

# Legislative Audit Division

State of Montana



Report to the Legislature

December 2004

## Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2004

## Montana Facility Finance Authority

A Component Unit of the State of Montana

We performed a financial-compliance audit of the Montana Facility Finance Authority for the two fiscal years ended June 30, 2004. This report contains the audited financial statements and accompanying notes for each of the two fiscal years ended June 30, 2004 and 2003. We issued an unqualified opinion on the authority's financial statements. The opinion means the reader may rely on the financial statement information presented.

This report contains no recommendations.

Direct comments/inquiries to:  
Legislative Audit Division  
Room 160, State Capitol  
PO Box 201705  
Helena MT 59620-1705

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## FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. 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, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
State Capitol  
Helena MT 59620  
Phone (406) 444-3616

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

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

December 2004

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Facility Finance Authority (authority) for the two fiscal years ended June 30, 2004. The objectives of the audit were to determine the authority's compliance with applicable laws and regulations, make necessary recommendations for improvements in management and internal controls, and determine if the authority's financial statements present fairly its financial position, results of operations, and cash flows for the two fiscal years ended June 30, 2004.

This audit report contains our Independent Auditor's Report on the financial statements of the Montana Facility Finance Authority of the Department of Commerce, as shown on page A-1. Management's Discussion and Analysis, and the audited financial statements follow the Independent Auditor's Report. The report contains no recommendations. The previous audit report also contained no recommendations.

The authority is administratively attached to the Department of Commerce. Financial accounting for the authority's operation is performed by the department's Management Services Division. The authority offers debt financing or refinancing at reduced rates to Montana non-profit private and public health care institutions or pre-release centers for purchases of capital equipment and buildings.

The authority administers seven programs:

- ▶ Pooled Loan Program - provides low, variable interest rate loans for eligible institutions to finance or refinance land, buildings, equipment, and related capital costs.
- ▶ Master Loan Program - loan proceeds may be used to finance new construction projects, refinance outstanding bonds, acquire real property, purchase equipment, or reimburse borrowers for prior capital expenditures.
- ▶ Stand Alone Program - issues tax-exempt bonds or notes for individual borrowers.
- ▶ Private Placement Program - bonds or notes are sold directly to a limited number of investors and are issued on behalf of the borrower.

- ▶ Direct Loan Program - provides short-term loans of \$100,000 or less to eligible facilities for facility construction, renovation, acquisition, equipment purchases, and the refinancing of outstanding debt.
- ▶ Permanent Coal Trust Fund - provides loans to eligible facilities for capital projects. The Legislature authorized the authority to lend up to \$15 million of the Permanent Coal Tax Trust Funds for this program.
- ▶ Montana Capital Assistance Program - a grant program to help smaller hospitals deal with changing needs and services by providing funding for capital improvement plans, which are used to establish infrastructure priorities and to examine funding options for renovations and improvements.

Additional detail on amounts, maturity dates, and descriptions of the revenue bonds and notes payable and notes receivable is disclosed in notes 2 and 3 of the financial statements beginning on page A-10.

The Authority's Executive Director reviewed and agreed with the contents of this report and chose not to respond in writing. We would like to thank the Executive Director and Department of Commerce personnel for their cooperation and assistance during the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a large, stylized flourish extending to the right.

Scott A. Seacat  
Legislative Auditor

## Appointed and Administrative Officials

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### Board Members

	<u>Profession</u>	<u>Term Expires</u>
Kelley Evans, Chair Red Lodge	Hospital CEO	2005
Joyce Asay Forsyth	Health Facility Consultant	2005
John Bartos Hamilton	Hospital Administrator	2007
Gayle Carpenter Helena	State Association Mgmt.	2005
John Dudis Kalispell	Attorney	2007
Lee Jockers Billings	Banker (retired)	2005
Joe Quilici Butte	Former Business Owner Former State Legislator	2007

### Administrative Staff

Michelle Barstad, Executive Director

Connie Onstad, Associate Director

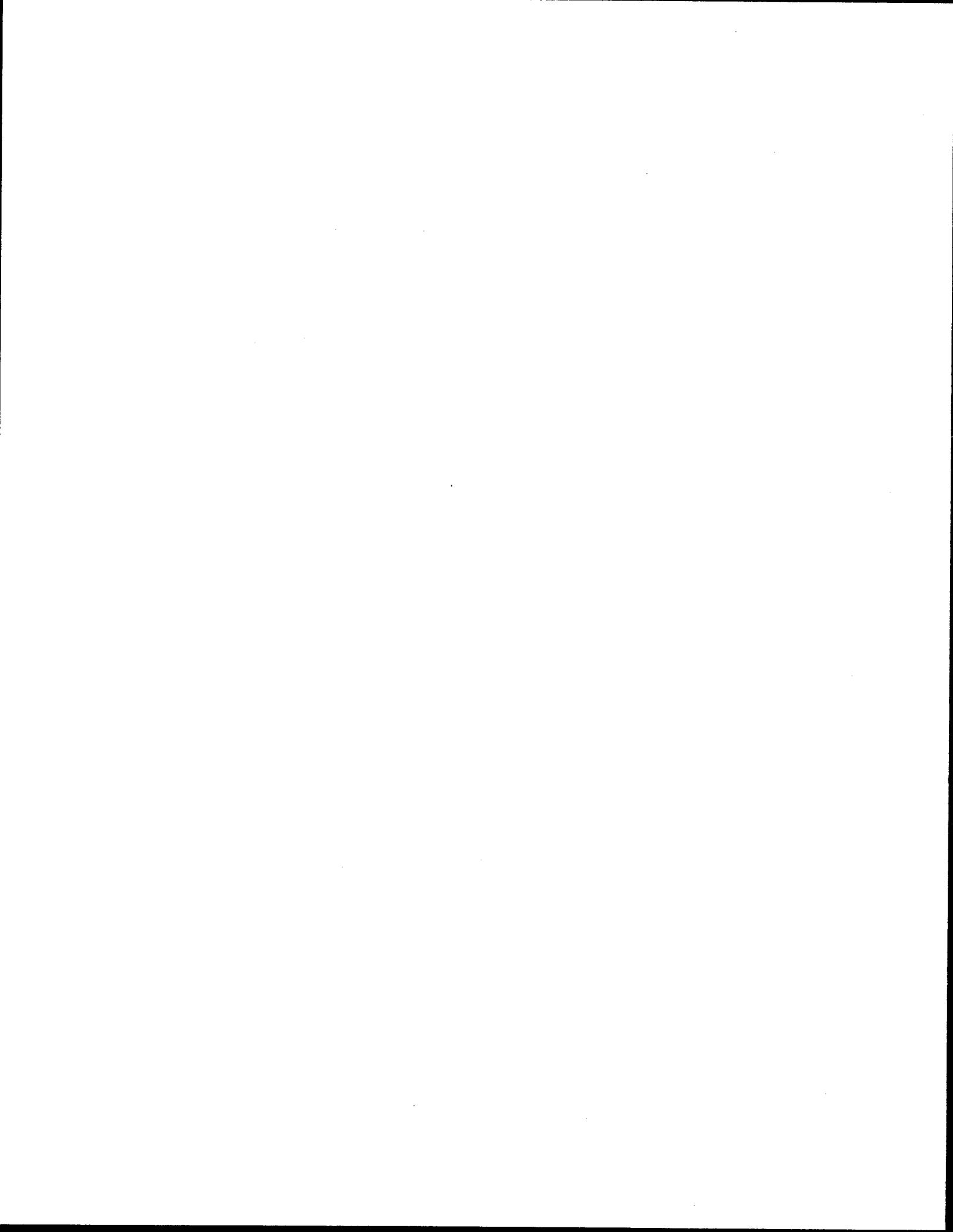
Teri Juneau, Accountant

For additional information concerning the Montana Facility Finance Authority contact Michelle Barstad at:

Montana Facility Finance Authority  
Department of Commerce  
2401 Colonial Drive, Third Floor  
PO Box 200506  
Helena MT 59620-0506  
(406) 444-0259

e-mail: [mbarstad@state.mt.us](mailto:mbarstad@state.mt.us)

Members of the audit staff involved in this audit were Pearl M. Allen, Geri Hoffman, and Jeff Tamblyn.



# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Statement of Net Assets - Enterprise Fund of the Montana Facility Finance Authority (authority), a component unit of the State of Montana, as of June 30, 2004 and 2003, and the related Statement of Revenues, Expenses, and Changes in Fund Net Assets, and Statement of Cash Flows for the fiscal years then ended. The information contained in these financial statements is the responsibility of the authority's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Facility Finance Authority as of June 30, 2004 and 2003, and the results of operations and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

Handwritten signature of James Gillett in black ink.

James Gillett, CPA  
Deputy Legislative Auditor

October 22, 2004



**Montana Facility Finance Authority  
Management's Discussion and Analysis,  
Financial Statements and Notes**

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**Montana Facility Finance Authority**  
**Department of Commerce**  
**A Component Unit of the State of Montana**

**Management's Discussion and Analysis**

**Years ended June 30, 2004 and 2003**

The following represents Montana Facility Finance Authority (the "Authority") management's discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2004 and 2003. Please read it in conjunction with the Authority's financial statements and accompanying notes.

**Financial Highlights**

- The Authority closed bonds/note issues:  
5 (\$93,370,000) in FY 2004 and 4 (\$84,910,207) in FY 2003
- The Authority made loans from a revolving bond issue:  
2 loans (\$1,758,250) in FY 2004 and no loans were made in FY 2003 due to lack of funds
- The Authority made loans out of reserves designated for such purpose:  
0 loans in FY 2004 and 5 loans (\$378,718) in FY 2003
- The Authority's total outstanding bonds/notes/loans increased from \$598,822,791 in FY 2002 to \$656,434,917 in FY 2003 and \$679,077,563 in FY 2004
- The Authority has a grant program of \$35,000 annually:  
During FY 2004, \$15,400 was committed and \$17,184 was expensed,  
During FY 2003, \$12,500 was committed and \$2,400 was expensed

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Montana Facility Finance Authority's basic financial statements comprise two components, basic financial statements, and notes to the financial statements. The Authority is a self-supporting entity and follows enterprise fund reporting. Accordingly, the financial statements are presented using the accrual basis of accounting.

Overall financial condition of the Authority improved from FY 2002 to FY 2003 and again in FY 2004 based on an increase in Net Assets. Fees of the Authority have been reduced over time and excess revenues are designated for a loan program, a loan loss reserve, and working capital reserve.

**Basic Financial Statements**

The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Montana Facility Finance Authority is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The basic financial statements can be found beginning on page A-5 of this report.

### Notes to the financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found beginning on page A-9 of this report.

### Financial Analysis of the Authority

Condensed financial statements are presented below.

	2004	2003	Increase/ Decrease	Increase/ Decrease
Total assets	\$ 2,456,114	\$ 2,359,099	97,015	4.1%
Total liabilities	38,020	20,841	17,179	82.4%
Invested in Capital Assets	448	667	(219)	-32.9%
Total unrestricted net assets	\$ 2,417,646	\$ 2,337,591	80,055	3.4%
Total operating revenues	\$ 311,840	\$ 283,557	28,283	10.0%
Operating expenses:				
Personal services	\$ 153,557	\$ 116,337	37,220	32.0%
Contracted services	30,632	49,119	(18,487)	-37.6%
Other operating expenses	70,721	60,100	10,621	17.7%
Grants	17,184	2,400	14,784	616.0%
Total operating expenses	\$ 272,095	\$ 227,956	44,139	19.4%
Operating income	\$ 39,744	\$ 55,601	(15,857)	-28.5%
Investment earnings	\$ 40,091	\$ 48,291	(8,200)	-17.0%
Change in net assets	\$ 79,836	\$ 103,892	(24,056)	-23.2%

Administrative initial fees are charged to borrowers at the completion of a financing. Annual fees are charged on the anniversary date of the bond issue and billed in arrears.

**MONTANA FACILITY FINANCE AUTHORITY  
DEPARTMENT OF COMMERCE  
A COMPONENT UNIT OF THE STATE OF MONTANA  
STATEMENT OF NET ASSETS - ENTERPRISE FUND  
JUNE 30, 2004 AND 2003**

<b>ASSETS:</b>	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash & Cash Equivalents (Note 1)	\$ 1,995,057	\$ 1,705,657
Accounts Receivable	2,937	25,396
Short Term Notes Receivable (Note 3)	155,501	173,088
Due From Primary Government	4	400
Prepaid Expenses	2,854	1,546
<b>Total Current Assets</b>	<u>2,156,353</u>	<u>1,906,087</u>
Noncurrent Assets:		
Long Term Notes Receivable (Note 3)	299,313	452,345
Capital Assets (Note 1)	448	667
<b>Total NonCurrent Assets</b>	<u>299,761</u>	<u>453,012</u>
<b>Total Assets</b>	<u>\$ 2,456,114</u>	<u>\$ 2,359,099</u>
 <b>LIABILITIES:</b>		
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 11,951	\$ 6,848
Due to Primary Government	3,566	2,393
Compensated Absences	13,250	1,731
<b>Total Current Liabilities</b>	<u>\$ 28,767</u>	<u>\$ 10,972</u>
Noncurrent Liabilities:		
Compensated Absences	9,253	9,869
<b>Total Noncurrent Liabilities</b>	<u>9,253</u>	<u>9,869</u>
<b>Total Liabilities</b>	<u>38,020</u>	<u>20,841</u>
Net Assets		
Invested in Capital Assets Net of Related Debt	\$ 448	\$ 667
Total Unrestricted Net Assets	2,417,646	2,337,591
<b>Total Net Assets (Note 5)</b>	<u>\$ 2,418,094</u>	<u>\$ 2,338,258</u>
 <b>Total Net Assets and Liabilities</b>	 <u>\$ 2,456,114</u>	 <u>\$ 2,359,099</u>

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

**MONTANA FACILITY FINANCE AUTHORITY  
DEPARTMENT OF COMMERCE  
A COMPONENT UNIT OF THE STATE OF MONTANA  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET ASSETS  
ENTERPRISE FUND  
FOR FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>OPERATING REVENUES:</b>		
Service Fees	\$ 311,840	\$ 283,557
Total Operating Revenues	<u>\$ 311,840</u>	<u>\$ 283,557</u>
 <b>OPERATING EXPENSES:</b>		
Personal Services	\$ 153,557	\$ 116,337
Contracted Services	30,632	49,119
Supplies and Materials	4,139	1,479
Communications	5,310	4,948
Travel	20,345	11,011
Rent	16,187	16,368
Repairs and Maintenance	745	509
Other Expenses	23,776	25,565
Depreciation - Equipment	220	220
Grants	17,184	2,400
Total Operating Expenses	<u>\$ 272,095</u>	<u>\$ 227,956</u>
Operating Income	<u>\$ 39,745</u>	<u>\$ 55,601</u>
 <b>NON OPERATING REVENUES (EXPENSES)</b>		
Investment Earnings	40,091	48,291
Total nonoperating revenues	<u>40,091</u>	<u>48,291</u>
Change in net assets	\$ 79,836	\$ 103,892
Net Assets Beginning of Period	\$ 2,338,258	\$ 2,234,366
Total Net Assets End of Period	<u><u>\$ 2,418,094</u></u>	<u><u>\$ 2,338,258</u></u>

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

**MONTANA FACILITY FINANCE AUTHORITY  
DEPARTMENT OF COMMERCE  
A COMPONENT UNIT OF THE STATE OF MONTANA  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUND  
FOR FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	<u>2004</u>	<u>2003</u>
Receipts for Sales and Services	\$ 333,066	\$ 276,195
Payments to Suppliers for Goods and Services	(112,627)	(117,272)
Payments to Employees	(141,313)	(111,317)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>\$ 79,126</u>	<u>\$ 47,606</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash Payments for Loans	\$ 0	\$ (375,610)
Collection for Principal on Loans	170,619	177,846
Interest on Investments	39,655	47,600
<b>Net Cash Provided by (Used for) Investing Activities:</b>	<u>\$ 210,274</u>	<u>\$ (150,164)</u>
 <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	 <u>\$ 289,400</u>	 <u>\$ (102,558)</u>
 Cash & Cash Equivalents, July 1	 <u>\$ 1,705,657</u>	 <u>\$ 1,808,215</u>
Cash & Cash Equivalents, June 30	<u>\$ 1,995,057</u>	<u>\$ 1,705,657</u>
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating Income (Loss)	\$ 39,745	\$ 55,601
 <b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</b>		
Depreciation	220	220
<b>Change in Assets &amp; Liabilities:</b>		
Increase (Decrease) in Accounts Payable	5,103	(2,480)
Increase (Decrease) in Due to Primary Government	1,173	(780)
Increase (Decrease) in Deferred Revenue	0	(100)
Increase (Decrease) in Compensated Absences Payable	(616)	5,932
Increase (Decrease) in Compensated Absences Payable-Current	11,519	(2,145)
Decrease (Increase) in Accounts Receivable	22,895	(8,728)
Decrease (Increase) in Prepaid Expense	(1,308)	(1,014)
Decrease (Increase) in Due From Primary Government	395	1,100
<b>Total Adjustments</b>	<u>\$ 39,381</u>	<u>\$ (7,995)</u>
 <b>Net Cash Provided by (Used for) Operating Activities</b>	 <u>\$ 79,126</u>	 <u>\$ 47,606</u>

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



**MONTANA FACILITY FINANCE AUTHORITY  
DEPARTMENT OF COMMERCE  
A COMPONENT UNIT OF THE STATE OF MONTANA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

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**1. Summary of Significant Accounting Policies**

**Basis of Accounting**

The Authority's Enterprise Fund uses the accrual basis of accounting in accordance with Generally Accepted Accounting Principles. Under this basis, revenues are recognized in the period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable.

**Reporting Entity**

The preceding financial statements are prepared from the Statewide Accounting Budgeting Human Resource System (SABHRS) and include the financial activity of the Authority's account in the Enterprise Fund. These statements are summaries of entries in the accounting records for the Authority and exclude any entries recorded for other agencies. Accordingly, these financial statements are not intended to fairly present the financial position, results of operations, or cash flow of the State of Montana. The Authority is a component unit of the State of Montana.

**Nature of Fund**

The fund maintained by the Authority, which conforms with authorizing legislation and Authority resolutions, is described as follows:

The Enterprise Fund is used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is that costs are to be financed or recovered primarily through user charges.

**Cash and Cash Equivalents**

Cash and Cash Equivalents as presented on the accompanying Statement of Net Assets and Statement of Cash Flows represents the Authority's cash of \$34,608 and \$24,807 as of June 30, 2004 and 2003 respectively, and cash equivalents invested in the Board of Investments Short-Term Investment Pool (STIP) of \$1,960,449 and \$1,680,850 for fiscal year 2004 and 2003, respectively. The Enterprise Fund invests its residual funds, by law, in STIP. STIP is considered an external investment pool. An external investment pool is defined as an arrangement that pools the monies of more than one legally separate entity and invests, on the participants behalf, in an investment portfolio. STIP is also classified as a 2a7-like pool. A 2a7-like pool is an external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that will, and does, operate in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940. If certain conditions are met, 2a7-like pools are allowed to use amortized cost rather than fair value to report net assets to compute unit values. The Board of Investments has adopted a policy to treat STIP as a 2a7-like pool. Cash and cash equivalents are defined as a short-term, highly liquid investment that is readily convertible to known amounts of cash.

**Capital Assets**

Capital assets are carried at cost less accumulated depreciation. Depreciation is provided for by using the straight-line method over the respective estimated useful lives of the assets.

**Compensated Absences**

Permanent employees are allowed to accumulate and carry over into a new calendar year a maximum of two times their annual accumulation of vacation leave. Upon termination, qualifying employees having unused accumulated vacation

**MONTANA FACILITY FINANCE AUTHORITY  
DEPARTMENT OF COMMERCE  
A COMPONENT UNIT OF THE STATE OF MONTANA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

and sick leave receive 100 percent payment for vacation and 25 percent payment for sick leave. The accompanying financial statements reflect that liability.

**2. Revenue Bonds and Notes Payable**

Resolutions adopted by the Authority have provided for trust and other agreements that establish specific funds to account for the proceeds of the various bond and note issues, mortgage and revenue notes receivable, debt service payments, payments by Borrowers, construction costs, and issuance costs. Specific funds established by agreements are held by trustees, or other participating financial institutions for the purpose of security and liquidity. Revenues are collected and disbursements made only in accordance with the provisions of applicable bond and note documents.

Most loans financed with bond proceeds are secured by first mortgages or security interests in the land, buildings, and related facilities and equipment financed by the Authority and utilized by the Borrower. Other loan payments are secured by a Master Note issued under a Master Trust Indenture of an Obligated Group or by standby letters of credit from financial institutions rated "A" or better. These liabilities do not constitute a general obligation debt or liability to the state of Montana, or any political subdivision thereof.

The Health Care Revenue Refunding Bonds (Montana Developmental Center Project) Series 2003 \* (which refunded the Health Care Revenue Bonds (Montana Developmental Center Project) Series 1994 \*\*) are special obligations of the state, payable solely from the facility revenue of the Montana Developmental Center, which is owned by the state and operated by the Montana Department of Public Health and Human Services. The Health Care Revenue Bonds (Montana State Hospital Project) Series 1997 \*\*\* are special obligations of the state, payable solely from the facility revenue of the Montana State Hospital and the Montana Mental Health Nursing Center, both owned by the state and operated by the Montana Department of Public Health and Human Services. The Health Care Revenue Refunding Bonds (Montana Developmental Center Project) Series 2003\* and the Health Care Revenue Bonds (Montana State Hospital Project) Series 1997\*\*\* do not constitute a general obligation debt of the state or obligate the state to appropriate or apply any funds or revenue of the state, other than the respective facility revenue and each of such bond issues are reflected in the State of Montana Basic Financial Statements.

**Revenue Bonds Payable:**

Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2004	Outstanding June 30, 2003
Health Care Variable Rate Revenue Bonds (Pooled Loan Program) Series 1985A	1985-2020	Variable	35,900,000	35,900,000
Health Care Revenue Bonds (Community Provider Pooled Loan Program) Series 1990	1990-2010	Fixed	2,278,000	2,467,000
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 A&B	1991-2016	Variable	30,000,000	31,600,000
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 C	1991-2017	Variable	22,700,000	23,650,000
Health Care Revenue Bonds (Community Provider Pooled Loan Program) Series 1991 A&B	1991-2011	Fixed	2,081,000	2,244,000
Hospital Facilities Revenue Bonds (Hospital Pooled Loan Program) Series 1992	1992-2007	Fixed	910,000	1,105,000
Health Care Revenue Bonds (Richland Opportunities, Inc. Project) Series 1993	1993-2013	Fixed	119,800	129,644
Hospital Facilities Revenue Refunding Bonds (Bozeman Deaconess Foundation Project) Series 1993	1993-2008	Fixed	0	6,285,000
Revenue Bonds (Sisters of Charity of Leavenworth Health Services Corporation) Series 1994	1994-2023	Fixed	0	33,100,000

**MONTANA FACILITY FINANCE AUTHORITY**  
**DEPARTMENT OF COMMERCE**  
**A COMPONENT UNIT OF THE STATE OF MONTANA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2004	Outstanding June 30, 2003
Hospital Revenue Bonds (Deaconess-Billings Clinic Health System Project) Series 1994	1994-2025	Variable	58,870,000	58,870,000
Health Care Revenue Bonds (Montana Developmental Center Project) Series 1994**	1994-2019	Fixed	0	10,665,000
Health Care Facilities Revenue Bonds (Master Loan Program-Lutheran Retirement Home, Inc. Project) Series 1994B	1994-2014	Fixed	1,500,000	1,610,000
Health Care Facilities Revenue Bonds (Master Loan Program-North Valley Hospital Project) Series 1994D (Taxable)	1994-2004	Fixed	180,000	345,000
Health Care Facilities Revenue Bonds (Master Loan Program-Northern Montana Obligated Group Project) Series 1995A	1995-2015	Fixed	3,705,000	3,925,000
Health Care Facilities Revenue Bonds (Northern Montana Care Center Project) Series 1995B	1995-2015	Fixed	4,565,000	4,820,000
Health Care Facilities Revenue Bonds (Master Loan Program-Toole County Project) Series 1996A	1996-2011	Fixed	1,015,000	1,115,000
Health Care Facilities Revenue Bonds (Master Loan Program Marcus Daly Memorial Hospital Project) Series 1996B	1996-2011	Fixed	1,155,000	1,270,000
Health Care Facilities Revenue Bonds (Master Loan Program Glendive Medical Center Project) Series 1996C	1996-2011	Fixed	985,000	1,085,000
Revenue Bonds (Mission Ridge Project) Series 1996 A,B,C	1996-2026	Fixed	11,930,000	12,150,000
Health Care Revenue Bonds (Community Medical Center, Inc.) Series 1996	1996-2018	Fixed	17,270,000	17,950,000
Hospital Facilities Revenue Bonds (Sisters of Providence of MT Obligated Group-Benefis Health Care) Series 1996	1996-2011	Fixed	6,650,000	7,310,000
Hospital Facilities Revenue Bonds (St. Peter's Community Hospital Project) Series 1997	1997-2011	Fixed	11,295,000	12,595,000
Development Disability Facility Revenue Bonds (Beartooth Industries Project) Series 1997	1997-2024	Fixed	221,434	227,905
Prerelease Center Revenue Bonds (Alternatives, Inc. Project) Series 1997	1997-2017	Fixed	2,315,000	2,430,000
Health Care Revenue Bonds (Montana State Hospital) Project) Series 1997***	1997-2022	Fixed	22,360,000	23,130,000
Health Care Facilities Revenue Bonds (Master Loan Program-Big Horn Hospital Association Project) Series 1998A	1998-2018	Fixed	1,125,000	1,180,000
Health Care Facilities Revenue Bonds (Master Loan Program-Lewis & Clark County Nursing Home Project) Series 1998B	1998-2018	Fixed	1,360,000	1,430,000
Health Care Facilities Revenue Bonds (Master Loan Program-North Valley Hospital Project) Series 1998C	1998-2008	Fixed	955,000	1,125,000
Health Care Facilities Revenue Bonds (Master Loan Program-Lewis & Clark County Office Project) Series 1998D	1998-2018	Fixed	675,000	710,000
Revenue Bonds (Sisters of Charity of Leavenworth Health Services Corp.) Series 1998	1998-2024	Fixed	129,995,000	131,735,000
Developmental Disability Facilities Revenue Bonds (Opportunity Resources, Inc. Project) Series 1998	1998-2018	Fixed	321,884	336,752
Hospital Facilities Revenue Bonds (Kalispell Regional Hospital Project) Series 1998	1998-2018	Fixed	14,110,000	15,305,000
Hospital Facilities Revenue Bonds (Bozeman Deaconess Health Services Project) Series 1998	1998-2018	Fixed	10,665,000	11,190,000
Prerelease Center Revenue Bonds (Missoula Correctional Services Project) Series 1998A	1998-2018	Fixed	4,760,000	4,985,000
Prerelease Center Revenue Bonds (Great Falls Prerelease Services, Inc. Project) Series 1998B	1998-2013	Fixed	950,000	1,025,000
Revenue Bonds (Providence Services) Series 1999	1999-2026	Fixed	25,025,000	25,025,000

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Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2004	Outstanding June 30, 2003
Health Care Facilities Revenue Refunding & Improvement Bonds (Sidney Health Center) Series 1999	1999-2029	Fixed	10,300,000	10,635,000
Health Care Facilities Revenue Bonds (Master Loan Program-Marcus Daly Memorial Hospital Corporation Project) Series 2000	2000-2020	Fixed	3,050,000	3,155,000
Revenue Bonds (Hillcrest Senior Living Project) Series 2000	2000-2030	Fixed	16,725,000	16,955,000
Prerelease Center Revenue Bonds (Boyd Andrew Prerelease) Series 2000	2000-2020	Fixed	2,045,000	2,115,000
Hospital Facilities Revenue Bonds (Kalispell Regional Medical Center) Series 2001	2001-2016	Fixed	19,550,000	20,550,000
Health Care Facilities Revenue Bonds (Master Loan Program-Community Medical Center Project) Series 2001 A&B	2001-2021	Fixed	5,155,000	5,310,000
Variable Rate Demand Revenue Bonds (Mission Ridge Project) - Series 2002	2002-2027	Variable	13,995,000	14,120,000
Revenue Bonds (Providence Services) Series 2002	2002-2025	Fixed	73,275,000	75,380,000
Healthcare Revenue Refunding Bonds (Montana Developmental Center Project) Series 2003*	2003-2019	Fixed	10,975,000	0
Variable Rate Demand Revenue Bonds (Sisters of Charity of Leavenworth Health System Project) Series 2003	2003-2035	Variable	39,210,000	0
Hospital Facilities Revenue Bonds (Bozeman Deaconess Health Services Project) Series 2004	2004-2029	Fixed	12,695,000	0
Hospital Facilities Revenue Bonds (St. Peter's Hospital Project) Series 2004	2004-2024	Fixed	29,705,000	0
<b>Total Revenue Bonds Payable</b>			<b>\$664,627,118</b>	<b>\$638,245,301</b>

Stated maturities on Revenue Bonds Payable are as follows:

Maturing In Year Ended June 30, 2004      Bond Principal Payments (in thousands).

2005	19,083
2006	20,555
2007	22,589
2008	23,769
2009-2035	578,631
<b>Total</b>	<b>\$664,627</b>

The bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements and, further, from the funds created by the indentures and investment earnings thereon.

**Revenue Notes Payable:**

Issue	Period Outstanding	Interest Rate	Outstanding June 30, 2004	Outstanding June 30, 2003
Community Medical Center- Private Placement Revenue Note	1999-2005	5.35%	0	309,756
St. Patrick Hospital- Private Placement Revenue Note	1999-2010	6.06%	1,411,092	1,485,815
Community Medical Center- Private Placement Revenue Note	2001-2007	5.48%	622,133	788,116
Community Medical Center- Private Placement Revenue Note	2001-2007	5.48%	50,931	74,411
St. Peter's Hospital-MHFA Placement Revenue Note	2001-2007	4.25%	1,474,349	2,002,562
St. Patrick Hospital-MHFA Placement Revenue Note	2002-2007	4.33%	876,472	1,405,056

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St. Patrick Hospital-MFFA Placement Revenue Note	2002-2005	4.33%	1,006,438	2,535,859
Kalispell Regional Medical Center – Private Placement Revenue Note	2002-2010	4.65%	4,802,736	5,195,849
Kalispell Regional Medical Center – Private Placement Revenue Note	2005-2013	5.08%	2,377,867	2,452,610
Community Medical Center, Inc. – Private Placement Revenue Note	2003-2008	4.26%	1,578,427	1,939,582
Boyd Andrew Community Services-Private Placement Revenue Note	2004-2014	4.52%	250,000	0
<b>Total Revenue Notes Payable</b>			<b>\$14,450,445</b>	<b>\$18,189,616</b>

The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements.

### 3. Notes Receivable

The Notes Receivable include loans made under the Authority's Direct Loan Program. Since the loans are made from the Authority's Net Assets and not through the issuance of bonds or notes, a receivable is presented. The Short-Term Notes Receivable represents the portion of the loans that are due within the year following the balance sheet date.

**Revenue Notes Receivable:**  
(MFFA Direct Loans)

Issue	Period Outstanding	Interest Rate	Outstanding June 30, 2004	Outstanding June 30, 2003
Residential Support Services	1994-2009	5.53%	11,878	17,381
Butte Sheltered Workshop	1999-2004	5.87%	0	15,910
Powell County Hospital	2000-2005	6.48%	13,084	31,684
Mineral Community Health Care	2000-2005	6.48%	4,632	9,883
Dahl Memorial Healthcare	2001-2006	5.75%	4,888	7,756
Missouri River Medical Center	2001-2005	4.82%	4,864	9,122
STEP	2001-2004	4.75%	0	436
Missouri River Medical Center	2001-2004	3.89%	0	1,630
Beartooth Hospital	2001-2006	3.92%	50,753	70,401
Marcus Daly Memorial Hospital	2002-2006	4.53%	57,784	78,647
Missouri River Med.	2002-2006	4.91%	8,311	10,762
Eastern MT Community Mental Health Center	2003-2007	3.23%	32,324	41,362
Central MT Medical Center	2003-2008	3.19%	72,864	91,303
Big Sandy Medical Center	2003-2008	2.73%	77,871	95,317
Northern Rockies Medical Center	2003-2008	2.80%	35,975	43,840
Northeast MT Health Services	2003-2008	3.00%	79,586	100,000
<b>Total Revenue Notes Receivable</b>			<b>\$454,814</b>	<b>\$625,434</b>

The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements.

### 4. Employee Benefit Plans

The Authority participates in the Public Employees' Retirement System (PERS), a cost sharing, multiple employer, defined benefit pension plan which covers all employees. The plan is established under State law and is administered by the State of Montana. The plan provides retirement, disability and death benefits to plan members and beneficiaries.

The plan issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from:

Public Employees Retirement Division

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The Authority and its employees were each required to contribute 6.9 percent of annual compensation for both fiscal years 2004 and 2003.

The Authority's PERS contributions were \$7,512 and \$6,155 in fiscal years 2004 and 2003, respectively.

**Deferred Compensation Plan**

The Authority'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.

**5. Net Assets**

**Capital Reserve Accounts**

Net Assets	Funded 2004	Requirement 2004	Funded 2003	Requirement 2003
Capital Reserve Account A	1,109,570	3,378,973	1,043,619	3,514,350
Capital Reserve Account B	9,658	94,390	7,595	154,302
Direct Loan Program	773,878	773,878	751,481	751,481
Working Capital Fund	524,988	524,988	535,562	535,562
Total	2,418,094	4,772,229	2,338,257	4,955,695

The Montana Legislature approved the creation of Capital Reserve Accounts in section 90-7-317, MCA, as security for the payment of loans in connection with certain bonds or loans issued by the Authority. The Capital Reserve Account A is security that applies to all bonds issued under the Master Loan Program, Community Provider Pooled Loan Programs, Prerelease Revenue Bonds, as well as the Stand Alone Programs for the Montana Developmental Center and the Montana State Hospital. The Authority designates certain funds equal to 10% of the par amount of the outstanding bonds enhanced by the Montana Board of Investments to be deposited to Capital Reserve Account A. Therefore the Authority has designated a certain portion of the Total Net Assets for loan repayments to the Montana Board of Investments, upon demand, under the Capital Reserve Agreements for 19 outstanding series of bonds. As of June 30, 2004 and 2003, the total outstanding bonds enhanced by the Montana Board of Investments were \$33,789,728 and \$35,143,504, respectively. As of June 30, 2004 the total Capital Reserve Account A requirement was \$3,378,973 and was funded at \$1,109,570. As of June 30, 2003 the total Capital Reserve Account requirement was \$3,514,350 and was funded at \$1,043,619.

Effective July 1, 1999, the Montana Legislature required the Board of Investments to allow the Authority to make loans totaling up to \$15,000,000 of the Permanent Coal Tax Trust Fund for capital projects in section 17-6-308, MCA. Until the Authority makes a loan pursuant to Title 90, Chapter 7, MCA, the funds under its administration must be invested by the Board of Investments. The Board of Investments and the Authority calculate the interest rate on each loan. No new loans were originated under this program during fiscal years 2004 nor in 2003. The Authority

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has issued a total of 5 loans under this authority, three of which are currently outstanding. The outstanding loan amounts (approximately \$943,904) are reported as investments in the financial statements of the Montana Board of Investments. The Authority designates certain funds equal to 10% of the par amount of outstanding loans made from this fund as a loan repayment Capital Reserve Account. These funds are represented in the Total Net Assets as Capital Reserve Account B. As of June 30, 2004, the total Capital Reserve Account B requirement was \$94,390 and was funded at \$9,658. As of June 30, 2003, the total Capital Reserve Account B requirement was \$154,302 and was funded at \$7,595.

**Direct Loan Program**

The Legislature authorized the Authority to create and fund a revolving Direct Loan Program that provides short-term loans to its non-investment grade clients to finance small capital projects. The Authority has designated a certain portion of the Total Net Assets for this revolving loan program. Deposits to the Direct Loan Program include applicable loan repayments, annual fees, and investment earnings. On June 30, 2004 and 2003, the funding requirement for the program was \$773,878 and \$751,481 respectively. As of June 30, 2004 and 2003, respectively, loans of \$454,814 and \$625,434 were outstanding; leaving \$319,064 and \$126,047 available for additional loans.

**Working Capital Fund**

The Authority has designated a working capital fund equal to twice its annual budget. For fiscal years 2004 and 2003 the fund requirement equaled \$524,988 and \$535,562, respectively and were fully funded. These funds are part of the Total Net Assets balance.

**6. Subsequent Event**

On September 10, 2004, four loans were funded out of the Direct Loan Program for a total of \$269,884. These loans were used to refinance loans originally funded with Authority bonds issued in 1990 and 1991.

