A Report
to the
Montana
Legislature

Financial-Compliance Audit

Montana Facility Finance Authority

For the Two Fiscal Years Ended June 30, 2014

January 2015

Legislative Audit
Division

14-12

Fraud Hotline
(Statewide)
1-800-222-4446
(in Helena)
444-4446
ladhotline@mt.gov

Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether 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) licenses.

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, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

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

Audit Staff

Natalie H. Gibson
Karen E. Simpson
Brenda Kedish

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

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

January 2015

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit of the Montana Facility Finance Authority (authority) for the two fiscal years ended June 30, 2014. We performed this audit of the authority in compliance with §90-7-121, MCA. The report contains one recommendation related to internal controls over financial reporting.

We thank the executive director and her staff for their assistance and cooperation during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

Table of Contents

Tables

Tables

Appointed and Administrative Officials

		Location	Profession	Term Expires
Board Members	Jon Marchi, Chair	Polson	Venture Capital/ Ranching	2017
	Richard (Dick) King	Missoula	Economic Development	2017
	Larry Putnam	Helena	Health Care Consulting	2017
	James W. (Bill) Kearns	Townsend	Banking	2017
	Kim Rickard	Helena	Laborers Union Business Manager	2015
	Matthew B. Thiel	Missoula	Attorney	2015
	Joe Quilici	Butte	Former Business Owner Former State Legislator	2015

Administrative Staff

Michelle Barstad, Executive Director

Teri Juneau, Department of Commerce Accounting Manager

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

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

e-mail: mbarstad@mt.gov

Montana Legislative Audit Division

Financial-Compliance Audit
Montana Facility Finance Authority
For the Two Fiscal Years Ended June 30, 2014

January 2015 14-12 Report Summary

The Montana Facility Finance Authority did not have adequate internal controls in place to ensure accurate and complete financial reporting for fiscal years 2013 and 2014.

Context

The Montana Facility Finance Authority (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 the purchase of capital equipment and buildings. The authority also provides grants to eligible facilities through the Montana Capital Assistance program.

The authority's Direct Loan and Montana Capital Assistance programs are financed by authority moneys, and activity under these programs is recorded on the authority's accounting records. In fiscal years 2013 and 2014, the authority issued $532,848 and $169,614, respectively, of loans under the Direct Loan Program and paid $49,288 and $57,000, respectively, for grants provided under the Montana Capital Assistance Program.

The Equipment Revenue Note, Master Loan, and Stand-Alone Bond programs are financed with conduit debt, which is not a debt or obligation of the authority, but rather of the financed entity. The activity under these programs therefore is not recorded on the state's accounting records. The outstanding balances of conduit debt for fiscal years 2013 and 2014 were $1,088,971,632 and $1,057,681,871, respectively.

The Trust Fund Loan program is authorized in state law, and allows the authority to lend up to $15 million of the Permanent Coal Tax Trust funds. The outstanding balances of loans made against the coal tax trust were $5,072,194 and $3,150,920 for fiscal years 2013 and 2014, respectively. These loans are recorded on the state's accounting records as investments of the Permanent Coal Tax Trust Fund.

Results

We focused our audit effort on loan receivable balances under the Direct Loan Program, service fee revenues generated, operating expenses incurred, and cash and cash equivalents held by the authority. Throughout the audit, we also reviewed and tested select control systems and determined compliance with selected state laws and regulations.

This report contains one recommendation to the authority related to a material weakness in internal controls over financial reporting. The audit identified instances in which internal controls were not adequate to ensure accurate and complete financial reporting in accordance with generally accepted accounting principles.

(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 (14-12) 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 **ladhotline@mt.gov**.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Montana Facility Finance Authority (authority) for the two fiscal years ended June 30, 2014, and 2013. The objectives of the audit were to:

1. Obtain an understanding of the authority's control systems to the extent necessary to support an audit of the authority's financial statements, and, if appropriate, make recommendations for improvement in management and the internal controls of the authority.
2. Determine whether the authority complied with selected state laws and regulations.
3. Determine whether the authority's Statement of Net Position; Statement of Revenues, Expenses, and Changes in Fund Net Position; and Statement of Cash Flows are fairly presented as of June 30, 2014, and 2013, in conformity with generally accepted accounting principles.
4. Determine the implementation status of the prior audit recommendation.

We addressed these objectives by focusing our audit effort on loan receivable balances under the Direct Loan Program, service fee revenues generated, operating expenses incurred, and cash and cash equivalents held by the authority. Throughout the audit, we also reviewed and tested select control systems and determined compliance with selected state laws and regulations.

Internal Controls

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #1 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more 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 one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 outlines the status of a material weakness we identified during this audit.

Table 1
Summary of Deficiencies in Internal Control

Subject	Type of Deficiency	Page
Internal Control over Financial Reporting	Material Weakness	5

Our consideration of internal control was not for the purpose of expressing an opinion on the effectiveness of internal controls. Therefore, material weaknesses or significant deficiencies may exist that were not identified.

This report contains one recommendation to the authority, related to internal control over financial reporting.

Background

The authority is allocated to the Department of Commerce for administrative purposes. 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 and to for-profit or nonprofit small manufacturing facilities for purchases of capital equipment and buildings.

The authority administers six programs for the health care and prerelease sector and has developed a program for the small manufacturing facilities. Programs currently administered by the authority include:

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. The notes are privately placed with investors for the useful life of the equipment.

Master Loan Program provides financing through tax exempt bond issuances with negotiable terms. Proceeds of the loans 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. Loan terms are up to 20 years.

Stand-Alone Bond Program issues tax-exempt bonds or notes for borrowers for terms up to 40 years.

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.

Prior Audit Recommendation

The prior audit for the two fiscal years ended June 30, 2012, contained one recommendation to the authority related to developing internal controls to ensure nonroutine activity is properly recorded on the state's accounting records. The authority did not implement this recommendation. The authority developed additional procedures during the current audit period, intended to address the prior audit recommendation. However, these procedures were not sufficient to ensure proper accounting for the authority's nonroutine activity of the current audit period. This contributed to the internal control recommendation starting on page 5 of this report.

Chapter II – Findings and Recommendations

Inadequate Internal Controls Over Financial Reporting

The authority did not have adequate internal controls in place to ensure accurate and complete financial reporting.

The Montana Facility Finance Authority (authority) is required to prepare financial statements in accordance with provisions established in generally accepted accounting principles (GAAP). Under GAAP, the financial statements include management's discussion and analysis (MD&A) and note disclosures.

In performing work over the authority's financial statements for the two fiscal years ended June 30, 2014, we determined the authority's internal controls were not adequate to ensure accurate and complete financial reporting in accordance with GAAP. The following two report sections describe deficiencies in internal controls identified during the audit.

Loans in Default Status

In fiscal year 2011, one of the authority's borrowers went into default on two loans. One of the loans was made under the authority's Direct Loan Program, using the authority's funds, and the other was made under the Trust Fund Loan Program, using money from the Coal Tax Trust Fund. The combined principal balance on the loans at the time of default was approximately $535,000. We reviewed the accounting and financial reporting for these loans as part of the prior audit, and determined the authority's controls were not adequate to ensure the loans were recorded and reported in accordance with GAAP. This control deficiency contributed to the audit recommendation made to the authority in the prior audit report.

In the current audit period, the authority did not have procedures in place to reasonably estimate the loss expected on the loans as of June 30, 2013, and June 30, 2014. The reported loss of $11,834 was based on the estimate from the prior audit period, which did not take into consideration changes in the circumstances surrounding the two loans in default. We communicated this control deficiency to the authority as part of the audit. In response, management analyzed the activity in order to make adjustments to the financial statements and notes. Management estimated the loss to be $61,834 as of June 30, 2013. Management further determined the direct loan should be written-off as uncollectible for financial reporting purposes as of June 30, 2014, and estimated the loss on the trust fund loan to be $461,860 as of June 30, 2014. The authority's financial statements and notes included in this report reflect these new management estimates.

In July 2014, members of the authority's governing board voted to write-off the two loans in default status and repay the Coal Tax Trust Fund the $461,860 outstanding principal balance due on the trust fund loan. This decision will have a significant impact on the authority's net position. GAAP requires MD&A to include a description of currently known facts, decisions, or conditions that are expected to have a significant effect on an entity's net position. However, the authority's MD&A did not include a description of the board's decision to write-off these loans. We communicated this to the authority and they added the omitted information to the MD&A.

While the authority corrected the financial reporting errors resulting from the control deficiencies we identified, the authority's control system was not adequate to prevent, or detect and correct timely, the errors. Authority staff attribute the errors in the financial presentation of the loans in default status, in part, to the unusual nature of the activity. Default loans are common in the lending industry, but they historically have not been common at the authority. However, the two loans in question have been in default status for several years and were the subject of a recommendation in the prior audit. Accordingly, the activity was not new or unusual in the current audit period.

Authority staff also attributed the errors, in part, to not having an individual on staff who is familiar with both the authority's programmatic operations and the financial reporting requirements in GAAP. The authority has a small number of employees on staff, two to three during the audit period, whose primary focus is on the authority's programmatic operations. The authority has no accounting staff. The authority's financial activity is accounted for, and the financial statements are prepared by, Department of Commerce personnel whose primary focus is on Department of Commerce activities. This structure contributed to the errors identified in the financial presentation of the loans in default status. While the authority does not have accounting staff, there are resources available within state government, such as the Department of Administration's State Financial Services Division, the authority could utilize in an effort to ensure complete and accurate financial reporting.

Notes to the Financial Statements

The authority's financial statements include a disclosure related to the state's Short-Term Investment Pool managed by the Board of Investments. Authority staff did not update investment balances from the prior periods, resulting in overstatements of approximately $5.9 million and $6.6 million in the amounts disclosed for June 30, 2013, and 2014, respectively. The authority's procedures for preparing and reviewing the notes to the financial statements did not identify these errors in the disclosure amounts. We communicated the control deficiency, and related error in the notes, to the authority, and they corrected the note disclosure.

Summary

We consider the control deficiencies previously outlined to be a material weakness in internal controls over financial reporting. The authority's control structure in place during the audit period was not sufficient to prevent, or detect and correct in a timely basis, material errors in the authority's financial statements, notes, and MD&A. State accounting policy requires management to establish and maintain internal controls to ensure their programs operate in conformity with applicable laws and regulations, and the related financial transactions are accurate and properly recorded in accordance with GAAP. While the authority made the necessary financial statement, note, and MD&A adjustments for the errors we identified during the audit, the authority's internal control procedures should be designed and implemented to allow management to prevent, or detect and correct, the errors prior to our office's audit of the documents.

Recommendation #1

We recommend the authority implement internal control procedures to ensure accurate and complete financial reporting, in accordance with generally accepted accounting principles.

Independent Auditor's Report and Authority's Financial Statements

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Statement of Net Position-Enterprise Fund of the Montana Facility Finance Authority, a component unit of the state of Montana, as of June 30, 2014, and 2013, the related Statement of Revenues, Expenses and Changes in Fund Net Position-Enterprise Fund, and the Statement of Cash Flows-Enterprise Fund for each of the fiscal years 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 opinions 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 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 Authority'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 Authority'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.

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Montana Facility Finance Authority as of June 30, 2014, and 2013, and the changes in net position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page A-3 and the Schedule of Funding Progress for Montana Facility Finance Authority Other Post-Employment Benefits on page A-20 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.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 5, 2014

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

Management's Discussion and Analysis

Years ended June 30, 2014 and 2013

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, 2014 and 2013. Please read it in conjunction with the Authority's financial statements and accompanying notes.

Financial Highlights

Bond issuance activity was down in both fiscal years, as anticipated in the previous audit.

- The Authority closed bonds/note issues:
  1 bond issue ($8,500,000) in FY 2014 and 2 bond issues ($23,175,000) in FY 2013
- The Authority made loans out of reserves designated for such purpose:
  2 loans ($169,614) in FY 2014 and 4 loans ($532,848) in FY 2013
- The Authority did not make any loans from the Trust Fund Loan Program in either fiscal year
- The Authority awarded (maximum of $60,000 per fiscal year) and expended funds for grants out of reserves designated for such purposes:
  During FY 2014, $57,000 was committed and $57,000 was expensed,
  During FY 2013, $60,000 was committed and $49,288 was expensed
- The Authority's total outstanding bonds/notes/loans decreased to $1,061,785,971 in FY 2014 from $1,095,306,956 in FY 2013 and $1,138,601,838 in FY 2012

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 are comprised of two components; the 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.

Basic Financial Statements

The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net positon. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Fund Net Position 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 Position and the Statement of Revenues, Expenses, and Changes in Fund Net Position, 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-7 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-10 of this report.

Financial Analysis of the Authority

The overall condition of the Authority decreased as a result of two loan defaults as described below. Additionally, bond issuance activity was low, but decreased revenues collected were mitigated by controlling expenses by not filling one open personnel position.

Loan Defaults

On January 12, 2007, the MFFA made a $513,330 loan to Gateway Community Services ("Gateway") to purchase and remodel four condominium units. Funds for the loan came from the Permanent Coal Tax Trust Fund under the Authority's Trust Fund Loan Program. On September 17, 2007, the Authority made an additional loan to Gateway in the amount of $80,000 for additional construction costs for the remodel of the condominium units. Funds for that loan came from the Authority's Direct Loan Program. Gateway defaulted on both loans September 15, 2010 and subsequently abandoned the condominium units. As of June 30, 2014, $569,376 was due to the Permanent Coal Trust Fund, reflecting $461,860 of principal and $107,516 of interest and $90,203 was due to the Authority, reflecting $73,170 of principal and $17,033 of interest.

The Authority worked with the other condominium owners to sell the building, but when an environmental assessment estimated over $123,000 of remediation costs, the interested purchaser pursued other building options. On July 7, 2014 the Board of the Authority determined that the Gateway loans should be written off and the mortgages released. The Board further directed payment of $461,860 to the Permanent Coal Tax Trust Fund from funds designated for such an event.

Condensed financial statements are presented below.

Montana Facility Finance Authority
Condensed Financial Information
Changes in Net Position and Operating Income
Years Ended June 30, 2014, 2013, and 2012

	2014	2013	2012
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	3,819,758	3,363,219	3,371,977
Short Term Notes Receivable	291,759	344,207	322,539
Other Current Assets	4,645	88,192	10,208
Total Current Assets	4,116,162	3,795,618	3,704,724
NonCurrent Assets:			
Long Term Notes Receivable	661,419	918,924	804,039
Investments	41,895	44,207	55,459
Capital Assets	29,039	30,238	31,436
Total NonCurrent Assets	732,353	993,369	890,934
Total Assets	4,848,515	4,788,987	4,595,658
LIABILITIES:			
Total Current Liabilities	38,377	49,149	47,980
Total Non-current Liabilities	523,586	126,549	94,449
Total Liabilities	561,962	175,698	142,429
Net Investment in Capital Assets	29,039	30,238	31,436
Total unrestricted Net Position	4,257,514	4,583,051	4,421,793
Total Net Position	4,286,553	4,613,289	4,453,229
Total Net Position and Liabilities	4,848,515	4,788,987	4,595,658

	2014	2013	2012
OPERATING REVENUES:			
Service Fees	498,052	532,429	720,870
Securities Lending Income	6	31	210
Total Operating Revenues	498,058	532,460	721,080
OPERATING EXPENSES:			
Personal services	177,463	185,371	186,424
Contracted services	39,382	28,280	50,809
Other operating expenses	596,661	168,805	171,121
Grants	57,000	49,288	45,686
Total operating expenses	870,506	431,744	454,040
Operating income	(372,448)	100,716	267,040
NON OPERATING REVENUES (EXPENSES)			
Investment Earnings	45,712	55,882	45,865
Change in Net Position	(326,736)	156,598	312,905
Net Position Beginning of Period	4,613,289	4,453,229	4,146,855
Prior Period Adjustment	0	3,462	(6,531)
Total Net Position End of Period	4,286,553	4,613,289	4,453,229

Intentionally left blank

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET POSITION - ENTERPRISE FUND
JUNE 30, 2014 AND 2013

ASSETS:	***2014***	***2013***
Current Assets:		
Cash & Cash Equivalents (Note 2)	$ 3,819,758	$ 3,363,219
Interest Receivable	354	515
Accounts Receivable	366	78,042
Short Term Notes Receivable (Note 4)	291,759	344,207
Securities Lending Collateral (Note 2)	2,833	9,301
Prepaid Expenses	1,092	334
Total Current Assets	4,116,162	3,795,618
Noncurrent Assets:		
Long Term Notes Receivable (Note 4)	661,419	918,924
Investments	41,895	44,207
Capital Assets (Note 1)	29,039	30,238
Total NonCurrent Assets	732,353	993,369
Total Assets	$ 4,848,515	$ 4,788,987
LIABILITIES:		
Liabilities:		
Current Liabilities:		
Accounts Payable	$ 8,616	$ 7,182
Due to Primary Government	1,376	2,000
Secuities Lending Liability (Note 2)	2,833	9,301
Current Portion of LT Payables	15,144	16,428
Compensated Absences	10,408	14,238
Total Current Liabilities	$ 38,377	$ 49,149
Noncurrent Liabilities:		
Compensated Absences	24,815	16,211
LT Payables	0	14,944
Loan Loss Contingency (Note 8)	461,860	61,834
OPEB Implicit Rate Subsidy (Note 6)	36,910	33,560
Total Noncurrent Liabilities	523,585	126,549
Total Liabilities	561,962	175,698
Net Position		
Net Investment in Capital Assets	$ 29,039	$ 30,238
Total Unrestricted Net Position	4,257,514	4,583,051
Total Net Position (Note 7)	$ 4,286,553	$ 4,613,289
Total Net Position and Liabilitites	$ 4,848,515	$ 4,788,987

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 POSITION
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

	2014	*2013*
OPERATING REVENUES:		
Service Fees	$ 498,052	$ 532,429
Securities Lending Income	6	31
Total Operating Revenues	$ 498,058	$ 532,460
OPERATING EXPENSES:		
Personal Services	$ 177,463	$ 185,371
Contracted Services	39,382	28,280
Supplies and Materials	3,475	10,132
Communications	7,691	3,763
Benefits	3,974	8,373
Depreciation	1,198	419
Travel	19,294	10,075
Rent	18,725	22,773
Repairs and Maintenance	8,988	11,175
Other Expenses	114,458	39,169
Securities Lending Expense	0	10
Grants	57,000	49,288
Claims	400,026	50,000
Component Unit Expense to Primary Government	18,833	12,916
Total Operating Expenses	$ 870,506	$ 431,744
Operating Income	$ (372,448)	$ 100,716
NON OPERATING REVENUES (EXPENSES)		
Investment Earnings	45,712	55,882
Change in Net Position	$ (326,736)	$ 156,598
Net Position Beginning of Period	$ 4,613,289	$ 4,453,229
Prior Period Adjustment	0	3,462
Total Net Position End of Period	$ 4,286,553	$ 4,613,289

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, 2014 AND 2013

		2014		2013
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts for Sales and Services	$	559,500	$	438,603
Receipt from Operating Loan		(2,000)		2,000
Payment to Suppliers for Goods and Services		(198,944)		(181,663)
Payments to Employees		(186,990)		(202,103)
Net Cash Provided by (Used for) Operating Activities	$	171,566	$	56,837
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash Payments for Loans	$	(169,614)	$	(532,848)
Cash Payments for Investment		0		0
Collection for Principal on Loans		406,396		396,296
Proceeds from Securities Lending Income		6		31
Payments of Securities Lending Costs		(0)		(10)
Cash Adjustment for STIP SIV's		2,313		11,252
Interest on Investments		45,872		56,222
Net Cash Provided by (Used for) Investing Activities:	$	284,973	$	(69,057)
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	456,539	$	(12,220)
Cash & Cash Equivalents, July 1	$	3,363,219	$	3,371,977
Prior Period Adjustment	$	0		3,462
Cash & Cash Equivalents, June 30	$	3,819,758	$	3,363,219
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating Income (Loss)	$	(372,448)	$	100,716
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Depreciation		1,198		1,198
Securities Lending Expense		0		10
Securities Lending Income		(6)		(31)
Change in Assets & Liabilities:				
Increase (Decrease) in Accounts Payable		1,575		(2,351)
Increase (Decrease) in Due to Primary Government		1,236		(832)
Increase (Decrease) in Due to Other Fund		(2,000)		2,000
Increase (Decrease) in Compensated Absences Payable		8,604		(6,017)
Increase (Decrease) in OPEB		3,351		4,544
Increase (Decrease) in Compensated Absences Payable-Current		(3,830)		118
Decr (Incr) in Long-Term Notes Receivable		73,170		0
Incr (Decr) in Loan Loss Contingency		400,026		50,000
Increase (Decrease) in LT Accounts Payable-Current		(1,283)		0
Increase (Decrease) in LT Accounts Payable		(14,944)		(16,428)
Decrease (Increase) in Accounts Receivable		77,675		(77,399)
Decrease (Increase) in Prepaid Expense		(758)		1,307
Decrease (Increase) in Due From Primary Government		0		0
Total Adjustments	$	544,014	$	(43,881)
Net Cash Provided by (Used for) Operating Activities	**$**	171,566	$	56,835

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, 2014 AND 2013

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 Position and Statement of Cash Flows represents the Authority's cash of $39,762 and $3,208 as of June 30, 2014 and 2013 respectively, and cash equivalents invested in the Board of Investments of the State of Montana Short-Term Investment Pool (STIP) of $3,821,891 and $3,404,218 for fiscal year 2014 and 2013, respectively. STIP balances include $41,895 for fiscal year 2014 and $44,207 for fiscal year 2013 of investments that are no longer liquid and classified as non-current assets (see last paragraph of Note 2 for further clarification). 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

The BOI is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust "the Bank", to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. The Board and the bank split the earnings on security lending activities. The BOI retains all rights and risks of ownership during the loan period.

During fiscal years 2014 and 2013, the custodial bank lent BOI public securities and received as collateral: U.S. dollar cash; U.S. government and government sponsored agency securities; U.S. corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The BOI imposed no restrictions on the amount of securities available to lend during fiscal years 2014 and 2013. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of Default of the Borrower (other than the default by Lehman Brothers Inc. which occurred in September 2008 and the BOI was made whole in the process). There were no losses resulting from a borrower default.

During fiscal years 2014 and 2013, the BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the BOI's 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 2014 and 2013, the BOI had no credit risk exposure to borrowers because the collateral pledged by the borrowers exceeded the value of the securities borrowed.

As of June 30, 2014 and 2013, the Authority maintained security lending cash collateral of $2,833 and $9,301, respectively.

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.

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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 Poor's, 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.

At FYE 2014 and 2013 the STIP balance on SABHRS included $ 15,591,507 and $17,987,295, respectively, of holdings 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 pro rata 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 $41,895 for fiscal year 2014 and $44,207 for fiscal year 2013.

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 Outstanding

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 Position.

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.

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Revenue Bonds Outstanding:

Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2014	Outstanding June 30, 2013
Development Disability Facility Revenue Bonds (Beartooth Industries Project) Series 1997	1997-2024	Fixed	137,106	147,389
Prerelease Center Revenue Bonds (Alternatives, Inc. Project) Series 1997	1997-2017	Fixed	835,000	1,015,000
Health Care Revenue Bonds (Montana State Hospital) Project) Series 1997[1]	1997-2022	Fixed	12,350,000	13,580,000
Health Care Facilities Revenue Bonds (Master Loan Program-Big Horn Hospital Association Project) Series 1998A	1998-2018	Fixed	400,000	490,000
Health Care Facilities Revenue Bonds (Master Loan Program-Lewis & Clark County Office Project) Series 1998D	1998-2018	Fixed	240,000	295,000
Developmental Disability Facilities Revenue Bonds (Opportunity Resources, Inc. Project) Series 1998	1998-2018	Fixed	51,379	64,079
Prerelease Center Revenue Bonds (Missoula Correctional Services Project) Series 1998A	1998-2018	Fixed	1,950,000	2,285,000
Health Care Facilities Revenue Bonds (Master Loan Program-Marcus Daly Memorial Hospital Corporation Project) Series 2000	2000-2020	Fixed	1,620,000	1,800,000
Prerelease Center Revenue Bonds (Boyd Andrew Prerelease) Series 2000	2000-2020	Fixed	1,090,000	1,210,000
Health Care Revenue Refunding Bonds (Montana Developmental Center Project) Series 2003[2]	2003-2019	Fixed	4,435,000	5,215,000
Variable Rate Demand Revenue Bonds (Sisters of Charity of Leavenworth Health System Project) Series 2003	2003-2035	Variable	37,480,000	38,575,000
Hospital Facilities Revenue Bonds (Bozeman Deaconess Health Services Project) Series 2004	2004-2029	Fixed	5,980,000	6,260,000
Hospital Facilities Revenue Bonds (St. Peter's Hospital Project) Series 2004	2004-2024	Fixed	0	0
Prerelease Center Revenue Bond (Boyd Andrew Community Services) Series 2004	2004-2014	Fixed	0	30,196
Health Care Facilities Revenue Bonds (Master Loan Program – Marias Medical Center Project) Series 2005A	2005-2028	Fixed	2,285,000	2,385,000
Health Care Facilities Revenue Bonds (Master Loan Program – Montana Children's Home and Hospital Project) Series 2005B	2005-2024	Fixed	5,895,000	6,360,000
Prerelease Center Revenue Bond (Boyd Andrew Community Services Project) Series 2005	2005-2021	Fixed	634,338	715,122
Health Facilities Revenue Bonds (Bozeman Deaconess Health Services Obligated Group) Series 2005	2005-2035	Fixed	22,125,000	22,970,000
Developmental Disability Facility Revenue Bond (Spring Meadow Resources, Inc. Project) Series 2005	2005-2021	Fixed	318,933	358,949
Prerelease Center Revenue Bond (Great Falls Pre-Release Services, Inc. Project) Series 2005	2005-2021	Fixed	2,519,977	2,813,045
Health Care Facilities Revenue Refunding Bonds (Master Loan Program – Northern Montana Obligated Group Project) Series 2006A	2006-2016	Fixed	1,345,000	2,175,000
Variable Rate Demand Revenue Bonds (Sisters of Charity of Leavenworth Health System) Series 2006A	2006-2026	Variable	24,210,000	25,775,000
Revenue Bonds (Providence Health & Services) Series 2006B	2006-2026	Fixed	62,380,000	65,175,000
Prerelease Center Revenue Bonds (Alternatives, Inc.) Series 2006	2006-2026	Fixed	5,775,000	6,120,000
Revenue Bonds (Community, Counseling, and Correctional Services, Inc. Project) Series 2006A	2006-2026	Fixed	6,890,000	7,280,000
Revenue Bonds (Boyd Andrew Community Services Project) Series 2006B	2006-2026	Fixed	3,790,000	4,005,000

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2014	Outstanding June 30, 2013
Senior Living Revenue Bonds (St. John's Lutheran Ministries Project) Series 2006A	2006-2036	Fixed	22,815,000	23,305,000
Health Care Facilities Revenue Bonds (Master Loan Program - Marcus Daly Memorial Hospital) Series 2007A	2007-2027	Fixed	5,545,000	5,835,000
Hospital Facilities Revenue Bonds (St. Peter's Hospital Project) Series 2007	2007-2036	Fixed	15,000,000	15,000,000
Hospital Revenue Bonds (Benefis Healthcare System) Series 2007	2007-2037	Fixed	108,625,000	111,825,000
Health Care Facilities Revenue Bonds (Master Loan Program – Northeast Montana Health Services, Inc. Project) Series 2007B	2007-2032	Fixed	10,625,000	11,005,000
Health Care Facilities Revenue Bonds (Master Loan Program – St. Luke Community Healthcare Network Project) Series 2007C	2007-2032	Fixed	19,535,000	20,215,000
Hospital Revenue Bonds (Billings Clinic) Series 2008A	2008-2028	Fixed	14,025,000	15,330,000
Hospital Revenue Bonds (Billings Clinic) Series 2008B	2008-2028	Fixed	14,660,000	14,660,000
Health Care Facilities Revenue Bonds (Master Loan Program – Glendive Medical Center) Series 2008A	2008-2034	Fixed	27,020,000	27,825,000
Revenue Bonds (Boyd Andrew Community Services Project) Series 2008	2009-2029	5-year Fixed	0	0
Revenue Bonds (Rimrock Foundation Project) Series 2009	2009-2030	5-year Fixed	508,903	531,450
Health Care Facilities Revenue Bonds (Sisters of Charity of Leavenworth Health System) Series 2010A	2010-2024	Fixed	106,060,000	106,060,000
Health Care Facilities Revenue Bonds (Sisters of Charity of Leavenworth Health System) Series 2010B	2010-2040	Fixed	86,830,000	93,215,000
Health Care Facilities Revenue Bonds (Master Loan Program – Powell County Memorial Hospital) Series 2010A	2010-2036	Fixed	15,000,000	15,000,000
Health Care Facilities Revenue Bonds (Powell County Memorial Hospital) Series 2010B	2010-2018	Fixed	2,050,000	2,455,000
Taxable Revenue Build America Bonds (Barrett Hospital and Health Care) Series 2010A	2010-2037	Fixed	29,165,000	29,165,000
Taxable Revenue Bonds (Barrett Hospital and Health Care) Series 2010B	2010-2016	Fixed	1,485,000	2,170,000
Health Care Facilities Revenue Bonds (Kalispell Regional Medical Center) Series 2010	2010-2040	Fixed	55,370,000	55,570,000
Health Care Facilities Revenue Note (Western Montana Mental Health Center) Series 2010	2010-2030	Fixed	1,252,600	1,297,233
Health Care Facilities Revenue Bonds (Master Loan Program - Community Medical Center) Series 2010D	2010-2035	Fixed	19,015,000	19,015,000
Health Care Facilities Revenue Bonds (Community Medical Center) Series 2010E	2010-2025	Fixed	5,850,000	5,850,000
Hospital Revenue Bonds (Benefis Health Care System) Series 2011A	2011-2031	Fixed	41,745,000	41,905,000
Hospital Revenue Bonds (Benefis Health Care System) Series 2011B	2011-2030	7-year Fixed	15,685,000	16,350,000
Acquisition and Refunding Revenue Note (Sapphire Lutheran Homes) Series 2011	2011-2041	5-year Fixed	4,678,422	4,784,238
Health Facilities Revenue Bonds (Billings Clinic) Series 2011A	2011-2038	3 year Fixed	71,370,000	72,700,000
Health Facilities Revenue Bonds (Billings Clinic) Series 2011B	2011-2038	5 year Fixed	61,845,000	63,000,000
Senior Living Revenue Refunding Bonds (Mission Ridge Project) Series 2011	2011-2031	5-year Fixed	9,060,686	9,417,496
Senior Living Revenue Bonds (St. John's Lutheran Ministries) Series 2011	2011-2031	5-year Fixed	4,077,308	4,237,873

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2014	Outstanding June 30, 2013
Health Facilities Revenue Bonds (Bozeman Deaconess Health Services) Series 2011	2011-2031	Fixed	18,490,000	19,285,000
Health Facilities Revenue Bonds (North Valley Hospital) Series 2011	2012-2027	10-year Fixed	22,009,849	23,330,873
Health Care Facilities Revenue Note (Western Montana Mental Health Center) Series 2012	2012-2033	Fixed	1,678,828	1,740,000
Health Facilities Revenue Bonds (St. Peter's Hospital) Series 2013	2013-2024	Fixed	19,525,000	21,260,000
Total Revenue Bonds Outstanding			**$1,035,338,329**	**$1,070,437,943**

Stated maturities on Revenue Bonds Outstanding are as follows:

Maturing in Year Ended June 30	Bond Principal Payment (in thousands)
2015	$ 39,658
2016	40,706
2017	57,577
2018	43,650
2019-2042	853,747
Total	**$1,035,338**

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 Outstanding:

Issue	Period Outstanding	Interest Rate	Outstanding June 30, 2014	Outstanding June 30, 2013
Kalispell Regional Medical Center-Private Placement Revenue Note	2002-2013	5.08%	0	0
Kalispell Regional Medical Ctr.–Private Placement Revenue Note	2007-2017	4.22%	778,358	1,016,706
Bozeman Deaconess-Private Placement Revenue Note 2010A	2010-2015	1.75%	330,000	1,145,000
Bozeman Deaconess-Private Placement Revenue Note 2010B	2010-2015	3.14%	3,140,000	3,140,000
Community Medical Center-Private Placement Revenue Note 2010A	2010-2014	2.66%	0	700,000
Community Medical Center-Private Placement Revenue Note 2010B	2010-2022	5.10%	8,305,000	9,390,000
Kalispell Regional Medical Center-Private Placement Revenue Note 2011A	2011-2016	2.33%	1,006,243	1,509,365
Kalispell Regional Medical Center-Private Placement Revenue Note 2011B	2011-2018	2.56%	1,333,232	1,632,619
Community Medical Center-Private Placement Revenue Note 2013A	2013-2020	1.918%	7,450,709	0
Total Revenue Notes Outstanding			**$22,343,542**	**$18,533,690**

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, 2014	Outstanding June 30, 2013
Gateway Community Services	2007-2010	6.28%	0	73,170
Central Montana Medical Center	2007-2012	4.33%	0	0
Western Montana Mental Health	2008-2013	2.95%	0	0
Eastern MT Community Mental Health Center	2008-2013	2.83%	0	0
Big Sandy Medical Center	2008-2013	3.24%	0	0
Broadwater Heath Center	2008-2013	3.47%	0	984
Northern Rockies Medical Center	2008-2013	3.47%	0	496
Broadwater Heath Center	2008-2013	3.39%	0	2,994
Rimrock Foundation	2008-2020	5.93%	118,522	133,744
Spring Meadow Resources	2008-2020	5.93%	176,123	198,743
Western Montana Mental Health	2009-2014	1.73%	0	9,352
Mineral Community Hospital	2009-2014	3.00%	0	6,279
Eastern MT Community Mental Health Ctr.	2009-2014	3.00%	0	8,058
Opportunity Resources, Inc.	2009-2014	3.00%	7,223	35,581
Marias Medical Center	2010-2015	3.00%	24,366	65,160
Eastern MT Community Mental Health Ctr.	2010-2015	3.00%	20,718	44,906
Teton Public Hospital District	2011-2015	3.00%	13,531	29,328
Pondera Medical Center	2011-2016	3.00%	0	26,236
Mineral Community Hospital	2011-2015	3.00%	15,197	27,806
Wheatland Memorial Hospital	2011-2016	3.00%	39,526	55,638
Mineral Community Hospital	2012-2015	3.00%	10,266	21,149
Broadwater Health Center	2012-2017	3.00%	38,374	50,078
Roundup Memorial Healthcare	2012-2017	3.00%	11,172	14,678
Livingston Healthcare	2012-2017	3.00%	128,167	166,181
Big Horn Hospital Association	2012-2017	3.00%	136,516	174,884
Fallon Medical Complex	2012-2016	3.00%	48,162	67,093
Pondera Medical Center	2013-2018	3.00%	0	50,592
Central Montana Medical Center	2014-2019	3.00%	129,397	0
Roosevelt Medical Center	2014-2018	3.00%	35,918	0
Total Revenue Notes Receivable			**$953,178**	**$1,263,130**

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

Authority employees were required to contribute 7.9 percent of annual compensation for fiscal year 2014. Employee contribution for fiscal year 2013 depended upon the hire date. Employees hired before July 1, 2011 were required to contribute 6.9 percent of annual compensation for fiscal year 2013. Employees hired after July 1, 2011 were required to contribute 7.9 percent of annual compensation for fiscal year and 2013.

The Authority was required to contribute 8.17 percent of annual compensation for fiscal year 2014 and 7.17 percent of annual compensation for 2013. The Authority's PERS contributions were $10,525 and $10,395 in fiscal years 2014 and 2013, 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.

6. OPEB – OTHER POST EMPLOYMENT BENEFITS

Refer to the State of Montana Comprehensive Annual Financial Report (CAFR) Note 7. The State of Montana CAFR is available at the Department of Administration, Administrative and Financial Services Division's website at http://afsd.mt.gov/cafr/cafr.asp. Also see Supplemental Information on Page A-20.

7. Net Position

Capital Reserve Accounts

Net Position	Funded 2014	Requirement 2014	Funded 2013	Requirement 2013
Capital Reserve Account A	$1,251,339	$12,083,968	$1,633,427	$12,528,968
Capital Reserve Account B	0	507,219	253,665	617,564
Direct Loan Program	1,876,332	1,876,332	1,907,779	1,907,779
Working Capital Fund	1,158,882	1,158,882	818,418	818,418
Total	$4,286,553	$15,626,401	$4,613,289	$15,872,729

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 (12 series of bonds), one Stand Alone bond issue for the Montana Developmental Center, and surety bonds issued for Prerelease Revenue Bonds (8 series of bonds). 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 Position 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
2014	116,153,453	12,083,968	1,251,339
2013	120,839,677	12,528,968	1,633,427

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. No new loans were originated under this program during fiscal years 2014 and 2013. The Authority has issued a total of 20 loans under this authority, seven of which are currently outstanding. The outstanding loan amount of approximately $3,150,920 as of June 30, 2014 and $5,072,194 as of June 30, 2013 is reported as investments in the financial statements of the BOI and does not take into account the Gateway Community Services loan loss contingency, as discussed in Notes 8 and 9, below, because the Authority will pay the BOI the full principal amount of the Gateway loan in fiscal year 2015. 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 Position as Capital Reserve Account B. As of June 30, 2014, the total Capital Reserve Account B requirement was $507,219 and was funded at $0. As of June 30, 2013, the total Capital Reserve Account B requirement was $617,564 and was funded at $253,665.

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 Position for this revolving loan program. Deposits to the Direct Loan Program include applicable loan repayments, annual fees, and investment earnings. On June 30, 2014 the funding requirement for the program was $1,876,332, had loans outstanding of $953,178 leaving $923,155 available for additional loans. As of June 30, 2013 the funding requirement for the program was $1,907,779, had loans outstanding of $1,263,130 leaving $644,650 available for additional loans.

Working Capital Fund

The Authority has designated a working capital fund equal to twice its annual budget. For fiscal years 2014 and 2013 the fund requirement equaled $1,158,882 and $818,418, respectively and were fully funded. These funds are part of the Total Net Position balance.

8. Loan Loss Contingency & Loan Write-Off

On January 12, 2007, the MFFA made a $513,330 loan to Gateway Community Services ("Gateway") to purchase and remodel four condominium units. Funds for the loan came from the Permanent Coal Tax Trust Fund under the Authority's Trust Fund Loan Program. Gateway defaulted on this loan September 15, 2010 and subsequently abandoned the condominium units. As of June 30, 2014, $569,376 was due to the Permanent Coal Tax Trust Fund, reflecting $461,860 of principal and $107,516 of interest.

On September 17, 2007, the MFFA made an $80,000 loan to Gateway for additional construction costs for the remodeling of condominium units referenced above. Funds for the loan came from the Authority's Direct Loan Program. Gateway defaulted on this loan September 15, 2010 and subsequently abandoned the condominium units.

As of June 30, 2014, $90,203 was due to the Authority, reflecting $73,170 of principal and $17,033 of interest.

The condominium owners pursued selling the building. As of June 30, 2013, there was a viable purchaser for the building; however, it was determined that the purchaser probably wouldn't pay the amount owed to the Authority on its loans. An additional $50,000 was added to the Loan Loss Contingency for the period ending June 30, 2013.

An environmental assessment was completed on the building in early 2014 resulting in over $123,000 of estimated remediation costs. A developer subsequently examined the building and identified several additional issues. Several executives met June 25, 2014 to determine the feasibility of selling the building and concluded that there was no longer a viable purchaser.

An additional $400,026 was added to Loan Loss Contingency account for the fiscal year ended June 30, 2014, resulting in the full principal amount of $461,860 under the Trust Fund Loan Program. The principal amount of the Direct Loan, $73,170 was moved into bad debt, reflected in other operating expenses, resulting in the full write-off of the loan as of June 30, 2014.

9. Subsequent Events

On July 7, 2014 the Board of the Authority determined that the Gateway Community Services loans should be written off and the mortgages released. The Board further directed payment of $461,860 to the Permanent Coal Tax Trust Fund from funds designated for such an event. The Board further directed that the one condominium owned by the Authority be offered to the other condominium owners. Steps to accomplish the write-off, releases and transfer are in process and expect to be completed prior to December 31, 2014.

On August 7, 2014, $30 million of bonds were issued for the benefit of Missions United (Billings) to finance the construction of a continuing care retirement facility in the Billings Heights area and to refinance approximately $9.25 million of outstanding bonds to reduce the interest rate.

On November 5, 2014, $21.77 million of bonds were issued for the benefit of Bozeman Deaconess Health Services to finance a portion of the costs to construct a hospital and medical office building in Big Sky, Montana.

On November 13, 2014, $17 million of bonds were issued for the benefit of Kalispell Regional Medical Center to finance multiple projects including the cancer center expansion, Health Information Technology Data Center, construction overruns and geo thermal for the surgery tower, parking lot improvements and miscellaneous equipment.

On November 20, 2014, $61.69 million of bonds were issued for the benefit of Sisters of Charity of Leavenworth Health System, with Montana hospitals located in Miles City, Billings and Butte, to refinance bonds issued in 2003 and 2006.

On November 25, 2014, $10 million of bonds were issued for Bozeman Deaconess Health Services to finance a portion of the costs to install an Electronic Health Records system.

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014

Schedule of Funding Progress for Montana Facility Finance Authority
Other Post-Employment Benefits (Financial Statements Note 6)

As of June 30, 2014, the most recent actuarial valuation available that was completed by the State of Montana was as of January 1, 2013 for the year ending December 31, 2013. The State of Montana finances claims on a pay–as-you-go basis and does not advance fund the OPEB liability. Therefore, the funded ratio remains at 0% at June 30, 2014.

Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability* (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of covered Payroll ((B-A)/C)
1/1/2009	$0	$47,005	$47,005	0	$170,738	27.5%
1/1/2011	0	62,527	62,527	0	195,383	32.0%
1/1/2013	0	43,316	43,316	0	201,015	21.5%

*Projected unit credit funding method.

Montana Facility Finance Authority

Authority Response

MONTANA FACILITY FINANCE AUTHORITY

Department of Commerce

2401 Colonial Drive, 3rd Floor (59601)
PO Box 200506
Helena, MT 59620-0506

406.444.0052
Fax: 406.444.0019
www.mtfacilityfinance.com

RECEIVED
JAN 21 2015
LEGISLATIVE AUDIT DIV.

January 16, 2015

Ms. Tori Hunthausen, CPA
Legislative Auditor

Re: Audit of Montana Facility Finance Authority\

Dear Ms. Hunthausen:

Pursuant to the recommendation contained in the biennial audit of the Montana Facility Finance Authority for the period ended June 30, 2014, below is our response to that recommendation.

The Montana Facility Finance Authority concurs and will hire an outside accounting firm to review its meeting minutes as well as review its financial statements, notes and management discussion and analysis to assure compliance with generally accepted accounting principles.

Thank you for your staff's suggestions on how we can improve the operations of the Authority.

Sincerely,

Michelle Barstad

Michelle Barstad
Executive Director