



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana Facility Finance Authority

*For the Two Fiscal Years Ended
June 30, 2012*

DECEMBER 2012

LEGISLATIVE AUDIT
DIVISION

12-12

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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, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. Copies of the Single Audit Report can be obtained by contacting:

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December 2012

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, 2012. We performed this audit of the authority in compliance with §90-7-121, MCA. This report contains one recommendation related to internal controls over accounting and 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

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APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Profession</u>	<u>Term Expires</u>
Board Members	Jon Marchi, Chair	Polson	Venture Capital/Ranching	2013
	Richard (Dick) King	Missoula	Economic Development	2013
	Larry Putnam	Helena	Hospital Administrator	2013
	James W. (Bill) Kearns	Townsend	Banker	2013
	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

Sandy Oitzinger, Associate Director

Ted Clyde, Financial Specialist

Teri Juneau, Accountant

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Montana Facility Finance Authority

For the Two Fiscal Years Ended June 30, 2012

DECEMBER 2012

12-12

REPORT SUMMARY

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 and to for-profit or nonprofit small manufacturing facilities for purchases of capital equipment and buildings. The authority issued over \$400 million in bonds, notes, and loans during fiscal years 2012 and 2011.

Context

The authority facilitates financing under the Direct Loan, Equipment Revenue Note, Master Loan, Trust Fund Loan, and Stand-Alone Bond programs. The authority also provides grants to eligible facilities through the Montana Capital Assistance program.

The Direct Loan and Montana Capital Assistance programs are financed by authority monies, and activity under these programs is recorded for the authority on the state's accounting records. In fiscal years 2011 and 2012, the authority issued \$104,500 and \$243,702, respectively, of loans under the Direct Loan Program and committed \$40,174 and \$60,000, respectively, for grants to be 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. The activity under these programs is not recorded on the state's accounting records. The outstanding balances of conduit debt for fiscal years 2011 and 2012 were \$1,087,927,712 and \$1,131,299,619, 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 \$8,286,258 and \$6,175,640 for fiscal years 2011 and 2012, respectively.

Results

This report contains one recommendation to the authority on improving internal control over accounting and financial reporting of nonroutine activity. Our audit identified two nonroutine situations arising during the audit period, the settlement of a prevailing wage claim and two loans entering into default status. Based on our review, the authority's controls were not sufficient to ensure these situations were properly recorded on the state's accounting records and reported in the authority's financial statements.

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

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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, 2012, and 2011. The objectives of the audit were to:

1. Determine whether the authority complied with selected state laws and regulations.
2. 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.
3. Determine whether the authority’s financial statements present fairly the financial position and results of operations for the two fiscal years ended June 30, 2012, and 2011.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #2 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 significant deficiencies and material weaknesses we identified during this audit.

This report contains one recommendation to the authority, related to areas where the authority can improve accounting and financial reporting controls. In accordance with §5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendation made in this report.

Subject	Type of Deficiency	Page
Accounting and Financial Reporting Controls	Material Weakness	3

Background

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 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 – 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. Loan terms are up to 20 years.

Stand-Alone Bond Program – issues tax-exempt bonds or notes for individual 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 Recommendations

There were no prior audit recommendations.

Chapter II – Findings and Recommendations

Internal Controls Over Accounting and Financial Reporting

Internal controls were not sufficient to ensure proper accounting and financial reporting of nonroutine activity in accordance with generally accepted accounting principles.

The Montana Facility Finance Authority (authority) is administratively attached to the Department of Commerce (department). Authority staff perform the programmatic activities of the organization, and utilize certain centralized functions of the department, such as human resources, payroll, and accounting. The authority's financial activity is accounted for on the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) by department personnel. The financial statements presented in this report are prepared by department personnel, and the notes to the financial statements are prepared by authority personnel.

In performing audit work over the financial statements and notes prepared by authority and department personnel, we noted the following instances in which internal controls could be strengthened in order to record and report the authority's activity in accordance with generally accepted accounting principles:

- ♦ **Prevailing Wage Claim Settlement:** In fiscal year 2012, the authority agreed to pay approximately \$48,000 of a prevailing wage claim assessed against a project financed by the authority. Under state accounting policy, this agreement constituted a liability at June 30, 2012. However, no liability was recorded on SABHRS during the fiscal year.

Authority personnel stated they had not thought of the prevailing wage claim settlement in terms of the liability it created. Authority and department personnel made a financial statement adjustment for this liability after we brought it to the authority's attention.

- ♦ **Loss Contingency on Loans in Default Status:** In fiscal year 2011, two authority loans went into default status. The combined principal balance on these loans at June 30, 2012, was approximately \$535,000. The authority holds collateral on the loans, but authority personnel indicated they do not believe the collateral will be sufficient to repay the outstanding balances.

Under state accounting policy, the authority has a loss contingency associated with these loans as of June 30, 2011, and June 30, 2012. We estimate the loss contingency to be between \$12,000 and \$275,000, based on the most recent appraisal of property held as collateral on the loans. This appraisal was completed in July 2011.

Department personnel indicated they wait for notification from authority personnel before booking adjustments on SABHRS related to loans in

default status, due to the legal factors that are inherent to such situations. Authority and department personnel accrued a loss contingency and added the required note disclosure after we brought the issue to the authority's attention.

State accounting policy requires that management establish and maintain internal controls to ensure that their programs operate in conformity with applicable laws and regulations, and that the related financial transactions are accurate and properly recorded in accordance with generally accepted accounting principles.

While the authority and department made the necessary financial statement and note adjustments for the items outlined above, the existing control structure was not sufficient to prevent, or detect and correct on a timely basis, the errors in the financial statements and notes initially provided.

RECOMMENDATION #1

We recommend the authority develop internal controls to ensure nonroutine activity is properly recorded on SABHRS.

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

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:

We have audited the accompanying Statement of Net Assets–Enterprise Fund of the Montana Facility Finance Authority (authority) as of June 30, 2012, and 2011, and the related Statement of Revenues, Expenses, and Changes in Fund Net Assets–Enterprise Fund, and Statement of Cash Flows–Enterprise Fund for each of 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 as of June 30, 2012, and 2011, and the results of its operations and its cash flows for each of the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page A-3 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.

Management has omitted required supplementary information related to other postemployment benefit plan activities that accounting principles generally accepted in the United States of America require to

be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

October 11, 2012

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

Management's Discussion and Analysis

Years ended June 30, 2012 and 2011

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, 2012 and 2011. Please read it in conjunction with the Authority's financial statements and accompanying notes.

Financial Highlights

- The Authority closed bonds/note issues:
7 bond issues/9 series (\$209,324,486) in FY 2012 and 6 bond issues/10 series (\$194,005,000) in FY 2011
- The Authority made loans out of reserves designated for such purpose:
5 loans (\$243,702) in FY 2012 and 2 loans (\$104,500) in FY 2011
- The Authority revised the Trust Fund Loan Program, resulting in
0 loans in FY 2012 and 2 loans (\$657,600) in FY 2011
- The Authority awarded (maximum of \$60,000 per fiscal year) and expended funds for grants out of reserves designated for such purposes:
During FY 2012, \$60,000 was committed and \$45,686 was expensed,
During FY 2011, \$40,174 was committed and \$0 was expensed
- The Authority's total outstanding bonds/notes/loans increased to \$1,138,601,838 in FY 2012 from \$1,097,388,419 in FY 2011 and \$974,394,182 in FY 2010

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 in each fiscal year as compared to the prior fiscal year based on an increase in Net Assets. This increase can be attributed to two factors: 1) a larger portfolio that generates greater income, and 2) greater income earned by issuing bonds for its clients. Management believes that the issuance of bonds will slow in the near term due to numerous uncertainties within the health care and banking sectors and current financial markets as well as contracting programs within the Authority. The lower bond issuance amount could have a negative effect on the Authority's operations due to reduced Authority transaction fee collections.

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

Management's Discussion and Analysis

Years ended June 30, 2012 and 2011

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.

Montana Facility Finance Authority
Condensed Financial Information
Change in Net Assets and Operating Income
Years Ended June 30, 2012, 2011, and 2010

	2012	2011	2010
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	3,371,977	2,985,160	2,136,426
Short Term Notes Receivable	322,539	270,460	277,383
Other Current Assets	10,208	39,662	89,570
Total Current Assets	<u>3,704,724</u>	<u>3,295,282</u>	<u>2,503,379</u>
NonCurrent Assets:			
Long Term Notes Receivable	804,039	903,988	1,252,151
Investments	55,459	49,792	136,703
Capital Assets	31,436	45	45
Total NonCurrent Assets	<u>890,934</u>	<u>953,825</u>	<u>1,388,899</u>
Total Assets	<u>4,595,658</u>	<u>4,249,107</u>	<u>3,892,278</u>
LIABILITIES:			
Total Current Liabilities	47,980	62,507	119,291
Total Non-current Liabilities	94,449	39,745	22,804
Total Liabilities	<u>142,429</u>	<u>102,252</u>	<u>142,095</u>
Invested in Capital Assets	31,436	45	45
Total unrestricted net assets	<u>4,421,793</u>	<u>4,146,810</u>	<u>3,750,138</u>
Total Net Assets	<u>4,453,229</u>	<u>4,146,855</u>	<u>3,750,183</u>
Total Net Assets and Liabilities	<u>4,595,658</u>	<u>4,249,107</u>	<u>3,892,278</u>
OPERATING REVENUES:			
Service Fees	720,870	679,618	613,161
Securities Lending Income	210	1,291	937
Total Operating Revenues	<u>721,080</u>	<u>680,909</u>	<u>614,098</u>
OPERATING EXPENSES:			
Personal services	186,424	189,574	194,679
Contracted services	50,809	43,489	30,784
Other operating expenses	171,121	115,220	120,611
Grants	45,686	0	70,811
Total operating expenses	<u>454,040</u>	<u>348,283</u>	<u>416,885</u>
Operating income	<u>267,040</u>	<u>332,626</u>	<u>197,213</u>
NON OPERATING REVENUES (EXPENSES)			
Investment Earnings	45,865	64,046	74,960
Change in net assets	312,905	396,672	272,173
Net Assets Beginning of Period	4,146,855	3,750,183	3,478,010
Prior Period Adjustment	(6,531)	0	0
Total Net Assets End of Period	<u>4,453,229</u>	<u>4,146,855</u>	<u>3,750,183</u>

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET ASSETS - ENTERPRISE FUND
JUNE 30, 2012 AND 2011

ASSETS:	2012	2011
Current Assets:		
Cash & Cash Equivalents (Note 2)	\$ 3,371,977	\$ 2,985,160
Interest Receivable	856	594
Accounts Receivable	643	0
Short Term Notes Receivable (Note 4)	322,539	270,460
Securities Lending Collateral (Note 2)	7,068	39,026
Due From Primary Government	0	0
Prepaid Expenses	1,641	42
Total Current Assets	3,704,724	3,295,282
Noncurrent Assets:		
Long Term Notes Receivable (Note 4)	804,039	903,988
Investments	55,459	49,792
Capital Assets (Note 1)	31,436	45
Total NonCurrent Assets	890,934	953,825
Total Assets	\$ 4,595,658	\$ 4,249,107
 LIABILITIES:		
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 9,394	\$ 10,318
Due to Primary Government	972	1,228
Securities Lending Liability (Note 2)	7,068	39,026
Current Portion of LT Payables	16,428	0
Compensated Absences	14,118	11,935
Total Current Liabilities	\$ 47,980	\$ 62,507
Noncurrent Liabilities:		
Compensated Absences	22,228	19,649
LT Payables	31,372	0
Est Claims Payable-Non Current	11,834	
OPEB Implicit Rate Subsidy (Note 6)	29,015	20,096
Total Noncurrent Liabilities	94,449	39,745
Total Liabilities	142,429	102,252
Net Assets		
Invested in Capital Assets Net of Related Debt	\$ 31,436	\$ 45
Total Unrestricted Net Assets	4,421,793	4,146,810
Total Net Assets (Note 7)	\$ 4,453,229	\$ 4,146,855
Total Net Assets and Liabilities	\$ 4,595,658	\$ 4,249,107

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, 2012 AND 2011**

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	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Service Fees	\$ 720,870	\$ 679,618
Securities Lending Income	210	1,291
Total Operating Revenues	<u>\$ 721,080</u>	<u>\$ 680,909</u>
 OPERATING EXPENSES:		
Personal Services	\$ 186,424	\$ 189,574
Contracted Services	50,809	43,489
Supplies and Materials	4,681	5,959
Communications	5,899	6,128
Benefits	8,919	7,207
Depreciation	100	
Travel	26,381	17,176
Rent	22,139	22,262
Repairs and Maintenance	266	261
Other Expenses	37,477	37,999
OPEB	0	0
Securities Lending Expense	41	273
Grants	45,686	0
Claims	47,799	0
CU Expense to P Gov	17,419	17,955
Total Operating Expenses	<u>\$ 454,040</u>	<u>\$ 348,283</u>
Operating Income	<u>\$ 267,040</u>	<u>\$ 332,626</u>
 NON OPERATING REVENUES (EXPENSES)		
Investment Earnings	45,865	64,046
Change in net assets	\$ 312,905	\$ 396,672
Net Assets Beginning of Period	<u>\$ 4,146,855</u>	<u>\$ 3,750,183</u>
Prior Period Adjustment	<u>(6,531)</u>	
Total Net Assets End of Period	<u><u>\$ 4,453,229</u></u>	<u><u>\$ 4,146,855</u></u>

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

**MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

	<i>2012</i>	<i>2011</i>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts for Sales and Services	\$ 720,227	\$ 679,617
Payments to Suppliers for Goods and Services	(207,452)	(138,040)
Payments to Employees	(187,700)	(199,924)
Net Cash Provided by (Used for) Operating Activities	\$ 325,075	\$ 341,653
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Payments for Loans	\$ (243,702)	\$ (104,500)
Cash Payments for Investment	(31,536)	0
Collection for Principal on Loans	291,572	459,587
Proceeds from Securities Lending Income	210	1,291
Payments of Securities Lending Costs	(41)	(273)
Cash Adjustment for STIP SIV's	(5,666)	86,911
Interest on Investments	45,602	64,066
Net Cash Provided by (Used for) Investing Activities:	\$ 56,439	\$ 507,082
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 381,514	\$ 848,735
Cash & Cash Equivalents, July 1	\$ 2,985,160	\$ 2,136,425
Prior Period Adjustment	\$5,303	
Cash & Cash Equivalents, June 30	\$ 3,371,977	\$ 2,985,160
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ 267,040	\$ 332,626
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation	100	0
Securities Lending Expense	41	273
Securities Lending Income	(210)	(1,291)
Long Term Liability OPEB Implicit Rate Subsidy		0
Loss on Retirement of Asset	44	
Change in Assets & Liabilities:		
Increase (Decrease) in Accounts Payable	(925)	(385)
Increase (Decrease) in Due to Primary Government	(256)	1,132
Increase (Decrease) in Compensated Absences Payable	2,579	9,734
Increase (Decrease) in OPEB	8,919	7,207
Increase (Decrease) in Compensated Absences Payable-Current	2,185	(9,189)
Increase (Decrease) in LT Accounts Payable-Current	16,428	0
Increase (Decrease) in LT Accounts Payable	31,372	0
Decrease (Increase) in Accounts Receivable	(643)	(3)
Decrease (Increase) in Prepaid Expense	(1,599)	1,549
Decrease (Increase) in Due From Primary Government	0	0
Total Adjustments	\$ 58,035	\$ 9,027
Net Cash Provided by (Used for) Operating Activities	\$ 325,075	\$ 341,653

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

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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 \$7,339 and \$102,307 as of June 30, 2012 and 2011 respectively, and cash equivalents invested in the Board of Investments of the State of Montana Short-Term Investment Pool (STIP) of \$3,420,097 and \$2,932,647 for fiscal year 2012 and 2011, respectively. STIP balances include \$55,459 for fiscal year 2012 and \$49,792 for fiscal year 2011 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

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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 2012 and 2011, 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 2012 and 2011. 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 2012 and 2011, 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 2012 and 2011, 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, 2012 and 2011, the Authority maintained security lending cash collateral of \$7,068 and \$39,026, 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.

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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 2012 and 2011 the STIP balance on SABHRS included \$21,507,129 and \$24,591,903, respectively, 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 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 \$55,459 for fiscal year 2012 and \$49,792 for fiscal year 2011.

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 Assets.

The Health Care Revenue Bonds (Montana State Hospital Project) Series 1997¹ 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 2003² (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 1997¹ and the Health Care Revenue Refunding Bonds (Montana Developmental Center Project) Series 2003² 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.

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Revenue Bonds Outstanding:

Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2012	Outstanding June 30, 2011
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 A&B	1991-2016	Variable	0	15,200,000
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 C	1991-2017	Variable	0	14,200,000
Hospital Revenue Bonds (Deaconess-Billings Clinic Health System Project) Series 1994	1994-2025	Variable	0	58,515,000
Health Care Facilities Revenue Bonds (Master Loan Program Marcus Daly Memorial Hospital Project) Series 1996B	1996-2011	Fixed	0	170,000
Health Care Facilities Revenue Bonds (Master Loan Program Glendive Medical Center Project) Series 1996C	1996-2011	Fixed	0	145,000
Health Care Revenue Bonds (Community Medical Center, Inc.) Series 1996	1996-2018	Fixed	0	0
Development Disability Facility Revenue Bonds (Beartooth Industries Project) Series 1997	1997-2024	Fixed	157,210	166,571
Prerelease Center Revenue Bonds (Alternatives, Inc. Project) Series 1997	1997-2017	Fixed	1,190,000	1,355,000
Health Care Revenue Bonds (Montana State Hospital Project) Series 1997 ¹	1997-2022	Fixed	14,750,000	15,865,000
Health Care Facilities Revenue Bonds (Master Loan Program-Big Horn Hospital Association Project) Series 1998A	1998-2018	Fixed	575,000	655,000
Health Care Facilities Revenue Bonds (Master Loan Program-Lewis & Clark County Nursing Home Project) Series 1998B	1998-2018	Fixed	0	790,000
Health Care Facilities Revenue Bonds (Master Loan Program-Lewis & Clark County Office Project) Series 1998D	1998-2018	Fixed	345,000	395,000
Developmental Disability Facilities Revenue Bonds (Opportunity Resources, Inc. Project) Series 1998	1998-2018	Fixed	76,358	88,396
Hospital Facilities Revenue Bonds (Kalispell Regional Hospital Project) Series 1998	1998-2018	Fixed	0	0
Prerelease Center Revenue Bonds (Missoula Correctional Services Project) Series 1998A	1998-2018	Fixed	2,605,000	2,910,000
Health Care Facilities Revenue Bonds (Master Loan Program-Marcus Daly Memorial Hospital Corporation Project) Series 2000	2000-2020	Fixed	1,970,000	2,130,000
Prerelease Center Revenue Bonds (Boyd Andrew Prerelease) Series 2000	2000-2020	Fixed	1,325,000	1,435,000
Hospital Facilities Revenue Bonds (Kalispell Regional Medical Center) Series 2001	2001-2016	Fixed	0	0
Health Care Facilities Revenue Bonds (Master Loan Program-Community Medical Center Project) Series 2001 A&B	2001-2021	Fixed	0	0
Variable Rate Demand Revenue Bonds (Mission Ridge Project) – Series 2002	2002-2027	Variable	0	10,950,000
Health Care Revenue Refunding Bonds (Montana Developmental Center Project) Series 2003 ²	2003-2019	Fixed	5,960,000	6,675,000
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	6,530,000	6,790,000
Hospital Facilities Revenue Bonds (St. Peter’s Hospital Project) Series 2004	2004-2024	Fixed	24,680,000	26,190,000
Prerelease Center Revenue Bond (Boyd Andrew Community Services) Series 2004	2004-2014	Fixed	59,073	86,687
Health Care Facilities Revenue Bonds (Master Loan Program – Marias Medical Center Project) Series 2005A	2005-2028	Fixed	2,480,000	2,720,000
Health Care Facilities Revenue Bonds (Master Loan Program – Montana Children’s Home and Hospital Project) Series 2005B	2005-2024	Fixed	6,800,000	7,225,000

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Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2012	Outstanding June 30, 2011
Prerelease Center Revenue Bond (Boyd Andrew Community Services Project) Series 2005	2005-2021	Fixed	792,021	865,221
Revenue Refunding Bond (Mission Ridge Project) Series 2005	2005-2016	Fixed	0	1,083,519
Health Facilities Revenue Bonds (Bozeman Deaconess Health Services Obligated Group) Series 2005	2005-2035	Fixed	23,790,000	24,575,000
Developmental Disability Facility Revenue Bond (Spring Meadow Resources, Inc. Project) Series 2005	2005-2021	Fixed	396,895	432,879
Prerelease Center Revenue Bond (Great Falls Pre-Release Services, Inc. Project) Series 2005	2005-2021	Fixed	3,091,774	3,356,865
Health Care Facilities Revenue Refunding Bonds (Master Loan Program – Northern Montana Obligated Group Project) Series 2006A	2006-2016	Fixed	2,975,000	3,730,000
Variable Rate Demand Revenue Bonds (Sisters of Charity of Leavenworth Health System) Series 2006A	2006-2026	Variable	27,280,000	28,730,000
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	6,450,000	6,770,000
Revenue Bonds (Community, Counseling, and Correctional Services, Inc. Project) Series 2006A	2006-2026	Fixed	7,655,000	8,015,000
Revenue Bonds (Boyd Andrew Community Services Project) Series 2006B	2006-2026	Fixed	4,210,000	4,405,000
Senior Living Revenue Bonds (St. John’s Lutheran Ministries Project) Series 2006A	2006-2036	Fixed	25,750,000	26,185,000
Senior Living Revenue Bonds (St. John’s Lutheran Ministries Project) Series 2006B	2006-2036	Variable	0	0
Health Care Facilities Revenue Bonds (Master Loan Program - Marcus Daly Memorial Hospital) Series 2007A	2007-2027	Fixed	6,115,000	6,385,000
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	114,875,000	117,790,000
Health Care Facilities Revenue Bonds (Master Loan Program – Northeast Montana Health Services, Inc. Project) Series 2007B	2007-2032	Fixed	11,370,000	11,720,000
Health Care Facilities Revenue Bonds (Master Loan Program – St. Luke Community Healthcare Network Project) Series 2007C	2007-2032	Fixed	20,870,000	21,495,000
Hospital Revenue Bonds (Billings Clinic) Series 2008A	2008-2028	Fixed	16,585,000	17,740,000
Hospital Revenue Bonds (Billings Clinic) Series 2008B	2008-2028	Fixed	14,660,000	37,660,000
Health Care Facilities Revenue Bonds (Master Loan Program – Glendive Medical Center) Series 2008A	2008-2034	Fixed	28,590,000	29,175,000
Revenue Bonds (Boyd Andrew Community Services Project) Series 2008	2009-2029	5-year Fixed	1,338,930	1,388,074
Hospital Revenue Bonds (Billings Clinic) Series 2009A	2009-2020	3-year Fixed	0	8,495,474
Hospital Revenue Bonds (Billings Clinic) Series 2009B	2009-2020	5-year Fixed	0	2,409,786
Revenue Bonds (Rimrock Foundation Project) Series 2009	2009-2030	5-year Fixed	552,955	573,462
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	99,285,000	105,145,000

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Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2012	Outstanding June 30, 2011
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	2,855,000	2,855,000
Taxable Revenue Build America Bonds (Barrett Hospital and Health Care) Series 2010A	2010-2037	Fixed	30,225,000	30,225,000
Taxable Revenue Bonds (Barrett Hospital and Health Care) Series 2010B	2010-2016	Fixed	2,855,000	2,855,000
Health Care Facilities Revenue Bonds (Kalispell Regional Medical Center) Series 2010	2010-2040	Fixed	56,675,000	57,115,000
Health Care Facilities Revenue Note (Western Montana Mental Health Center) Series 2010	2010-2030	Fixed	1,339,407	1,379,056
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	42,020,000	42,085,000
Hospital Revenue Bonds (Benefis Health Care System) Series 2011B	2011-2030	7-year Fixed	17,000,000	17,605,000
Acquisition and Refunding Revenue Note (Sapphire Lutheran Homes) Series 2011	2011-2041	5-year Fixed	4,874,738	0
Health Facilities Revenue Bonds (Billings Clinic) Series 2011A	2011-2038	3 year Fixed	73,775,000	0
Health Facilities Revenue Bonds (Billings Clinic) Series 2011B	2011-2038	5 year Fixed	63,935,000	0
Senior Living Revenue Refunding Bonds (Mission Ridge Project) Series 2011	2011-2031	5-year Fixed	9,756,214	0
Senior Living Revenue Bonds (St. John's Lutheran Ministries) Series 2011	2011-2031	5-year Fixed	4,390,296	0
Health Facilities Revenue Bonds (Bozeman Deaconess Health Services) Series 2011	2011-2031	Fixed	20,065,000	0
Health Facilities Revenue Bonds (North Valley Hospital) Series 2011	2012-2027	10-year Fixed	24,600,522	0
Total Revenue Bonds Outstanding			\$1,109,066,393	\$1,065,465,990

Stated maturities on Revenue Bonds Outstanding are as follows:

Maturing in Year Ended June 30	Bond Principal Payment (in thousands)
2013	\$ 34,169
2014	34,967
2015	39,105
2016	40,719
2017-2042	960,106
Total	\$1,109,066

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.

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Revenue Notes Outstanding:

Issue	Period Outstanding	Interest Rate	Outstanding June 30, 2012	Outstanding June 30, 2011
St. Patrick Hospital- Private Placement Revenue Note	1999-2010	6.06%	0	0
Kalispell Regional Medical Center-Private Placement Revenue Note	2007-2013	5.08%	196,384	519,822
Billings Clinic-Private Placement Revenue Note	2006-2011	3.99%	0	1,021,438
Kalispell Regional Medical Ctr.-Private Placement Revenue Note	2007-2017	4.22%	1,245,222	1,540,462
Bozeman Deaconess-Private Placement Revenue Note 2010A	2010-2015	1.75%	1,945,000	2,730,000
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%	2,430,000	4,120,000
Community Medical Center-Private Placement Revenue Note 2010B	2010-2022	5.10%	9,390,000	9,390,000
Community Medical Center-Private Placement Revenue Note 2010C	2010-2011	3.55%	0	0
Kalispell Regional Medical Center-Private Placement Revenue Note 2011A	2011-2016	2.33%	1,962,174	0
Kalispell Regional Medical Center-Private Placement Revenue Note 2011B	2011-2018	2.56%	1,924,446	0
Total Revenue Notes Outstanding			\$22,233,226	\$22,461,722

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, 2012	Outstanding June 30, 2011
Phillips County Hospital	2007-2010	3.90%	0	0
Liberty County Hospital and Nursing Home	2006-2011	4.50%	0	0
Beartooth Hospital and Health Center	2006-2011	4.48%	0	0
Boyd Andrew Community Services	2006-2011	4.62%	0	0
Northern Rockies Medical Center	2006-2011	4.60%	0	1,148
Broadwater Health Center	2007-2011	4.66%	0	0
Gateway Community Services	2007-2010	6.28%	73,170	73,170
Gateway Community Services	2007-2010	4.36%	0	0
Central Montana Medical Center	2007-2012	4.33%	4,781	18,715
Western Montana Mental Health	2008-2013	2.95%	27,976	55,138
Eastern MT Community Mental Health Center	2008-2013	2.83%	15,634	30,831
Big Sandy Medical Center	2008-2013	3.24%	13,292	26,160
Broadwater Health Center	2008-2013	3.47%	12,567	23,755
Northern Rockies Medical Center	2008-2013	3.47%	6,338	11,980
Broadwater Health Center	2008-2013	3.39%	14,719	26,053
Rimrock Foundation	2008-2020	5.93%	148,091	161,591

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Issue	Period Outstanding	Interest Rate	Outstanding June 30, 2012	Outstanding June 30, 2011
Spring Meadow Resources	2008-2020	5.93%	220,063	240,124
Residential Support Services	2008-2020	5.93%	0	0
Western Montana Mental Health	2009-2014	1.73%	23,181	36,771
Mineral Community Hospital	2009-2014	3.00%	12,935	19,393
Eastern MT Community Mental Health Ctr.	2009-2014	3.00%	15,879	23,467
Opportunity Resources, Inc.	2009-2014	3.00%	63,102	89,805
Marias Medical Center	2010-2015	3.00%	104,749	143,160
Eastern MT Community Mental Health Ctr.	2010-2015	3.00%	68,381	91,156
Teton Public Hospital District	2011-2015	3.00%	44,659	59,531
Pondera Medical Center	2011-2016	3.00%	34,470	42,500
Mineral Community Hospital	2011-2015	3.00%	40,044	0
Wheatland Memorial Hospital	2011-2016	3.00%	71,275	0
Mineral Community Hospital	2012-2015	3.00%	31,710	0
Broadwater Health Center	2012-2017	3.00%	61,462	0
Roundup Memorial Healthcare	2012-2017	3.00%	18,100	0
Total Revenue Notes Receivable			\$1,126,578	\$1,174,448

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 hired before July 1, 2011 were required to contribute 6.9 percent of annual compensation for both fiscal years 2012 and 2011. Employees hired after July 1, 2011 were required to contribute 7.9 percent of annual compensation for fiscal years 2012 and 2011.

The Authority was required to contribute 7.17 percent of annual compensation for both fiscal years 2012 and 2011. The Authority's PERS contributions were \$9,633 and \$9,929 in fiscal years 2012 and 2011, 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.

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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>.

7. Net Assets

Capital Reserve Accounts

Net Assets	Funded 2012	Requirement 2012	Funded 2011	Requirement 2011
Capital Reserve Account A	\$1,476,848	\$13,064,968	\$1,196,636	\$10,111,967
Capital Reserve Account B	277,373	828,626	242,295	874,204
Direct Loan Program	1,858,548	1,858,548	1,813,150	1,813,150
Working Capital Fund	840,460	840,460	894,774	894,774
Total	\$4,453,229	\$16,592,602	\$4,146,855	\$13,694,095

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 (9 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 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
2012	125,289,677	13,064,968	1,476,848
2011	130,649,677	10,111,967	1,196,637

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 2012 and two in 2011. The Authority has issued a total of 20 loans under this authority, 11 of which are currently outstanding. The outstanding loan amount of approximately \$6,175,640 as of June 30, 2012 and \$8,286,258 as of June 30, 2011 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 Reserve Account B. As of June 30, 2012, the total Capital Reserve Account B requirement was \$828,626 and was funded at \$277,373. As of June 30, 2011, the total Capital Reserve Account B requirement was \$874,204 and was funded at \$242,295.

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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, 2012 the funding requirement for the program was \$1,858,548, had loans outstanding of \$1,126,578 leaving \$731,970 available for additional loans. As of June 30, 2011 the funding requirement for the program was \$1,813,150, had loans outstanding of \$1,174,448 leaving \$638,702 available for additional loans.

Working Capital Fund

The Authority has designated a working capital fund equal to twice its annual budget. For fiscal years 2012 and 2011 the fund requirement equaled \$840,460 and \$894,774, respectively and were fully funded. These funds are part of the Total Net Assets balance.

8. Loan Loss Contingency

On January 12, 2007, the Authority made a loan to Gateway Community Services to purchase and remodel four condominium units. Funds for the loan came from the Permanent Coal Trust Fund under the Authority's Trust Fund Loan Program. Gateway subsequently defaulted on this loan. As of October 5, 2012, \$519,074.68 is due to the Permanent Coal Trust Fund, reflecting \$461,859.75 of principal and \$57,214.93 of interest. Pursuant to Authority policy, the Authority will make the Perm Coal Trust Fund whole and funds have been designated for such an event (see Note 7 above).

On September 17, 2007, the Authority made a loan to Gateway Community Services for overages resulting from the remodeling of condominium units referenced above. Funds for the loan came from the Authority's Direct Loan Program (see Note 4). As of October 5, 2012, \$82,234.45 is due to the Authority, reflecting \$73,170.17 of principal and \$9,064.28 of interest.

The Authority is engaged in finding a buyer or renter of the condominium units. The eventual sale could potentially result in a loss to the Authority. Such loss is not expected to be greater than \$200,000.

9. Subsequent Events

On July 13, 2012 a \$200,000 Direct Loan was made to Livingston Healthcare for the purchase of a nuclear medicine system.

MONTANA FACILITY
FINANCE AUTHORITY

AUTHORITY RESPONSE

MONTANA FACILITY FINANCE AUTHORITY

Department of Commerce

2401 Colonial Drive, 3rd Floor (59601)

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DEC 06 2012

LEGISLATIVE AUDIT DIV.

December 5, 2012

Ms. Tori Hunthausen
Legislative Audit Division
P.O. Box 201705
Helena, MT 59620-1705

Re: Montana Facility Finance Audit – Written Response to Audit Recommendation

Dear Ms. Hunthausen:

We have recently reviewed the financial compliance audit of the Montana Facility Finance Authority. Our written response to the recommendation is below.

Concur. The Authority and Department have established procedures to discuss account implications of non routine and non reoccurring transactions.

I would like to thank Karen Simpson for her professionalism and expertise.

Sincerely,

Michelle Barstad
Executive Director