A Report
to the
Montana
Legislature

Financial-Compliance Audit

Montana Facility Finance Authority

For the Two Fiscal Years Ended June 30, 2020

March 2021

Legislative Audit Division

20-12

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 and many 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, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by March 31, 2022.

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LEGISLATIVE AUDIT DIVISION

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

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

March 2021

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, 2020. 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, and tested compliance with state laws and regulations. This report contains one recommendation related to internal controls over financial reporting and we issued an unmodified opinion on the financial statements.

We thank the Executive Director and his staff for their assistance and cooperation during the audit. The 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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Figures and Tables

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Appointed and Administrative Officials

		Location	Term Expires January 1
Board Members	Vu Pham, Chair	Billings	2025
	Jade Goroski	Shelby	2025
	John Iverson	Helena	2025
	Paul Komlosi	White Sulphur Springs	2023
	Mel Reinhardt	Billings	2025
	Kim Rickard	Helena	2023
	Matthew B. Thiel	Missoula	2023

Administrative Staff Adam Gill, Executive Director

Seth Lutter, Associate Director

Colin Gunstream, Financial Specialist (through February 2021)

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

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Financial-Compliance Audit 20-12 March 2021

Montana Legislative Audit Division

Montana Facility Finance Authority

For the Two Fiscal Years Ended June 30, 2020

During the audit period, the Montana Facility Finance Authority loaned approximately $5.5 million of its resources and facilitated an additional $472.2 million from other financing sources, for eligible facilities. The authority is self-supporting, and received no general fund appropriations in fiscal years 2019 and 2020. In response to COVID-19, the authority created emergency programs to help eligible facilities restructure loans or created loans for operating expenditures. Three loans were restructured for a total deferral of $146,261, while five facilities received emergency loans totaling $2 million, of which only $1.1 million was outstanding as of June 30, 2020. The report includes one audit recommendation for the authority to improve internal controls over the preparation and review of its financial reporting package.

Background

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 resources. The authority also funds, from its own resources, 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, however are disclosed in the notes to the authority's financial statements.

AUDITOR'S OPINION: UNMODIFIED

We found the authority's financial statements, note disclosures and required supplementary information presented fairly, in accordance with Generally Accepted Accounting Principles, the activity of the authority in all material respects and issued an unmodified opinion. This means a reader can rely on the information presented.

For the full context of the authority's financial activity, see the financial schedules and notes beginning on page A-5.

RECOMMENDATIONS:

In this report, we issued the following recommendations:
To the authority: 1
To the legislature: 0

The prior audit report contained no recommendations.

Recommendation #1 (page 6):
Internal Controls
The authority needs to improve internal controls over preparation and review of its financial reporting package.

Authority response: Concur

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

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REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):

In this report, we identified the following:
Material Weaknesses in Internal Control: 0
Significant Deficiencies in Internal Control: 1
Material Non-Compliance: 0
Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction and Background

Introduction

We performed a financial-compliance audit of the Montana Facility Finance Authority (authority) to comply with §90-7-121, MCA, which requires the Legislative Auditor to conduct or direct a financial and compliance audit of the authority once each biennium. The objectives of the audit were to:

1. Determine whether the authority's Statement of Net Position-Enterprise Fund; Statement of Revenues, Expenses and Changes in Net Position-Enterprise Fund; and Statement of Cash Flows-Enterprise Fund present fairly, in all material respects, the results of operations, changes in net position and cash flows of the authority for each of the two fiscal years ended June 30, 2020, and June 30, 2019.
2. Obtain an understanding of the authority's control systems to the extent necessary to support our audit of the financial statements and, if appropriate, make recommendations for improvements in management and internal controls for the authority.
3. Determine whether the authority complied with selected state laws and regulations.

During the audit, we focused on cash and cash equivalents, short- and long-term notes receivable, and service fee revenues. We reviewed the overall reasonableness of the financial statements and note disclosures, while also considering the authority's control systems throughout the audit. Additionally, we tested compliance with seven state laws including authorized investments, allowable facilities, authority expenses, and authority powers.

The authority did not receive COVID relief funds. However, the authority used the governor's emergency order to create both an emergency loan program and loan deferral program using authority money. The emergency loan program included loans up to $500,000 with a 2 percent fixed interest rate to eligible facilities for operating expenses during the pandemic. The loan terms included no loan payments for the first three months, interest only payments for the second three months and the principal and interest payments over the remaining loan term. The loan deferral program allowed for borrowers under the direct loan or trust fund loan programs to defer payments for three months. While interest did accrue during the deferral period, borrowers could either include the accrued interest in their final loan payment or re-amortize the loan to include the accrued interest in the remaining payments over the life of the loan. Three loans were deferred for a total deferral of $146,261 and five emergency loans, totaling $2 million, were issued under the programs.

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 2020 and 2019. 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 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 (Table 1 see page 3):

Direct Loan Program provides short-term loans up to 7 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.

Table 1

Program Activity by Fiscal Year-End

Program	FY 2020 Loan and Bond Activity		FY 2019 Loan and Bond Activity	
	Number	Total	Number	Total
Direct Loan Program	11	$3,194,905	6	$825,700
Master Loan Program	None		None	
Trust Fund Loan Program	5	$6,281,215	4	$2,269,833
Stand-Alone Bond Program	2	$129,425,000	9	$333,705,000
Montana Capital Assistance Program	5	$68,639	4	$46,182
Energy Efficiency Program	5	$67,500	8	$98,800
Emergency Loan Program	5	$2,000,000	None	

Source: Compiled from information provided by the Montana Facility Finance Authority.

Chapter II – Findings and Recommendation

Internal Controls Over Financial Reporting

State accounting policy requires Montana Facility Finance Authority (authority) management implement internal controls to ensure the authority's financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP). During the audit, we identified multiple errors in the authority financial reporting package. While the errors identified by our audit were ultimately corrected by management, they indicate a deficiency in internal controls over the preparation and review of the authority's documents. The errors identified included:

- ***Classification of notes receivable***
  The authority did not classify any notes receivable as short-term on the financial statements during fiscal year 2020. This resulted in an over $2 million misclassification of assets.
- ***Public Employee Retirement System (PERS) note disclosures were incomplete***
  The authority omitted the employer's proportionate share of the collective net pension liability; employer's proportion of collective net pension liability; basis which the proportion was determined; change in proportion since the prior measurement date; amount of pension expense recognized by the employer; and amount of forfeitures reflected in pension expense recognized by the employer during the reporting period.
- ***Other Post-Employment Benefits (OPEB) Required Supplementary Information (RSI) was incomplete***
  Ten years of data relating to OPEB are required in the authority's reporting package, however as the standard was implemented in fiscal year 2018, only three years are to be reported. The first year of data, fiscal year 2018, was not included.

Without adequate internal controls, there is a risk that financial reporting will be incomplete or inaccurate. For the current audit period, the draft financial statements, notes, and RSI provided as part of the audit were not a complete and accurate financial reporting package in accordance with GAAP.

The authority has been unsuccessful in retaining a long-term employee in the financial specialist position, thus different individuals were responsible for preparation of the financial reporting package in the prior and current audit periods. While Department of Commerce accounting staff process the authority's financial transactions in the state's accounting system, accounting staff lack the expertise for compiling the accounting data into a GAAP-based financial reporting package. The authority has contracted for help in preparing the financial reporting package, however this does not absolve the authority from its responsibility to provide accurate and complete financial statements and related notes.

To improve financial reporting in the future, the authority could provide staff currently involved in the financial reporting process with training on GAAP reporting requirements and presentations. Additionally, the authority could improve the checklist currently being used to ensure authority staff look for specific elements that are always included in the financial reporting package. The authority could use checklists available from professional organizations to enhance its own checklist.

Recommendation #1

We recommend the Montana Facility Finance Authority improve internal controls over the financial reporting package by:

A. *Providing existing staff with training related to Generally Accepted Accounting Principles-based financial presentations, and*

B. *Improve the financial statement review checklist currently in use by incorporating all applicable financial reporting elements in the financial statements and updating for new standards.*

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
William Soller

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) as of June 30, 2020, and 2019, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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

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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 opinion.

Opinions

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, 2020, and 2019, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the authority is a component unit of the state of Montana, and its activity is accounted for within the state's enterprise fund. The authority's financial statements are intended to present only the financial position, changes in financial position, and cash flows attributed to the authority's portion of the state of Montana's enterprise fund. They do not purport to, and do not present fairly the financial position of the state of Montana as of June 30, 2020, or June 30, 2019, or the changes in its financial position and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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-5, the Other Post-Employment Benefits on page A-39, Schedule of Proportionate Share of the PERS Net Pension Liability on page A-39, and Schedule of Contributions on page A-40 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 March 11, 2021, 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

March 11, 2021

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

Management's Discussion and Analysis

Years ended June 30, 2020 and 2019

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, 2020** and **2019** Please read it in conjunction with the Authority's financial statements and accompanying notes.

Financial Highlights

- FY 2019 program revenues exceeded $1 million for the first time in Authority history. This was driven by a high volume of bond issuances in FY 19 as well as investment returns from increased usage of the Direct Loan Program.
- The Authority closed less bonds than the prior period, but for larger amounts:
    - Two bond issues for two borrowers ($129,425,000) in FY 2020 and nine bond issues for four borrowers ($333,705,000) in FY 2019.
- The Authority's Direct Loan Program showed substantial growth as compared to the prior period. The change can be attributed to program changes expanding options for refinancing existing Trust Fund Loans into Direct Loans. Further, Authority staff conducted additional program outreach. The Authority made loans out of reserves designated for such purpose:
    - Fifteen loans ($4,694,905) in FY 2020 and six loans ($825,700) in FY 2019.
- The Trust Fund Loan Program continued to grow during the period, resulting in six loans of $6,781,215 in FY 2020 and four loans totaling $2,269,833 in FY 2019.
- The Authority committed $136,139 in FY 2020 for grants out of reserves designated for such purposes. $141,982 in grants were committed in FY 2019. This is a marked increase from the prior audit period where five grants totaling $75,000 were committed during the two fiscal years. The change in this increase in grants over the past two fiscal years is attributed to the Authority creating the Energy Efficiency Program (EEP) (see note 5) and additional staff outreach.
- The total outstanding financings structured by the Authority decreased to $1,063 million in FY 2020 from $1,114 million in FY 2019, which is an increase over $991 million in FY 2018. The increase of FY 2019 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 outflows, liabilities, and deferred inflows with the difference between the four 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 condensed financial statements can be found beginning in the MD&A section 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 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, 2020, 2019, and 2018

	2020	2019	2018
Assets:			
Current Assets:			
Cash & Cash Equivalents	2,876,598	6,102,462	6,009,098
Short Term Notes Receivable	2,005,517	593,709	489,885
Other Current Assets	278,405	344,896	232,805
Total Current Assets	5,160,520	7,041,066	6,731,788
NonCurrent Assets:			
Long Term Notes Receivable	3,403,089	1,333,546	1,224,002
Capital Assets	814	—	—
Total NonCurrent Assets	3,403,903	1,333,546	1,224,002
Deferred Outflows of Resource			
Pension Deferred Outflows	39,367	48,885	42,333
OPEB Deferred Outflows	18,609	31,847	3,108
Total Assets and Deferred Outflows	8,622,399	8,455,344	8,001,231
Liabilities:			
Total Current Liabilities	43,784	63,108	37,083
Total Non-current Liabilities	249,004	220,919	208,927
Total Liabilities	292,788	284,026	246,010
Deferred Inflows of Resources:	41,451	49,882	6,801
OPEB Deferred Inflows	3,822	27,860	30,364
Net Position:			
Net Investment in Capital Assets	814	—	—
Total unrestricted net assets	8,283,524	8,093,575	7,718,056
Total Net Position	8,284,338	8,093,575	7,718,056
Total Net Position and Liabilities	8,622,399	8,455,344	8,001,231

	2020	2019	2018
OPERATING REVENUES:			
Service Fees	740,678	831,404	2,712,510
Pension Income	—	—	—
Total Operating Revenues	740,678	831,404	2,712,510
OPERATING EXPENSES:			
Personal services	329,525	234,713	216,758
Contracted services	49,455	52,806	40,327
Other operating expenses	189,880	215,857	212,787

Grants	136,139	141,982	45,000
Total operating expenses	704,997	645,358	514,872
Operating income	35,681	186,047	2,197,638
NON OPERATING REVENUES (EXPENSES)			
On-Behalf Pension Revenue	4,864	4,578	2,747
Investment Earnings	150,220	183,651	104,960
Change in Net Position	190,765	374,275	2,305,345
Net Position Beginning of Period	8,093,575	7,718,056	5,270,620
Prior Period Adjustment	—	1,244	142,091
Total Net Position End of Period	8,284,340	8,093,575	7,718,056

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET POSITION-ENTERPRISE FUND
June 30, 2020 AND 2019

	2020	2019
ASSETS:		
Current Assets:		
Cash & Cash Equivalents (Note 2)	$2,876,598	$6,102,462
Interest Receivable	1,044	11,930
Accounts Receivable	271,746	321,822
Short Term Notes Receivable	2,005,517	593,709
Prepaid Expenses	5,615	11,144
Total Current Assets	5,160,520	7,041,066
Noncurrent Assets:		
Long Term Notes Receivable (Note 7)	3,403,089	1,333,546
Capital Assets (Note 9)	814	—
Total NonCurrent Assets	3,403,903	1,333,546
Deferred Outflows of Resources		
Pension Deferred Outflows (Note 8)	39,367	48,885
OPEB Deferred Outflows (Note 10)	18,609	31,847
Total Deferred Outflows of Resources	57,976	80,732
Total Assets and Deferred Outflows of Resources	$8,622,399	$8,455,344
LIABILITIES:		
Current Liabilities:		
Accounts Payable	$ 21,477	$ 21,312
Lease Payable Due within 1 Year (Note 9)	540	
Due to Primary Government	—	24,000
Compensated Absences	21,767	17,798
Total Current Liabilities	43,784	63,110
Noncurrent Liabilities		
Compensated Absences	2,259	5,689
Lease Obligation (Note 9)	733	
Net Pension Liability (Note 8)	228,584	213,287
OPEB Implicit Rate Subsidy (Note 7)	17,428	1,943
Total Noncurrent Liabilities	249,004	220,919
Total Liabilities	292,788	284,029
Deferred Inflows of Resources		
Pension Deferred Inflows (Note 8)	41,451	49,882
OPEB Deferred Inflows (Note 10)	3,822	27,860
Total Deferred Inflows of Resources	$45,273	$77,742
Net Position		
Net Investment in Capital Assets	814	—
Total Unrestricted Net Position	8,283,524	8,093,575
Total Net Position (Note 9)	8,284,338	8,093,575
Total Net Position, Deferred Inflows of Resources and Liabilities	**$8,622,399**	**$8,455,344**

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, 2020 AND 2019

	2020	2019
OPERATING REVENUES:		
Service Fees	$ 740,678	$ 831,404
Total Operating Revenues	740,678	831,404
OPERATING EXPENSES:		
Personal Services	$329,525	$234,713
Contracted Services	49,455	52,806
Supplies and Materials	16,929	9,337
Communications	6,691	7,888
Benefits	2,346	419
Travel	16,549	13,551
Rent	28,088	28,509
Repairs and Maintenance	140	146
Other Expenses	62,847	57,496
Pension Expense	23,585	54,011
Grants	136,139	141,982
Depreciation	101	—
Component Unit Expense to Primary Government	32,602	44,499
Total Operating Expenses	704,997	645,357
Operating Income	$35,681	$186,047
NON OPERATING REVENUES (EXPENSES)		
On-Behalf Pension Revenue	4,864	4,578
Investment Earnings	150,220	183,651
Change in Net Position	190,765	374,276
Net Position Beginning of Period	8,093,575	7,718,056
Prior Period Adjustment (Note 1)		1,244
Total Net Position End of Period	$8,284,340	$8,093,575

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, 2020 and 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	**2020**	**2019**
Receipts for Sales and Services	$790,753	$725,100
Payments to Suppliers for Goods and Services	(345,734)	(360,806)
Payments to Employees	(326,639)	(254,483)
Net Cash Provided by (Used for) Operating Activities	118,380	109,811
CASH FLOWS FRON NONCAPITAL FINANCING ACTIVITIES:		
Cash Payments for Operating Loan (Note 3)	(24,000)	14,000
Net Cash Provided (Used) by Noncapital Financing Activities	(24,000)	14,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Payments for Loans	(4,294,905)	(825,700)
Cash Payments for Investment	—	—
Collection for Principal on Loans	813,554	612,331
Proceeds from Securities Lending Income	—	—
Payments of Securities Lending Costs	—	—
Interest on Investments	161,107	181,678
Net Cash Provided by (Used for) Investing Activities:	(3,320,244)	(31,691)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,320,244)	(31,691)
Cash & Cash Equivalents, July 1	6,102,462	6,009,098
Prior Period Adjustment		1,244
Cash & Cash Equivalents, June 30	$2,876,598	$6,102,462
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	35,681	186,046
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation	—	—
Noncash lease activity	459	—
NonCash Activity for Pension and OPEB	25,932	33,058
Change in Assets & Liabilities:		
Increase (Decrease) in Accounts Payable	166	(359)
Increase (Decrease) in Due to Other Fund	—	—
Increase (Decrease) in Compensated Absences Payable	539	1,184
Decrease (Increase) in Accounts Receivable	50,075	(106,305)
Decrease (Increase) in Prepaid Expense	5,529	(3,813)
Total Adjustments	$82,700	$(76,235)
Net Cash Provided by (Used for) Operating Activities	$118,381	$109,811

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

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DEPARTMENT OF COMMERCE
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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 proprietary 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 uncollectible 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 & OPEB 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, 2020 and 2019 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.

Classification of Net Position

Unrestricted Net Position

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

Net Investment in Capital Assets

In FY 2020, the Authority recognized $715 in capital lease payments and $101 in depreciation expense from copier machines (see note 9).

Prior Period Adjustments

Prior period adjustments relate to adjustments made for pension and OPEB amounts. The prior period adjustments for fiscal year 2019 include:

- ($983) adjustment in FY 2019 for Pension/PERS related activity.
- $2,222 adjustment in FY 2019 for OPEB related activity.

The prior period adjustments represents $1,244 for fiscal year 2019.

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 $515,160 and $5,413 as of June 30, 2020 and 2019 respectively, cash equivalents invested in the Board of Investments (BOI) of the State of Montana Short-Term Investment Pool (STIP) of $2,360,430 and $6,096,195 for fiscal year 2020 and 2019, respectively and net STIP appreciation of $1,007 and $854 for fiscal year 2020 and 2019, respectively. STIP was recorded at fair value for FY 2020 and FY 2019. 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 2020 and 2019, STIP is presented in the BOI Statement of Net Asset 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).

Investments

Investments held at June 30, 2020 and 2019 are comprised of the STIP funds described above. In FY 2020 and FY 2019 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. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated.

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, 2020 and 2019, 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."

STIP interest rate risk is determined using the weighted average maturity (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, 2020, inclusive of cash and cash equivalents, the WAM averaged 46 days for the portfolio. At June 30, 2019 inclusive of cash and cash equivalents, the WAM averaged 39 days for the portfolio.

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)

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		(in thousands)	June 30, 2020	
	(NAV)	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Short Term Investment Pool	$2,360	$0	Daily	1 day

		(in thousands)	June 30, 2019	
	(NAV)	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Short Term Investment Pool	$6,096	$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
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Helena, MT 59620-0126

3. Interfund Activity

An advance from the primary government in the amount of $24,000 was received before the end of fiscal year 2019 to cover operating costs at the end of fiscal year. That amount was paid in full in fiscal year 2020. An advance received in FY 2018 of $10,000 was paid in full in 2019.

4. Emergency Lending Program and Loan Deferral Program

In response to the Coronavirus (COVID-19) Pandemic, Governor Bullock issued an Emergency Order on March 30, 2020 that included allowing the Authority to create both an emergency loan program and loan deferral program. The emergency loan program authorized the Authority to lend up to $500,000 to eligible facilities for operating expenses during the Pandemic. The loans were structured as a one-year note, with interest waived for the first three months, interest only payments for three months thereafter, and principal and interest payments for the remaining six months of term. The interest rate is 2.00% fixed. As of June 30, 2020, the Authority issued five emergency loans, totaling $2,000,000. As of June 30, 2020, the program had a total outstanding loan balance of $1,100,000. The program did not use any federal funds.

The loan deferral program was created to allow the borrower to defer current Direct and Trust Funds for three months. Interest accrued during this period and was added to the final payment as a balloon payment. The borrower has the option to re-amortize the loan at no expense. As of June 30, 2020 the Authority deferred three Direct loans, totaling $146,261.

5. Energy Efficiency Grant Program

In FY 2019, the Authority created the Energy Efficiency Grant Program (EEP). The purpose of the EEP program is to assist Montana healthcare facilities identify energy efficiency savings and provide an opportunity to significantly reduce operating costs while upgrading capital systems. the Authority contracts with the National Center for Appropriate Technologies (NCAT) to provide these energy audits. The maximum award for these audits is $15,000 and requires a 10% match from the participating facility. As of June 30, 2020, the Authority has closed thirteen EEP grants, totaling $163,300.

6. 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 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, 2020 and 2019:

Revenue Bonds & Notes Outstanding:

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Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2020	Outstanding June 30, 2019
Development Disability Facility Revenue Bonds (Beartooth Industries) Series 1997	1997-2024	Fixed	$64,461	$77,995
Prerelease Center Revenue Bonds (Boyd Andrew Prerelease) Series 2000	2000-2020	Fixed	—	360,000
Prerelease Center Revenue Bond (Boyd Andrew Community Services) Series 2005	2005-2021	Fixed	—	164,913
Developmental Disability Facility Revenue Bond (Spring Meadow Resources) Series 2005	2005-2021	Fixed	28,628	83,653
Prerelease Center Revenue Bond (Great Falls Pre-Release Services) Series 2005	2005-2021	Fixed	416,366	812,359
Revenue Bonds (Rimrock Foundation) Series 2009	2009-2030	5-year Fixed	340,421	370,919
Health Care Facilities Revenue Bonds (Sisters of Charity of Leavenworth Health System) Series 2010A	2010-2024	Fixed	—	106,060,000
Health Care Facilities Revenue Bonds (Sisters of Charity of Leavenworth Health System) Series 2010B	2010-2040	Fixed	—	50,165,000
Health Care Facilities Revenue Bonds (Master Loan Program – Powell County Memorial Hospital) Series 2010A	2010-2036	Fixed	14,020,000	14,525,000
Taxable Revenue Build America Bonds (Barrett Hospital and Health Care) Series 2010A	2010-2037	Fixed	25,675,000	26,610,000
Health Care Facilities Revenue Bonds (Kalispell Regional Medical Center) Series 2010	2010-20404	Fixed	43,620,000	45,615,000
Health Care Facilities Revenue Note (Western Montana Mental Health Center) Series 2010	2010-2030	Fixed	924,905	987,450
Acquisition and Refunding Revenue Note (Sapphire Lutheran Homes) Series 2011	2011-2041	5-year Fixed	3,973,685	4,101,166
Health Facilities Revenue Bonds (Bozeman Deaconess Health Services) Series 2011	2011-2031	Fixed	13,220,000	14,165,000
Health Care Facilities Revenue Note (Western Montana Mental Health Center) Series 2012	2012-2033	Fixed	1,316,638	1,363,442
Health Facilities Revenue Bonds (St. Peter’s Hospital) Series 2013	2013-2024	Fixed	8,330,000	10,300,000
Revenue and Refunding Bond (Missions United) Series 2014	2014-2039	5-year Fixed	26,917,000	27,774,000
Health Facilities Revenue and Refunding Bonds (Bozeman Deaconess Health Services Series 2014A	2014-2044	Fixed	20,220,000	20,500,000
Banc of America Public Capital Corp Revenue Note (Bozeman Deaconess Health Services) Series 2014	2014-2024	Fixed	4,693,347	5,693,148
Health Facilities Revenue Note (Bozeman Deaconess Health Services) Series 2015A	2015-2046	Fixed	20,250,842	20,754,381
Health Facilities Revenue Note (Bozeman Deaconess Health Services) Series 2015B	2015-2046	Fixed	7,581,471	7,707,728
Hospital Facilities Revenue Refunding Bond (St. Peter’s Hospital) Series 2015	2015-2022	Fixed	7,845,000	9,320,000
Direct Note (St. John’s Lutheran Ministries) Series 2015A	2015-2041	Variable	3,723,639	3,838,699
Health Facilities Revenue Bond (Bozeman Deaconess Health Services) Series 2015C	2015-2035	Variable	13,700,000	14,675,000
Prerelease Center Revenue Refunding Bond (Alternatives) Series 2015	2015-2025	Fixed	3,270,000	3,760,000

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Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2020	Outstanding June 30, 2019
Refunding Revenue Bond (Community, Counseling, and Correctional Services) Series 2015	2015-2026	Fixed	4,240,000	4,780,000
Facility Revenue Bond (Intermountain Deaconess Children's Services) Series 2016	2016-2041	Variable	6,130,676	6,277,171
Direct Note (St. John's Lutheran Ministries) Series 2015B	2015-2041	Variable	18,432,227	19,005,240
Refunding Revenue Bond (North Valley Hospital) Series 2016	2016-2031	Variable	16,067,273	17,271,866
Revenue Bonds (Providence St. Joseph Health) Series 2016F	2016-2026	Variable	37,115,000	41,815,000
Health Care Facilities Revenue Refunding Bonds (Master Loan Program – St. Luke Community Healthcare) Series 2016A	2016-2032	Fixed	14,750,000	15,750,000
Health Care Facilities Revenue Refunding Bonds (Master Loan Program – Marias Medical Center) Series 2016B	2016-2028	Fixed	1,515,000	1,665,000
Refunding Revenue Bond (Boyd Andrew Community Services) Series 2016	2016-2026	Fixed	2,225,000	2,515,000
Hospital Revenue Bonds (Benefis Health System) Series 2016	2016-2041	Fixed	126,795,000	132,055,000
Health Care Facilities Revenue Refunding Bonds (Master Loan Program – Northeast Montana Health Services) Series 2017A	2017-2032	Fixed	7,975,000	8,530,000
Hospital Revenue Bonds (Benefis Health System) Series 2017A	2017-2030	Variable	22,680,000	24,610,000
Health Care Facilities Revenue and Refunding Bonds (Marcus Daly Memorial Hospital) Series 2017	2017-2037	Fixed	8,570,000	8,900,000
Health Care Facilities Revenue Refunding Bonds (Master loan Program - Glendive Medical) Series 2017B	2017-2033	Fixed	19,650,000	20,620,000
Health Care Facilities Revenue Bonds (Master Loan Program - Marcus Daly Memorial) Series 2017C	2017 - 2037	Fixed	13,920,000	14,470,000
Facility Revenue Bonds (Clark For Valley Hospital) Series 2018	2018-2036	Fixed	5,623,633	5,864,406
Facility Revenue Bonds (Bozeman Deaconess Health Services) Series 2018	2018-2048	Variable	66,410,000	67,585,000
Montana Health Care Revenue Refunding Bonds (Montana State Hospital), Series 2018	2018-2022	Fixed	2,295,000	3,390,000
Health Care Facilities Revenue Bonds (Kalispell Regional Medical Center), Series 2018A	2018-2026	Fixed	11,640,000	11,640,000
Health Care Facilities Revenue Bonds (Kalispell Regional Medical Center), Series 2018B	2018-2048	Fixed	88,360,000	88,360,000
Revenue Bonds (Billings Clinic Obligated Group), Series 2018A	2018-2048	Fixed	53,350,000	54,045,000
Taxable Revenue Bonds (Billings Clinic Obligated Group), Series 2018B	2018-2038	Fixed	41,160,000	42,210,000
Variable Rate Revenue Bonds (Billings Clinic Obligated Group), Series 2018C	2018-2037	Variable	63,435,000	65,295,000
Variable Rate Revenue Bonds (Billings Clinic Obligated Group), Series 2018D	2018-2044	Variable	56,580,000	56,580,000
Health Care Facilities Revenue Bonds (Big Horn Hospital Association), Series 2018A	2018-2023	Fixed	2,450,000	3,000,000

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Health Care Facilities Revenue Bonds (Big Horn Hospital Association), Series 2018B	2018-2038	Fixed	8,000,000	8,000,000
Health Care Facilities Revenue Bonds (Big Horn Valley Health Center), Series 2019	2019-2039	Fixed	4,000,000	0
Revenue Refunding Bonds (Sisters of Charity Health System), Series 2019A	2019-2039	Fixed	125,425,000	0
Total Revenue Bonds & Notes Outstanding			**$1,048,925,212**	**$1,114,018,536**

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

Maturing in Year Ended	Bond Principal Payment
June 30, 2020	(in thousands)
2021	$39,879
2022	47,284
2023	47,806
2024	48,378
2025	42,172
2026-2048	823,406
Total	**$1,048,925**

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.

7. 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)

Borrower	Period Outstanding	Interest Rate	Outstanding June 30, 2020	Outstanding June 30, 2019
Rimrock Foundation	2008-2020	5.93 %	5,630	27,334
Spring Meadow Resources	2008-2020	5.93 %	8,367	40,619
Pondera Medical Center	2015-2020	3.00 %	—	27,306
Mineral Community Hospital	2015-2020	2.00 %	6,267	21,095
Central Montana Medical Center	2016-2021	2.00 %	16,346	43,927

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Borrower	Period Outstanding	Interest Rate	Outstanding June 30, 2020	Outstanding June 30, 2019
SW Montana Community Healthcare	2016-2021	2.00 %	41,730	103,291
Central Montana Medical Center	2016-2021	2.00 %	9,031	19,672
Rosebud Health Care Center	2016-2021	2.00 %	31,762	69,182
Gateway Community Services	2016-2026	— %	19,200	22,400
McCone County Health Center, Inc.	2016-2023	2.00 %	52,941	63,549
Broadwater Health Center	2016-2023	2.00 %	120,866	155,576
Powell County - Deer Lodge	2017-2021	2.00 %	58,113	134,252
Pondera Medical Center	2017-2022	2.07 %	47,385	72,481
Northern Rockies Medical Center, Inc	2017-2024	2.00 %	88,401	108,128
Intermountain Deaconess Children's Services	2017-2024	2.00 %	190,918	232,666
Daniels Memorial Healthcare Center	2018-2025	2.89 %	124,689	145,996
Big Sandy Medical Center	2018-2025	2.87 %	49,829	58,349
Fallon Medical Complex	2019-2024	2.70 %	55,362	69,876
Liberty Medical Center	2019-2026	2.52 %	246,181	286,078
Alternative's, Inc	2019-2026	2.35 %	107,713	124,478
Northern Rockies Medical Center	2019-2026	2.03 %	87,424	101,000
Central Montana Medical Center	2019-2029	2.26 %	304,833	—
Job Connection Inc	2019-2029	2.26 %	273,800	—
Northeast Montana Health Services Inc	2019-2023	2.00 %	389,795	—
McCone County Health Center, Inc	2019-2026	2.15 %	28,068	—
McCone County Health Center, Inc	2019-2026	2.15 %	65,252	—
Eastern Montana Community Mental Health Center	2019-2029	2.25 %	473,876	—
Dahl Memorial Healthcare	2019-2026	2.03 %	163,293	—
Missions United	2020-2024	2.00 %	468,666	—
Roundup Memorial Healthcare	2020-2030	2.25 %	389,786	—
Fallon Medical Complex	2020-2025	2.00 %	83,083	—
Alluvion Health	2020-2021	2.00 %	500,000	—
Roosevelt Medical Center	2020-2021	2.00 %	500,000	—
Ravalli County Council on Aging	2020-2021	2.00 %	100,000	—

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Borrower	Period Outstanding	Interest Rate	Outstanding June 30, 2020	Outstanding June 30, 2019
Fallon Medical Complex	2020-2025	2.00 %	300,000	—
Total Revenue Notes Receivable			**5,408,605**	**1,927,256**

8. 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, 2020 and 2019.

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.

Benefits and contribution rates 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.

Benefits and contribution rates are established by state law and can only be amended by the Legislature. Benefits are dependent upon eligibility. PERS-DCRP benefits are also based on individual account balances. Participants are immediately vested in their own contributions and attributable income. Participants are vested after five years of membership service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per stature. Forfeitures are used to cover the administrative expenses of the DCRP. At the plan level for the measurement period ended June 30, 2019, the DCRP employer did not recognize any

Net Pension Liability (NPL) or pension expense for the defined contribution plan. Plan level non-vested forfeitures for the 320 employers that have participates in the PERS-DCRP totaled $714 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.

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, 2020, the Authority recorded a liability of $228,584 for its proportionate share of the DBRP Net Pension Liability and $23,585 for its proportionate share of the pension expense. At June 30, 2019, the Authority recorded a liability of $213,287 for its proportionate share of the DBRP Net Pension Liability and $54,011 for its proportionate share of the pension expense. The Authority's Net Pension Liability at June 30, 2019 was based on the contributions received by PERS from the Authority during the measurement period of July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERS' participating employers. The Authority's Net Pension Liability at June 30, 2020 was based on contributions received by PERS from the Authority during the measurement period of July 1, 2018 through June 30, 2019. At June 30, 2020, the Authority's proportion was 0.010935%. At June 30, 2019, the Authority's proportion was 0.0120219%.

The Total Pension Liability (TPL) minus the Fiduciary Net Position equals the Net Pension Liability (NPL). The proportionate shares of the Authority's and the state of Montana's NPL for June 30, 2020, and 2019, are displayed below. The employer's proportionate share equals the ratio of the employer's contributions to the sum of all employer and non-employer contributions during the measurement period. The state's proportionate share for a particular employer equals the ratio of the contributions for the particular employer to the total state contributions paid.

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	Proportion of the net pension liability (asset)	Proportionate share of the net pension liability (asset)	Pensionable payroll	Proportionate share of the net pension liability (asset) as a percentage of its pensionable payroll	Plan fiduciary net position as a percentage of total pension liability
2019	213,287	0.010219%	167,639	127.30%	73.50%
2020	228,584	0.010935%	183,040	124.88%	73.90%

Deferred Pension Inflow/Outflow

At June 30, 2020, 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	$ 10,840	$ 10,756
Projected Investment Earning vs. Actual Investment Earnings	2,772	—
Changes in assumptions	9,704	—
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions	—	30,695
Employer Contributions Subsequent to the Measurement Date	16,051	—
Total	$ 39,367	$ 41,451

At June 30, 2019, 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	$ 16,219	$ —
Projected Investment Earning vs. Actual Investment Earnings	—	3,312
Changes in assumptions	18,137	—
Changes in Proportion and Difference Between Employer Contributions and Proportionate share of Contributions	—	46,570
Employer Contributions Subsequent to the Measurement Date	14,529	—
Total	$ 48,885	$ 49,882

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Year ended June 30:	Deferred Outflows/Inflows of Resources
2020	$ (3,538.00)
2021	$ (18,117.00)
2022	$ 1,031.00
2023	$ 2,487.00
2024	—
Thereafter	$ —

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 – HAC during any consecutive 36 months;
Hired on or after July 1, 2011 – HAC 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

Compensation Cap

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

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

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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

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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 8.77% of the members' compensation for FY 2020 and 8.67% for FY 2019. 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. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

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 2020 and 2019, are based on the results of an actuarial valuation date of June 30, 2018 and June 30, 2017, with update procedures to roll forward the total pension liability to June 30, 2019 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 6.30%
- 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%;

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    - 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 2020 and 7.65% in fiscal year 2019. 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 $4,864 and $4,578 as of June 30, 2020 and 2019 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 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, 2020 and June 30, 2019 are summarized as follows:

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As of June 30, 2020		
Asset Class	**Target Asset Allocation**	**Long-Term Expected Real Rate of Return**
Cash Equivalents	3.00%	4.09%
Domestic Equity	36.00%	6.05%
Foreign Equity	18.00%	7.01%
Fixed Income	23.00%	2.17%
Private Equity	12.00%	10.53%
Real Estate	8.00%	5.65%
Total	100.00%	

As of June 30, 2019		
Asset Class	**Target Asset Allocation**	**Long-Term Expected Real Rate of Return**
Cash Equivalents	3.00%	4.00%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.35%
Fixed Income	23.00%	1.00%
Private Equity	12.00%	7.75%
Real Estate	8.00%	4.00%
Total	100.00%	

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%)
2020	$328,410	$228,584	$144,693

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%)
2019	$308,462	$213,287	$135,133

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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 were 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.

9. CAPITAL LEASES

As of June 30, 2020, assets acquired under capital lease arrangements consist of photocopiers. Such assets are carried at costs of $915 less accumulated depreciation of $101 for this fund and is split with other funds within the State's financial report.

Lease Obligation Payable	Principal and Interest
2021	$540
2022	$733
2023	0
2024	0
2025	0
2026-2030	0
2031-2035	0
2036-2040	0
Total Payments	$1,273
Less amount representing interest	0
Principal balance outstanding	$1,273

Operating lease payment made for the year was $715.

10. OPEB - OTHER POST EMPLOYMENT BENEFITS

General Information about the State Employee Group Benefits (SEGB) OPEB Plan
Plan description. The Authority’s defined benefit OPEB plan, the SEGB, provides optional OPEB in accordance with Section 2-18-704, MCA. This coverage applies 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. The SEGB OPEB plan is a single-employer defined benefit OPEB plan administered by statute by the Montana Department of Administration (DOA) Health Care and Benefits Division (HCBD). The Fund is reported within the primary government for reporting purposes.

SEGB is not administered through a trust. There are no assets accumulated to offset the total OPEB liability. The State funds the benefits on a pay-as-you-go basis from general assets. Section 2-18-8, MCA gives the authority for establishing and amending the funding policy to the DOA.

The healthcare OPEB plan allows retirees to participate, as a group, at a rate that does not cover all the related costs. This results in the reporting of total OPEB liability in the related financial statements and note disclosures.

Benefits provided. A retiree may continue coverage with the SEGB if the retiree is eligible to receive a monthly retirement benefit under their particular retirement system at the time of leaving active employment and elect to start medical coverage within 60 days of leaving employment. The Authority's employees retire under either the PERS DBRP or the PERS DCRP.

Non-Medicare retirees may continue the core plan, which includes medical, dental, and basic life insurance. Vision coverage is optional. Medical, dental, and vision coverage is optional for dependents. Medicare eligible retirees may continue medical coverage. Dental and vision coverage is optional, and no life insurance is available. Medical, dental, and vision coverage is optional for dependents. Medicare eligible retirees must enroll in both Part A and Part B Medicare coverage.

A retiree may continue coverage for a spouse who does not work for the State. If coverage is not continued, the spouse may only be added when the spouse loses eligibility for other coverage. If the retiree and spouse both work for the State, the retiree may elect to be covered under the working spouse and retains the right to exercise the transfer option. Dependent medical or dental coverage can only be continued if the retiree continues medical and/or dental coverage.

A surviving spouse may elect to continue their medical, dental, or vision coverage until Medicare age, at which time they will be offered COBRA and no longer be eligible for the plan. For surviving spouses already of Medicare age, they will be offered COBRA and lose eligibility under the plan at the end of the offering month.

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:

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Premiums	Calendar Years 2019 - 2020
Medical	\$30.00 - \$327.00
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.

Total OPEB Liability

For fiscal year 2020, the Authority's total OPEB liability of \$17,428 is approximately 0.003% of the total primary government OPEB liability of \$46.129 million as measured on June 30, 2020. The Authority's proportionate share increased minimally from the prior liability of \$17,318. The total OPEB liability was determined by an actuarial valuation date of March 31, 2020.

For fiscal year 2019, the Authority's total OPEB liability was \$1,943, approximately 0.001% of the total primary government OPEB liability of \$55.697 million as measured on March 31, 2019. The Authority's proportionate share increased from the prior liability of (\$2,222) determined by an actuarial valuation date of March 31, 2019.

Basis of accounting. The OPEB liability is reported on an accrual basis. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when due and payable.

Actuarial assumptions. The total OPEB liability in the actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial valuation date	December 31, 2019, rolled forward to March 31, 2020
Interest/discount rate	2.75%
Projected payroll increases	2.50%
Actuarial funding method	Entry age normal funding method
Amortization method	Open basis
Asset valuation	Not applicable since no assets meet the definition of plan assets under GASB 75
Participation (at retirement)	40% future retirees and 70% of future eligible spouses
Mortality - Healthy	Healthy mortality is assumed to follow the RP2000 Combined Mortality Table with
Mortality – Disabled	Disabled mortality is assumed to follow the RP2000 Combined Mortality Table with
Healthcare cost trend rates	6.0% for medical and 9.0% for prescription initially, with medical remaining
Retiree Contribution Increases	Current year of 1.0% was based on actual trend. For retiree/surviving spouse and

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- Changes in actuarial assumptions and methods since last measurement date:
  - Interest/discount rate reduction from 3.79% to 2.75%
  - Projected Payroll Increases reduced from 4.00% to 2.50%
  - Participation rate reduction from 55% to 40% based on recent experience study.
  - Participation rate increase of future eligible spouses from 60% to 70% based on recent experience study.
  - Revised rates per the Retirement System pension valuations as of July 1, 2019.
  - Interest/discount rate was based on the average of multiple March 31, 2020 municipal bond rate sources.

- Retiree Contributions. The following retiree contributions are a weighted average of all retiree contributions for the period January 1, 2019 to December 31, 2019:

Medical and Prescription Drug	Retiree/Surviving Spouse	Spouse
Before Medicare Eligibility	$14,772	$5,470
After Medicare Eligibility	$5,376	$4,659

- Retiree Contributions. The following retiree contributions are a weighted average of all retiree contributions for the period January 1, 2018 to December 31, 2018:

Medical and Prescription Drug	Retiree/Surviving Spouse	Spouse
Before Medicare Eligibility	$13,572	$5,268
After Medicare Eligibility	$5,271	$4,403

Sensitivity of the total OPEB liability to changes in the discount rate.
The following presents the total FY 2020 OPEB liability of the Authority's, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate (DR) that is 1-percentage-point lower (DR-1 percent) or 1-percentage-point higher (DR+1 percent) than the current discount rate:

	1% Decrease	Discount Rate	1% Increase
Total OPEB liability (asset)	23,488.00	17,428.00	13,032

Sensitivity of the total OPEB liability to changes in the discount rate.
The following presents the total FY 2019 OPEB liability of the Authority's, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate (DR) that is 1-percentage-point lower (DR-1 percent) or 1-percentage-point higher (DR+1 percent) than the current discount rate:

	1% Decrease	Discount Rate	1% Increase
Total OPEB liability (asset)	4,455	1,943	70

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.
The following presents the total FY 2020 OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates
:

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	Healthcare Cost Trend Rates		
	1% Decrease (5.0%)	Discount Rate (6.0%)	1% Increase (7.0%)
Total OPEB liability (asset)	13,231	17,428.00	23,107

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.

The following presents the total FY 2019 OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates
:

	Healthcare Cost Trend Rates		
	1% Decrease (5.0%)	Discount Rate (6.0%)	1% Increase (7.0%)
Total OPEB liability (asset)	33	1,943	4,465

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

At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of	Deferred Inflows of
Differences between expected and actual experience and other inputs	15,704.00	—
Changes in Assumptions	2,992.00	(3,356.00)
Total	18,696.00	(3,356.00)

At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of	Deferred Inflows of
Differences between expected and actual experience and other inputs	—	—
Changes in Assumptions	562	—
Total	562	—

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as less than one thousand dollars for each year during 2020 – 2024 and two thousand dollars thereafter.

Total Projected Claims Cost
To determine total projected costs for the valuation period, an analysis of claims experience for the medical and prescription drug plans was completed based on information provided by the State of Montana. For purposes of the valuation, all medical plans are grouped together and all prescription drug plans are grouped together.

Medical and prescription drug claims were based on the most recent contribution rate development calculations for retirees, utilizing the most current claims cost experience and adjusting for the following:

- A factor to trend historical claims from the midpoint of the experience periods to the midpoint of the valuation base period.
- An adjustment to restate paid claims on an incurred basis, incorporating actual paid claims data for historical periods and best estimates of future claim lags based on State of Montana historical data. Separate adjustments were made for medical and prescription drugs.
- Benefit adjustments to account for changes in plan design components between the experience periods and the valuation base period.
- Vendor contract adjustments to reflect changes in underlying discounts, fees and financial arrangements.

Administrative costs are then added to the medical claims. The result is total projected costs for the period January 1, 2019 to December 31, 2019, for the two plans.

General Information about the DCRP OPEB Plan

Per statute, participants that choose the PERS-DCRP retirement system are covered by the PERS-DCRP long-term disability plan. The disability plan is a multiple employer plan that provides disability benefits to 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 members and is accounted for as a fiduciary fund of the State of Montana. The assets are held in a trust capacity for the beneficiaries. The PERA 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 PERA at 100 North Park, Suite 200, PO Box 200131, Helena, MT 5620-0131.

MONTANA FACILITY FINANCE AUTHORITY
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11. Net Position

Capital Reserve Accounts

Net Position	Funded 2020	Requirement 2020	Funded 2019	Requirement 2019
Capital Reserve Account A	499,912	9,194,051	2,401,251	8,145,051
Capital Reserve Account B	402,631	534,666	368,549	431,770
Direct Loan Program	5,936,307	4,542,709	3,542,709	3,501,250
Working Capital Fund	1,613,786	1,613,786	1,687,804	1,687,804
Total	$8,452,636	$15,885,212	$8,000,313	$13,765,875

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
2020	91,940,507	9,194,051	499,912
2019	81,450,507	8,145,051	2,401,251

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. Six new loans were originated under this program in fiscal year 2020 and four new loans were originated under this program in FY 2019. The Authority has issued a total of 36 loans under the authority, twelve of which are currently outstanding. The outstanding loan amount of approximately $9,285,392 as of June 30, 2020 and $5,346,663 as of June 30, 2019 is reported as investments in the financial statements of the Board of Investments. The Authority designates certain funds up to 10% of the par amount of outstanding loans made from the 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, 2020, the total Capital Reserve Account B requirement was $534,666 and was funded at $402,631. As of June 30, 2019, the total Capital Reserve Account B requirement was $431,770 and was funded at $368,549.

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, 2020 the funding requirement for the program was $4,542,709, had loans outstanding of $5,408,833, leaving $527,475 available for additional loans. As of June 30, 2019 the funding requirement for the program was $3,501,250, had loans outstanding of $1,927,255 leaving $1,615,455 available for additional loans.

Working Capital Fund

The Authority has designated a working capital fund equal to twice its annual budget. For fiscal years 2020 and 2019 the fund requirement equaled $1,613,786 and $1,687,804, respectively and were fully funded. These funds are part of the Total Net Position balance.

12. Subsequent Events

On August 3, 2020, a $13,465,000 Master Loan Program Bond was issued to Powell County Medical Center for the purpose of refunding its existing Series 2010A Bond.

On October 29, 2020, a $20,000,000 Master Loan Program Bond and $32,735,000 Stand Alone Program Bond was issued to Shodair Children's Hospital for the purpose of constructing a new children's hospital.

On December 9, 2020, a $1,000,000 Trust Fund Loan was issued to Roosevelt Medical Center for the purpose of a COVID retrofit project and HVAC upgrade.

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Other Post-Employment Benefits (Financial Statements Note 10)

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

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	Net OPEB Liability (NOL) as a Percentage of Covered Payroll
2020	$17,428	0.03%	$72,141	24.16%
2019	$1,943	0.01%	$24,513	7.93%
2018	$0	—%	$148,647	—%

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 8)

	2015	2016	2017	2018	2019	2020
Proportion of the net pension liability	$ 129,848	$ 156,463	$ 283,928	$ 192,036	213,287	228,584
Proportionate share of the net pension liability (asset)	0.01042 %	0.01119 %	0.01730 %	0.009860 %	0.0102190 %	0.0109350 %
Pensionable payroll	116,523	129,056	204,601	120,870	167,639	183,040
Proportionate share of the net pension liability (asset) as a percentage of its pensionable payroll	111.436 %	121.234 %	138.770 %	158.880 %	127.30 %	124.88 %
Plan fiduciary net position as a percentage of total pension liability	79.9 %	78.4 %	74.7 %	73.8 %	73.50 %	73.90 %

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

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Schedule of Contributions
Employee Benefits (Financial Statements Note 7)

	2015	2016	2017	2018	2019	2020
Contractually required contributions	10,250	11,404	27,397	10,238	14,529	16,053
Contributions made	10,250	11,404	27,397	10,238	14,529	16,053
Contribution deficiency (excess)	$ —	$ —	$ —	$ —	$ —	$ —
Share pensionable payroll	116,523	129,058	204,601	120,780	167,639	183,040
Contributions as a percentage of pensionable payroll	8.797 %	8.836 %	13.410 %	8.740 %	8.667 %	8.770 %

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.

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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

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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 with 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

B-1

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

Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

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 two fiscal years ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the authority's basic financial statements, and have issued our report thereon dated March 11, 2021.

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 any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below, that we consider to be a significant deficiency.

- As described in Recommendation #1 on page 6, authority internal controls did not ensure the financial statements were complete and accurate when provided to the auditor.

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*.

Montana Facility Finance Authority Response to Findings

The authority's response to the findings identified in our audit are described on page C-1 of this report. The authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

March 11, 2021

Montana Facility Finance Authority

Authority Response

MONTANA
FACILITY FINANCE AUTHORITY

Department of Commerce

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RECEIVED
March 29, 2021
LEGISLATIVE AUDIT DIV.

March 29, 2021

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, 2020. We appreciate the professionalism and courtesy with which the audit was conducted. The audit for the period ending June 30, 2020 included a recommendation based on internal control deficiencies.

Recommendation #1:
Recommend the Montana Facility Finance Authority improve internal; controls over the financial reporting package by:

A. Providing existing staff with training related to GAAP-basis financial presentations, and

B. Improve the financial statement review checklist currently in use by incorporating all applicable financial reporting elements in the financial statements and updating for new standards.

The Authority concurs with the recommendation contained in the biennial audit and pursuant it, our response is below:

- The Montana Facility Finance Authority will investigate and pursue training options related to GAAP-basis financial presentations for its staff;
- The Authority will revise its internal checklists and provide staff training on the process;
- The Authority is exploring engaging with the Board of Investments for accounting services to provide additional accounting support for MFFA staff.

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

Sincerely,

Adam Gill
Executive Director