A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana Facility Finance Authority

For the Two Fiscal Years Ended June 30, 2008

NOVEMBER 2008

LEGISLATIVE AUDIT
DIVISION

08-12

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel

Deputy Legislative Auditors
James Gillett
Angie Grove

November 2008

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, 2008. The objectives of the audit were to determine the Authority's compliance with applicable laws and regulations, obtain an understanding of the Authority's internal controls and if appropriate, make recommendations for improvement, 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, 2008.

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. The Authority provides access to various debt financing or refinancing instruments at reduced rates to Montana nonprofit private and public health care institutions or prerelease centers for purchases of capital equipment and buildings.

The Authority administers seven programs:

- Direct Loan Program – provides short-term loans up to five years, in amounts of $200,000 or less, to eligible facilities for construction, renovation, acquisition, equipment purchases, and the refinancing of outstanding debt.
- Equipment Revenue Note Program – provides financing for acquisition and installation of equipment. Notes are privately placed with investors for the useful life of the equipment.
- Master Loan Program – loan proceeds from tax exempt bond issuances with negotiable terms and may be used to finance new construction projects with negotiable terms, refinance outstanding bonds, acquire real property, purchase equipment, or reimburse borrowers for prior capital expenditures.
- Trust Fund Loan Program – 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. Loans are made for periods up to 20 years.

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- Stand-Alone Bond Program – issues tax-exempt bonds or notes for individual borrowers for terms up to 40 years.
- Variable Rate Program – provides low, variable interest rate loans from a revolving bond issuance for eligible institutions to finance or refinance land, buildings, equipment, and related capital costs through November 20, 2020.
- Montana Capital Assistance Program – a grant program from Authority funds 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.

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,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

Appointed and Administrative Officials

Board Members

	Profession	Term Expires
Jon Marchi, Chair Polson	Venture Capital/Ranching	2009
Richard (Dick) King Missoula	Missoula Area Economic Development	2009
Larry Putnam Helena	Hospital Administrator	2009
James W. (Bill) Kearns Townsend	Banker	2009
Kim Rickard Helena	Laborers Union Business Manager	2011
Matthew B. Thiel Missoula	Attorney	2011
Joe Quilici Butte	Former Business Owner Former State Legislator	2011

Administrative Staff

Michelle Barstad, Executive Director

Sandy Oitzinger, Associate Director

Nolan Brilz, Program Specialist

Teri Juneau, Accountant

For additional information concerning the Montana Facility Finance Authority, contact:

Michelle Barstad
Montana Facility Finance Authority
Department of Commerce
2401 Colonial Drive, Third Floor
Helena MT 59620-0506
(406) 444-0259
e-mail: mbarstad@mt.gov

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel

Deputy Legislative Auditors
James Gillett
Angie Grove

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, a component unit of the state of Montana, as of June 30, 2008 and 2007, 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 disclosures 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 of the state of Montana as of June 30, 2008 and 2007, and the results of operations and cash flows for each of the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 7, 2008

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

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

Management's Discussion and Analysis

Years ended June 30, 2008 and 2007

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, 2008 and 2007. Please read it in conjunction with the Authority's financial statements and accompanying notes.

Financial Highlights

- The Authority closed bonds/note issues:
  1 ($60,000,000) in FY 2008 and 13 ($242,915,000) in FY 2007
- The Authority made loans from a revolving bond issue:
  No loans in FY 2008 and 1 loan ($6,100,000) in FY 2007
- The Authority made loans out of reserves designated for such purpose:
  6 loans ($426,707) in FY 2008 and 3 loans ($168,170) in FY 2007
- The Authority revised the Trust Fund Loan Program, resulting in
  2 loans ($722,900) in FY 2008 and 6 loans ($4,802,339) in FY 2007
- The Authority awarded (maximum of $60,000 per fiscal year) and expended funds for grants out of reserves designated for such purposes:
  During FY 2008, $44,800 was committed and $38,396 was expensed,
  During FY 2007, $52,692 was committed and $45,210 was expensed
- The Authority's total outstanding bonds/notes/loans increased to $891,958,936 in FY 2008 from $865,599,449 in FY 2007and $683,209,943 in FY 2006

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 2006 to FY 2007 and again in FY 2008 based on an increase in Net Assets. Increased activity has resulted in a larger portfolio which generates greater income. It is not anticipated that the increase will continue due to hiring of additional staff to monitor the increased portfolio and less activity due, in part, to the market turbulence.

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 revenues earned and expenses incurred during the year and classifies activities as either "operating" or "non-operating". The Statement of Cash Flows presents information related to cash inflows and outflows, categorized by operating and investing activities. The reconciliation of operating income to cash provided by operating activities explains the relationship between the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets, showing that increases and decreases in operating assets often require the use or receipt of cash but do not result in recognition of revenue or an expense.

The basic financial statements can be found beginning on page A-6 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.

	2008	2007	2006
Total Assets	3,491,172	3,155,250	2,782,190
Total Current Liabilities	147,163	16,982	53,279
Total Non-current Liabilities	26,881	25,992	19,379
Total Liabilities	174,044	42,974	72,658
Invested in Capital Assets	45	45	45
Total unrestricted net assets	3,317,083	3,112,231	2,709,487
Total Net Assets	3,317,128	3,112,276	2,709,532
Total Net Assets and Liabilities	3,491,172	3,155,250	2,782,190
Total operating revenues	447,023	583,779	445,306
Operating expenses:			
Personal services	153,132	145,696	162,582
Contracted services	98,102	56,975	44,837
Other operating expenses	85,979	76,279	69,985
Grants	38,396	45,210	46,040
Total operating expenses	375,609	324,160	323,444
Operating income	71,414	259,619	121,862
Investment Earnings	133,438	143,125	103,475
Change in net assets	204,852	402,744	225,337

Administrative initial fees are charged to borrowers at the completion of a financing. Annual fees are charged on each 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, 2008 AND 2007

	2008	2007
ASSETS:		
Current Assets:		
Cash & Cash Equivalents (Note 1)	$ 2,290,285	$ 2,437,581
Interest Receivable	5,183	10,136
Accounts Receivable	110,422	20,082
Short Term Notes Receivable (Note 3)	224,437	235,089
Securities Lending Collateral (Note 4)	108,933	0
Due From Primary Government	0	0
Prepaid Expenses	331	344
Total Current Assets	2,739,591	2,703,232
Noncurrent Assets:		
Long Term Notes Receivable (Note 3)	519,828	451,973
Investments	231,708	0
Capital Assets (Note 1)	45	45
Total NonCurrent Assets	751,581	452,018
Total Assets	$ 3,491,172	$ 3,155,250
LIABILITIES:		
Liabilities:		
Current Liabilities:		
Accounts Payable	$ 23,934	$ 13,899
Due to Primary Government	5,678	1,913
Secuities Lending Liability (Note 4)	108,933	0
Compensated Absences	8,618	1,170
Total Current Liabilities	$ 147,163	$ 16,982
Noncurrent Liabilities:		
Compensated Absences	23,955	25,992
OPEB Implicit Rate Subsidy	2,926	0
Total Noncurrent Liabilities	26,881	25,992
Total Liabilities	174,044	42,974
Net Assets		
Invested in Capital Assets Net of Related Debt	$ 45	$ 45
Total Unrestricted Net Assets	3,317,083	3,112,231
Total Net Assets (Note 6)	$ 3,317,128	$ 3,112,276
Total Net Assets and Liabilitites	$ 3,491,172	$ 3,155,250

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, 2008 AND 2007

		2008		***2007***
OPERATING REVENUES:				
Service Fees	$	443,687	$	583,648
Securities Lending Income		3,336		131
Total Operating Revenues	$	447,023	$	583,779
OPERATING EXPENSES:				
Personal Services	$	153,132	$	145,696
Contracted Services		98,102		56,975
Supplies and Materials		9,302		4,413
Communications		4,298		6,537
Benefits		2,926		
Travel		20,853		16,774
Rent		18,803		18,668
Repairs and Maintenance		400		654
Other Expenses		26,786		29,058
Depreciation - Equipment		0		0
Securities Lending Expense		2,611		130
Grants		38,396		45,210
Transfers		0		45
Total Operating Expenses	$	375,609	$	324,160
Operating Income	$	71,414	$	259,619
NON OPERATING REVENUES (EXPENSES)				
Investment Earnings		133,438		143,125
Change in net assets	$	204,852	$	402,744
Net Assets Beginning of Period	$	3,112,276	$	2,709,532
Total Net Assets End of Period	$	3,317,128	$	3,112,276

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, 2008 AND 2007

		2008		*2007*
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts for Sales and Services	$	348,345	$	624,824
Payments to Suppliers for Goods and Services		(199,597)		(178,105)
Payments to Employees		(146,249)		(150,638)
Net Cash Provided by (Used for) Operating Activities	$	2,499	$	296,081
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash Payments for Loans	$	(305,014)	$	(168,170)
Collection for Principal on Loans		247,811		302,392
Proceeds from Securities Lending Income		3,335		131
Payments of Securities Lending Costs		(2,610)		(130)
Cash Adjustment for STIP SIV's		(231,708)		0
Interest on Investments		138,391		133,035
Net Cash Provided by (Used for) Investing Activities:	**$**	(149,795)	$	267,258
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	(147,296)	$	563,339
Cash & Cash Equivalents, July 1	$	2,437,581	$	1,874,242
Cash & Cash Equivalents, June 30	$	2,290,285	$	2,437,581
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating Income (Loss)	$	71,414	$	259,619
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Depreciation		0		0
Securities Lending Expense		2,610		130
Securities Lending Income		(3,335)		(131)
Long Term Liability OPEB Implict Rate Subsidy		2,926		0
Change in Assets & Liabilities:				
Increase (Decrease) in Accounts Payable		10,034		4,179
Increase (Decrease) in Due to Primary Government		3,765		(482)
Increase (Decrease) in Compensated Absences Payable		(2,037)		6,613
Increase (Decrease) in Compensated Absences Payable-Current		7,448		(9,940)
Decrease (Increase) in Accounts Receivable		(90,340)		36,176
Decrease (Increase) in Prepaid Expense		14		(83)
Decrease (Increase) in Due From Primary Government		0		0
Total Adjustments	$	(68,916)	$	36,462
Net Cash Provided by (Used for) Operating Activities	**$**	2,499	$	296,081

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, 2008 AND 2007

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana Facility Finance Authority (the "Authority") Enterprise Fund uses the accrual basis of accounting in accordance with Generally Accepted Accounting Principles. Under this basis, revenues are recognized in the accounting period when realizable, measurable, and earned. Expenses are recognized in the period incurred, when 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.

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

2. Cash, Cash Equivalents, and Investments

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 $39,796 and $103,885 as of June 30, 2008 and 2007 respectively, and cash equivalents invested in the Board of Investments of the State of Montana Short-Term Investment Pool (STIP) of $2,250,489 and $2,333,696 for fiscal year 2008 and 2007, 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 of the State of Montana (the "BOI") 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.

Securities Lending

Under the provisions of state statutes, the BOI has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the BOI receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent of the fair value of the loaned security. The BOI retains all rights and risks of ownership during the loan period.

During fiscal year 2008, State Street loaned, on behalf of the BOI, certain securities held by State Street, as custodian, and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The BOI did not impose any restrictions during fiscal year 2008 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal year 2008. Moreover, there were no losses during fiscal year 2008 resulting from a default of the borrowers or State Street.

During fiscal year 2008, the BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust which has a weighted average maturity of 56 and 35 days, respectively, as of June 30, 2008. The relationship between the average maturities of the investment pool and the BOI loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the BOI could not determine. At year-end, the BOI has no credit risk exposure to borrowers because the amounts the BOI owes the borrowers exceed the amounts the borrowers owe the system.

As of June 30, 2008, the Authority maintained security lending cash collateral of $108,933. None existed at June 30, 2007.

Investment Risk Disclosures

Effective June 30, 2007, the Authority implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The required GASB 40 risk disclosure for the authority is described below.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Authority's investment is limited to STIP managed by the BOI. The Authority does not have a policy related to STIP investments. The BOI's policy requires that STIP securities have the highest investment grade rating in the short term category by at least one Nationally Recognized Statistical Rating Organizations (NRSRO). The five NRSRO's include Standard and Poors, Moody's, Duff and Phelps, Fitch, and Thompson's Bank Watch. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated by the NRSRO.

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

At FYE 2008 the STIP balance on SABHRS included $140,000,000 of investments, in Structure Investment Vehicles, that were no longer liquid. As a result these are no longer considered cash equivalents and were reclassified from cash to investments based on a prorata share of the State's investment in the pool. This will reflect the fact that this portion of STIP is not liquid enough to be considered a cash equivalent and the implicit backing of the pool with State cash. The Board of Investment believes the State will recover most, if not all, of the cash behind these investments. The Authority's portion is $231,708.

Custodial Credit Risk

STIP is managed by the BOI. STIP securities are registered in the nominee name for the BOI and held in the possession of its custodial bank, State Street Bank and Trust.

3. 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 and accordingly, do not appear on the Statement of Net Assets.

The Health Care Revenue Bonds (Montana State Hospital Project) Series 1997[1] 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[2] (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[1] and the Health Care Revenue Refunding Bonds (Montana Developmental Center Project) Series 2003[2] 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, 2008	Outstanding June 30, 2007
Health Care Variable Rate Revenue Bonds (Pooled Loan Program) Series 1985A	1985-2020	Variable	28,700,000	35,900,000
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 A&B	1991-2016	Variable	22,400,000	24,400,000
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 C	1991-2017	Variable	18,100,000	19,400,000
Hospital Facilities Revenue Bonds (Hospital Pooled Loan	1992-			245,000

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2008	Outstanding June 30, 2007
Program) Series 1992	2007	Fixed	0	
Health Care Revenue Bonds (Richland Opportunities, Inc. Project) Series 1993	1993-2013	Fixed	72,775	85,789
Hospital Revenue Bonds (Deaconess-Billings Clinic Health System Project) Series 1994	1994-2025	Variable	58,515,000	58,515,000
Health Care Facilities Revenue Bonds (Master Loan Program-Lutheran Retirement Home, Inc. Project) Series 1994B	1994-2014	Fixed	0	0
Health Care Facilities Revenue Bonds (Master Loan Program Marcus Daly Memorial Hospital Project) Series 1996B	1996-2011	Fixed	635,000	775,000
Health Care Facilities Revenue Bonds (Master Loan Program Glendive Medical Center Project) Series 1996C	1996-2011	Fixed	540,000	660,000
Health Care Revenue Bonds (Community Medical Center, Inc.) Series 1996	1996-2018	Fixed	14,200,000	15,025,000
Hospital Facilities Revenue Bonds (Sisters of Providence of MT Obligated Group-Benefis Health Care) Series 1996	1996-2011	Fixed	0	0
Hospital Facilities Revenue Bonds (St. Peter's Community Hospital Project) Series 1997	1997-2011	Fixed	0	0
Development Disability Facility Revenue Bonds (Beartooth Industries Project) Series 1997	1997-2024	Fixed	192,265	200,049
Prerelease Center Revenue Bonds (Alternatives, Inc. Project) Series 1997	1997-2017	Fixed	1,805,000	1,940,000
Health Care Revenue Bonds (Montana State Hospital) Project) Series 1997[1]	1997-2022	Fixed	18,910,000	19,830,000
Health Care Facilities Revenue Bonds (Master Loan Program-Big Horn Hospital Association Project) Series 1998A	1998-2018	Fixed	875,000	940,000
Health Care Facilities Revenue Bonds (Master Loan Program-Lewis & Clark County Nursing Home Project) Series 1998B	1998-2018	Fixed	1,060,000	1,140,000
Health Care Facilities Revenue Bonds (Master Loan Program-Lewis & Clark County Office Project) Series 1998D	1998-2018	Fixed	525,000	565,000
Revenue Bonds (Sisters of Charity of Leavenworth Health Services Corp.) Series 1998	1998-2024	Fixed	119,345,000	122,580,000
Developmental Disability Facilities Revenue Bonds (Opportunity Resources, Inc. Project) Series 1998	1998-2018	Fixed	124,625	155,874
Hospital Facilities Revenue Bonds (Kalispell Regional Hospital Project) Series 1998	1998-2018	Fixed	8,770,000	10,195,000
Hospital Facilities Revenue Bonds (Bozeman Deaconess Health Services Project) Series 1998	1998-2018	Fixed	8,315,000	8,945,000
Prerelease Center Revenue Bonds (Missoula Correctional Services Project) Series 1998A	1998-2018	Fixed	3,760,000	4,025,000
Prerelease Center Revenue Bonds (Great Falls Prerelease Services, Inc. Project) Series 1998B	1998-2013	Fixed	615,000	705,000
Health Care Facilities Revenue Refunding & Improvement Bonds (Sidney Health Center) Series 1999	1999-2029	Fixed	0	0
Health Care Facilities Revenue Bonds (Master Loan Program-Marcus Daly Memorial Hospital Corporation Project) Series 2000	2000-2020	Fixed	2,565,000	2,695,000
Prerelease Center Revenue Bonds (Boyd Andrew Prerelease) Series 2000	2000-2020	Fixed	1,725,000	1,810,000
Hospital Facilities Revenue Bonds (Kalispell Regional Medical Center) Series 2001	2001-2016	Fixed	15,150,000	16,315,000
Health Care Facilities Revenue Bonds (Master Loan Program-Community Medical Center Project) Series 2001 A&B	2001-2021	Fixed	4,435,000	4,630,000
Variable Rate Demand Revenue Bonds (Mission Ridge Project) – Series 2002	2002-2027	Variable	12,775,000	13,150,000
Revenue Bonds (Providence Services) Series 2002	2002-		0	

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Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2008	Outstanding June 30, 2007
	2025	Fixed		0
Health Care Revenue Refunding Bonds (Montana Developmental Center Project) Series 2003[2]	2003-2019	Fixed	8,665,000	9,270,000
Variable Rate Demand Revenue Bonds (Sisters of Charity of Leavenworth Health System Project) Series 2003	2003-2035	Variable	39,210,000	39,210,000
Hospital Facilities Revenue Bonds (Bozeman Deaconess Health Services Project) Series 2004	2004-2029	Fixed	7,530,000	8,865,000
Hospital Facilities Revenue Bonds (St. Peter's Hospital Project) Series 2004	2004-2024	Fixed	28,505,000	29,240,000
Prerelease Center Revenue Bond (Boyd Andrew Community Services) Series 2004	2004-2014	Fixed	162,496	185,589
Health Care Facilities Revenue Bonds (Master Loan Program – Marias Medical Center Project) Series 2005A	2005-2028	Fixed	3,400,000	3,620,000
Health Care Facilities Revenue Bonds (Master Loan Program – Montana Children's Home and Hospital Project) Series 2005B	2005-2024	Fixed	8,480,000	8,880,000
Prerelease Center Revenue Bond (Boyd Andrew Community Services Project) Series 2005	2005-2021	Fixed	1,064,370	1,124,472
Revenue Refunding Bond (Mission Ridge Project) Series 2007	2005-2016	Fixed	1,718,417	2,187,178
Health Facilities Revenue Bonds (Bozeman Deaconess Health Services Obligated Group) Series 2005	2005-2035	Fixed	26,760,000	27,435,000
Developmental Disability Facility Revenue Bond (Spring Meadow Resources, Inc. Project) Series 2005	2005-2021	Fixed	530,048	559,147
Prerelease Center Revenue Bond (Great Falls Pre-Release Services, Inc. Project) Series 2005	2005-2021	Fixed	4,076,823	4,293,718
Health Care Facilities Revenue Refunding Bonds (Master Loan Program – Northern Montana Obligated Group Project) Series 2006A	2006-2016	Fixed	5,810,000	6,450,000
Variable Rate Demand Revenue Bonds (Sisters of Charity of Leavenworth Health System) Series 2006A	2006-2026	Variable	32,765,000	34,020,000
Revenue Bonds (Providence Health & Services) Series 2006B	2006-2026	Fixed	68,430,000	68,430,000
Prerelease Center Revenue Bonds (Alternatives, Inc.) Series 2006	2006-2026	Fixed	7,650,000	7,920,000
Revenue Bonds (Community, Counseling, and Correctional Services, Inc. Project) Series 2006A	2006-2026	Fixed	9,005,000	9,250,000
Revenue Bonds (Boyd Andrew Community Services Project) Series 2006B	2006-2026	Fixed	4,950,000	5,085,000
Senior Living Revenue Bonds (St. John's Lutheran Ministries Project) Series 2006A	2006-2036	Fixed	27,375,000	27,395,000
Senior Living Revenue Bonds (St. John's Lutheran Ministries Project) Series 2006B	2006-2036	Variable	3,000,000	3,000,000
Health Care Facilities Revenue Bonds (Master Loan Program - Marcus Daly Memorial Hospital) Series 2007A	2007-2027	Fixed	7,135,000	7,135,000
Hospital Facilities Revenue Bonds (St. Peter's Hospital Project) Series 2007	2007-2036	Fixed	20,310,000	21,925,000
Hospital Revenue Bonds (Benefis Healthcare System) Series 2007	2007-2037	Fixed	124,290,000	125,000,000
Health Care Facilities Revenue Bonds (Master Loan Program – Northeast Montana Health Services, Inc. Project) Series 2007B	2007-2032	Fixed	12,515,000	12,515,000
Health Care Facilities Revenue Bonds (Master Loan Program – St. Luke Community Healthcare Network Project) Series 2007C	2007-2032	Fixed	23,225,000	23,500,000
Hospital Revenue Bonds (Billings Clinic) Series 2008	2008-			0

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Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2008	Outstanding June 30, 2007
	2028	Fixed	60,000,000	
Total Revenue Bonds Payable			**$880,671,819**	**$851,321,816**

Stated maturities on Revenue Bonds Payable are as follows:

Maturing in Year Ended June 30,	Bond Principal Payment (in thousands)
2009	$ 53,959
2010	30,359
2011	31,877
2012	31,570
2013-2037	732,907
Total	**$880,672**

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, 2008	Outstanding June 30, 2007
St. Patrick Hospital- Private Placement Revenue Note	1999-2010	6.06%	$1,062,648	$1,157,809
Community Medical Center- Private Placement Revenue Note	2001-2007	5.48%	0	0
St. Peter's Hospital-Private Placement Revenue Note	2001-2007	4.25%	0	0
St. Patrick Hospital-Private Placement Revenue Note	2002-2007	4.33%	0	0
St. Patrick Hospital-Private Placement Revenue Note	2002-2007	4.33%	0	0
Kalispell Regional Medical Center–Private Placement Revenue Note	2002-2010	4.65%	1,445,322	2,112,016
Kalispell Regional Medical Center–Private Placement Revenue Note	2007-2013	5.08%	1,397,333	1,639,910
Community Medical Center, Inc.–Private Placement Revenue Note	2003-2008	4.26%	0	393,027
Billings Clinic–Private Placement Revenue Note	2006-2011	3.99%	3,019,439	4,037,807
Kalispell Regional Medical Ctr.–Private Placement Revenue Note	2007-2017	4.22%	2,798,269	3,250,000
Community Medical Center-Private Placement Revenue Note	2007-2012	4.71%	819,842	1,000,000
Total Revenue Notes Payable			**$10,542,853**	**$13,590,569**

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

4. Notes Receivable

The Notes Receivable include loans made under the Authority's Direct Loan Program. 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, 2008	Outstanding June 30, 2007

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Issue	Period Outstanding	Interest Rate	Outstanding June 30, 2008	Outstanding June 30, 2007
Beartooth Hospital	2001-2008	3.92%	0	0
Marcus Daly Memorial Hospital	2002-2008	4.53%	0	0
Missouri River Med.	2002-2008	4.91%	0	0
Eastern MT Community Mental Health Center	2003-2007	3.23%	0	2,547
Central MT Medical Center	2003-2008	3.19%	0	13,889
Big Sandy Medical Center	2003-2008	2.73%	0	15,883
Northern Rockies Medical Center	2003-2008	2.80%	0	7,988
Northeast MT Health Services	2003-2008	3.00%	0	0
BSW, Inc.	2004-2009	3.53%	29,350	51,916
Ravalli Services	2004-2009	3.53%	16,184	28,627
Region IV Family Outreach	2004-2010	3.53%	0	0
Quality Life Concepts	2004-2009	3.53%	14,286	25,270
Eastern MT Community Mental Health Center	2005-2010	3.90%	9,627	14,167
Phillips County Hospital	2007-2010	3.90%	44,044	63,948
Liberty County Hospital and Nursing Home	2006-2011	4.50%	22,973	31,174
Region IV Family Outreach	2006-2011	4.48%	0	66,794
Beartooth Hospital and Health Center	2006-2011	4.48%	6,256	8,416
Northern Rockies Medical Center	2006-2009	4.60%	17,571	42,938
Boyd Andrew Community Services	2006-2011	4.62%	128,729	166,699
Northern Rockies Medical Center	2006-2011	4.60%	20,255	26,012
Region IV Family Outreach	2006-2011	4.48%	0	92,561
Broadwater Health Center	2007-2011	4.66%	21,006	28,233
Gateway Community Services	2007-2010	6.28%	78,342	0
Gateway Community Services	2007-2010	4.36%	10,134	0
Central Montana Medical Center	2007-2012	4.33%	57,082	0
Western Montana Mental Health	2008-2013	2.95%	132,000	0
Eastern MT Community Mental Health Center	2008-2013	2.83%	73,999	0
Big Sandy Medical Center	2008-2013	3.24%	62,427	0
Total Revenue Notes Receivable			**$744,265**	**$687,062**

5. 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
PO Box 200131
100 South Park, Suite 220
Helena, MT 59620-0131
406-444-3154

The Authority and its employees were each required to contribute 6.9 percent of annual compensation for both fiscal years 2008 and 2007.

The Authority's PERS contributions were $7,986 and $7,794 in fiscal years 2008 and 2007, respectively.

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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.

6. Net Assets

Capital Reserve Accounts

Net Assets	Funded 2008	Requirement 2008	Funded 2007	Requirement 2007
Capital Reserve Account A	$1,272,417	$8,400,341	$1,381,560	$8,778,034
Capital Reserve Account B	101,074	487,866	69,952	461,520
Direct Loan Program	1,126,972	1,126,972	1,079,509	1,079,509
Working Capital Fund	819,588	819,588	581,252	581,252
Total	$3,320,051	$10,834,767	$3,112,273	$10,900,315

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 (13 series of bonds), one Stand Alone bond issue for the Montana Developmental Center, surety bonds issued for Prerelease Revenue Bonds (9 series of bonds), and one Covered Loan under the 1985 Pooled Loan Program. These bonds and loans are enhanced by the BOI through the BOI's contract with the Authority to replenish the debt service reserve fund if necessary. The Authority designates certain funds equal to 10% of the par amount of the enhancements provided by the BOI 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 BOI, upon demand, under the Capital Reserve Agreements. The table below shows enhancements provided by the BOI, the Capital Reserve Account requirement and the amount of the Capital Reserve Account requirement that was funded.

	BOI Enhancements	Capital Reserve Account Requirement	Capital Reserve Account Funded
2008	$84,003,408	$8,400,341	$1,272,417
2007	$87,780,336	$8,778,034	$1,381,560

Effective July 1, 1999, the Montana Legislature required the BOI 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 BOI. The BOI and the Authority calculate the interest rate on each loan. Two new loans were originated under this program during fiscal years 2008 and six in 2007. The Authority has issued a total of 13 loans under this authority, eight of which are currently outstanding. The outstanding loan amount of approximately $4,878,661 as of June 30, 2008 and $4,615,196 as of June 30, 2007 is reported as investments in the financial statements of the BOI. The Authority designates certain funds up to 10% of the par amount of outstanding loans made from this program as a loan repayment, in the event of a borrower default, in the Capital Reserve Account B. These funds are represented in the Total Net Assets as Capital

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Reserve Account B. As of June 30, 2008, the total Capital Reserve Account B requirement was $487,866 and was funded at $101,074. As of June 30, 2007, the total Capital Reserve Account B requirement was $461,520 and was funded at $69,952.

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, 2008 and 2007, the funding requirement for the program was $1,126,972 and $1,079,509 respectively. As of June 30, 2008 and 2007, respectively, loans of 744,265 and $687,062 were outstanding, leaving $382,707 and $392,447 available for additional loans.

Working Capital Fund

The Authority has designated a working capital fund equal to twice its annual budget. For fiscal years 2008 and 2007 the fund requirement equaled $819,588 and $581,252, respectively and were fully funded. These funds are part of the Total Net Assets balance.

7. Subsequent Events

On July 1, 2008, a bond issue in the amount of $30,000,000 was closed for Glendive Medical Center. Proceeds were used for capital improvements/expansion of the facility as well as a refinancing of existing debt.

On July 10, 2008, a bond was issued on behalf of Boyd Andrew Community Services to finance the construction of a new office building to house its administrative offices as well as an enlarged outpatient chemical dependency program area.

On July 24, a $54,305 Direct Loan was made to Broadwater Health Center to purchase a PACS system.

On July 27, 2008, a $27,196 Direct Loan was made to Northern Rockies Medical Center to purchase equipment.

On September 24, 2008, a $55,366 Direct Loan was made to Broadwater Health Center to purchase equipment.