038		103,549,506		1,734,750		81,954,910		23,329,346
2039-2043		69,355,394		1,207,200		59,975,000		10,587,594
2044-2048		26,982,344		—		24,375,000		2,607,344
2049-2053		2,021,298		—		1,970,000		51,298
Total	**$**	**642,338,782**	**$**	**8,502,924**	**$**	**445,524,910**	**$**	**205,316,796**

Cash paid for interest expenses during the year ended June 30, 2018 was $14,823,078.

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Summary of Changes in Long-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due in More Than One Year
Bonds payable						
Single Family, net	$ 441,143,783	$ 80,004,132	$ 73,879,180	$ 447,268,735	$ 14,165,000	$ 433,103,735
Multifamily, net	5,473,621	—	872,941	4,600,680	100,000	4,500,680
Total bonds/notes payable, net	446,617,404	80,004,132	74,752,121	451,869,415	14,265,000	437,604,415
Other liabilities						
Arbitrage rebate tax payable [1]	560,399	395,309	303,790	651,918	40,628	611,290
Compensated absences payable [1]	283,546	(3,119)	(3)	280,430	152,310	128,120
Net pension liability [1]	2,047,091	152,057	(79,579)	2,278,727	—	2,278,727
OPEB implicit rate subsidy [2]	445,247	(1,973)	391,672	51,602	—	51,602
Total other liabilities	$ 3,336,283	$ 542,274	$ 615,880	$ 3,262,677	$ 192,938	$ 3,069,739
Total Business-type activities long-term liabilities	$ 449,953,687	$ 80,546,406	$ 75,368,001	$ 455,132,092	$ 14,457,938	$ 440,674,154

(1) The compensated absences liability and pension liability will be liquidated by several enterprise funds. The arbitrage rebate tax payable will be liquidated by various rebate funds.

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

NOTE 10. BOND REDEMPTIONS

During the year ended June 30, 2018 the Board redeemed Single Family and Multi-Family mortgage program bonds prior to scheduled maturity as follows:

Single Family I		
October 1	$	14,835,000
December 1		5,165,000
June 1		5,420,000
		25,420,000
Single Family II		
October 1		64,013
December 1		10,625,000
June 1		12,090,000
		22,779,013
Single Family XI		
December 1		7,425,000
June 1		6,055,000
		13,480,000
Multifamily		
March 1		770,000
		770,000
Total		62,449,013

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 $12,003,191 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		833,907
Score Advantage Second Mortgage		390,542
80% Combined Program		3,704,985
MBOH Plus Down Payment Assistance		861,466
Down Payment Set-Aside Pool		8,759,986
Total Single-Family Commitments	$	16,190,276

Single Family I - Reverse Annuity Mortgage Program Future Loan Amounts: $ 2,311,712

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

Housing Trust Fund Program:
Reverse Annuity Mortgage Program Funds: $6,298,976

Multifamily Program:
Financing Adjustment Factor Subsidy Set aside (restricted by agreement with HUD): $136,966

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

NOTE 12. EMPLOYEE BENEFIT PLANS

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

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

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

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

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

At the plan level for the year ended June 30, 2018, the DCRP plan member contributions were $12,447,453; employer contributions were $11,898,611; and employers did not recognize any expenses and carry no liability for the defined contribution plan. Plan level non-vested forfeitures for the 316 employers that have participants in the DCRP totaled $746,144.

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

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

Net Pension Liability:

The Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of the June 30, 2017, with update procedures to roll forward the TPL to June 30, 2018. At June 30, 2018, the Board had a Net Pension Liability of $2,278,727 and the Board's proportionate share of the Defined Benefit Retirement Plan Net Pension Liability was 0.001% which was a 0.00% change in the percent of the collective NPL. The Board's proportion of the Net Pension Liability was based on the employer's contributions received by PERS during the measurement period of July 1, 2015, through July 30, 2016, relative to the total employer contributions received from all of PERS' participating employers.

Pension Expense:

At June 30, 2017 the Board recognized its proportionate share of the PERS' Pension Expense of $276,571. The Board also recognized grant revenue of $32,599 from Coal Tax Fund.

Changes in Actuarial Assumptions and Methods:

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

Changes in Benefit Terms:

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

Deferred Pension Inflow/Outflow:

At June 30, 2017, 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	$ 56,118	$ 3,298
Projected Investment Earning vs. Actual Investment Earnings	—	15,304
Changes in assumptions	311,478	—
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions	—	62,102
Employer Contributions Subsequent to the Measurement Date	123,118	—
Total	$ 490,714	$ 80,704

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Amounts reported as deferred outflows of resources related to pension resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2019. 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
2018	$ 80,718
2019	178,186
2020	138,590
2021	(48,502)
2022	—
Thereafter	—

Summary of Benefits:

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

Eligibility for benefits

Service retirement:

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

Early Retirement

Early Retirement, actuarially reduced

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

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

1) 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. A refund of member's contributions plus return interest (currently .77% effective July 1, 2017).
   b. No service credit for second employment;
   c. Start the same benefit amount the month following termination; and
   d. Guaranteed Annual Benefit Adjustment (GABA) starts again in the January immediately following the second retirement.
2) Retire before January 1, 2016 and accumulate at least 2 years of additional service credit;
   a. A recalculated retirement benefit based on provisions in effect after the initial retirement; and
   b. GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.
3) Retire on or after January 1, 2016 and accumulate 5 or more years of service credit:
   a. The same retirement as prior to the return to service;
   b. A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
   c. GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Vesting
5 years of membership services

Member's highest average compensation (HAC):

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

Compensation Cap

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

Monthly benefit formula:

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

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

Guaranteed Annual Benefit Adjustment (GABA)*:

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

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

Overview of Contributions:

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

1. Member contributions to the system of 7.9% are temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
2. Employer contributions to the system:
    a. Effective July 1, 2014, following the 2013 Legislative Session, PERS-employer contributions increase an additional 0.1% a year and will continue over 10 years through 2024. The additional employer contributions including the 0.27% added in 2007 and 2009, will terminate on January 1 following an actuary valuation that shows the amortization period of the PERS-DBRP has dropped below 25 years and remains below the 25 years following the reduction of both the additional employer and member contributions rates.
    b. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
    c. The portion of employer contributions allocated to the Plan Choice Rate (PCR) are included in the employers reporting. The PCR was paid off effective March 2016 and the contributions previously directed to the PCR are now directed to member accounts.

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

Stand-Alone Statements:

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

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

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

Actuarial Assumptions:

There were several significant assumptions and other inputs used to measure the TPL. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the actuarial experience study dated June 30, 2017 for the six-year period July 1, 2010 to June 30, 2016 and no changes occurred in the May 5, 2017 actuarial experience study. Among those assumptions were the following:

Investment Return (net of admin expense)	7.65%
Administration Expense as % of Payroll	0.26%
General Wage Growth*	3.50%
*Includes Inflation at	2.75%
Merit Increases	0% to 6.3%

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

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

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013
  a) 1.5% for each year PERS is funded at or above 90%
  b) 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%; and
  c) 0% whenever amortization period for PERS is 40 years or more

- Mortality assumptions among contributing members,service retired members and beneficiaries were based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back one year.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections.

Discount Rate:
The discount rate used to measure the Total Pension Liability was 7.65%. 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 coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL. A municipal bond rate was not incorporated in the discount rate.

Target Allocations:
The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period of fiscal years 2011 through 2016, is outlined in a report dated May 5, 2017 and is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public-sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Summarized in the table below are best estimates of the long-term expected real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2017.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%
Total	100.0%	

Sensitivity Analysis:
The sensitivity of the NPL to the discount rate is shown in the table below. A small change in the discount rate can create a significant change in the liability. The NPL was calculated using the discount rate of 7.65%, 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	**Current Discount Rate**	**1.0% Increase**
	(6.65%)	(7.65%)	(8.65%)
DBRP Total Plan	23,291,233	$ 15,992,173	$ 9,865,164
BOH	3,318,768	2,278,725	1,405,688

Summary of Significant Accounting Policies – DBRP:
The DBRP prepares its financial statements using the accrual basis of accounting. The same accrual basis was used by MPERA for the purposes of determining the 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. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

Changes in actuarial assumptions and methods:

Effective July 1, 2017, the following assumption changes were used:

- Lowered the interest rate from 7.75% to 7.65%.
- Lowered the inflation rate from 3.00% to 2.75%.
- Updated non-disabled mortality to the RP-200 Combined Employee and Annuitant Mortality Table projected to 2020 using scale BB, males set back 1 year.
- Increased rates of withdrawal.
- Lowered the merit component of the total salary increase.
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%.
- Decreased the administrative expense load from 0.27% to 0.26%.

Effective July 1, 2017, the following method changes were used:

- Administrative expenses are recognized by an additional amount added to the normal cost contribution rate for the System. This amount will vary from year to year based on the prior year's actual administrative expenses.
- To be consistent with the wage base growth change, the payroll growth assumption for amortization as a level percent of pay was reduced from 4.00% to 3.50%.

Effective July 1, 2017, the following benefit changes were:

- The interest rate credited to member accounts increased from 0.25% to 0.77%.
- Lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit.

Changes in proportionate share:
Between the measurement date of the collective NPL and the Board reporting date there were no changes in proportion that would have an effect on the Board's proportionate share of the collective NPL.

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

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

NOTE 13. ARBITRAGE REBATE LIABILITY

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

The Board made $ 303,790 in arbitrage rebate cash payments to The United States Treasury Department in fiscal year 2018. The related liability was $651,918 as of June 30, 2018.

Balance as of June 30, 2017	$560,399
Plus: Increases	395,309
Less: Reductions	303,790
Balance as of June 30, 2018	$651,918

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, 2018 are as follows:

Bond Series	Original Amount	Balance
Multifamily Housing Revenue Bond Series 2006	$ 2,104,700	$ 1,657,914
Multifamily Housing Revenue Bond Series 2007	5,100,000	4,564,398
Multifamily Housing Revenue Bond Series 2012 A-1	857,000	786,708
Multifamily Housing Revenue Bond Series 2012 A-2	4,032,000	3,707,416
Multifamily Housing Revenue Bond Series 2012 B-1	857,000	830,365
Multifamily Housing Revenue Bond Series 2015 A	15,500,000	11,881,605

NOTE 15. REFUNDING AND DEFERRED BOND COSTS

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

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

On June 30, 2018, there were $324,480 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.

<u>Refundings:</u>
On October 18, 2017, the Board issued $42,600,000 of Single Family Program Bonds, Series 2017 B (1977 Single Family I Indenture, amended and restate as of May 1, 1997). Bond proceeds of $11,900,000 were used as a replacement refunding of the 2007 C & D series. The refunding was a current refunding, thus no economic gain or loss has been calculated. The estimated cash flow savings due to refunding are $2,337,412*.

On April 26, 2018, the Board issued $38,450,000 of Single Family Program bonds. The funds were used for refunding the 2008A series and for purchase of new loans. The refunding was a current refunding, thus no economic gain or loss has been calculated. The estimated cash flow savings due to refunding are $804,404*.

*Debt service savings assume there are no early redemptions of bonds. Early redemptions from prepayments and payoffs will reduce the estimated savings.

NOTE 16. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

General Information about the State Employee Group Benefits (SEGB) OPEB Plan

<u>Plan Description</u>
The Board's defined benefit OPEB plan, the SEGB, provides optional OPEB 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. The SEGBP OPEB plan is a single-employer defined benefit OPEB plan administered by statute by the Montana Department of Administration Health Care and Benefits Division (HCBD). The Fund is reported within the State of Montana financial statements, as the primary government, as agency funds for reporting purposes. There are no assets or liabilities as only contributions collected and distributions made are reflected in these funds. Medical, dental, and vision benefits are available through this plan. Retirement eligibility criteria differ by retirement plan. Further detail on Retirement Plans is provided in Note 12.

SEGB is not administered through a trust. It is administered through an arrangement in which contributions to the OPEB plan and earnings on those contributions are irrevocable. The OPEB plan assets are dedicated to providing OPEB to plan members in accordance with benefit terms. There are no assets accumulated to offset the Total OPEB liability.

The healthcare OPEB plans 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 'implied rate' subsidy in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plans 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 plans. Currently there are 15 active employees and 3 retired employees, spouses and surviving spouses participating in the plan.

The State of Montana pays for postemployment 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 Department of Administration for the State group health insurance plan.

Benefits Provided

A retiree may continue coverage with the SEGB if the retiree is eligible to receive a monthly retirement benefit under their particular retirement system at the time of leaving active employment and elect to start medical coverage within 60 days of leaving employment. The Board's employees retire under either the PERS-DBRP or the PERS-DCRP retirement plans.

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.

Retiree Premiums

DOA established retiree premiums vary depending on family coverage and eligibility. Per statute, retirees are responsible for their premiums and State agencies do not contribute an employer's share. The administratively established retiree medical contributions vary between $439 and $1,633 per month depending on coverage selected. Administratively established dental contributions vary between $41.10 and $70 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.

Net OPEB Liability

The Board's net OPEB liability of $52 thousand which is approximately 0.10% of the total primary government OPEB liability of $50,458,806 as measured on March 31, 2018 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, 2017 with a rolled forward actuarial valuation measurement date of March 31, 2018. The unfunded actuarial accrued liability is amortized over a 20-year period on an open basis beginning December 31, 2017.

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Actuarial assumptions

The total OPEB liability in the actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial valuation date	December 31, 2017
Measurement date	March 31, 2018
Interest / discount rate	
(tied to municipal bond rate)	3.89%
Projected payroll increases	4.00%
Actuarial funding method	Entry age normal
Amortization period	20 years
Asset valuation	Not applicable since no assets meet the definition of plan assets
Average retirement age	62
Participation (of future retirees)	55% future retirees and 60% of future eligible spouses
Marital status	Actual spouse information is used for current retirees. Marital status at retirement for future members assumed to be 70%.
Mortality - Healthy	Assumed to follow RP2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.
Mortality - Disabled	Assumed to follow the RP2000 Combined Mortality Table with no projections.
Healthcare cost trend rates	7.5% for both medical and prescription initially, decreasing 0.1 % per year to an ultimate rate of 3.8%. Cost increases are assumed to apply at the end of the plan year.
Retiree Contribution Increases	Current year was based on actual trend. For retiree/surviving spouse and spouse the increase is 7.0% in 2019 decreasing between 0.1% and 0.5% per year to an ultimate rate of 3.8%.

Note: *Assumptions are obtained from the most recent OPEB valuation report*

- Changes since prior valuation
  - Revised rates per the retirement system pension valuation as of July 1, 2017
  - Interest rate based on the March 31, 2018 20-year municipal bond index per GASB 75 requirements
  - Revised rates based on actual data and projected trends
  - Updated projected healthcare trend rates to follow the Getzen model

- Changes in benefit terms since last measurement date
  - Medical moved from Cigna to Allegiance plans as of January 1, 2016
  - State implemented reference-based pricing hospital contracts effective July 1, 2016
  - Pharmacy coverage moved from URx to Navitus as of January 1, 2017
  - State implemented an employer group waiver program for Medicare retirees effective January 1, 2017

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- Retiree Contributions. The following retiree contributions are a weighted average of all retiree contributions for the period January 1, 2017 to December 31, 2017:

Medical and Prescription Drug	Retiree / Surviving Spouse	Spouse
Before Medicare Eligibility	$ 13,572	$ 5,268
After Medicare Eligibility	$ 5,271	$ 4,403

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:

	1.0% Decrease	**Current Discount Rate**	**1.0% Increase**
	(2.89)%	(3.89)%	(4.89)%
Primary Government	$ 61,921,118	$ 50,458,806	$ 41,698,044
BOH	68,923	51,602	38,595

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:

	1.0% Decrease	**Current Discount Rate**	**1.0% Increase**
	(6.5%)	(7.5%)	(8.5%)
Primary Government	41,458,041	50,458,806	62,617,544
BOH	38,344	51,602	69,799

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

For the year ended June 30, 2018, the Board had a reduction of $4,516 in OPEB expense. At June 30, 2018, 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 Experience	5,465	—
Changes in assumptions	342	—
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	6,216	—
Total	12,023	—

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
2019	479
2020	479
2021	479
2022	479
2023	479
Thereafter	3,412

Payable to the OPEB Plan

At June 30, 2018, the Board reported a payable of $51,602 for the outstanding amount of contributions to the Department of Administration required for the year ended June 30, 2018. The Board did not have an employer contributions due or paid during the fiscal year ended June 30, 2018 because of reallocation of prior years.

General Information about the DCRP OPEB Plan

Per statute, participants that choose the PERS-DCRP retirement system are covered by the PERS-DCRP long-term disability plan. The disability plan provides disability benefits to 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 members. The assets are held in a trust capacity for the beneficiaries. The PERS issues publicly available annual reports which include financial statements and required supplemental information for the plan. Those reports may be obtained online (http://mpera.mt.gov) or by contacting the PERS at 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, 2018:

Fee Income and Servicers Fees related to in-house loan servicing	$	1,371,975

An interfund loan from Housing Trust Fund to the Mortgage Loan Servicing program in the amount of $90,000 was eliminated on the Combined Statement of Net Position.

NOTE 18. ADJUSTMENTS TO BEGINNING NET POSITION

A prior period adjustment for Single Family I and II for $377,960 was made to implement GASB Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension. There was also an adjustment, reducing the pension liability, due to a recalculations of each employers' proportionate share of the pension liability for SF I and II of $20,628.

Servicing had a prior period adjustment of $15,004 to implement GASB Statement 75 and a reduction of $24,680 the pension recalculation of the employers' proportionate share of the pension liability. The remaining $10,304 reduction for servicing was due to a reconciliation of the servicing expense receivable account for prior periods.

NOTE 19. SUBSEQUENT EVENTS

In August 2018, Single Family Mortgage Bonds, 2018 series B, were issued for $50,000,000 to be used for the purposed of acquiring additional mortgage loans in Montana. This event does not require adjustment to fiscal year 2018 financial statements.

On September 11, 2018, a resolution to issue Single Family Mortgage Bonds, Single Family Program Bonds or Single Family Homeownership Bonds, in one or more series or subseries in an aggregate principal amount not to exceed $75,000,000 with fixed or variable rates was passed by the Board. This event does not require adjustment to fiscal year 2018 financial statements.

On November 16, 2018, a loan in the amount of $300,000 was made to Ouellette Place Limited Partnerships from Multifamily funds. The funds will be used for financing of a housing development in Lewistown, Montana. This event does not require adjustment to fiscal year 2018 financial statements.

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Other Post-Employment Benefits (Financial Statements Note 16)

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

Total Board OPEB Liability and Related Ratios

Last 10 Fiscal Years *

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 pensionable payroll
2018	$ 51,602	0.10%	774,320	6.66%

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

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:

Changes of benefit terms, the medical plan coverage moved from Cigna to allegiance as of January 1, 2016, the State implemented reference-based pricing hospital contracts effective July 1, 2016, the pharmacy plan moved from URx to Navitus as of January 1, 2017, and the State implemented an employer group waiver program for Medicare retirees effective January 1, 2017.

Pension Benefits (Financial Statement Note 12)

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

For the fiscal year ended June 30	Proportionate share of net pension liability (NPL) as a percentage	Proportionate share of NPL as an amount	Pensionable payroll	Proportionate share of the NPL as a percentage of its pensionable payroll	Plan fiduciary net position as a percentage of total pension liability
2015	0.10%	$ 1,203	$ 1,079	111.44%	79.90%
2016	0.10%	$ 1,452	$ 1,208	120.20%	78.40%
2017	0.12%	$ 2,047	$ 1,422	143.92%	74.71%
2018	0.12%	$ 2,279	$ 1,434	158.88%	73.75%

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

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

For the fiscal year ended June 30	Contractually required contributions	Contributions made	Contribution deficiency (excess)	Share pensionable payroll	Contributions as a percentage of pensionable payroll
2015	89	89	—	1,079	8.80%
2016	106	106	—	1,208	8.76%
2017	272	272	—	1,422	19.04%
2018	123	123	—	1,434	8.58%

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

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:

2015 Legislative Changes:
<u>General Revisions</u> - House Bill 101, 3ffective January 1, 2016
Second Retirement Benefit - for PERS

1. Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment , and accumulate less than 2 years of service credit before retiring again:
    a. Refund of member's contributions from second employment plus regular interest (currently 0.25%);
    b. No service credit for second employment;
    c. Start same benefit amount the month following termination; and
    d. GABA starts again the January immediately following second retirement.
2. For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:
    a. Member receives a recalculated retirement benefit based on laws in effect at second retirement; and
    b. GABA starts the January after receiving recalculated benefit for 12 months.
3. For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:
    a. Refund of member's contributions from second employment plus regular interest (currently 0.25%);
    b. No service credit for second employment;
    c. Start same benefit amount the month following termination; and
    d. GABA starts again the January immediately following second retirement.
4. For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:
    a. Member receives the same retirement benefit as prior to return to work
    b. Member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
    c. GABA starts on both benefits in January after member receives original and new benefit for 12 months.

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2017 Legislative Changes

General Revisions - House Bill 101, effective July 1, 2017

Working Retiree Limitations - for PERS

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.

Terminating Employers - Recovery of actuary costs - for PERS

Employers who terminate participation in PERS must pay the actuarial liability associated with that termination. Starting July 1, 2017, the terminating employer must also pay for the cost of the actuarial study used to determine that liability.

Refunds

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

Family Law Orders

If a Family Law Order (FLO) is silent regarding the apportionment of post-retirement benefit adjustments such as the Guaranteed Annual Benefit Adjustment (GABA), the FLO is presumed to require apportionment of the post-retirement benefit adjustment in the same percentage as the monthly retirement benefit is apportioned.

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 become 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 normal retirement age of 60 and are eligible for disability benefit until age 65.

PERS Statutory Appropriation - House Bill 648, effective July 1, 2017

Revenue from coal severance taxes and interest income from the coal severance tax permanent fund previously statutorily-appropriated to PERS defined benefit trust fund will be replaced wit the following statutory appropriations:

1. FY2018 - $31.386 million
2. FY2019 - $31.958 million
3. Beginning July 1, 2019 through at least June 30, 2025, 101% of the contribution from the previous year from the general fund to the PERS defined benefit trust fund, as follows:
    a. FY2020 - $32.277 million
    b. FY2021 - 32.6 million
    c. FY2022 - 32.926 million
    d. FY2023 - 33.255 million
    e. FY2024 - 33.588 million
    f. FY2025 -33.924 million

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Changes in Actuarial Assumptions and Methods

Method and assumptions used in calculations of actuarially determined contributions

The following Actuarial Assumptions were adopted from the June 30, 2017 actuarial valuation:

General Wage Growth*	3.50%
Investment Rate of Return*	7.65%
*Includes inflation at	2.75%
Merit salary increase	0% to 6.30%
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age Normal
Amortization method	Level percentage of payroll, open
Mortality (Healthy members)	For Males and Females; RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year
Mortality (Disable members)	For Males and Females: RP 2000 Combined Mortality Table
Admin expense as % of payroll	0.26%

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

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	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	TOTAL
ASSETS									
Current Assets									
Cash and Cash Equivalents (Note 2)	$ 30,551,839	$ 35,459,971	$ 4,974,672	$ 70,986,482	$ 8,134,675	$ 5,281,245	$ 2,341,012	$ 812,750	$ 87,556,164
Investments (Note 4)	8,345,689	6,098,090	—	14,443,779	617,616	—	—	—	15,061,395
Mortgage Loans Receivable, Net (Note 6)	6,029,092	6,619,995	2,720,905	15,369,992	245,051	710,748	1,329	12,946	16,340,066
Corporate Advance Receivable	—	—	—	—	—	921,801	—	—	921,801
Inter-Entity Loan Receivable	—	—	—	—	—	—	90,000	—	90,000
Interest Receivable	981,643	833,177	564,598	2,379,418	35,421	693,758	1,433,802	155,139	4,697,538
Prepaid Expense	50,436	50,436	—	100,872	3,306	26,621	32,260	—	163,059
Total Current Assets	45,958,699	49,061,669	8,260,175	103,280,543	9,036,069	7,634,173	3,898,403	980,835	124,830,023
Noncurrent Assets									
Investments (Note 4)	7,609,252	20,197,527	11,566,804	39,373,583	—	—	—	—	39,373,583
Mortgage Loans Receivable, Net (Note 6)	193,539,897	165,308,337	78,663,812	437,512,046	7,893,936	98,946	3,014,364	1,909,351	450,428,643
Mortgage Backed Securities (Note 4)	—	555,796	—	555,796	—	—	—	—	555,796
Acquisition Costs	—	—	—	—	—	1,909,952	—	—	1,909,952
Capital Assets, Net (Note 8)	728	728	—	1,456	(38)	—	38	—	1,456
Total Noncurrent Assets	201,149,877	186,062,388	90,230,616	477,442,881	7,893,898	2,008,898	3,014,402	1,909,351	492,269,430
TOTAL ASSETS	247,108,576	235,124,057	98,490,791	580,723,424	16,929,967	9,643,071	6,912,805	2,890,186	617,099,453
DEFERRED OUTFLOW OF RESOURCES									
Deferred Refunding Costs (Note 15)	195,796	99,396	29,288	324,480	—	—	—	—	324,480
Deferred OPEB Outflow (Note 16)	3,106	3,106	—	6,212	—	5,811	—	—	12,023
Deferred Pension Outflow (Note 12)	147,920	147,921	—	295,841	—	194,873	—	—	490,714
TOTAL DEFERRED OUTFLOWS	346,822	250,423	29,288	626,533	—	200,684	—	—	827,217

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	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	TOTAL
LIABILITIES									
Current Liabilities									
Accounts Payable	126,658	144,628	35,333	306,619	11,831	80,177	28,332	270	427,229
Inter-Entity Loans Payable	—	—	—	—	—	90,000	—	—	90,000
Funds Held For Others	503	—	—	503	1,296,432	5,915,845	—	—	7,212,780
Accrued Interest - Bonds Payable	489,490	623,179	238,553	1,351,222	114,045	—	—	—	1,465,267
Bonds Payable, Net (Note 9)	5,690,000	4,775,000	3,700,000	14,165,000	100,000	—	—	—	14,265,000
Arbitrage Rebate Payable to U.S. Treasury Department (Note 13)	—	40,628	—	40,628	—	—	—	—	40,628
Accrued Compensated Absences	30,672	30,672	—	61,344	6,972	64,662	19,332	—	152,310
Total Current Liabilities	6,337,323	5,614,107	3,973,886	15,925,316	1,529,280	6,150,684	47,664	270	23,653,214
Noncurrent Liabilities									
Bonds Payable, Net (Note 9)	183,779,334	165,397,365	83,927,036	433,103,735	4,500,680	—	—	—	437,604,415
Arbitrage Rebate Payable to U.S. Treasury Department (Note 13)	201,169	—	410,121	611,290	—	—	—	—	611,290
Accrued Compensated Absences	32,087	32,087	—	64,174	15,320	17,361	31,265	—	128,120
Net Pension Liability (Note12)	626,296	626,296	—	1,252,592	—	1,026,135	—	—	2,278,727
OPEB Liability (Note 16)	13,331	13,331	—	26,662	—	24,940	—	—	51,602
Total Noncurrent Liabilities	184,652,217	166,069,079	84,337,157	435,058,453	4,516,000	1,068,436	31,265	—	440,674,154
TOTAL LIABILITIES	190,989,540	171,683,186	88,311,043	450,983,769	6,045,280	7,219,120	78,929	270	464,327,368
DEFERRED INFLOW OF RESOURCES									
Deferred Pension Inflow (Note 12)	22,181	22,181	—	44,362	—	36,342	—	—	80,704
TOTAL DEFERRED INFLOWS	22,181	22,181	—	44,362	—	36,342	—	—	80,704

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	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	TOTAL
NET POSITION									
Net Investment in Capital Assets	728	728	—	1,456	(38)	—	38	—	1,456
Restricted for Bondholders:									
Unrealized (losses) gains on Investments	1,051,940	934,231	1,942,051	3,928,222	(1,109)	—	—	—	3,927,113
Single Family Programs	44,894,159	54,549,016	8,266,985	107,710,160	—	2,588,293	—	—	110,298,453
Various Recycled Mortgage Programs (Note 11)	8,185,138	8,185,138	—	16,370,276	—	—	—	—	16,370,276
Multifamily Programs	—	—	—	—	10,748,868	—	534,862	—	11,283,730
Multifamily Project Commitments (Note 11)	—	—	—	—	136,966	—	—	—	136,966
Housing Trust Fund Program (Note 11)	2,311,712	—	—	2,311,712	—	—	6,298,976	—	8,610,688
Restricted for Affordable Housing Loan Program	—	—	—	—	—	—	—	2,889,916	2,889,916
TOTAL NET POSITION	$ 56,443,677	$ 63,669,113	$ 10,209,036	$130,321,826	$ 10,884,687	$ 2,588,293	$ 6,833,876	$ 2,889,916	$ 153,518,598

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	TOTAL
OPERATING REVENUES									
Interest Income - Mortgage Loans	$ 7,557,200	$ 6,004,605	$ 3,910,432	$ 17,472,237	$ 438,011	$ —	$ 229,367	$ 37,802	$ 18,177,417
Interest Income - Investments	946,999	1,133,796	644,079	2,724,874	45,146	3,873	14,253	(15,647)	2,772,499
Fee Income	58,944	45,014	—	103,958	18,988	1,970,710	740,068	—	2,833,724
Net Increase (Decrease) in Fair Value of Investments	(315,117)	(875,495)	(457,616)	(1,648,228)	746	—	—	—	(1,647,482)
Other Income	27,036	27,036	—	54,072	—	38	77	123	54,310
Total Operating Revenues	8,275,062	6,334,956	4,096,895	18,706,913	502,891	1,974,621	983,765	22,278	22,190,468
OPERATING EXPENSES									
Interest on Bonds	5,353,793	5,081,955	3,127,472	13,563,220	328,833	—	—	—	13,892,053
Servicer Fees	708,692	565,121	322,277	1,596,090	9,113	668,285	—	1,158	2,274,646
Contracted Services	229,747	145,947	—	375,694	23,706	295,793	68,508	13	763,714
Amortization of Deferred Refunding	37,096	21,299	34,361	92,756	—	—	—	—	92,756
Bond Issuance Costs	498,291	536,000	—	1,034,291	—	—	—	—	1,034,291
General and Administrative	786,316	795,938	36,000	1,618,254	135,553	1,560,634	607,844	—	3,922,285
Arbitrage Rebate Expense	153,671	12,363	229,275	395,309	—	—	—	—	395,309
Other Post-Employment Benefits	(1,166)	(1,167)	—	(2,333)	—	(2,183)	—	—	(4,516)
Total Operating Expenses	7,766,440	7,157,456	3,749,385	18,673,281	497,205	2,522,529	676,352	1,171	22,370,538
Operating Income (Loss)	508,622	(822,500)	347,510	33,632	5,686	(547,908)	307,413	21,107	(180,070)

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	TOTAL
Nonoperating Revenue									
(Expenses)									
Pensions - Nonemployer Contributions	8,960	8,960	—	17,920	—	14,679	—	—	32,599
Nonoperating Income (Loss)	8,960	8,960	—	17,920	—	14,679	—	—	32,599
Income (Loss) before Transfers	517,582	(813,540)	347,510	51,552	5,686	(533,229)	307,413	21,107	(147,471)
Transfers In (Out)	(82,013)	121,844	(539,831)	(500,000)	—	500,000	—	—	—
Increase (Decrease) in Net Position	435,569	(691,696)	(192,321)	(448,448)	5,686	(33,229)	307,413	21,107	(147,471)
Net Position, July 1	55,829,442	64,182,143	10,401,357	130,412,942	10,879,001	2,641,502	6,526,463	2,868,809	153,328,717
Adjustments to Beginning Net Position (Note 18)	178,666	178,666	—	357,332	—	(19,980)	—	—	337,352
Net Position, July 1 as restated	56,008,108	64,360,809	10,401,357	130,770,274	10,879,001	2,621,522	6,526,463	2,868,809	153,666,069
Net Position, End of Year	$ 56,443,677	$ 63,669,113	$ 10,209,036	$130,321,826	$ 10,884,687	$ 2,588,293	$ 6,833,876	$ 2,889,916	$ 153,518,598

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts for Sales and Services	$ 58,944	$ 45,014	$ —	$ 103,958	$ 22,748	$ 1,970,710	$ 740,067	$ 3	$ 2,837,486
Collections on Loans and Interest on loans	27,064,532	29,089,964	18,774,005	74,928,501	1,265,390	(502,978)	634,170	265,963	76,591,046
Collection on Loan Escrow Accounts	—	—	—	—	(202,949)	717,266	—	—	514,317
Cash Payments for Loans	(40,513,829)	(33,528,651)	—	(74,042,480)	—	—	—	—	(74,042,480)
Federal Adjustment Factor Expense	—	—	—	—	(5,040)	—	—	—	(5,040)
Payments to Suppliers for Goods and Services	(1,261,062)	(1,115,854)	(372,268)	(2,749,184)	(131,832)	462,375	(333,603)	(1,189)	(2,753,433)
Payments to Employees	(415,951)	(415,951)	—	(831,902)	(95,607)	(1,103,605)	(296,321)	—	(2,327,435)
Corporate Advances	—	—	—	—	—	(921,801)	—	—	(921,801)
Other Operating Revenues	27,036	27,036	—	54,072	—	38	77	119	54,306
Net Cash Provided (Used) Operating Activities	(15,040,330)	(5,898,442)	18,401,737	(2,537,035)	852,710	622,005	744,390	264,896	(53,034)
CASH FLOWS FROM NONCAPITAL ACTIVITIES									
Payment of Principal and Interest on Bonds and Notes	(36,290,402)	(33,114,472)	(20,760,520)	(90,165,394)	(1,231,696)	—	—	—	(91,397,090)
Proceeds from Issuance of Bonds and Notes	42,600,000	38,450,000	—	81,050,000	—	—	—	—	81,050,000
Payment of Bond Issuance Costs	(498,291)	(504,179)	—	(1,002,470)	—	—	—	—	(1,002,470)
Premium Received on Bonds	999,600	815,233	—	1,814,833	—	—	—	—	1,814,833
Proceeds from (payments for) intra-fund loans	—	—	—	—	—	90,000	(90,000)	—	—
Pension - Nonemployer Contributions	8,960	8,960	—	17,920	—	14,679	—	—	32,599
Pension - Deferred Inflows/ Outflows Payments	(36,657)	(36,657)	—	(73,314)	—	39,145	—	—	(34,169)
Transfers in (out)	(82,013)	121,844	(539,831)	(500,000)	—	500,000	—	—	—
Net Cash Provided (Used) by Noncapital Financing Activities	6,701,197	5,740,729	(21,300,351)	(8,858,425)	(1,231,696)	643,824	(90,000)	—	(9,536,297)

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Single Family Indenture I	Single Family Indenture II	Single Family Indenture XI	SINGLE FAMILY PROGRAM FUND TOTALS	MULTIFAMILY PROGRAM FUNDS	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	TOTAL
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:									
Purchase of Mortgage Servicing Rights	—	—	—	—	—	(538,888)	—	—	(538,888)
Net Cash Provided (Used) in Capital and Related Financing Activities	—	—	—	—	—	(538,888)	—	—	(538,888)
CASH FLOWS FROM INVESTING ACTIVITIES:									
Purchase of Investments	(11,026,650)	(15,290,368)	(9,243,879)	(35,560,897)	(5,961,980)	—	—	—	(41,522,877)
Proceeds from Sales or Maturities of Investments	14,181,378	30,824,208	12,760,269	57,765,855	10,497,134	—	—	—	68,262,989
Interest on Investments	548,577	249,825	192,647	991,049	41,390	3,677	13,330	1,881	1,051,327
Arbitrage Rebate Tax	—	—	(303,789)	(303,789)	—	—	—	—	(303,789)
Net Cash Provided (Used) by Investing Activities	3,703,305	15,783,665	3,405,248	22,892,218	4,576,544	3,677	13,330	1,881	27,487,650
Net Increase (Decrease) in Cash and Cash Equivalents	(4,635,828)	15,625,952	506,634	11,496,758	4,197,558	730,618	667,720	266,777	17,359,431
Cash and Cash Equivalents, July 1	35,187,667	19,834,019	4,468,038	59,489,724	3,937,117	4,550,627	1,673,292	545,973	70,196,733
Cash and Cash Equivalents, June 30	$ 30,551,839	$35,459,971	$ 4,974,672	$70,986,482	$ 8,134,675	$ 5,281,245	$ 2,341,012	$ 812,750	$ 87,556,164

MONTANA BOARD OF HOUSING
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

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	MORTGAGE LOAN SERVICING	HOUSING TRUST FUND	HOUSING MONTANA FUND	TOTAL
Operating Income (Loss)	$ 508,622	$ (822,500)	$ 347,510	$ 33,632	$ 5,686	$ (547,908)	$ 307,413	$ 21,107	$ (180,070)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH (USED FOR) OPERATING ACTIVITIES									
Depreciation	300	640	—	940	38	—	38	—	1,016
Amortization	(162,526)	23,970	(126,196)	(264,752)	(18,041)	—	—	—	(282,793)
Interest Expense	5,976,331	5,391,074	3,241,682	14,609,087	321,774	—	—	—	14,930,861
Interest on Investments	(894,169)	(909,586)	(608,312)	(2,412,067)	(16,287)	(3,873)	(14,253)	(2,035)	(2,448,515)
Arbitrage Rebate Tax	153,671	12,363	229,275	395,309	—	—	—	—	395,309
Change in Assets and Liabilities:									
Decr (Incr) Mortgage Loans Receivable	(21,007,202)	(10,558,675)	14,764,388	(16,801,489)	820,973	127,398	377,976	243,726	(15,231,416)
Decr (Incr) Other Assets	18,527	60,231	102,598	181,356	26,506	(1,259,797)	(3,015)	2,116	(1,052,834)
Decr (Incr) Fair Value of Investments	315,117	875,495	457,616	1,648,228	(746)	—	—	—	1,647,482
Incr (Decr) Accounts Payable	(8,727)	(31,181)	(6,824)	(46,732)	(33,146)	1,561,710	25,634	(18)	1,507,448
Incr (Decr) Funds Held for Others	—	—	—	—	(202,949)	740,681	—	—	537,732
Incr (Decr) Pensions Payable	58,853	58,854	—	117,707	—	444,847	—	—	562,554
Incr (Decr) Compensated Absences Payable	1,049	1,049	—	2,098	(51,098)	(425,719)	50,597	—	(424,122)
Incr (Decr) Other Post Employment Benefits	(176)	(176)	—	(352)	—	(15,334)	—	—	(15,686)
Net Cash Provided by (Used for) Operating Activities	$ (15,040,330)	$ (5,898,442)	$ 18,401,737	$ (2,537,035)	$ 852,710	$ 622,005	$ 744,390	$ 264,896	$ (53,034)

Noncash Investing, capital, and financing activities: During fiscal year 2018, the Board investments decrease in fair value by $1,647,482 due to unfavorable market conditions long-term investments. The fair value decrease was not realized in cash during the fiscal year. We anticipate the long-term investment will regain their previous value as they reach maturity.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

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

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Montana Board of Housing (board), as of and for the year ended June 30, 2018, 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 30, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 30, 2018

Montana Board of Housing

Board Response

PAM HAXBY-COTE
DIRECTOR

MONTANA HOUSING

STEVE BULLOCK
GOVERNOR

RECEIVED
DEC 17 2018
LEGISLATIVE AUDIT DIV.

December 13, 2018

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

Dear Mr. Maciver,

We have received and reviewed the financial audit of the Montana Board of Housing for the fiscal year ended June 30, 2018. We appreciate the professionalism and courtesy with which the audit was conduction. Our response to the audit recommendation follows:

<u>Recommendation #1</u>

We recommend that the Board of Housing comply with state law and policy by obtaining inter-entity loans from unrestricted funds or the General Fund.

<u>Response</u>

The Board concurs and understands the importance of following state laws and policies. We have reviewed the MCA and MOM policies regarding inter-entity loans and included that information in our policy to ensure inter-entity loans are only made from unrestricted funds or the General Fund.

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

Sincerely,

Bruce Brensdal
Executive Director

Cc: Pat Melby