A Report
to the
Montana
Legislature

Financial-Compliance Audit

Montana Facility Finance Authority

For the Two Fiscal Years Ended June 30, 2018

March 2019

Legislative Audit
Division

18-12

Financial-Compliance Audits

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

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

Audit Staff

Jennifer Erdahl
John Fine
Natalie H. Gibson
Nolan Preeshl

Reports can be found in electronic format at:
https://leg.mt.gov/lad/audit-reports

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

March 2019

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, 2018. We performed this audit of the authority as required by §90-7-121, MCA. During the course of the audit, we analyzed the financial statements and notes to the financial statements, reviewed financial records, tested compliance with state laws and regulations, and determined the implementation status of the prior audit recommendation related to internal controls over financial reporting. This report contains no recommendations to the authority and we issued an unmodified opinion.

We thank the executive director and his staff for their assistance and cooperation during the audit. The Montana Facility Finance Authority's written response to the audit is on page C-1.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Appointed and Administrative Officials

		Location	Term Expires January 1
Board Members	Larry Putnam, Chair	Helena	2021
	Kent Burgess	Billings	2021
	James W. (Bill) Kearns	Townsend	2021
	Paul Komlosi	White Sulphur Springs	2023
	Kim Rickard	Helena	2023
	John Rogers	Helena	2021
	Matthew B. Thiel	Missoula	2023

Administrative Staff	Adam Gill, Executive Director
	Seth Lutter, Associate Director
	Colin Gunstream, Senior Financial Specialist

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

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Montana Legislative Audit Division

Financial-Compliance Audit
Montana Facility Finance Authority
For the Two Fiscal Years Ended June 30, 2018

March 2019 18-12 Report Summary

The Montana Facility Finance Authority loaned approximately $1.3 million of its own money, and helped to facilitate an additional $397.6 million from other financing sources, for eligible facilities in fiscal years 2017 and 2018, combined. The authority is self-supporting, and received no general fund appropriations in fiscal years 2017 or 2018. The authority also implemented a prior audit recommendation related to controls over financial reporting.

Context

The Montana Facility Finance Authority (authority) works with Montana private and public nonprofit health care institutions, nonprofit small manufacturing facilities, and pre-release centers to secure financing for the purchase of capital equipment and buildings. Financing can be in the form of revenue bonds and notes, loans from the Permanent Coal Tax Trust Fund, or loans from the authority's monies. The authority also funds, from its own monies, a grant program to help critical access hospitals, small rural hospitals, and other eligible health care facilities in determining the feasibility of potential capital expenditures.

Revenue bonds and notes issued by the authority under its various programs are considered conduit (no-commitment) debt, and therefore are not recorded on the authority's accounting records. The authority financed conduit debt of approximately $394.6 million under its various programs during the audit period. The outstanding balances of conduit debt as of June 30, 2017, and 2018, were approximately $949.7 million and $991.0 million, respectively. While these amounts are not reported on the authority's accounting records, they are disclosed in the notes.

During the audit period, the authority issued one new loan from the Permanent Coal Tax Trust Fund, and repaid the fund for a loan that had been in default for several years. As of June 30, 2017, and 2018, the outstanding balances of loans made against the coal tax trust were approximately $3.3 million and $4.3 million, respectively. State law allows the authority to lend up to $15 million from the fund. Loans from the Permanent Coal Tax Trust Fund are recorded on the state's accounting records as investments of the fund, but do not appear in the authority's financial statements.

Additionally, the authority loaned out approximately $1.3 million of its own funds during the audit period. These loans are reported as assets of the authority on the authority's financial statements, and are further disclosed in the notes. As of June 30, 2017, and 2018, the loan balances were approximately $1.6 million and $1.7 million, respectively.

Results

Our audit work included reviewing and analyzing the authority's financial statements and note disclosures. We also applied procedures to the underlying financial activity and tested selected control activities. Our audit effort focused on activity related to notes receivable, cash and cash equivalents,

(continued on back)

service fee revenues and their related accounts receivable, and personal services expenses. Throughout the audit, we also tested compliance with selected state laws.

We issued an unmodified opinion on the Montana Facility Finance Authority's financial statements, meaning the financial information can be relied upon by the user.

This report contains no recommendations.

Chapter I – Introduction

Objectives and Summary of Results

We performed a financial-compliance audit of the Montana Facility Finance Authority (authority) for the two fiscal years ended June 30, 2018. 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's Statement of Net Position-Enterprise Fund; Statement of Revenues, Expenses, and Changes in Fund Net Position-Enterprise Fund; and Statement of Cash Flows-Enterprise Fund are fairly presented as of June 30, 2018, and 2017, in conformity with generally accepted accounting principles.
3. Determine whether the authority complied with selected state laws and regulations.
4. Determine the implementation status of the prior audit recommendation.

We addressed these objectives by analyzing the financial statements and note disclosures, examining the underlying financial activity, and reviewing and testing selected control activities. Our audit effort focused on activity related to notes receivable, cash and cash equivalents, service fee revenues and their related accounts receivable, and personal services expenses. Throughout the audit, we also tested compliance with selected state laws.

Background

The authority is allocated to the Department of Commerce for administrative purposes, but is self-supporting and received no general fund appropriations in fiscal years 2017 or 2018. The authority is authorized three full-time equivalent employees.

The authority provides access to various debt financing or refinancing instruments at reduced rates to Montana private and public nonprofit health care institutions and pre-release 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 pre-release sectors 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 seven years, in amounts of $300,000 or less, to eligible facilities for construction, renovation, acquisition, equipment purchases, and the refinancing of outstanding debt.

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. The loans are backed by the state's Permanent Coal Tax Trust Fund administered by the Montana Board of Investments.

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 is a grant program using 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.

Energy Efficiency Program is a grant program using authority funds to provide professional energy efficiency audits to eligible nonprofit facilities. The audits identify energy efficiency savings. The reports can be used to guide capital decisions and even secure financing to implement the recommendations. The grants provide an opportunity to significantly reduce operating costs while upgrading capital systems. The Program started July 1, 2018.

Prior Audit Recommendation

The audit reports for the two fiscal years ended June 30, 2012, 2014, and 2016 all contained recommendations to the authority related to implementing internal control to ensure accurate and complete financial reporting in accordance with generally accepted accounting principles (GAAP).

During the current audit period we evaluated the steps the authority took to implement the recommendation. Steps taken by the authority include contracting with a public accounting firm to review the authority's financial statements, notes to the financial statements, and management discussion and analysis. The authority also consulted with other state employees with more experience preparing GAAP financial statements and drafting financial statement notes.

Based on the results of our audit work, the authority has implemented the prior audit recommendation.

Independent Auditor's Report and Authority Financial Statements

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction
We have audited the accompanying Statement of Net Position-Enterprise Fund of the Montana Facility Finance Authority (authority), a component unit of the state of Montana, as of June 30, 2018, and 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the 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.

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 financial position of the Montana Facility Finance Authority as of June 30, 2018, and 2017, 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.

Other Matters

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, the Other Post-Employment Benefits on page A-35, Schedule of Proportionate Share of PERS Net Pension Liability on page A-35, and Schedule of Contributions on page A-36 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2019, on our consideration of the authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the authority's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 1, 2019

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

Management's Discussion and Analysis

Years ended June 30, 2018 and 2017

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, 2018 and 2017. Please read it in conjunction with the Authority's financial statements and accompanying notes.

Financial Highlights

- The Authority showed a large increase in revenue for FY 2018. This is due to the receipt of funds from the closure of a bond pool in 2008. Additional information on the receipt of the $2.1 million is available in Note 3.
- FY 2017 application fee revenue was higher than the both prior period and FY 2018. This is due to FY 2017's increased issuance volume.
- The Authority closed less bonds than the prior period, but for larger amounts:
  - Four bond issues ($111,362,000) in FY 2018 and nine bond issues ($283,277,240) in FY 2017.
- The Authority's Direct Loan Program showed some growth with the same number of loans as the prior period, but a larger amount loaned to eligible facilities. The Authority made loans out of reserves designated for such purpose:
  - Three loans ($540,684) in FY 2018 and five loans ($802,000) in FY 2017.
- The Trust Fund Loan Program continued to grow during the period, resulting in one loan of $1,500,000 in FY 2018 and four loans totaling $1,507,000 in FY 2017.
- The authority committed $60,000 in FY 2018 for grants out of reserves designated for such purposes. $15,000 in grants were committed in FY 2017. This is a marked increase from the prior audit period where only one grant was committed during the two fiscal years. The change can be attributed to additional program outreach by Authority staff.
- The total outstanding financings structured by the Authority increased to $997 million in FY 2018, from $954 million in FY 2017 and $974 million in FY 2016. The increase of FY 2018 over prior years is attributable to financings including funds for new construction, renovation or expansion. The Authority serves as a conduit issuer of tax-exempt debt and is not responsible for the bonds it issues as a conduit.

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, deferred outlfows, liabilities, and deferred inflows with the difference between the two reported as net position. 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-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-11 of this report.

Financial Analysis of the Authority

The Authority has continued to strengthen its financial position over the past three years. This is attributable to the Authority holding down expense growth while increasing revenues. Even without including the one-time receipt of additional funds from the bond pool, revenues growth have grown over the prior three years. Increased revenues are due to higher-than-projected application fees from bond and loan financings, receipt of funds from a prior bond program and interest income from growth in the Direct Loan Program coupled with rising interest rates on the program's loans.

Condensed financial statements are presented below.

Montana Facility Finance Authority
Management's Discussion and Analysis
Condensed Financial Information
Changes in Net Position and Operating Income
Years Ended June 30, 2018, 2017, and 2016

	2018	2017	2016
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	6,009,098	3,727,985	3,421,804
Short Term Notes Receivable	489,885	448,024	420,628
Other Current Assets	232,805	188,900	252,954
Total Current Assets	6,731,788	4,364,909	4,095,386
NonCurrent Assets:			
Long Term Notes Receivable	1,224,002	1,216,924	1,172,811
Total NonCurrent Assets	1,224,002	1,216,924	1,172,811
Pension Deferred Outflow	42,333	42,976	19,730
OPEB Deferred Outflow	3,108	0	0
Total Assets and Deferred Outflow of Resources	8,001,231	5,624,809	5,287,927
LIABILITIES:			
Total Current Liabilities	37,083	15,377	84,731
Total Non-current Liabilities	208,927	337,873	229,351
Total Liabilities	246,010	353,250	314,082
Pension Deferred Inflow	6,801	939	11,526
OPEB Deferred Inflow	30,364	0	0
Total Unrestricted Net Position	7,718,056	5,270,620	4,962,319
Total Net Position	7,718,056	5,270,620	4,962,319
Total Net Position, Liabilities and Deferred Inflow of Resources	8,001,231	5,624,808	5,287,927
OPERATING REVENUES:			
Service Fees	2,712,510	783,037	609,295
Total Operating Revenues	2,712,510	783,037	609,295
OPERATING EXPENSES:			
Personal services	216,758	216,762	204,769
Contracted services	40,327	48,990	27,507
Other operating expenses	212,787	196,227	159,719
Grants	45,000	0	0
Total operating expenses	514,872	461,978	391,995
Operating income	2,197,638	321,059	217,300
NON OPERATING REVENUES (EXPENSES)			
On-Behalf Pension Revenue	2,747	4,975	4,137
STIP Security Lending Expense	0	(40)	0
Investment Earnings	104,960	70,094	55,892
Change in Net Position	2,305,345	396,088	277,329
Net Position Beginning of Period	5,270,620	4,962,319	4,685,026
Prior Period Adjustment	142,091	(87,786)	(36)
Total Net Position End of Period	7,718,056	5,270,621	4,962,319

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MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET POSITION-ENTERPRISE FUND
JUNE 30, 2018 AND 2017

ASSETS:	***2018***	***2017***
Current Assets:		
Cash & Cash Equivalents (Note 2)	$6,009,098	$3,727,985
Interest Receivable	9,957	3,141
Accounts Receivable	215,517	182,607
Short Term Notes Receivable (Note 5)	489,885	448,024
STIP Investment Appr/Depr		
Prepaid Expenses	7,331	3,152
Total Current Assets	$6,731,788	$4,364,909
Noncurrent Assets:		
Long Term Notes Receivable (Note 4)	1,224,002	1,216,924
Total NonCurrent Assets	$1,224,002	$1,216,924
Deferred Outflows of Resources		
Pension Deferred Outflows (Note 6)	42,333	42,976
OPEB Deferred Outflows (Note 7)	3,108	0
Total Assets and Deferred Outflows of Resources	$ 8,001,231	$5,624,809
LIABILITIES:		
Liabilities:		
Current Liabilities:		
Accounts Payable	$21,671	$11,773
Due to Primary Government	10,000	0
Compensated Absences	5,412	3,604
Total Current Liabilities	$37,083	$15,377
Noncurrent Liabilities:		
Compensated Absences	$16,891	$10,874
Net Pension Liability (Note 6)	192,036	283,928
OPEB Implicit Rate Subsidy (Note 7)	0	43,071
Total Noncurrent Liabilities	$208,927	$337,873
Total Liabilities	$246,010	$353,250
Deferred Inflows of Resources		
Pension Deferred Inflows (Note 6)	6,801	939
OPEB Deferred Inflows (Note 7)	30,364	0
Net Position		
Total Unrestricted Net Position	7,718,056	5,270,620
Total Net Position (Note 8)	$7,718,056	$5,270,620
Total Net Position, Deferred Inflows of Resources and Liabilities	$8,001,231	$5,624,809

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, 2018 AND 2017

	2018	***2017***
OPERATING REVENUES:		
Service Fees (Note 3)	$ 2,712,510	$ 783,037
Total Operating Revenues	$ 2,712,510	$ 783,037
OPERATING EXPENSES:		
Personal Services	$ 216,758	$216,762
Contracted Services	40,327	48,990
Supplies and Materials	17,208	7,039
Communications	5,620	10,493
Benefits	20,507	2,535
Travel	28,499	21,708
Rent	26,408	25,963
Repairs and Maintenance	151	144
Other Expenses	54,308	64,471
Pension Expense	23,308	27,073
Grants	45,000	0
Component Unit Expense to Primary Government	36,778	36,801
Total Operating Expenses	$ 514,872	$ 461,979
Operating Income	$ 2,197,638	$ 321,058
NON OPERATING REVENUES (EXPENSES)		
On-Behalf Pension Revenue	2,747	4,975
Securities Lending Expense	0	(40)
Investment Earnings	104,960	70,094
Change in Net Position	$ 2,305,345	$ 396,087
Net Position Beginning of Period	$ 5,270,620	$ 4,962,319
Prior Period Adjustment (Note 1)	142,091	(87,786)
Total Net Position End of Period	$ 7,718,056	$ 5,270,620

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, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts for Sales and Services	$ 2,679,600	$ 835,092
Payments to Suppliers for Goods and Services	(248,760)	(158,805)
Payments to Employees	(208,933)	(335,019)
Net Cash Provided by (Used for) Operating Activities	$ 2,221,907	$ 341,268
CASH FLOWS FRON NONCAPITAL FINANCING ACTIVITIES:		
Cash Payments for Operating Loan	$ 10,000	$ (32,000)
Net Cash Provided (Used) by Noncapital Financing Activities	$ 10,000	$ (32,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Payments for Loans	$ (540,684)	$ (770,000)
Collection for Principal on Loans	491,745	698,491
Proceeds from Securities Lending Income	0	87
Payments of Securities Lending Costs	0	(40)
Interest on Investments	98,144	68,375
Net Cash Provided by (Used for) Investing Activities:	$ 49,205	$ (3,087)
Net Increase (Decrease) in Cash and Cash Equivalents	$ 2,281,112	$ 306,181
Cash & Cash Equivalents, July 1	$ 3,727,985	$ 3,421,804
Cash & Cash Equivalents, June 30	$ 6,009,098	$ 3,727,985
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	$ 2,197,638	$ 321,058
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation	0	0
NonCash Activity for Pension and OPEB	43,635	12,733
Change in Assets & Liabilities:		
Decrease (Increase) in Accounts Receivable	(32,910)	52,056
Decrease (Increase) in Prepaid Expense	(4,179)	(657)
Increase (Decrease) in Accounts Payable	9,898	(9,859)
Increase (Decrease) in Compensated Absences Payable	7,825	(34,062)
Increase (Decrease) in OPEB	0	0
Total Adjustments	$ 24,269	$ 20,211
Net Cash Provided by (Used for) Operating Activities	$ 2,221,907	$ 341,269

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, 2018 and 2017

1. Summary of Significant Accounting Policies

Reporting Entity

The Montana Facility Finance Authority (the "Authority") was established by the State of Montana, 2-15-1815 M.C.A., to provide not-for-profit healthcare providers with access to low-cost capital. The Authority provides tax-exempt bond financing, low interest loans and limited planning grants for not-for-profit healthcare organizations and small value-added manufacturers with projects of less than $10 million.

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 presented as a component unit in the State of Montana's Comprehensive Annual Financial Statement. The enterprise funds of the Authority do not comprise the entire propriety fund type of the State of Montana.

Basis of Presentation and Use of Estimates

The Authority Enterprise Fund uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Under this basis, revenues are recognized in the accounting period when realizable, measurable, and earned. Expenses are recognized in the period incurred, when measurable. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net position and revenues and expenses for the period then ended.

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.

Accounts Receivable

Accounts receivable are comprised of balances for administrative fees under service agreements with participating facilities. Management has evaluated the reported balances and believes them to be materially collectible, therefore, no allowance for uncollectable amounts has been provided.

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

Pension Deferred Inflows and Outflows of Resources

In accordance with GAAP, certain elements representing a consumption of net assets by the Authority that are applicable to a future reporting period are reported as deferred outflows of resources. The balance reported by the Authority for pension deferred outflows relates to pension contributions made during the fiscal years ended June 30, 2018 and 2017 which are recognized under GASB 68 in the respective following fiscal year. Pension deferred inflows relate to the difference between projected and actual earnings on pension plan investments allocated to the Authority.

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Classification of Net Position

Unrestricted Net Position

These are resources over which the governing board has discretionary control.

Prior Period Adjustments

Prior period activity, in both fiscal years, relates to adjustments made for pension and OPEB amounts, including the implementation of GASB #75. The prior period adjustments represents $142,091 and $(87,786) for fiscal year 2018 and 2017, respectively.

New Accounting Pronouncements:

The Authority has adopted the provisions of the following GASB pronouncement for fiscal year 2018:

Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

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 $7,018 and $50,769 as of June 30, 2018 and 2017 respectively, cash equivalents invested in the Board of Investments (BOI) of the State of Montana Short-Term Investment Pool (STIP) of $6,001,651 and $3,676,610 for fiscal year 2018 and 2017, respectively and net STIP appreciation of $429 and $606 for fiscal year 2018 and 2017, respectively. STIP was recorded at fair value for FY 2018 and FY 2017. The Authority 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. Cash and cash equivalents are defined as a short-term, highly liquid investment that is readily convertible to known amounts of cash.

<u>STIP</u> - This Pool is managed to preserve principal while providing 24-hour liquidity for state agency and local government participants. Funds may be invested for one or more days. The STIP investments and the income are owned by the participants and are managed on their behalf by the BOI. For the fiscal years 2018 and 2017, STIP is presented in the BOI Statement of Net Asset Value at fair value.

The portfolio may include asset-backed securities, commercial paper, corporate notes, U.S. Government direct obligations, U.S. Government agency securities, repurchase agreements, institutional money market funds, certificates of deposit, and variable-rate (floating-rate) instruments. Investments must have a maximum maturity of 397 days or less unless they are a variable rate security.

Asset-backed securities represent debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. Commercial paper is unsecured short-term debt with maturities ranging from 2 to 270 days. U.S. Government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. Government. U.S. Government indirect-backed obligations include U.S. Government agency. Repurchase agreements (REPO) represent an agreement between a seller and a buyer, usually of U.S. Government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable-rate securities pay a variable rate of interest until maturity. The STIP portfolio's variable-rate securities reset to LIBOR (London Interbank Offered Rate).

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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 securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The 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. On any day, including June 30th, the markets may move in a positive or negative direction resulting in under or over collateralization. The Bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The BOI and the Bank split the earnings, 80/20% respectively, on security lending activities. The BOI retains all rights and risks of ownership during the loan period.

During fiscal year 2017, the Bank loaned the 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 sell collateral securities unless the borrower defaults.

The BOI imposed no restrictions on the amount of securities available to lend during fiscal year 2017. 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. There were no losses during fiscal year 2017 resulting from a borrower default.

The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in two investment funds, the Quality D Short Term Investment Fund and the Security Lending Quality Trust. Pension funds participated in the Quality D Short Term Investment Fund and non-pension entities participated in the Security Lending Quality Trust. During March 2017, participation in both funds was transitioned into the Navigator Securities Lending Government Money Market portfolio. The BOI and its borrowers maintain the right to terminate all securities lending transactions on notice.

STIP ceased participating in the security lending program as of October 2016 so there is no balance to report for FY 2017. For June 30, 2017, the security lending gross and net income was $87 with expenses of $39 for net income of $48.

Investments

Investments held at June 30, 2018 and 2017 are comprised of the STIP funds described above. In FY 2018 and FY 2017, no assets were deemed to be long term.

Investment Risk Disclosures

Effective June 30, 2007, the Authority implemented the provisions of GASB Statement No. 40 – Deposit and Investment Risk Disclosures. The required GASB 40 risk disclosure for the Authority is described below:

Credit Risk - Credit risk is 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 STIP investment policy specifies that STIP securities have a minimum of two separate credit ratings as provided by Standard and Poor's, Moody's, or Fitch that meet the minimum as stated in the STIP investment policy depending on the type of investment.

STIP investments are considered cash equivalents, unless BOI management determines that a portion of its portfolio is sufficiently long term and should be considered investments. In such cases, each participant in the pool is allocated its pro-rata share of illiquid funds.

STIP investments at fair value are categorized to disclose credit risk and weighted average maturity (WAM). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons -the time when investments are due or reset and payable in days, months or years - weighted to reflect the dollar size of the individual investments within an investment type. At June 30, 2018, inclusive of cash and cash equivalents, the WAM averaged 46 days for the portfolio. At June 30, 2017 inclusive of cash and cash equivalents, the WAM averaged 39 days for the portfolio.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of any single investment per issuer name. Investments directly issued or explicitly guaranteed by the U.S. government and investments in mutual funds are excluded from the concentration of credit risk requirement. The STIP Investment Policy Statement (IPS) limits concentration of credit risk by limiting portfolio investment types to 3% in any issuer except for U.S. Treasury and U.S. Agency securities as well as any repurchase agreements with a financial institution. STIP concentration risk was within the policy as set by the Board. As of June 30, 2018 and 2017, STIP concentration risk was within the policy as set by the BOI board.

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.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to the STIP investment policy "the STIP portfolio will minimize interest rate risk by:

1) structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
2) maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities; and
3) STIP will maintain a reserve account."

Legal and Credit Risk

The Authority's risk is derived from the STIP Pool as a whole, not with specific securities held by the Pool.

Fair Value Measurement
GASB 72 requires investments to be categorized within the fair value hierarchy established by generally accepted accounting principles as follows:

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

The Authority does not have any investments required to be categorized in Level 1, 2 or 3.

Investments Measured at NAV* (in thousands)

		(in thousands)	June 30, 2018	
	(NAV)	**Unfunded Commitments**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
Short Term Investment Pool	$6,002	$0	Daily	1 day

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		(in thousands)	June 30, 2017	
	(NAV)	**Unfunded Commitments**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
Short Term Investment Pool	$3,677	$0	Daily	1 day

STIP – This external investment pool is managed and administered under the direction of the BOI as authorized by the Unified Investment Program. It is a commingled pool for investment purposes and requested redemptions from the pool are redeemed the next business day. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the investment.

For further information on investments at NAV please contact BOI at www.investmentmt.com.

Montana Board of Investments
2401 Colonial Dr, 3rd Floor
PO Box 200126
Helena, MT 59620-0126

3. Receipt of Indentured Bond Pool Funds

The MFFA operated a Pooled Loan Program from FY 1985 – FY 2009. The program was structured as a blind pool, that being bonds sold without a specific list of projects to be funded. This method of financing was eliminated under the 1986 Tax Reform Act. As long as the pool was open, it could operate, but no new pools could be created. The revenue to make payment on the bonds came from lending the funds to qualified institutions to finance capital projects. The payments on those loans then flowed back to make bond payments with any remaining funds after bond payment flowing back into the pool. The interest rate on the loan was based on the interest rate of the underlying bonds which carried a variable rate. As the interest rates on the MFFA's obligation increased, so would the interest rate on the loans to borrowers.

The bonds underlying the pool were insured and the interest rate of the bonds from the pool were based on the insurer's credit rating. Starting in 2008, the insurer's credit rating began a steep decline to below investment grade. The downgrade in the bond insurer's creditworthiness resulted in higher interest rates for pool participants. The MFFA subsidized the interest rates for several months, but the cost of maintaining the subsidy was unsustainable. In FY 2009, the MFFA Board closed the program by paying off the remaining bonds.

The remaining funds in the pool were placed in a custody account with the program trustee until they were clear from any legal challenge by any participant in the loan pool. Participants in the program were able to file District Court challenges for up to eight years from the point of redemption of the bonds with another three years to serve notice on that challenge. The potential for legal challenge made the funds a contingent asset. In January of 2018, MFFA legal counsel determined that there were no legal challenges active or pending against the funds that that they could be claimed by the MFFA. As the funds could no longer be considered a contingent asset, the MFFA closed the trustee-held account and recognized the $2,099,748 as FY 2018 revenue in April, 2018.

4. Conduit Revenue Bonds and Notes 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

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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 of 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 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 Bonds (Montana State Hospital Project) Series 1997 does 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 facility revenue and such bond issues are reflected in the State of Montana Basic Financial Statements.

Following is a schedule of revenue bonds and note outstanding as of June 30, 2018 and 2017:

Revenue Bonds & Notes Outstanding:

Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2018	Outstanding June 30, 2017
Development Disability Facility Revenue Bonds (Beartooth Industries) Series 1997	1997-2024	Fixed	$90,930	$103,284
Health Care Revenue Bonds (Montana State Hospital) Series 1997	1997-2022	Fixed	6,775,000	8,270,000
Developmental Disability Facilities Revenue Bonds (Opportunity Resources) Series 1998	1998-2018	Fixed	—	12,932
Prerelease Center Revenue Bonds (Missoula Correctional Services) Series 1998A	1998-2018	Fixed	—	840,000
Prerelease Center Revenue Bonds (Boyd Andrew Prerelease) Series 2000	2000-2020	Fixed	525,000	680,000
Prerelease Center Revenue Bond (Boyd Andrew Community Services) Series 2005	2005-2021	Fixed	268,273	366,662
Developmental Disability Facility Revenue Bond (Spring Meadow Resources) Series 2005	2005-2021	Fixed	135,833	185,315
Prerelease Center Revenue Bond (Great Falls Pre-Release Services) Series 2005	2005-2021	Fixed	1,188,978	1,547,169
Hospital Revenue Bonds (Billings Clinic) Series 2008A	2008-2028	Fixed	8,400,000	9,860,000
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	—	24,375,000
Revenue Bonds (Rimrock Foundation) Series 2009	2009-2030	5-year Fixed	400,517	429,065
Health Facilities Revenue Note (Bozeman Deaconess Health Services) Series 2010B	2010-2015	Fixed	—	910,000
Health Care Facilities Revenue Bonds (Sisters of Charity of Leavenworth Health System) Series 2010A	2010-2024	Fixed	106,060,000	106,060,000

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Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2018	Outstanding June 30, 2017
Health Care Facilities Revenue Bonds (Sisters of Charity of Leavenworth Health System) Series 2010B	2010-2040	Fixed	58,215,000	65,885,000
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	295,000	760,000
Taxable Revenue Build America Bonds (Barrett Hospital and Health Care) Series 2010A	2010-2037	Fixed	27,505,000	28,350,000
Health Care Facilities Revenue Bonds (Kalispell Regional Medical Center) Series 2010	2010-20404	Fixed	47,520,000	49,260,000
Health Care Facilities Revenue Note (Western Montana Mental Health Center) Series 2010	2010-2030	Fixed	1,046,690	1,102,667
Acquisition and Refunding Revenue Note (Sapphire Lutheran Homes) Series 2011	2011-2041	5-year Fixed	4,223,113	4,341,742
Banc of America Public Capital Corp Program Revenue Note (Kalispell Regional Medical Center) Series 2011B	2011-2018	Fixed	56,101	387,734
Health Facilities Revenue Bonds (Billings Clinic) Series 2011A	2011-2038	3-year Fixed	65,085,000	66,785,000
Health Facilities Revenue Bonds (Billings Clinic) Series 2011B	2011-2038	5-year Fixed	56,400,000	57,870,000
Health Facilities Revenue Bonds (Bozeman Deaconess Health Services) Series 2011	2011-2031	Fixed	15,080,000	15,970,000
Health Care Facilities Revenue Note (Western Montana Mental Health Center) Series 2012	2012-2033	Fixed	1,432,385	1,498,091
Health Facilities Revenue Bonds (St. Peter's Hospital) Series 2013	2013-2024	Fixed	12,235,000	14,120,000
Revenue and Refunding Bond (Missions United) Series 2014	2014-2039	5-year Fixed	28,595,000	28,444,164
Health Facilities Revenue and Refunding Bonds (Bozeman Deaconess Health Services Series 2014A	2014-2044	Fixed	20,770,000	21,035,000
Banc of America Public Capital Corp Revenue Note (Kalispell Regional Medical Center) Series 2014	2014-2024	Fixed	11,334,965	12,961,251
Banc of America Public Capital Corp Revenue Note (Bozeman Deaconess Health Services) Series 2014	2014-2024	Fixed	6,670,836	7,626,901
Health Facilities Revenue Note (Bozeman Deaconess Health Services) Series 2015A	2015-2046	Fixed	21,282,912	21,776,575
Health Facilities Revenue Note (Bozeman Deaconess Health Services) Series 2015B	2015-2046	Fixed	7,834,222	7,944,021
Hospital Facilities Revenue Refunding Bond (St. Peter's Hospital) Series 2015	2015-2022	Fixed	10,770,000	12,190,000
Refunding Revenue Bond (Montana Children's Home and Hospital) Series 2015	2015-2025	Fixed	2,605,925	3,233,032
Direct Note (St. John's Lutheran Ministries) Series 2015A	2015-2041	Variable	3,950,422	4,068,595
Health Facilities Revenue Bond (Bozeman Deaconess Health Services) Series 2015C	2015-2035	Variable	15,610,000	16,530,000
Prerelease Center Revenue Refunding Bond (Alternatives) Series 2015	2015-2025	Fixed	4,235,000	4,695,000
Refunding Revenue Bond (Community, Counseling, and Correctional Services) Series 2015	2015-2026	Fixed	5,310,000	5,825,000
Banc of America Public Capital Corp Program Revenue Note (Kalispell Regional Medical Center) Series 2016	2016-2026	Fixed	4,704,245	5,266,901

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Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2018	Outstanding June 30, 2017
Facility Revenue Bond (Intermountain Deaconess Children's Services) Series 2016	2016-2041	Variable	6,466,684	6,649,676
Direct Note (St. John's Lutheran Ministries) Series 2015B	2015-2041	Variable	19,558,324	20,143,283
Refunding Revenue Bond (North Valley Hospital) Series 2016	2016-2031	Variable	18,444,775	19,584,952
Revenue Bonds (Providence St. Joseph Health) Series 2016F	2016-2026	Variable	46,380,000	50,810,000
Health Care Facilities Revenue Refunding Bonds (Master Loan Program – St. Luke Community Healthcare) Series 2016A	2016-2032	Fixed	16,725,000	17,670,000
Health Care Facilities Revenue Refunding Bonds (Master Loan Program – Marias Medical Center) Series 2016B	2016-2028	Fixed	1,810,000	1,950,000
Refunding Revenue Bond (Boyd Andrew Community Services) Series 2016	2016-2026	Fixed	2,795,000	3,070,000
Hospital Revenue Bonds (Benefis Health System) Series 2016	2016-2041	Fixed	136,530,000	141,250,000
Health Care Facilities Revenue Refunding Bonds (Master Loan Program – Northeast Montana Health Services) Series 2017A	2017-2032	Fixed	9,065,000	9,585,000
Hospital Revenue Bonds (Benefis Health System) Series 2017A	2017-2030	Variable	26,480,000	28,300,000
Health Care Facilities Revenue and Refunding Bonds (Marcus Daly Memorial Hospital) Series 2017	2017-2037	Fixed	9,230,000	9,505,000
Health Care Facilities Revenue Refunding Bonds (Master loan Program - Glendive Medical) Series 2017B	2017-2033	Fixed	21,470,000	—
Health Care Facilities Revenue Bonds (Master Loan Program - Marcus Daly Memorial) Series 2017C	2017 - 2037	Fixed	15,000,000	—
Facility Revenue Bonds (Clark For Valley Hospital) Series 2018	2018-2036	Fixed	6,094,893	—
Facility Revenue Bonds (Bozeman Deaconess Health Services) Series 2018	2018-2048	Variable	68,715,000	—
Total Revenue Bonds & Notes Outstanding			**$991,036,023**	**$949,744,012**

Stated maturities on Revenue Bonds & Notes Outstanding are as follows:

Maturing in Year Ended	Bond Principal Payment
June 30, 2018	(in thousands)
2019	$48,934
2020	51,370
2021	52,901
2022	53,312
2023-2048	784,519
Total	**$991,036**

The revenue bonds and notes 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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5. 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:
(Authority Direct Loans)

Issue Date	Period Outstanding	Interest Rate	Outstanding June 30, 2018	Outstanding June 30, 2017
Rimrock Foundation	2008-2020	5.93%	$47,793	$67,076
Spring Meadow Resources	2008-2020	5.93%	71,021	99,678
Broadwater Health Center	2012-2017	3.00%	—	1,085
Livingston Healthcare	2012-2017	3.00%	—	7,054
Big Horn Hospital Association	2012-2017	3.00%	—	14,274
Central Montana Medical Center	2014-2019	3.00%	23,668	51,302
Roosevelt Medical Center	2014-2018	3.00%	7,321	14,427
Fallon Medical Complex	2014-2019	3.00%	6,059	16,202
Pondera Medical Center	2015-2020	3.00%	56,252	84,344
Mineral Community Hospital	2015-2020	2.00%	35,631	49,879
Madison Valley Medical Center	2015-2022	2.00%	—	11,190
Central Montana Medical Center	2016-2021	2.00%	70,964	97,466
Southwest Montana Community Health Care	2016-2021	2.00%	163,636	222,788
Central Montana Medical Center	2016-2021	2.00%	30,102	40,327
Rosebud Health Care Center	2016-2021	2.00%	105,864	141,820
Gateway Community Services	2016-2026	—%	25,600	28,800
McCone County Health Center, Inc.	2016-2023	2.00%	77,450	91,075
Broadwater Health Center	2016-2023	2.00%	189,607	222,964
Powell County - Deer Lodge	2017-2021	2.00%	208,888	282,048
Pondera Medical Center	2017-2022	2.07%	97,067	121,149
Northern Rockies Medical Center, Inc	2017-2024	2.00%	127,470	—
Intermountain Deaconess Children's Services	2017-2024	2.00%	273,600	—
Phillips County Hospital Association	2018-2025	2.09%	95,894	—
Total Revenue Notes Receivable			**$1,713,887**	**$1,664,948**

6. Employee Benefits

Retirement Benefits – General Plan Information

In accordance with GASB Statement 68, *Accounting and Financial Reporting for Pension,* employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability (NPL), Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions. These amounts are included in the Authority's financial statements as of and for the years ended June 30, 2018 and 2017.

The Authority and its members contribute to either the PERS Defined Benefit Retirement Plan (DBRP) or the PERS Defined Contribution Retirement Plan (DCRP) for its employees that have elected the DCRP. Both plans are administered by the Montana Public Employees Retirement Board (PERB) and its staff, the Montana Public Employee Retirement Administration (MPERA). The DBRP is a multiple-employer, cost-sharing plan and it is a multiple-employer plan. Both plans provide retirement, disability and death benefits plan members and the beneficiaries.

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

Benefits are established by state law and can only be amended by the Legislature. DBRP plan benefits are based on eligibility, years of service and highest average compensation. Member rights are vested after five years of service.

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

At the plan level for the year ended June 30, 2018, the DCRP plan member contributions were $12.4 million; employer contributions were $11.8 million; and employers did not recognize any pension expenses and carry no liability for the defined contribution plan. For the year ended June 30, 2018, plan level non-vested forfeitures for the 316 employers that have participants in the DCRP totaled $746,144 thousand. For the year ended June 30, 2017, plan level non-vested forfeitures for the 300 employers that have participants in the PERS-DCRP totaled $396 thousand.

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

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

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

Or online at: http://mpera.mt.gov

The information contained within MPERA's financial statements will only display information in regard to PERS in total and will not display information specific to the Authority as an entity.

Authority Net Pension Liability and Expense
At June 30, 2018, the Authority recorded a liability of $192,036 for its proportionate share of the DBRP Net Pension Liability and $23,308 for its proportionate share of the pension expense. At June 30, 2017, the Authority recorded a liability of $283,928 for its proportionate share of the DBRP Net Pension Liability and $27,073 for its proportionate share of the pension expense. The Authority's Net Pension Liability at June 30, 2017 was based on the contributions received by PERS from the Authority during the measurement period of July 1, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERS' participating employers. The Authority's Net Pension Liability at June 30, 2018 was based on contributions received by PERS from the Authority during the measurement period of July 1, 2016 through June 30, 2017. At June 30, 2018, the Authority's proportion was 0.00986%. At June 30, 2017, the Authority's proportion was 0.01739%.

Deferred Pension Inflow/Outflow
At June 30, 2018, the Authority reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. Actual Experience	$4,729	$278
Projected Investment Earning vs. Actual Investment Earnings	0	1,290
Changes in assumptions	26,249	0
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions	0	5,233
Employer Contributions Subsequent to the Measurement Date	11,355	0
Total	$42,333	$6,801

At June 30, 2017, the Authority reported its proportionate share of the Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Expected vs. Actual Experience	$1,532	$939
Projected Investment Earning vs. Actual Investment Earnings	26,712	0
Changes in assumptions	0	0
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions	3,633	0
Employer Contributions Subsequent to the Measurement Date	11,099	0
Total	$42,976	$939

Year ended June 30:	Deferred Outflows/Inflows of Resources
2018	6,802
2019	15,016
2020	11,679
2021	(4,087)
2022	n/a
Thereafter	n/a

Following are additional required disclosures:

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

Member's Highest Average Compensation (HAC)
Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;

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

Eligibility for Benefits
Service retirement:

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

Early retirement, actuarially reduced:

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

Vesting
5 years of membership service

Second Retirement (requires returning to PERS covered employment or PERS service)
Retire before January 1, 2016 and accumulate less than 2 years additional service credit, or

Retire on or after January 1, 2016 and accumulate less than 5 years additional service credit:
- A refund of member's contributions plus regular interest (.77%);
- No service credit for second employment;
- Start the same benefit amount the month following termination; and
- GABA start again in the January immediately following the second retirement.

Retire before January 1, 2016 and accumulate 5 or more years of service credit:
- A recalculated retirement benefit based on provisions in effect after the initial retirement; and
- GABA starts on the recalculated benefit in the January after receiving the new benefit for 12 months.

Retire on or after January 1, 2016 and accumulate 5 or more year of service credit:
- The same retirement as prior to the return to service;
- A second retirement benefit as prior to the second period of service based on laws in effect upon the rehire date; and
- GABA starts on both benefits in the January after receiving the original and the new benefit for 12 months.

Monthly Benefit Formula:
Members hired prior to July 1, 2011:
- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2.0% of HAC per year of service credit.

Members hired on or after July 1, 2011:
- Less than 10 years of membership service: 1.5% of HAC per year of service credit;

- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2.0% of HAC per year of service credit.

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

- 3.0% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- For members hired after July 1, 2013 –
    - 1.5% for each year PERS is funded at or above 90%;
    - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%;
    - 0.0% whenever the amortization period for PERS is 40 years or more

Overview of Contributions:
Contribution rates for the plans are specified by State law for periodic member and employer contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has the authority to establish and amend contributions rates to the plans. Currently members are required to contribute 7.9% of their compensation. By statute, the 7.9% member contribution is temporary and will be decreased to 6.9% on January 1 of the year when the actuarial valuation results show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

The Authority was required to contribute 8.57% of the members' compensation for FY 2018 and 8.47% for FY 2017. Following the 2013 Legislative Session, PERS employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014 employer contributions increased an additional 0.1% each year for 10 years, through 2024. The employer additional contribution, including the 0.27% added in 2007 and 2009, terminates on January 1 of the year following actuary valuation results that show the amortization period of PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contribution rates. The additional contributions were not terminated on January 1, 2018 or January 1, 2017.

Effective July 1, 2013, DBRP received other contributions including 1% of the DCRP employer contributions for participants, additional Plan Choice Rate contributions, and additional contributions from the coal severance tax fund and interest income from the coal severance tax permanent fund. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required. Effective March 2016, the 1% of DCRP employer contributions previously directed to the DBRP are now directed to member accounts.

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions made subsequent to the June 30, 2018, measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Assumptions and Other Inputs
Actuarial Assumptions:
The Total Pension Liability (TPL) for fiscal years 2018 and 2017, are based on the results of an actuarial valuation date of June 30, 2016 and June 30, 2015, with update procedures to roll forward the total pension

liability to June 30, 2017 and June 30, 2018. There were several significant assumptions and other inputs used to measure the TPL. Among those assumptions were the following:

- Investment Return (net of admin expense) 7.65%
- Admin Expense as a % of Payroll 0.26%
- General Wage Growth* 3.50%
  - includes inflation at 2.75%
- Merit Increases 0.00% to 4.80%
- Guaranteed Annual Benefit Adjustment (GABA)
  After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.
  - 3.0% for members hired prior to July 1, 2007
  - 1.5% for members hired between July 1, 2007 and June 30, 2013
  - Members hired on or after July 1, 2013:
    - 1.5% for each year PERS is funded at or above 90%;
    - 1.5% is reduced by 0.1% for each 2.0% PERS is funded below 90%; and
    - 0% whenever the amortization period for PERS is 40 years or more.
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2020 with scale BB, males set back 1 year.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections.

Discount Rate:
The discount rate used to measure the Total Pension Liability was 7.65% in fiscal year 2018 and 7.75% in fiscal year 2017. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non- employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. The contributions from the Coal Tax Severance fund are not a special funding situation. Contributions provided by the Coal Tax revenue for the Authority were $2,747 and $4,975 as of June 30, 2018 and 2017 respectively. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all of the projected future benefit payments of current plan members through the year 2121. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine Total Pension Liability. A municipal bond rate was not incorporated in the discount rate.

Long-term Expected Rate of Return:
The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period July 1, 2010 to June 30, 2016, is outlined in a report dated May 2017, which is located on the MPERA website. The long-term expected rate of return on pension plan investments was determined by considering information from various sources, including historical rates of return, rate of return assumptions adopted by similar public-sector systems, and by using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 and June 30, 2016 are summarized as follows:

As of June 30, 2018		
Asset Class	**Target Asset Allocation**	**Long-Term Expected Real Rate of Return**
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%
Total	100.00%	

As of June 30, 2017		
Asset Class	**Target Asset Allocation**	**Long-Term Expected Real Rate of Return**
Cash Equivalents	2.60%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.40%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%
Total	100.00%	

The portfolio return expectation is 7.11% and 7.36% for fiscal years 2018 and 2017, respectively.

Sensitivity Analysis:
The below table represents the Net Pension Liability calculated using the discount rate of 7.65%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower (6.65%) or 1.00% higher (8.65%) than the current rate.

Authority's Net Pension Liability for Year Ended June 30	1.0% Decrease (6.65%)	Current Discount Rate	1.0% Increase (8.65%)
2018	$ 279,684	$ 192,036	$ 118,462

The below table represents the Net Pension Liability calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

Authority's Net Pension Liability for Year Ended June 30	1.0% Decrease (6.75%)	Current Discount Rate	1.0% Increase (8.75%)
2017	411,998	283,928	173,605

Summary of Significant Accounting Policies – DBRP:
DBRP financial statements are prepared using the accrual basis of accounting. The same accrual basis was used for the purposes of measuring the NPL, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, the fiduciary net position and additions to/deductions

from fiduciary net position. Member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adhered to all accounting principles generally accepted by the United States of America and applied all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Changes in actuarial assumptions and methods:
Effective July 1, 2017, the following assumption changes were used:

- Lowered the interest rate from 7.75% to 7.65%.
- Lowered the inflation rate from 3.0% to 2.75%.
- Updated non-disabled mortality to the RP-200 Combined Employee and Annuitant Mortality Table projected to 2020 using scale BB, makes set back 1 year.
- Increased the rates of withdrawal.
- Lowered the merit component of the total salary increase.
- Lowered the wage base component of the total salary increase from 4.00% to 3.50%.
- Decreased the administrative expense load from 0.27% to 0.26%.

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

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

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

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

PERS has a special funding situation in which the State, as a non-employer contributing entity, is legally responsible for making contributions directly to PERS on behalf of local government, school district and other governmental agency employers. The State, as a non-employer contributing entity, also paid to the Plan coal tax contributions that are not accounted for a special fund for all participating employers. Contributions provided by the Coal Tax revenue attributable to the Fund was $3 thousand.

Changes in proportionate share: There were no changes between the measurement date of the collective Net Pension Liability (NPL) and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

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. For plans in existence as of August 20, 1996, compliance was required by January 1, 1999.

Health Care:
Authority staff and dependents are eligible to receive medical and dental health care through the State Group Benefits Plan administered by the Montana Department of Administration Health Care & Benefits Division. The State funds claims on a pay-as-you-go basis. Montana DOA established premiums vary depending on family coverage and eligibility. Agencies contribute of $1,054 per month per eligible State of Montana employee, in addition to the employee's monthly contribution, as shown as follows:

Premiums	CY2017/2018
Medical	$963 - $1,260
Dental (optional)	$0.00 - $28.90
Vision Hardware (optional)	$7.64 - $22.26

The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Eligible dental claims are reimbursed at 20% to 100% of the allowable charges, depending on the services provided. The State fund claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs.

7. OPEB - OTHER POST EMPLOYMENT BENEFITS

General Information
The State of Montana provides optional postemployment healthcare benefits in accordance with Section 2-18-704, MCA to the following employees and dependents who elect to continue coverage and pay administratively established contributions: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Medical, dental, and vision benefits are available through this plan. The State offers OPEB plans that are not administered through trusts. It is administered through an arrangement in which contributions to the OPEB plan and earnings on those contributions are irrevocable. The OPEB plan assets are dedicated to providing OPEB to plan members in accordance with benefit terms. There are no assets accumulated to offset the Total OPEB liability.

In accordance with Section 2-18-704, MCA, the State provides post-retirement health insurance benefits to eligible employees that are those who receive retirement benefits from the Public Employees' Retirement System (PERS) or various other State retirement systems, and elect to start medical coverage within 60 days of leaving employment. Retirement eligibility criteria differ by State retirement plan. Further detail on State Retirement Plans are provided in Note 6.

The healthcare OPEB plans allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of an 'implied rate' subsidy in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plans or for associated liabilities but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans. State Plan participants for the Authority as of March 31, 2018 totaled 3 participants with 1 active employee and 2 people considered retired employees, spouses, and/or surviving spouses.

Plan Descriptions

MONTANA FACILITY FINANCE AUTHORITY
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The State OPEB plan is reported as a single employer plan. Each participating employer is required to disclose additional information as required per GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (GASB 75).

The State pays for post-employment healthcare benefits on a pay-as-you-go basis. Section 2-18-8, MCA gives authority for establishing and amending the funding policy to the Department of Administration for the State group health insurance plan. The healthcare OPEB plans allow retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of the total OPEB liability in the related financial statements and note disclosures. Reported contributions are not a result of direct funding to the plans or for associated liabilities, but are a measure of the difference in retiree payments into the plans and actual medical costs associated with those individuals paid for by the plans. The healthcare OPEB plans are reported as agency funds. There are no assets or liabilities as only contributions collected, and distributions made are reflected in these funds.

As of December 31, 2017, the State OPEB plan's administratively established retiree medical contributions vary between $439 and $1,633 per month, depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental contributions vary between $41.10 and $70.00 and vision hardware contributions vary between $7.64 and $22.26, depending on the coverage selected. The plan provides different coinsurance amounts and deductibles depending on whether members use in-network or out-of-network providers. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare.

Net OPEB Liability

The FFA showed no net OPEB liability which is 0.0% of the total primary government OPEB liability of $50,458,806 as measured on March 31, 2018 as a basis of the total group insurance premiums paid. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as December 31, 2017 with a rolled forward actuarial valuation measurement date of March 31, 2018.

The following table presents the other items related to and changes in the Total OPEB liability:

	Total Plan
Initial Balances at 6/30/2017	43,071
Restatement of Balance per GASB #75	(43,071)
Restated Balances at 6/30/2017	—
Changes for the year:	
Service Cost	7,864
Interest	12,184
Difference between Expected and Actual Experience	(28,576)
Changes of assumptions or other inputs	(1,788)
Benefit Payments	10,316
Net Changes	—
Balances at 6/30/2018	**—**

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GASB Statement #75 was required to be applied to accounting and financial reporting in a retrospective manner. As a result, the GASB Statement #45 OPEB liability was eliminated and no further OPEB disclosure is necessary for the fiscal period. However, there is no trust and no assets to offset an OPEB liability.

Actuarially, an OPEB Asset is calculated when totals are proportioned out to all employers. And therefore, as of June 30, 2018, a zero balance of OPEB liability is assumed.

The initial OPEB liability balance reported for FY 2017 of $43,071 was restated as $0 in accordance with GASB #75. The OPEB liability balance at June 30, 2017 of $43,071 was calculated in accordance with GASB #45 and restated as $0 in accordance with GASB #75.

Further information concerning GASB 45 disclosures for FY 2017 can be found in the State of Montana Comprehensive Annual Financial Reports. This report can be obtained from:

Montana Department of Administration: State Financial Services Division
PO Box 200101
Helena, MT 59620-0131
406-444-3092

Or online at https://sfsd.mt.gov/SAB/cafr

Actuarial Methods and Assumptions
The total OPEB liability (TOL) measured under GASB 75 is based upon service cost and more standardized reporting assumptions than prior GASB Statements. As a pay-as-you-go public entity, GASB 75 requires a 20-year amortization period and a current municipal bond discount rate to establish an Actuarially Determined Contribution (ADC). The GASB 75 valuation is further required to show both historical and projected future net changes in TOL, as well as sensitivity to changes in key underlying assumptions. Actuarially determined amounts are subject to continual revisions being actual results are compared with past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The schedule of changes in the State's TOL and related ratios, presented as required supplementary information following the notes to the financial statements, is designed to present multi-year trend information about whether the actuarial value of plan TOL is increasing or decreasing over time relative to the actuarial liabilities for benefits. The schedule of changes in the State's TOL and related ratios are based on the substantive plan (the plan as understood by the employer and the plan members). This includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The State's OPEB Plan TOL in December 31, 2017, rolled forward to March 31, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Other Postemployment Benefits
State Single Employer Plan

Retiree/Surviving

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	Spouse	Spouse
Contributions:		
Before Medicare eligibility	$13,572	$5,268
After Medicare eligibility	5,271	4,403

Actuarial valuation date:	December 31, 2017
Actuarial measurement date:	March 31, 2018 (Updated procedures were used to roll forward the total OPEB liability to the measurement date.)
Actuarial cost method:	Entry age normal funding method
Amortization method:	Open basis
Remaining amortization period:	20 years
Asset valuation method:	Not applicable since no assets meet the definition of plan assets under GASB 75
Actuarial assumptions:	
Discount rate:	3.89%
Projected payroll increases:	4.00%
Participation:	
Future retirees:	55.00%
Future eligible spouses:	60.00%
Marital status at retirement:	70.00%

Mortality - Health: For TRS, healthy mortality is assumed to follow the RP-2000 Healthy Annuitant Mortality Table for ages 50 and above and the RP-2000 Combined Healthy Annuitant Mortality Table for ages below 50, set back four years for males, set back two years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, healthy mortality is assumed to follow the RP-2000 Combined Mortality Table with improvements projected by Scale BB to 2020, set back one year for males.

Mortality - Disabled: For TRS, disabled mortality is assumed to follow the RP-2000 Disabled Mortality Table, set forward one year for males and set forward five years for females, with mortality improvements projected by Scale BB to 2018. For all other groups, disabled mortality is assumed to follow the RP-2000 Combined Mortality Table with no projections.

Healthcare cost trend rates - 7.5% for both medical and prescription initially, decreasing 0.5% per year until 2021, and thereafter decreasing 0.1% or 0.2% per year to an ultimate rate of 3.8% in 2075. Cost increases are assumed to apply at the end of the plan year.

Retiree Contribution Increases - Current year was based on actual trend. For retiree/surviving spouse and spouse the increase is to 7.0% in 2019 decreasing 0.5% per year until 2021, and thereafter decreasing 0.1% or 0.2% per year to an ultimate rate of 3.8% in 2075 with the rate of 5.2% used for years 2027 - 2043 prior to again decreasing thereafter.

Changes in actuarial assumptions and methods since last measurement date: Changes in actuarial methods include the amortization period and actuarial cost method have been adjusted to conform with GASB 75 requirements. Changes in actuarial assumptions include revised rates per the retirement system pension valuations as of July 1, 2017 and interest rate based upon the

March 31, 2018, 20-year municipal bond index per GASB 75 requirements. Other changes include revised rates based on actual data and projected trend and updated projected healthcare trend rates to follow the Getzen model.

Changes in benefit terms since last measurement date: Medical moved from Cigna to Allegiance plans as of January 1, 2016, the State implemented reference-based pricing hospital contracts effective July 1, 2016, and pharmacy moved from URx to Navitus as of January 1, 2017. The State implemented an Employer Group Waiver Program for Medicare retirees effective January 1, 2017.

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

For the year ended June 30, 2018, the FFA showed an OPEB expense of 23,615 at June 30, 2018. The FFA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Authority Portion of Plan	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Difference between expected and actual experience	—	28,576
Changes of assumptions or other inputs	—	1,788
Amounts associated with transactions subsequent to the measurement date of the total OPEB liability	3,108	—
Total	3,108	30,364

Deferred outflows of resources and deferred inflows of resources related to TOL will be recognized as OPEB expense as follows:

Amount recognized in OPEB expense as an increase or (decrease) to OPEB expense		
Year ended June 30		**Authority Plan Total**
2019	$	(2,505)
2020		(2,505)
2021		(2,505)
2022		(2,505)
2023		(2,505)
Thereafter		(17,839)

General Information Trust Plan

General Information

Section 19-3-2141, MCA, establishes a long-term disability plan trust fund (PERS-DCRP Disability) for all State of Montana Employees that participate in the Public Employee Retirement System-Defined Contribution Retirement Plan (PERS-DCRP). All new PERS members are initially members of the Public

Employee Retirement System-Defined Benefit Retirement Plan (PERS-DBRP) and have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP by filing an irrevocable election. If an election is not filed, the member remains in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. Only those participants that choose the PERS-DCRP are covered by the PERS-DCRP Disability plan.

Plan Description
The PERS-DCRP Disability is a multiple-employer cost sharing plan that covers employees of the State, local governments, and certain employees of the university system and school districts, who are not covered by a separate retirement system governed by Title 19, MCA. The PERS-DCRP Disability plan provides disability benefits to PERS- DCRP plan members who are vested in the plan and are currently ineligible for retirement.

A separate trust has been established for purposes of providing disability benefits to PERS-DCRP Disability plan members and it is accounted for as a fiduciary fund. The assets are held in a trust capacity for the beneficiaries. The Public Employee Retirement System issues publicly available annual reports which include financial statements and required supplemental information for the plan. Those reports may be obtained online (http://mpera.mt.gov) or by contacting the following:

Public Employees' Retirement Board
100 North Park, Suite 200
P.O. Box 200131
Helena, MT 59620-0131

8. Net Position

Capital Reserve Accounts

Net Position	Funded 2018	Requirement 2018	Funded 2017	Requirement 2017
Capital Reserve Account A	2,815,012	$7,141,624	$885,594	$7,987,529
Capital Reserve Account B	337,544	325,369	0	215,164
Direct Loan Program	3,461,671	3,381,961	3,394,925	1,994,845
Working Capital Fund	1,114,322	1,114,322	1,033,172	1,033,172
Total	$7,728,549	$11,963,276	$5,313,691	$11,230,710

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 (6 series of bonds), and surety bonds issued for Prerelease Revenue Bonds (6 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, based upon the previous fiscal year end balance, 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
2018	81,450,507	7,141,624	2,815,012
2017	71,416,240	7,987,529	885,594

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. One new loan was originated under this program during fiscal year 2018 and four new loans were originated in fiscal year 2017. The Authority has issued a total of 26 loans under this authority, ten of which are currently outstanding. The outstanding loan amount of approximately $4,317,698 as of June 30, 2018 and $3,253,688 as of June 30, 2017 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 Position as Capital Reserve Account B. As of June 30, 2018, the total Capital Reserve Account B requirement was $325,369 and was funded at $337,544. As of June 30, 2017, the total Capital Reserve Account B requirement was $215,164 and was funded at $0.

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, 2018 the funding requirement for the program was $3,381,961, had loans outstanding of $1,713,887 leaving $1,747,784 available for additional loans. As of June 30, 2017 the funding requirement for the program was $1,994,845, had loans outstanding of $1,664,947 leaving $1,729,978 available for additional loans.

Working Capital Fund

The Authority has designated a working capital fund equal to twice its annual budget. For fiscal years 2018 and 2017 the fund requirement equaled $1,114,322 and $1,033,172, respectively and were fully funded. These funds are part of the Total Net Position balance.

9. Subsequent Events

On July 19, 2018 a $656,566 loan was made to Glacier Community Health Center from the Trust Fund Loan Program to build a new mental health clinic and refinance a 2006 Trust Fund loan from the Authority.

On July 24, 2018, $4,575,000 of bonds were issued for the Montana State Hospital to refinance bonds issued by the Authority in 1998. The Series 2018 bonds reduced the interest rate of the prior bonds.

On September 28, 2018, $100,000,000 of bonds were issued for Kalispell Regional Medical Center to refinance bonds issued by the Authority in 2014 and 2016, as well as finance the construction of the Children's Medical Center.

On October 1, 2018, $218,130,000 of bonds were issued for Billings Clinic to refinance bonds issued by the Authority in 2008 and 2011 as well as finance several construction and renovation projects including an expansion of the Surgery Center, Cardiac Catherization Lab and Endoscopy.

On October 10, 2018 a $697,326 loan was made to Central Montana Medical Center to finance the equipping of its Interventional Radiology Department.

On October 25, 2018, a $63,950 loan was made to Big Sandy Medical Center to finance technology upgrades and a new Electronic Health Records system.

On October 25, 2018, a $160,000 loan was made to Daniels Memorial Healthcare Center to finance HVAC and energy efficiency upgrades.

On November 1, 2018, $11,000,000 of bonds were issued for the Big Horn Memorial Hospital Association to finance the expansion and renovation of the hospital including new patient rooms, improved HVAC and an expanded Emergency Department.

MONTANA FACILITY FINANCE AUTHORITY
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Other Post-Employment Benefits (Financial Statements Note 7)
The State of Montana State Employee Group Benefits (SEGB) OPEB plan allows retirees to participate, as a group, at a rate that does not cover all of the related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements and footnotes.

Total OPEB Liability and Related Ratios
Last 10 Fiscal Years [(1)]

For the fiscal year ended June 30	Total FFA OPEB Liability	Proportionate share of the collective total OPEB liability as a percentage	Covered Employee Payroll	Share pensionable payroll
2018	$0	—%	$148,647	—%

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

Note to Schedule: No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Factors that significantly affect trends in the amounts reported for OPEB Liabilities:
Changes of benefit terms, the medical plan coverage moved from Cigna to allegiance as of January 1, 2016, the State implemented reference-based pricing hospital contracts effective July 1, 2016, the pharmacy plan moved from URx to Navitus as of January 1, 2017, and the State implemented an employer group waiver program for Medicare retirees effective January 1, 2017.

Schedule of Proportionate Share of PERS Net Pension Liability
Employee Benefit Plans (Financial Statements Note 6)

	2015	2016	2017	2018
Proportion of the net pension liability (asset)	$ 129,848	$ 156,463	$ 283,928	$ 192,036
Proportionate share of the net pension liability (asset)	0.01042%	0.01119%	0.01730%	0.009860%
Pensionable payroll	116,523	129,056	204,601	120,870
Proportionate share of the net pension liability (asset) as a percentage of its pensionable payroll	111.436%	121.234%	138.770%	158.880%
Plan fiduciary net position as a percentage of total pension liability	79.9%	78.4%	74.7%	73.8%

Note: 10 year schedules will be displayed as it becomes available.

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Schedule of Contributions
Employee Benefits (Financial Statements Note 6)

	2015	2016	2017	2018
Contractually required contributions	$ 10,250	$ 11,404	$ 27,397	$ 10,238
Contributions made	10,250	11,404	27,397	10,238
Contribution deficiency (excess)	$ —	$ —	$ —	$ —
Share pensionable payroll	116,523	129,058	204,601	120,780
Contributions as a percentage of pensionable payroll	8.797%	8.836%	13.410%	8.740%

Changes of assumptions: Since reporting year 2016, assumptions for GABA, second retirements, and defined contribution (DC) law have been updated to match current law and plan provisions. Since reporting year 2018, assumptions for working retirees, terminations, refunds, disabled DC members, and special funding have been updated to reflect changes in law and plan provisions.

Factors that significantly affect trends in the amounts reported for Pension Liabilities:

Changes in benefit terms
The following changes to the plan provision were made as identified:

2015 Legislative Changes:
General Revisions - House Bill 101, effective January 1, 2016
Second Retirement Benefit - for PERS

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

a. Member receives the same retirement benefit as prior to return to work
b. Member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
c. GABA starts on both benefits in January after member receives original and new benefit for 12 months.

2017 Legislative Changes
General Revisions - House Bill 101, effective July 1, 2017
Working Retiree Limitations - for PERS

If a PERS retiree returns as an independent contractor to what would otherwise be PERS-covered employment, general contractor overhead costs are excluded from PERS working retiree limitations.

Terminating Employers - Recovery of actuary costs - for PERS

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

Refunds

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

Family Law Orders

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

Disabled PERS Defined Contribution (DC) Members

PERS members hired after July 1, 2011 have a normal retirement age of 65. PERS DC members hired after July 1, 2011 who become disabled were previously only eligible for a disability benefit until age 65. Effective July 1, 2017, these individuals will be eligible for a disability benefit until they reach 70, thus ensuring the same 5-year time period available to PERS DC disabled members hired prior to July 1, 2011 who have normal retirement age of 60 and are eligible for disability benefit until age 65.

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

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

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

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

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

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Montana Facility Finance Authority (authority), as of and for the fiscal years ended June 30, 2018, and 2017, and the related notes to the financial statements, which collectively comprise the authority's basic financial statements, and have issued our report thereon dated February 1, 2019.

Internal Control Over Financial Reporting

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

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

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

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any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 1, 2019

Montana Facility Finance Authority

Authority Response

MONTANA
FACILITY FINANCE AUTHORITY

Department of Commerce

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LEGISLATIVE AUDIT DIV.

February 25, 2019

Mr. Angus Maciver
Legislative Auditor

Re: Audit of Montana Facility Finance Authority

Dear Mr. Maciver:

We have received and reviewed the biennial audit of the Montana Facility Finance Authority for the period ended June 30, 2018. We appreciate the professionalism and courtesy with which the audit was conducted.

I am looking forward to speaking with the Audit Committee regarding the operations of the Facility Finance Authority

Sincerely,

Adam Gill
Executive Director