

The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.



**MISSOULA REDEVELOPMENT
AGENCY**
(A Component Unit of the City of Missoula)

FINANCIAL REPORT

June 30, 2014



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MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
ORGANIZATION
Fiscal Year Ended June 30, 2014

Director

Ellen Buchanan..... Director

Board of Commissioners

Karl Englund Chair

Nancy Moe Vice-Chair

Rosalie Cates Member

Ruth Reineking Member

Daniel Kemmis Member

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Missoula Redevelopment Agency
Missoula, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Missoula Redevelopment Agency (the Agency), a component unit of the City of Missoula, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

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 includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency'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 Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Missoula Redevelopment Agency, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5–27, budgetary comparison information on pages 59–61 and the schedule of funding progress for the retiree health insurance program on page 62 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplementary information presented on pages 63–66 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining debt service balance sheet and combining debt service statement of revenues, expenditures and changes in fund balance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The debt service budgetary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2015, on our consideration of the Missoula Redevelopment Agency'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 the 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 Agency's internal control over financial reporting and compliance.

Anderson Zurmuehlen & Co., P.C.

Missoula, Montana
January 22, 2015

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS
 Fiscal Year Ended June 30, 2014

The Missoula Redevelopment Agency (the Agency) is a component unit of the City of Missoula (the City). Its budget is prepared at the same time as the City Budget and undergoes review and approval by City officials as part of the City's budgeting process. Moreover, all expenditures of the Agency are reviewed and approved by the Missoula City Finance Office and the Missoula City Council.

The financial statements of the Agency are based on information provided by the Missoula County Treasurer and the City Finance Office. The Agency records are reconciled with the information prepared and maintained by the City.

Our discussion and analysis of the Agency's financial performance provides an overview of its financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the Agency's financial statements and accompanying notes, which begin on page 28.

Financial Highlights

The following tables summarize the financial condition and operating results for 2014 compared to 2013:

	<u>2014</u>	<u>2013</u>	Increase <u>(Decrease)</u>
Current assets	\$ 7,747,208	\$ 10,756,480	\$ (3,009,272)
Noncurrent assets	<u>1,241,835</u>	<u>1,248,364</u>	<u>(6,529)</u>
Total assets	<u>8,989,043</u>	<u>12,004,844</u>	<u>(3,015,801)</u>
Current liabilities	1,459,993	2,354,610	(894,617)
Long-term liabilities	<u>17,288,392</u>	<u>18,297,470</u>	<u>(1,009,078)</u>
Total liabilities	<u>18,748,385</u>	<u>20,652,080</u>	<u>(1,903,695)</u>
Net position			
Restricted for debt service	675,665	675,665	-
Unrestricted	<u>(10,435,007)</u>	<u>(9,322,901)</u>	<u>(1,112,106)</u>
Total net position	<u>\$ (9,759,342)</u>	<u>\$ (8,647,236)</u>	<u>\$ (1,112,106)</u>

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 Fiscal Year Ended June 30, 2014

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Revenues			
General revenues	\$ 4,551,027	\$ 3,941,497	\$ 609,530
Other revenues	<u>44,000</u>	<u>-</u>	<u>44,000</u>
Total revenues	<u>4,595,027</u>	<u>3,941,497</u>	<u>653,530</u>
Expenses			
Housing and community development	4,901,245	5,314,355	(413,110)
Interest	<u>805,888</u>	<u>493,501</u>	<u>312,387</u>
Total expenses	<u>5,707,133</u>	<u>5,807,856</u>	<u>(100,723)</u>
Change in net position	(1,112,106)	(1,866,359)	754,253
Net Position			
Beginning of year	<u>(8,647,236)</u>	<u>(6,780,877)</u>	<u>(1,866,359)</u>
End of year	<u>\$ (9,759,342)</u>	<u>\$ (8,647,236)</u>	<u>\$ (1,112,106)</u>

- During the year, the Agency had revenues of \$4,595,027 and expenses totaling \$5,707,133 which resulted in a change in net position of (\$1,112,106) an increase of \$754,253 from 2013.
- The Agency's revenues are derived primarily from Tax Increment Property Tax, State Personal Property Tax Reimbursements, State Entitlements, and Investment Earnings. Small amounts of revenue are received from other miscellaneous sources. The Agency's fiscal year 2014 revenues were \$653,530 higher than in fiscal year 2013.
- Expenditures for fiscal year 2014 were related to public/private redevelopment partnerships such as Great Burn Brewing Company, Montana Mapping & GPS, South Crossing (Woodbury), Territorial Landworks, Dakota Greens (Loken), Corso Apartment Homes and The Source Fitness Center on Russell Street.
- Public projects funded solely or in part with tax increment funds in fiscal year 2014 include Bitterroot Branch Trail, Cedar Street Triangle improvements, Front/Main Street Conversion Study, MAX Wave, Milwaukee Trail Lighting, Poverello Center, Reserve Street Trail Crossing, Riverfront Triangle Conference Center Feasibility & Market Study, Scott/Toole Intersection, Silver Park, West Broadway Island, Wyoming Street, the placement of street trees, and sidewalk and street improvements in URD II & URD III. The Agency also paid out \$970,673 in principal and \$805,888 in interest for a total of \$1,766,561 in debt service payments.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2014

Using This Report

This audit report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities are government-wide statements, which are required by Governmental Accounting Standards Board (GASB) Statement 34. These statements report on all of the Agency's activities and are on full-accrual basis. They are intended to present a long-term view of the Agency's finances.

The Balance Sheet (Statement of Net Position) and Income Statement (Statement of Revenues, Expenditures and Changes in Fund Balances) are considered fund financial statements, which are financial statements that report on one or more funds (governmental funds) of the governmental entity. These statements are on a modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds are used to account for the acquisition, use, and balances of expendable financial resources and the related current liabilities. Governmental funds include general funds, special revenue funds, debt service funds, and capital project funds. The fund financial statements tell how the Agency's redevelopment activities were financed in the short term as well as what remains for future redevelopment. Also, these statements report the Agency's operations in more detail than the government-wide statements by providing information about the Agency's most significant funds.

About the Agency

Two of the most important questions asked about the Agency are, "How well did the Agency respond to redevelopment opportunities in the past fiscal year?" and "What ability will it have to respond to future redevelopment opportunities?" The Statement of Net Position and the Statement of Activities report information about the Agency as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

You can think of the Agency's net position (the difference between assets and liabilities) as one way to measure the Agency's financial health, or financial position. Over time, increases or decreases in the Agency's net position are one indicator of whether the Agency has been responding to redevelopment opportunities at a level equal to, above, or below its annual revenue. When reviewing the Agency's overall financial position, however, other non-financial factors should also be considered such as changes in the property tax assessment formula, which is determined by the State legislature, the total mills levied by the taxing jurisdictions and whether the Agency has sold bonds to assist a redevelopment project.

MISSOULA REDEVELOPMENT AGENCY
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2014

The fund financial statements provide detailed information about the most significant funds, not the Agency as a whole. The Agency had four urban renewal districts (URDs) active in fiscal year 2014 and each has its own fund. URD II, URD III, Front Street URD and Riverfront Triangle URD all derived a majority of their revenue from tax increment provisions allowed by State law. Tax increment is collected by the County, transferred to the City, and deposited into the respective urban renewal districts' development fund. These funds in turn provide money for the Agency's redevelopment programs: Tax Increment Financing (TIF), Commercial Rehabilitation Loan Program (CRLP), the Code Compliance Assistance Program (CCP) and the Façade Improvement Program (FIP). The TIF program is provided for by State law. The other three programs, CRLP, CCP and FIP, are redevelopment programs approved by the Agency's Board and/or Missoula City Council as allowed by State law.

In sum, the government-wide financial statements provide a long-term view of the Agency's financial well-being, whereas the fund financial statements provide a detailed short-term view of the Agency's general operations, basic services and fund balances for future redevelopment. The relationship (or difference) between the government-wide statements (as reported in the Statement of Net Position and the Statement of Activities) and the fund financial statements (as reported in the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances) is explained in the reconciliations included in the financial statements section of this report.

Retirement Plans

As a component unit of the City of Missoula, the Agency employees participate in the Montana Public Employees Retirement System (PERS). The City of Missoula through the Agency, the Agency employees and the State of Montana all contribute to the retirement plan. The retirement plan is administered by the State of Montana.

Capital Assets

Other than office furniture and equipment, the only other asset the Agency owns is a 2001 Dodge Durango. This company vehicle was purchased as a used vehicle at a government auction for \$10,500 and put into service on January 28, 2005. This vehicle has been fully depreciated. All other physical assets or improvements to public assets through purchases or construction undertaken by the Agency are owned by the City of Missoula. Assets created or improved as a result of projects developed with private entities pursuant to urban renewal activities or programs of voluntary or compulsory repairs are assets of the private entities. As reported in the Statement of Net Position, the Agency's assets include cash and investments, taxes/assessments receivable (net), other receivables, other assets, and amounts due from other governments. The Agency complies with the City of Missoula's Fixed Asset Management System with respect to tracking furniture, equipment and computer related assets.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2014

Current, Noncurrent and Long-Term Liabilities

The Agency has current and noncurrent liabilities. Current liabilities include accounts payable for project related expenditures, accrued wages, the current portion (vacation hours) of the Agency's compensated absences and the current portion of notes payable, guarantor payable and tax increment revenue bonds payable. Noncurrent liabilities include postemployment benefits, the long-term portion (sick and compensatory hours) of the Agency's compensated absences, and the long-term portion of the notes payable, guarantor payable and tax increment revenue bonds payable.

Bonds and Notes Payable

On August 6, 2006, the City of Missoula pursuant to Resolution 7120 approved the sale of \$3,600,000 in tax increment revenue bonds related to the Old Sawmill District project in URD II. The bond terms are 25 years and therefore extend the life of URD II until 2031. The Series 2006 \$3.6 million tax increment bonds received an AA rating from Standard & Poors; the first rating of a tax increment bond in the State of Montana.

On August 10, 2006, the Missoula Revitalization Project LLC, the City of Missoula and the Agency entered into a Loan Agreement and Note with the Missoula Area Economic Development Corporation for a \$1,000,000 loan, later increased to \$1,125,000, from the Missoula Brownfields Revolving Loan Fund for use in remediating the property's environmental obstacles and hazards prior to redevelopment. Tax Increment currently received from the Old Sawmill District property and the tax increment generated as a result of the environmental remediation of the property was pledged to service the loan over the life of URD II. On December 14, 2009, the amount of the loan was increased to \$1,525,000. On December 22, 2009, the terms of the Loan Agreement and Note were amended to defer paying principal until 2023. On July 2, 2012, pursuant to resolution 7712, the amount of the loan was increased to \$1,775,000. The remaining loan amount available for remediation was expended in fiscal year 2014. The loan is now managed by the Montana Community Development Corporation.

On October 15, 2007, the City of Missoula pursuant to Resolution 7286 approved the sale of \$1.5 million in tax increment revenue bonds related to the Safeway/St. Patrick Hospital project in URD II. The bonds are secured by a first lien upon and pledge of tax increment revenues derived from the project.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2014

On December 22, 2010, the City of Missoula pursuant to Resolution 7587 pledged \$3 million in tax increment funds from the Front Street URD to the Missoula Parking Commission for payment of Parking Facilities Revenue Bonds issued to construct the Front Street Parking Structure. The pledged TIF was 1.35 times 40% of the average annual debt service of the \$7.5 million Parking Revenue Bonds (Series 2010B) dated December 29, 2010, and was provided in two equal installments of \$134,211. Excess increment was returned to the Agency after the October 1st Bond payment and used to fulfill subordinate debt requirements. On April 9, 2014, the Missoula Parking Commission redeemed the Series 2010B bonds and reissued \$7,160,000 in Parking Facilities Revenue Refunding Bonds, Series 2014. This decision was made due to the reduction of approximately 8.7% in federal subsidy payments due to the sequestration. The Commission was receiving the subsidy as part of the government's direct-pay tax credit for eligible bonds. MRA confirmed its pledge of tax increment to the Series 2014 Refunding Bonds in the principal amount of \$2,864,000 in Resolution 7864, which was approved on April 7, 2014. The pledged TIF amount on the new bonds is provided in two equal installments of \$133,425.29. The refunding of the 2010B bonds resulted in a restructuring of the note payable to Missoula Parking Commission. The proceeds from debt restructuring of \$44,000 is reported as Other Revenue in the government-wide statements.

Resolution 7587, approved December 22, 2010, also authorized the issuance of a Front Street URD Subordinate Lien Note to First Interstate Bank in the amount of \$1,623,380 for reimbursement of tax increment eligible costs incurred in the construction of the new bank building on the corner of Higgins Avenue and Front Street. The Series 2010 Note bears interest at the annual rate of 6.55% for a period of 25 years.

Resolution 7587, approved December 22, 2010, also clarified that previously incurred obligations payable from Front Street URD tax increment would be subordinate to the payment of the Series 2010 bonds (now redeemed with Series 2014 bonds) and any additional bonds. Front Street URD's previous obligation to the Wilma project was renegotiated to a Promissory Note in the outstanding principal amount of \$220,000 bearing interest at the rate of 3.25% per annum, payable in semiannual payments of principal and interest in the amount of \$25,000, on each December 15 and June 15, commencing December 15, 2010, until paid.

On August 15, 2011, the City of Missoula pursuant to Resolution 7644 approved the use of \$2,000,000 in tax increment revenue to purchase the interest of certain secured lenders in the Missoula Civic Stadium, located adjacent to McCormick Park. The Resolution authorized an initial payment of \$500,000 and the issuance of \$1,500,000 in Civic Stadium Subordinate Lien Notes. Negotiations between all parties continued for several months and the City acquired the Stadium in February 2012. In the Settlement Agreement, the secured lenders agreed to release all claims, mortgages and encumbrances against the Civic Stadium and city land upon repayment of \$3,555,000 in satisfaction of the Secured Loans, then outstanding in the principal amount of \$3,907,681 and with accrued interest of \$1,067,667 as of June 15, 2011. In the Civic Stadium Agreement, Play Ball agreed to transfer all of its interest in the Civic Stadium and the city land to the City, free and clear of any claims, mortgages or encumbrances upon release of the Mortgages. In order to implement the Settlement Agreement and the Civic Stadium Agreement,

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2014

the City allocated \$2,000,000 of tax increment revenues to satisfy the claims of certain Secured Lenders and issued Civic Stadium Revenue Bonds in the amount of \$1,555,000 payable from lease payments received pursuant to a long term lease of the Civic Stadium to Mountain Baseball to satisfy the claims of certain other secured lenders.

On March 4, 2013, the City of Missoula pursuant to Resolution 7758 approved the sale of \$5,750,000 in tax increment urban renewal revenue bonds in URD II to fund public improvements related to the extension of Wyoming Street, replacement of the MRL Trestle and the City-owned park parcel known as Silver Park. The original purchaser of the negotiated sale bonds was First Security Bank, Missoula, Montana, a division of Glacier Bank. Per Montana Urban Renewal law, the bond term is limited to a final maturity date no later than the existing Series 2006 bond maturity date of July 1, 2031. The interest rate on the bond is 3.150% per annum. Interest is calculated on the basis of a year of 360 days composed of twelve 30-day months. Principal and interest payments are due to the City's paying agent, US Bank, on January 1 and July 1, commencing January 1, 2014. Maximum annual debt service per the amortization schedule is \$426,028 in fiscal year 2029.

On May 20, 2013, the City of Missoula pursuant to Resolution 7782 approved the sale of \$1,753,500 in tax increment urban renewal revenue bonds in URD II to fund certain public improvements related to redevelopment of the former Intermountain Lumber Site. The projects on the site include a residential development known as Corso Apartment Homes and a fitness center known as The Source. The original purchaser of the negotiated sale bonds was First Security Bank, Missoula, Montana, a division of Glacier Bank. Per Montana Urban Renewal law, the bond term is limited to a final maturity date no later than the existing Series 2006 bond maturity date of July 1, 2031. The interest rate on the bond is 4.250% per annum. Interest is calculated on the basis of a year of 360 days composed of twelve 30-day months. Capitalized interest payments are payable from the bonds funds on January 1 and July 1, 2014. Thereafter, principal and interest payments are payable from tax increment generated by the projects to the City's paying agent, US Bank, on January 1 and July 1, commencing January 1, 2015. Maximum annual debt service per the amortization schedule is \$146,293 in fiscal year 2028.

Refer to Note 5 on page 43 for further information regarding the Agency's long-term debt including schedules of outstanding balances.

Revenues

In fiscal year 2014, the Agency received general and other revenues and did not generate any program revenue. Of the Agency's \$4,595,027 total revenue reported in the Statement of Activities, 82% was tax increment received from property taxes. The next largest revenue source for the Agency is the State of Montana in the form of State entitlement funds authorized under 2001 Legislative House Bill 124, Personal Property Reimbursements authorized under 2011 Legislative Senate Bill 372 and 2013 Legislative Senate Bill 96 and Public Employees Retirement System (PERS) contributions. State of Montana funds account for nearly 16% of the Agency's total revenue received. The Agency also reported \$42,473 in CMAQ grant revenue, \$1,797 in investment income and \$26,890 in net miscellaneous revenue/expense.

MISSOULA REDEVELOPMENT AGENCY
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2014

Expenses

Under the Statement of Activities, most of the Agency's expenses are expressed under Housing and Community Development. Specifically, expenses include project assistance under the Agency's redevelopment and rehabilitation programs and administrative costs such as personnel, office supplies and equipment. There was also interest expense paid on the Agency's outstanding bonds and notes, including tax increment revenue bonds (Series 2006 and 2007), URD II Public Improvement and Intermountain Site negotiated sale bonds (2013) and the Series 2010 Front Street Parking Structure bonds (prior to redemption), the Brownfields Revolving Loan Fund Note, First Interstate Bank Note and Wilma Note.

Special Items, Contributions, Transfers, Other

When applicable, the Agency financially contributes its proportionate share towards City of Missoula activities that affect the Agency, such as purchase of new computer servers and software. In addition, the Agency may contribute to City projects undertaken by other departments within the URDs. The Agency partnered with the City Street department to make improvements to certain streets in URD II in fiscal year 2014 and those contributions were recorded as expenditures in the fund financial statements. There were no transfers to other governments in fiscal year 2014.

In addition, the Agency contracts with the City of Missoula to provide administrative support as well as assistance from Engineering, Public Works, Finance, Parks and Recreation, and Attorney's Office on various projects. The amount paid to the City also includes the Agency's pro rata share of the City's liability insurance coverage for errors and omissions. The amount paid in fiscal year 2014 was \$113,644 and was recorded as an administrative expense in the fund financials.

Administrative transfers between districts are done annually to reimburse the district that has paid the administrative expenses of the Agency. In fiscal year 2014, the administrative expenses were paid from URD III. The amount of money transferred in fiscal year 2014 from URD II to URD III for administrative expenses was \$250,000, the budgeted amount for the proportionate share of staff time spent working on projects in URD II in fiscal year 2014. Since tax increment is still limited (due to commitments to debt service or lack of redevelopment) in the Front Street and Riverfront Triangle URDs, staff time spent on their creation and working on projects in those districts is still being tracked for future reconciliation of administrative expenses. A detailed accounting of what each district owes URD III is maintained so a reimbursement can be made when tax increment revenues from these districts are sufficient.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2014

Notes Receivable

In fiscal year 2011, the Agency granted an interest free loan to The Women's Center under the Façade Improvement Program for improvements to their building in URD III. The loan was executed in February 2011 for \$61,000 repayable over ten years. Since this loan does not have a revenue generating component (interest), it was recognized as cash out and as a Note Receivable on the fund financial statements. Repayment of the Note requires The Women's Center to remit \$6,100 to the Agency by February 1 each year beginning in 2012. Seven payments remain on this note receivable.

In fiscal year 2012, the Agency entered into an agreement with the developer of the Bitterroot Town Homes, Collin Bangs, whereas in exchange for tax increment financing used to extend a water main to the project, Mr. Bangs assigned the reimbursements he would receive from Mountain Water Company for making the infrastructure improvement, to the Agency. The Mountain Water Company reimbursement program as authorized under State law includes providing reimbursements to developers for expenses to install, upgrade or extend water mains or fire hydrants. The program does not apply to service lines. Reimbursements occur over a 40-year period. The reimbursements the Agency receives from Mountain Water Company do not include an interest component; therefore are recorded as cash out and as a note receivable on the fund financial statements.

Below is a summary of the Agency's current Mountain Water Company notes receivable projects that included water main installations or upgrades or other infrastructure improvements that qualified for the reimbursement program.

Project Name	District	Final Amended Contract	Total Payments to Date	Outstanding Balance as of 6/30/14
Fire Hydrant Installation - URD II (2 hydrants)	URD II	\$ 18,592	\$ 465	\$ 18,128
Russell Street (Corso) Apartments	URD II	\$ 130,179	\$ -	\$ 130,179
Western Montana Mental Health Center	URD II	\$ 64,915	\$ 1,623	\$ 63,292
Wyoming Street	URD II	\$ 259,178	\$ -	\$ 259,178
Eaton Street (Bitterroot) Townhomes	URD III	\$ 40,000	\$ 1,999	\$ 38,001
Fire Hydrant Installation - URD III (4 hydrants)	URD III	\$ 35,397	\$ 885	\$ 34,512
Total		\$ 548,261	\$ 4,972	\$ 543,289

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2014

Balances and Transactions of Individual Government Funds

	<u>URD I</u>	<u>URD II</u>	<u>URD III</u>
Beginning Balance 7/1/13	\$ 44	\$ 4,781,492	\$ 3,575,464
Ending Balance 6/30/14	<u>44</u>	<u>1,548,151</u>	<u>4,509,615</u>
\$ Change	<u>\$ -</u>	<u>\$ (3,233,341)</u>	<u>\$ 934,151</u>
% Change	0%	-68%	26%

	<u>Front Street</u>	<u>Riverfront Triangle</u>	<u>Debt Service</u>
Beginning Balance 7/1/13	\$ 394,349	\$ 17,873	\$ 1,400,655
Ending Balance 6/30/14	<u>459,018</u>	<u>15,741</u>	<u>1,466,328</u>
\$ Change	<u>\$ 64,669</u>	<u>\$ (2,132)</u>	<u>\$ 65,673</u>
% Change	16%	-12%	5%

URD I's tax increment financing provision sunset in fiscal year 2005. The district was officially closed out (last payments made on projects) in fiscal year 2007. Payments of delinquent taxes due to the Agency are still transferred to the City when received by the County. In fiscal year 2013, the Agency disbursed the delinquent tax increment that had been collecting in the URD I account since sunset and disbursed it to the taxing jurisdictions based on their pro rata share of the total mills levied in the final year of the district. The total amount disbursed was \$5,200.

Missoula County Treasurer	\$ 749
Missoula County High School District	\$ 613
Missoula Urban Transportation District	\$ 90
City of Missoula	\$ 1,347
Missoula Elementary School District #1	\$ 1,168
Missoula County Treasurer	\$ 938
MT Department of Administration	\$ 295
Total	\$ 5,200

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URD II saw a 68% decrease in fund balance in fiscal year 2014. This decrease was primarily due to the Agency's draw down of the two large tax increment urban renewal revenue bonds that were issued in fiscal year 2013 and ongoing debt service payments on the Civic Stadium Note. Total expenditures were \$3,362,956 in addition to a \$250,000 transfer to URD III for administrative expenses and a \$131,162 transfer to the Intermountain bond debt service fund. The following is a summary of contributions to projects and administrative purposes in URD II during fiscal year 2014:

URD II	
Project Name	Expenditure Amount
2012 Street Tree Project - URD II	915
Admin - Transfer to Other Funds	250,000
Brownfields RLF Note - FY14 Disbursement	69,820
Cedar Street Triangle Public Improvements - Design/Eng	45,596
Civic Stadium	1,500
Dakota Greens Project (Loken)	69,292
Lifestyle Fitness Russell	123,826
MAX Wave	28,793
Merchant Service Fees	1,808
Millsite Project - Legal Services	1,846
Milwaukee Trail Lighting - Segment 3 (Russell to Catlin)/Intermtn - Design/Eng	91
Milwaukee Trail Lighting - Segments 2 & 4 (Ca to Russell & Catlin to Garfield) - Design/Eng	11,674
Montana Apartments	878,174
MRL Trestle - Design/Eng/Const. Admin	9,334
Poverello Center	40,144
Scott/Toole Intersection - Construction	105,810
Silver Park - Boat Ramp	150
Silver Park - Ph. IV Construction	1,122,538
Silver Park - Ph. IV Design/Eng/Const. Admin	126,315
Silver Park - Ph. IV Misc.	21,535
Silver Park - Ph. IV SWPPP	10,145
Streets - Garfield/Idaho milling & paving	39,365
URD II Western Sidewalk - Phase 3 Construction	192,787
URD II Western Sidewalk - Phase 3 Design/Eng	36,271
URD II Western Sidewalk - Phase 4 Design/Eng	7,522
West Broadway Island - Design, Engineering, Const. Admin	41,619
Wyoming Street - Construction	456,935
Wyoming Street - Design/Engineering	24,419
YWCA Missoula	25,893
Grand Total	3,744,118

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URD III saw a 26% increase in fund balance in fiscal year 2014. This increase is primarily attributable to fewer projects being active during the year. Total expenditures were \$1,383,099 and included \$537,092 for administrative expenses and \$846,007 for the following projects:

URD III	
Project Name	Expenditure Amount
2012 Street Tree Project - URD III	2,483
Admin - Communication & Transportation	1,432
Admin - Employer Contributions	96,577
Admin - Garbage	526
Admin - Gasoline	218
Admin - Office Supplies	1,949
Admin - Other Purchased Services	244
Admin - Other Repair & Maintenance Supplies	679
Admin - PERS Contributions	291
Admin - Printing, Duplication, Binding	5,767
Admin - Professional Services	114,294
Admin - Publicity, Subscriptions and Dues	3,060
Admin - Repair & Maintenance Services	3,990
Admin - Repair & Maintenance Supplies	141
Admin - Salaries & Wages	291,162
Admin - Telephone	675
Admin - Telephone	63
Admin - Training	806
Admin - Travel	720
Admin - Professional Services	9,050
Admin - Telephone	112
Bitterroot Branch Trail - Livingston to South Ave	6,426
Great Burn Brewing Company	41,965
Merchant Service Fees	5,336
Montana Mapping & GPS	75,368
New URDs Creation	12,129
Reserve Street Trail Crossing - Feasibility Study	33,738
South Crossing	439,775
South Crossing - Phase I	143,908
Territorial-Landworks, Inc. - 1817 South Avenue	50,000
URD III Grant Street Sidewalk - Design/Eng	40,215
Grand Total	1,383,099

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Front Street URD saw a 16% increase in fund balance in fiscal year 2014. This increase is attributable to there being very few projects active in this district. The activity in Front Street URD was primarily for debt service including requirements for the Series 2010 Front Street Parking Structure Bonds, First Interstate Bank Note, and Wilma Note. Total expenditures were \$141,991 for the following projects and administrative fees:

Front Street URD	
Project Name	Expenditure Amount
Front/Main Conversion Feasibility Study	43,790
Merchant Service Fees	415
SpectrUM Discovery Area	97,787
Grand Total	141,991

Riverfront Triangle URD saw a 12% decrease in fund balance in fiscal year 2014. This decrease is attributable to the district only receiving personal property reimbursements from the State and no tax increment due to the current taxable value of the district being below the base value. Total expenditures were \$8,235 for the following projects and administrative fees:

Riverfront Triangle URD	
Project Name	Expenditure Amount
Hotel Fox - Legal Services	1,538
Merchant Service Fees	30
Riverfront Triangle Conf. Ctr Market & Economic Analysis Study	6,667
Grand Total	8,235

Overall Financial Position

Changes in the Agency's overall financial position from 2013 to 2014 from the Government-wide perspective include a decrease in total assets of \$3,015,801 and a decrease in total liabilities of \$1,903,695 with a resulting overall net position of (\$9,759,342). The decrease in assets is attributable to the spend down of the bond issues and wrap up of large project commitments.

Due to ever-changing project completion schedules, it is not uncommon for projects that are budgeted in one year to be completed in another year. The Agency's tax increment funds, as they are accrued, are *planned, pledged or committed* to projects or held in contingency accounts for projects that arise during the year.

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Planned Projects

Planned projects are projects that are under consideration and in the pre-development stage. During this stage, estimated budgets are created as “place holders”. As project planning proceeds, the Agency’s Board may pledge or commit to the projects, or abandon them if costs or circumstances warrant it. Similarly, the Agency funds a number of redevelopment programs adopted by the Missoula City Council. These programs are made available to assist private property owners with smaller projects that fit the program objectives and criteria. Since it is impossible to determine in advance how many property owners might apply for assistance under these programs, at any given time the program budgets may be underutilized. Still, it is the Agency’s practice to be responsive to private sector redevelopment initiatives—even small ones—so these programs are adequately funded each year.

There were five projects primarily in the *planning* phase during fiscal year 2014, the Brooks Street Improvements - Phase 2 and the South Reserve Street Trail Crossing in URD III; the West Broadway Island in URD II; the Front/Main Street Conversion study in Front Street URD and the Fox Site in Riverfront Triangle URD.

Phase 2 of the Brooks Street Improvements consists of reconstruction of the key intersections on Brooks Street between Dore Lane and Paxson Street. The improvements are tailored to making Brooks more accessible for bicyclists and pedestrians by slowing traffic and adding amenities. The project, which is being done in conjunction with the Montana Department of Transportation (MDT), will consist of curb extensions, pedestrian scale lighting, landscaping, pedestrian crosswalks and refuges where appropriate, and bicycle lanes. The final phase will add raised medians between Reserve and Paxson and will be funded and installed by Montana Department of Transportation (MDT). Construction of Phase 2 is expected to take place in 2015 with Phase 3 to follow when the State has funding available.

The South Reserve Street Trail Crossing will provide a critical link between the Bitterroot Branch Trail and the Missoula to Lolo Trail (M2L). Missoula County received a federal grant to build the missing trail segment between Reserve Street and Lolo, where it will connect with the existing trail that parallels Highway 93 to Hamilton. The Agency’s Board approved design, engineering and ultimately construction of a grade separated crossing over Reserve Street due to the high vehicular traffic volumes and high speeds at Reserve and Old Highway 93. A conceptual design has been selected and easements are being negotiated with the impacted private property owners. If those negotiations are successful, construction could begin in 2015.

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The West Broadway Island is a five acre site along the Clark Fork River and West Broadway. The City purchased the property, which is technically not an island, through the Agency in 2012 for use as open space and conservation lands. Much of the site is within the 100-year floodplain and floodway. During fiscal year 2014, the Agency engaged Morrison-Maierle, Inc. to plan and engineer a new pedestrian access along with renovation of an existing access to the property, design new pedestrian trails, stabilize the northern bank, and develop a plan to minimize noxious weeds and restore native riparian vegetation. Morrison-Maierle's work also includes design analysis and implementation of public safety measures consistent with the City's *Crime Prevention through Environmental Design Principles*.

A study to determine the feasibility of converting Front and Main Streets from a one way couplet to two way streets is currently underway. This is a requirement by MDT if the City wants to be able to access Federal or State funding to implement a conversion. This project is one of the top priorities identified in the Downtown Master Plan and enjoys broad support, particularly from the downtown business community. The study will be finalized in the first quarter of 2015 and, if there is a positive outcome that is accepted by MDT, work will begin to identify funding to implement the conversion.

Much of what makes up the Fox Site was given to the City by the owners of the Fox Theater in the mid-1980s. Later, two more adjacent properties were added to make up a comprehensive redevelopment site. Since that time, the City, through the Agency, demolished structures, improved utility infrastructure and removed a buried landfill that was used in the early part of the 20th century. At the direction of the City, the Agency conducted several unsuccessful Request-For-Proposals (RFP) processes seeking a private entity to redevelop the property. The most recent RFP was conducted in 2011. Upon the Agency's recommendation, the City Council authorized the Agency to conduct development agreement negotiations with one of the respondents, Hotel Fox Partners, for redevelopment of the Fox Site to an upscale conference hotel and conference center. Hotel Fox has conducted initial market studies and financing feasibility investigations for its project and, by request of the Mayor, a community conference center. In January 2013, Hotel Fox received a one-year extension from the City Council to keep working on the project. In January 2014, the City Council granted the Hotel Fox Partners a second extension on their exclusive right to negotiate a development agreement so the group could complete feasibility and conceptual design work on the Hotel and to continue working with adjacent property owners on a potential much larger project in the Riverfront Triangle. Additionally, Hotel Fox teamed with the Agency, the Missoula Downtown Business Improvement District, the Missoula Downtown Association, and the Tourism Business Improvement District to fund a feasibility analysis conducted by CSL International of the community conference center that could be constructed adjacent to the hotel project.

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Pledged Projects

Often times the Agency Board will make a conditional pledge to a public or private project that is not fully financed or completely planned. The purpose of the pledge is to create “seed money,” “matching funds,” or other financing incentives for the project sponsors or investors. This period also allows for further development of the project design and time to acquire the necessary approvals.

The most significant *pledged* project in fiscal year 2014 was the Wayfinding & Entry Features project in URD III. \$250,000 was identified for this project in the MRA's Capital Improvements Program as a placeholder while final planning and design features were being worked out for the City-wide wayfinding system. That system is now designed and the City and other organizations are working to identify funding sources for the various components. The emphasis in URD III is the Brooks Street corridor as a gateway into Missoula from the Bitterroot Valley and an important link to downtown and The University of Montana. Once funding is available to install wayfinding in the surrounding districts, installation can begin in URD III.

Committed Projects

If and when project sponsors complete fundraising to a level that allows a project to proceed, *pledged* funds become *committed* through use of development agreements. Development agreements specify required performance by the project sponsor in order to obtain tax increment funding. The funds become contractually committed in the development agreement and often the commitment will bridge one or more fiscal years. When the Agency undertakes public infrastructure improvements within a district, tax increment funds become committed when the project receives approval by the Agency Board.

The most significant committed projects still underway in URD II in fiscal year 2014 were Silver Park, Wyoming Street, the former Intermountain Lumber site projects and the Milwaukee Trail Lighting project. In March 2013, the Agency sold \$5,750,000 in tax increment urban renewal revenue bonds to fund public improvements related to Silver Park, Wyoming Street and the MRL Trestle replacement. In May 2013, the Agency sold \$1,753,500 in tax increment urban renewal revenue bonds to fund the public improvement components of the Intermountain Lumber site property projects, which include the development of 224 residential apartments and The Source Fitness center. Another parcel adjacent to Russell Street is intended to be developed within the next three years.

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The Silver Park project was essentially completed during the summer of 2014. It included developing 14.5-acres of abandoned industrial land along the Clark Fork River into a regional park. Design and construction of the Park was divided into four phases as funding became available. During the first phase, a non-motorized trail was constructed across the majority of the site along the riverfront between the existing trail near the Civic Stadium and the California Street Pedestrian Bridge. Phase two included construction of a parking lot west of the Stadium and a boat ramp to the Clark Fork River. Phase three included landscaping and lighting the entire trail and parking lot, landscaping approximately six acres next to the trail and installing a pedestrian bridge over the irrigation ditch to complete the riverfront trail's connection to the California Street Pedestrian Bridge. Phase four completed the remainder of the primary park area which included landscaping and installation of many trees, shrubs and acres of turf; the building of two large timber frame structures as gathering and party venues; and construction of nearly a mile of internal pathways.

Wyoming Street improvements included extending Wyoming Street from Cregg Lane to California Street creating a much needed new east/west collector street. The new street segment creates a connection between Orange and Russell Streets, both of which will ultimately be signalized intersections. Wyoming Street was built as an urban street with wide sidewalks, curb extensions, pedestrian crosswalks, brick paved sidewalks, and pedestrian lighting. If the type of private development that is anticipated along Wyoming comes to fruition, a new mixed use neighborhood will be created on the sawmill site, which has been abandoned for decades.

For several decades, the Intermountain Lumber Company sold wholesale lumber and hardware from a 12-acre parcel on North Russell Street. The business closed in the late 1990s and the site sat vacant for many years until the Missoula Housing Authority (MHA) purchased it with a goal of partnering with a private developer to construct a commercial and residential project. MHA re-platted the site into several large lots to be served by a new east-west connector street linking Russell and Catlin streets. The MHA, with MRA assistance, constructed an income-qualified development on nearly three acres of the site and sold the remainder to a local developer group (Montana Apartment L.P.). During fiscal year 2014, Montana Apartment completed construction of a 224-unit apartment complex in seven buildings called Corso Apartment Homes plus resident amenities such as laundry, workout facility, theater, community rooms, etc. The developer provided the City with a nearly one-acre easement along the project's border with the Milwaukee Trail for a community garden. Garden City Harvest will manage the garden area for the City to be used by residents of the project and the surrounding neighborhood. The project plan also included marketing of two lots adjacent to Russell Street for commercial or mixed-use development. One of the lots was purchased and was developed into a 25,000 square foot health and fitness center named The Source. Agency involvement included assistance in providing utility main lines to the site, demolition and site clearing, installation of access sidewalks required by the City, and construction of the new public street (Milwaukee Way) with pedestrian facilities connecting Russell and Catlin Streets.

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During fiscal year 2014, MRA installed lighting along the Milwaukee Trail from Russell Street to Catlin Street. The lighting was installed in conjunction with the Corso Apartment project and was the second of a three phase program to install lights along the entire trail within URD II. In late fiscal year 2014, financing assistance for the third and final phase was obtained through federal funds through the Montana Department of Transportation's Community Transportation Enhancement Program (CTEP). Construction of that phase is to occur during the first half of fiscal year 2015. The lights have increased safety and use of the Milwaukee Trail portion of the trail system, which is found in the community's core.

The most significant committed project in URD III in fiscal year 2014 was the South Crossing project which includes a major redevelopment of the former Kmart building and property. In May 2013, the Agency committed \$565,543 for demolition of the dilapidated Kmart site and approved the project to proceed without prejudice. As a result of negotiations between the Agency and the developers, the proposed development has been modified to meet the goals that the Agency has established for redevelopment in URD III in general and Brooks Street in particular. Consequently, in December 2013, an additional \$1,831,824 was committed for reconstruction of Dore Lane with sidewalks on both sides of the new street, construction of new sidewalks with pedestrian scale street lighting and street trees on Brooks and a total reconstruction of the Brooks/Dore Lane intersection with curb extensions, pedestrian islands, a traffic signal and street lighting. These improvements were completed in fiscal year 2014 and the developer is working on Phase II of the South Crossing project on the old Cinema 6 property.

In addition, the Agency financially participated in several smaller private/public partnerships and publicly funded *committed* projects during fiscal year 2014.

Taxing Policies

Taxing policies adopted by the Montana State Legislature, for example those that decrease the valuation of personal property or business equipment, have had an effect on the growth of the tax increment funds. While these changes did not have a significant effect on the URD I fund (where early growth during robust periods of increasing taxable value yielded strong annual increments), less robust growth has been seen in the other districts.

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Often the Legislature will provide reimbursement or other mechanisms to offset the financial impact their policy changes have on local taxing jurisdictions. The Agency's revenues are tied to revenues collected by the local taxing jurisdictions. State reimbursements or entitlements are intended to "make whole" on the losses experienced as a result of tax policy changes. An example of such revenue the Agency receives from the State of Montana is the State Entitlement Share funds authorized under 2001 Legislative House Bill 124. Looking forward, one negative aspect of this situation is that, as the current law reads, the State Entitlement funds that the Agency receives disappear upon the sunset of a district. Unlike the tax increment revenue normally captured by the district, which will revert back to the taxing jurisdictions upon sunset, the State Entitlement amount received annually by the Agency will revert back to the State of Montana. When House Bill 124 was passed into law, only URD II received Entitlement funds. More recent legislative changes to the taxes assessed on personal property included reimbursement components to local tax increment financing districts through the Entitlement Share program. Therefore as of fiscal year 2012, all of the Agency's urban renewal districts receive state reimbursements through the Entitlement Share.

During fiscal year 2009, reappraisal took place of all commercial and residential (class four) properties in the State of Montana. Per State law, if the value increased on a property, the difference between the old and new values is phased in over a period of six years, when reappraisal takes place again. In addition to reappraisal, substantial changes to the formula used to calculate taxable values of property came out of the 2009 Legislative session. Most notably, the "homestead" and "comstead" exemptions on residential and commercial properties respectively were increased and the factor used in the formula to calculate Taxable Value was decreased in each of the six phase-in years. Although the Legislature's intent was to mitigate the potential tax impact of substantially increased property values, the Agency has projected that overall, these actions may result in declining taxable values over the six year period. The net result appears to indicate declining tax revenue for local jurisdictions assuming a level mill value. Local jurisdictions may "float" their mill values to compensate for such loss of value in accordance with M.C.A. 15-10-420. Statewide school levies appear fixed by the State law at a total maximum of 95 mills and do not appear to be flexible to "float" with decreasing taxable value.

During the 2011 legislative session, House Bill 495 was passed into law. This Bill revised statutory appropriations and local government Entitlement share payments. For tax increment financing districts, House Bill 495 reduced the current State Entitlement amounts (established under 2001 Legislative House Bill 124) by 10%. In fiscal year 2011, URD II's entitlement share was \$283,622; beginning in fiscal year 2012, the amount was to be reduced by \$28,362 to \$255,260.

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In addition, Senate Bill 372 was passed into law in 2011. This Bill reduced the taxation for a portion of the taxable market value of class eight business equipment owned by a tax payer; provided future tax reductions contingent on increases in state collections of individual income tax and corporation license tax over the revenue estimated amount; changed other provisions related to taxation of class eight property; and provided a partial reimbursement to local governments and tax increment financing districts under the Entitlement share payment, to school districts through the Block Grant program and to the Montana university system through support to public education institutions for the loss of class eight and class twelve property tax revenue. The Agency's original reimbursement for fiscal year 2012 for strict personal property was \$102,876.34. After making an inquiry to the Department of Revenue, it was discovered there was an invalid tax increment financing (TIF) indicator in Missoula County that was used to calculate the reimbursement amounts. On December 4, 2012, the Department of Revenue sent out revised reimbursement schedules for fiscal year 2012 and 2013 for Missoula County TIF districts. The Agency received an additional \$74,373.83 for fiscal year 2012.

During the 2013 legislative session, Senate Bill 16 was passed into law. This Bill revised the Entitlement Share amount for Missoula's URD II 1-1C taxing jurisdiction. An error occurred in the final draft of House Bill 495 during the 2011 legislative session which reduced Entitlement Share amounts to all increment districts by 10%. The reduction to Missoula's taxing jurisdiction 1-1C was omitted. Senate Bill 16 corrected the oversight and reduces the original Entitlement Share amount for 1-1C of \$250,279 by 10% to \$225,251 beginning in fiscal year 2014.

Senate Bill 96 was also passed into law during the 2013 session. This bill reduces the taxes assessed on class eight business equipment by providing a tax rate of 1.5% on the first \$10 million of taxable market value and 3% for all taxable market value in excess of \$10 million, and exempts the first \$250,000 in market value of this property owned by a taxpayer, beginning in tax year 2014. Reimbursements are provided to the university system, local governments, schools, and tax increment districts. Reimbursements to local governments and tax increment districts have become part of the entitlement share payment. A one-time reimbursement attributable to (strict) personal property was also made during fiscal year 2014.

FY14 MRA Entitlement Share & Class 8 Personal Property Reimbursement Schedule

County Name	TIF Name	TIF Number	Annual Entitlement Share Payments Per 15-1-121(8)(b), MCA (1) (HB 124)		Annual Class 8 Personal Property Reimbursement (SB 372)		Class 8 Strict Personal Property Reimbursement (SB 96) - FY14 One Time Backfill Payment		Total Annual Entitlement & Reimbursement Payment (including one time for SB96)
Missoula	Urban Renewal District III (1-1D)	04-0583D	\$ -	+	\$ 121,116	+	\$ 146,914	=	\$ 268,029
Missoula	Urban Renewal District II (1-1C)	04-0583C	\$ 225,251	+	\$ 57,789	+	\$ 66,092	=	\$ 349,133
Missoula	Urban Renewal District II (4-1C)	04-0586C	\$ 30,009	+	\$ 4,239	+	\$ 8,058	=	\$ 42,305
Missoula	Front Street URD (1-1F)	04-0583F	\$ -	+	\$ 22,983	+	\$ 26,533	=	\$ 49,516
Missoula	Riverfront URD (1-1R)	04-0583R	\$ -	+	\$ 4,494	+	\$ 1,603	=	\$ 6,097
			\$ 255,260		\$ 210,620		\$ 249,200		\$ 715,080

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Budget to Actual Variances

Occasionally, there will be variations between budgeted amounts for projects and the actual amount expended. This is due to timing anomalies that are driven by project completion dates. Often times the Agency may budget funds for a project in one fiscal year but expend them in a later year if the project is put on hold or delayed for other reasons. A variety of factors from weather and financing to the availability of supplies, material or equipment may cause a project schedule to slip. In Montana, where the construction season straddles two fiscal years, it is not uncommon for a project to begin in one fiscal year and be completed in a subsequent fiscal year.

Currently Known Facts

The City of Missoula has four urban renewal districts that generate tax increment revenue administered by the Agency. URD II and III have existed for a number of years and have established revenues. Several years ago, the City created Front Street and Riverfront Triangle Districts, both of which are part of what was the original downtown district, URD I. They are areas that did not experience the level of redevelopment investment enjoyed by other parts of the downtown district. In fiscal year 2014, the City began the studies to create two new districts, the Hellgate Urban Renewal District and the North Reserve/Scott Street Urban Renewal District. Both are expected to be certified in fiscal year 2015 with a base year of 2014.

URD II is a district that has been slow to redevelop. The Agency's involvement in the Old Sawmill District project provided the opportunity to extend the life of URD II through the issuance of tax increment revenue bonds in 2006. The debt was issued for 25 years which extended the district's life to 2031. With the life of the district extended, the Agency expanded the URD II boundaries to more appropriately reflect areas of need and is focusing on several large redevelopment projects as well as smaller spinoff projects that will rely on the Agency for assistance. The reconstruction of Russell Street in the next few years will be a catalyst for significant redevelopment.

The Agency spent a number of years building Silver Park, a part of the Old Sawmill District. The Agency made a commitment to complete the Park, build Wyoming Street through the site and replace an aging railroad trestle in fiscal year 2013. \$5,750,000 in tax increment revenue bonds were sold to fund these improvements and all three projects were essentially completed by or in fiscal year 2014. The Voluntary Cleanup Plan for the Old Sawmill District was closed out in fiscal year 2014, clearing the way for the private development that will generate needed increment in the District.

Another high impact project in URD II was the private development of 224 units of market rate apartments and a large fitness center on the former Intermountain Lumber site on Russell Street. The City sold \$1,753,500 in tax increment revenue bonds to fund the infrastructure and utility improvements. That project is now completed and is generating positive increment beyond what is needed to service the bond issue.

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In 2008, the Agency partnered with the Downtown Business Improvement District, the Missoula Parking Commission, the Missoula Downtown Association and private investors to create the Greater Downtown Master Plan. The Master Plan encompasses much of the West Broadway corridor, the east/west spine of URD II and all of the Front Street and Riverfront Triangle Urban Renewal Districts. The Agency staff continues to be a part of the Downtown Master Plan Implementation Committee. Numerous projects that were recommendations from the Master Plan have been accomplished with assistance from the Agency and the use of tax increment funds. These include the reconstruction of North Higgins Avenue which was initiated by the Agency, construction of the new parking structure on Front Street which was financed through the issuance of bonds which are being paid for by a combination of parking and tax increment revenues, securing funding to study the conversion of Front and Main Streets from a one-way couplet to two-way streets and assistance with the construction of a new homeless shelter.

In fiscal year 2011, the Agency sent out a Request for Proposals for the development of the City owned portion of the Riverfront Triangle. The City Council subsequently entered into an agreement with Hotel Fox Partners, LLC to grant them the exclusive right for one year to perform their due diligence and negotiate a Development Agreement with the Agency/City. In January 2013, they received a one-year extension to continue their feasibility studies for a larger conference hotel and community conference center. During fiscal year 2014, a feasibility study, partially funded by the Agency, was initiated. Decisions about moving forward with development of a conference center will be made in fiscal year 2015. This proposed development is another important component in the implementation of the Downtown Master Plan.

At the beginning of the recession, the Agency embarked on a project to build sidewalks in those areas of URD II and URD III that do not presently have any sidewalks or have gaps in the system. The Agency has built over 10 miles of new sidewalks in the past several years and will continue the program until there is a complete sidewalk system in both districts. This program provides sidewalks and improves drainage in lower income neighborhoods that would otherwise not have these amenities in the foreseeable future.

URD III has seen significant investment in fiscal year 2014. With assistance from the Agency, South Crossing, a new development on the old Kmart property on South Brooks Street is serving as a catalyst for both public and other private development. Cabela's, Boot Barn and Men's Warehouse have been built on the site and Kohl's, Petco and City Brew began construction. The developers have purchased the adjacent property where they plan to construct four new commercial buildings with assistance from the Agency for public improvements. The South Crossing development has also spurred the Agency to make a significant investment into improvements to Brooks Street. In fiscal year 2014, reconstruction of the Brooks and Dore Lane intersection was begun with a commitment from the Agency's Board to continue those same improvements north on Brooks to Dixon in fiscal year 2015-16. The modifications include curb extensions and cross walks at the intersection, a new traffic signal, pedestrian scale lighting, wide sidewalks with street trees and the addition of bike lanes on Brooks.

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(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2014

Summary

Highlights for fiscal year 2014 include completion of the public projects in the Old Sawmill District. The Agency will work with its partner organizations to continue implementation of the Downtown Master Plan and redevelopment of the Riverfront Triangle. The Agency continues to seek out redevelopment opportunities in URD III that will support developments that reflect good urban design and add diversity to the housing supply, particularly through the transformation of Brooks Street as an urban street which invites pedestrian and bicycle use. The Agency's efforts continue to be targeted to the creation of more pedestrian friendly, sustainable development patterns and economic development projects. That effort is evidenced by the major sidewalk construction projects in URD II and III with a commitment to completing the networks in both districts. Major undertakings in the coming year will focus on planning efforts in the two new Urban Renewal Districts, redevelopment in the Front Street URD, redevelopment of the Riverfront Triangle property, implementation of the Downtown Master Plan components, encouraging appropriate redevelopment in URD II and III and the creation of affordable housing opportunities.

Missoula Redevelopment Agency
Ellen Buchanan
Director

FINANCIAL STATEMENTS

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
STATEMENT OF NET POSITION
June 30, 2014

<u>ASSETS</u>	<u>Governmental Activities</u>
CURRENT ASSETS	
Cash and investments	\$ 6,676,371
Taxes/assessments receivable, net	645,575
Current portion of notes receivable	19,819
Other current assets	253,652
Due from other governments	151,791
Total current assets	7,747,208
NONCURRENT ASSETS	
Notes receivable	566,170
Restricted cash	675,665
Total assets	8,989,043
 <u>LIABILITIES</u>	
CURRENT LIABILITIES	
Accounts payable	499,022
Accrued wages	14,795
Compensated absences	24,157
Current portion of notes payable	583,309
Current portion of guarantor payable	23,210
Current portion of tax increment revenue bonds payable	315,500
Total current liabilities	1,459,993
NONCURRENT LIABILITIES	
Post employment benefits	21,839
Compensated absences, less current portion	36,850
Notes payable, less current portion	5,988,076
Guarantor payable, less current portion	55,627
Tax increment revenue bonds payable, less current portion	11,186,000
Total noncurrent liabilities	17,288,392
Total liabilities	18,748,385
 <u>NET POSITION</u>	
Restricted for debt service	675,665
Unrestricted	(10,435,007)
Total net position	\$ (9,759,342)

The Notes to Financial Statements are an integral part of this statement.

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2014

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Governmental Activities</u>
<u>Governmental Activities</u>		
Housing and community development	\$ 4,901,245	\$ (4,901,245)
Interest expense	805,888	(805,888)
Total governmental activities	<u>5,707,133</u>	<u>(5,707,133)</u>
 Total primary government	 <u>\$ 5,707,133</u>	 <u>(5,707,133)</u>
 <u>General Revenues</u>		
Property taxes for general purposes		3,764,496
State contribution - PERS		291
State entitlement funds (HB124)		255,260
Personal property reimbursement (SB372 and SB96)		459,820
Grant revenue (CMAQ)		42,473
Investment income		1,797
Miscellaneous		26,890
Total general revenues		<u>4,551,027</u>
 <u>Other Revenues</u>		
Proceeds from debt modification		<u>44,000</u>
 Change in net position		 (1,112,106)
 Net Position		
Beginning of year		<u>(8,647,236)</u>
 End of year		 <u>\$ (9,759,342)</u>

The Notes to Financial Statements are an integral part of this statement.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2014

	Urban Renewal District I	Urban Renewal District II	Urban Renewal District III	Front Street District	Riverfront Triangle District	Major Debt Service	Total
ASSETS							
Current Assets							
Cash and investments	\$ 44	\$ 920,190	\$ 4,512,145	\$ 305,364	\$ 23,946	\$ 914,682	\$ 6,676,371
Taxes/assessments receivable, net	3,369	-	321,507	-	-	320,699	645,575
Current portion of notes receivable	-	11,834	7,985	-	-	-	19,819
Other current assets	-	-	3,835	-	-	249,817	253,652
Due from other governments	-	26,044	31,953	47,740	-	46,054	151,791
Interfund receivable	-	405,535	-	115,014	-	14,596	535,145
	<u>3,413</u>	<u>1,363,603</u>	<u>4,877,425</u>	<u>468,118</u>	<u>23,946</u>	<u>1,545,848</u>	<u>8,282,353</u>
Noncurrent Assets							
Notes receivable	-	458,957	107,213	-	-	-	566,170
Restricted cash	-	-	-	-	-	675,665	675,665
	<u>-</u>	<u>458,957</u>	<u>107,213</u>	<u>-</u>	<u>-</u>	<u>675,665</u>	<u>1,241,835</u>
 Total assets	 <u>\$ 3,413</u>	 <u>\$ 1,822,560</u>	 <u>\$ 4,984,638</u>	 <u>\$ 468,118</u>	 <u>\$ 23,946</u>	 <u>\$ 2,221,513</u>	 <u>\$ 9,524,188</u>
LIABILITIES							
Current Liabilities							
Accounts payable	\$ -	\$ 274,409	\$ 203,095	\$ 9,100	\$ 8,205	\$ 4,213	\$ 499,022
Accrued wages	-	-	14,795	-	-	-	14,795
Interfund payable	-	-	-	-	-	535,145	535,145
Total liabilities	<u>-</u>	<u>274,409</u>	<u>217,890</u>	<u>9,100</u>	<u>8,205</u>	<u>539,358</u>	<u>1,048,962</u>
DEFERRED INFLOW OF RESOURCES:							
Uncollected tax revenue	\$ 3,369	\$ -	\$ 257,133	\$ -	\$ -	\$ 215,827	\$ 476,329
Total deferred inflow of resources	<u>3,369</u>	<u>-</u>	<u>257,133</u>	<u>-</u>	<u>-</u>	<u>215,827</u>	<u>476,329</u>
FUND BALANCES							
Nonspendable	-	458,957	111,048	-	-	-	570,005
Restricted	44	1,089,194	4,398,567	459,018	15,741	1,466,328	7,428,892
Total fund balance	<u>44</u>	<u>1,548,151</u>	<u>4,509,615</u>	<u>459,018</u>	<u>15,741</u>	<u>1,466,328</u>	<u>7,998,897</u>
 Total liabilities deferred inflows and fund balances	 <u>\$ 3,413</u>	 <u>\$ 1,822,560</u>	 <u>\$ 4,984,638</u>	 <u>\$ 468,118</u>	 <u>\$ 23,946</u>	 <u>\$ 2,221,513</u>	 <u>\$ 9,524,188</u>

The Notes to Financial Statements are an integral part of this statement.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
June 30, 2014

Total fund balances - governmental funds	\$ 7,998,897
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds	476,329
Long-term liabilities, both current and noncurrent portions are not due and payable in the current period and therefore are not reported as liabilities in the funds	<u>(18,234,568)</u>
Total net position - governmental activities	<u>\$ (9,759,342)</u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	Urban Renewal District I	Urban Renewal District II	Urban Renewal District III	Front Street District	Riverfront Triangle District	Major Debt Service	Total
<u>REVENUES</u>							
Tax increment property tax	\$ -	\$ -	\$ 1,797,860	\$ -	\$ -	\$ 1,840,061	\$ 3,637,921
State contribution - PERS	-	-	291	-	-	-	291
Grant revenue (CMAQ)	-	-	-	42,473	-	-	42,473
State entitlement funds (HB124)	-	-	-	-	-	255,260	255,260
Personal property reimbursement (SB372 and SB96)	-	-	268,029	-	6,097	185,694	459,820
Investment earnings	-	363	1,070	5	6	353	1,797
Miscellaneous	-	26,044	-	10,000	-	-	36,044
Total revenues	<u>-</u>	<u>26,407</u>	<u>2,067,250</u>	<u>52,478</u>	<u>6,103</u>	<u>2,281,368</u>	<u>4,433,606</u>
<u>EXPENDITURES</u>							
<u>Current</u>							
Housing and community development	-	1,421,975	1,375,279	141,576	8,205	-	2,947,035
Capital outlay	-	1,939,173	2,483	-	-	-	1,941,656
Debt service expense - interest	-	-	-	-	-	805,888	805,888
Debt service expense - principal	-	-	-	-	-	970,673	970,673
Miscellaneous	-	1,808	5,337	415	30	1,564	9,154
Total expenditures	<u>-</u>	<u>3,362,956</u>	<u>1,383,099</u>	<u>141,991</u>	<u>8,235</u>	<u>1,778,125</u>	<u>6,674,406</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(3,336,549)</u>	<u>684,151</u>	<u>(89,513)</u>	<u>(2,132)</u>	<u>503,243</u>	<u>(2,240,800)</u>
<u>OTHER FINANCING SOURCES (USES)</u>							
Transfers in	-	414,550	250,000	154,182	-	335,092	1,153,824
Transfers out	-	(381,162)	-	-	-	(772,662)	(1,153,824)
Issuance of long-term debt	-	69,820	-	-	-	-	69,820
Total other financing sources (uses)	<u>-</u>	<u>103,208</u>	<u>250,000</u>	<u>154,182</u>	<u>-</u>	<u>(437,570)</u>	<u>69,820</u>
Net change in fund balance	<u>-</u>	<u>(3,233,341)</u>	<u>934,151</u>	<u>64,669</u>	<u>(2,132)</u>	<u>65,673</u>	<u>(2,170,980)</u>
<u>FUND BALANCES</u>							
Beginning of year	<u>44</u>	<u>4,781,492</u>	<u>3,575,464</u>	<u>394,349</u>	<u>17,873</u>	<u>1,400,655</u>	<u>10,169,877</u>
End of year	<u>\$ 44</u>	<u>\$ 1,548,151</u>	<u>\$ 4,509,615</u>	<u>\$ 459,018</u>	<u>\$ 15,741</u>	<u>\$ 1,466,328</u>	<u>\$ 7,998,897</u>

The Notes to Financial Statements are an integral part of this statement.

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
 STATEMENT OF ACTIVITIES**
 For the Year Ended June 30, 2014

Amounts reported for *governmental activities* in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (2,170,980)
Tax increment revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements	126,575
The change in compensated absence payable is reported in the statement of activities as an expense	(7,701)
The change in the other post employment benefits is reported in the statement of activities as an expense	(4,853)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(69,820)
Proceeds from the modification of a long-term debt agreement are revenues in the statement of activities, but do not provide current financial resources to the governmental funds.	44,000
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	<u>970,673</u>
Change in net position - statement of activities	<u><u>\$ (1,112,106)</u></u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Missoula Redevelopment Agency (the Agency) was established in 1978 by the City of Missoula (the City) as a separate legal entity in accordance with state urban renewal laws (Section 7-15-4201, MCA). The Agency has the authority to renovate property within blighted areas legally designated as urban renewal districts, but the authority to exercise the power of eminent domain, acquire and resell property, and to issue tax increment bonds remains with the City. The City has established five urban renewal districts: URD I in 1978, URD II in 1991, URD III in 2000, Front Street district in 2007, and Riverfront Triangle district in 2008. The five-member governing board is appointed by the Mayor and approved by City Council. Due to the control exercised by the City, the Agency is considered a component unit of the City.

The Agency has no authority to levy taxes. However, under the City's Urban Renewal Plans, revenue derived from incremental property taxes, which result from increases in the taxable value of property within an urban renewal district, are designated for urban renewal purposes and provide the primary funding source for the Agency.

State law provides that the tax increment provisions applicable to a renewal district established prior to 1980 be terminated seventeen years after enactment or when all tax increment debt has been retired. For districts established after 1980, state law provides they be terminated fifteen years after enactment or when all tax increment debt has been retired. Because the tax increment provisions for URD I were enacted on December 18, 1978, the Agency was scheduled to terminate on December 18, 1995. However, the City issued tax increment bonds on December 15, 1989, as permitted by state law. The issuance of these bonds extended the tax increment provisions for the term of the bonds, whose final maturity was July 1, 2005. URD II was scheduled to terminate in 2006, but was extended to 2031 through the issuance of tax increment bonds on August 15, 2006. URD III is scheduled to terminate in December 2015. Front Street URD was scheduled to terminate in 2022 but was extended to 2035 through the issuance of a tax increment note on December 22, 2010. Riverfront Triangle URD is scheduled to terminate in 2023. On August 25, 2014, the North Reserve – Scott Street Urban Renewal District Plan and the Hellgate Urban Renewal District Plan were approved. These URDs will sunset in 2029.

Basis of Presentation and Basis of Accounting

The Agency complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Government-wide Statements

The statement of net position and the statement of activities report information about the overall financial position and activities of the Agency.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Basis of Accounting (Continued)

Government-wide Statements (Continued)

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the Agency are generally financed through incremental property taxes and state entitlements. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function. However, the Agency does not collect any program revenue. Accordingly, all revenues, including all property taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated.

Fund Financial Statements

These statements provide information about the Agency's funds. The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column in the governmental funds statements. The Agency reports all of its urban renewal districts as major funds. Individual debt service funds are aggregated into a single debt service major fund.

Governmental fund financial statements use the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Agency considers all revenues available if they are collected within 75 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term liabilities which is recognized when due, and certain compensated absences which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Basis of Accounting (Continued)

Fund Financial Statements (Continued)

Real and personal property taxes and interest earnings are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the Agency and are recognized as revenue at that time. The Agency recorded real and personal property taxes for the current year as revenue. Taxes and assessments receivable remaining unpaid at year-end and not expected to be collected soon enough thereafter to be available to pay obligations of the current year were reserved and off set against taxes/assessments receivable, with a corresponding reduction in revenues, as required by GAAP. In addition, prior period delinquent taxes collected in the current period were recorded as revenue in the current period as required by GAAP. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Due to the nature of the Agency, there is no General Fund.

Major Funds

GASB Statement No. 34 requires that all governmental funds whose assets, liabilities, revenues or expenditures exceed 10% or more of the total for all government funds be reported as major funds. An entity may also determine if a fund should be reported as major that does not meet the above requirement. Accordingly, the Agency has chosen to record all of its funds as major funds. A description of these funds follows:

Special Revenue Funds

- Urban Renewal District I – used to account for all activities of District I
- Urban Renewal District II – used to account for all activities of District II
- Urban Renewal District III – used to account for all activities of District III
- Front Street District – used to account for all activities of Front Street District
- Riverfront Triangle District – used to account for all activities of Riverfront Triangle District

Debt Service Funds

These are used to account for the accumulation of resources for, and the payment of, tax increment debt principal, interest and related costs, and to comply with the requirements of the tax increment bond and note covenants and resolutions. These funds are included as a debt service fund in the City's financial statements.

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Basis of Accounting (Continued)

Classification of Fund Balance

The Agency has adopted GASB Statement No. 54, which defines how fund balances of the governmental funds are presented in the financial statements. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- Restricted – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions or by enabling legislation.
- Committed – Constraint is internally imposed by City Council by resolution.
- Assigned – Amounts the Agency intends to use for a specific purpose. Constraint is internally expressed intent by government body or authorized official through budget approval process or express assignment.
- Unassigned – No constraints and negative balance in non-general funds.

Expenditure Order for Resource Categories

<u>Order</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>
First:	Restricted	Assigned
Second:	Committed	Committed
Third:	Assigned	Restricted
Fourth:	Unassigned	Unassigned

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Basis of Accounting (Continued)

Budgets and Budgetary Accounting

An annual appropriated operating budget is adopted each fiscal year for the governmental funds on the modified accrual basis of accounting. Revenues are budgeted in the year they are measurable and available. Expenditures are budgeted in the year they are expected to be incurred. As required by Montana law, the full amount of increment derived from property taxes levied for the fiscal year is included in the Agency's budget.

As required by State statute, the Agency follows these procedures to develop its annual budget:

- a) On or before June 10, department heads and supervisors file with the City detailed and itemized estimates, both of the probable revenue from sources other than taxation and of all expenditures required by the office or department for the next fiscal year.
- b) The City finance department prepares a tabulation showing the complete expenditure program of the Agency for the next fiscal year and the sources of revenue by which it is to be financed.
- c) On or before the fourth Monday in July, the City Council shall make any revisions it considers advisable.
- d) Public hearings are held.
- e) By the second Monday in August, the City Council adopts the final budget.

Budget appropriation transfers may be made between the general classifications of salaries and wages, maintenance and operations and capital outlay. Final reported budget amounts represent the originally adopted budget as amended by resolution of the City Council. It is management's responsibility to see that the budget is followed to the fund level.

The City Council may amend a final budget when shortfalls in budgeted revenues require reductions in approved appropriations to avert deficit spending; when savings result from unanticipated adjustments in projected expenditures; when unanticipated state or federal monies are received; or when a public emergency occurs which could not have been foreseen at the time of adoption. The procedure to amend the budget in total can be made only after the Agency prepares a resolution, notice is published of a public hearing, and a public hearing is held in accordance with state law.

Reclassification

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, is effective for periods beginning after December 15, 2012. This statement defines new financial statement items called deferred inflows or resources and deferred outflows of resources, and reclassifies certain items previously classified as asset or liabilities as deferred outflows or deferred inflows, respectively.

Accounting Standard Effective in the Future

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, addresses accounting and financial reporting for pensions that are provided to the employees of state and local government employers. This statement establishes standards for measuring and recognizing net pension liabilities, deferred inflows and outflows of resources, and expenses/expenditures. For defined benefit pension plans, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The statement is effective for fiscal years beginning after June 15, 2014. The effect of the adoption of this statement cannot be determined at this time.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Agency's cash is held by the City Treasurer and pooled with other City cash. Interest earned on pooled investments is distributed to each contributing entity and fund on a pro rata basis. Authorized investments allowed by Section 20-9-213, MCA, include savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the state; repurchase agreements; and the State Unified Investment Program. Further, Section 7-6-202, MCA, authorizes investments in U.S. government treasury bills, notes, bonds, U.S. Treasury obligations, treasury receipts, general obligations of certain agencies of the United States, and U.S. government security money market fund if the fund meets certain conditions.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. These short-term interfund loans are reported as "interfund receivables and payables" in the fund financial statements.

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Increment

Property tax levies are set on or before the second Monday in August, in connection with the budget process. Real property (and certain attached personal property) taxes are billed within ten days after the third Monday in October and are due in equal installments on November 30 and the following May 31. After those dates, the taxes become delinquent (and a lien is placed upon the property). After three years, the County may exercise the lien and take title to the property. Personal property taxes (other than those billed with real estate) are generally billed no later than the second Monday in July (normally in May or June), based on the prior November's levies. Personal property taxes, other than mobile homes, are due thirty days after billing. Mobile home taxes are usually billed at the end of April. The first half is due thirty days after billing (usually by May 31) and the second half is due November 30. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges.

Taxable valuations for each Urban Renewal District and the corresponding tax increment amounts for November 2013 property tax billing are as follows:

	<u>Taxable Value</u>	<u>Increment Value</u>
Urban Renewal District II	\$ 3,685,963	\$ 1,826,140
Urban Renewal District III	9,358,441	2,355,095
Front Street Urban Renewal District	1,964,237	551,202
Riverfront Triangle Urban Renewal District	116,994	-

Capital Assets

Capital assets are recorded in the City's general capital asset accounts.

Compensated Absences

Under terms of state law, the Agency employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for all accumulated vacation leave and 25% of accumulated sick leave. Expenditures for these compensated absences are recorded when paid, because the amounts expected to be liquidated from current resources do not vary materially from year to year. Compensated absences to be funded from future resources are reflected as liabilities in the government-wide financial statements to the extent they are vested.

Other Postemployment Benefits

The Agency recognizes and reports its postemployment health care benefits in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 2. CASH AND INVESTMENTS

The Agency's cash is invested in the City's investment pool. The Agency's portion of underlying cash and investments of the City's investment pool consists of the following:

Demand Deposits	\$ 756,198
Cash on hand	6,686
Government Securities	6,437,839
Certificates of Deposit	151,313
Less restricted cash held for debt service reserve	<u>(675,665)</u>
	<u>\$ 6,676,371</u>

The City's investment pool does not have a credit rating. Investment in the pool exposes the Agency to interest rate risk due to the underlying investment in government securities. This risk is managed by the City.

Information regarding insurance coverage or collateralization, interest rate risk, and investment in derivatives and similar instruments for the investment in the City's investment pool is available in the City's comprehensive annual financial report (CAFR). There is no regulatory oversight for the City's investment pool, and participants' equity in the pool approximates the fair value of the underlying investments.

NOTE 3. OTHER CURRENT ASSETS

Other current assets consist of the following at June 30, 2014:

Prepaid expenses	\$ 3,835
Other receivables	<u>249,817</u>
	<u>\$ 253,652</u>

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 4. NOTES RECEIVABLE

In July 2010, the Agency executed a \$61,000 note receivable under its Façade Improvement Program. The note bears interest at 0% and calls for annual payments of \$6,100 over ten years. At June 30, 2014, the note had an outstanding balance of \$42,700.

In October 2011, the Agency was assigned a \$40,000 note receivable in relation to a Water Main Extension Contract with Mountain Water Company. The note bears interest at 0% and calls for annual payments of \$1,000 over forty years. In 2013, the Agency executed additional notes in relation to the Water Main Extension Contracts and fire hydrant installations with Mountain Water Company for \$508,261. The notes bear interest at 0% and call for annual payments of \$12,707 over forty years. At June 30, 2014, the outstanding balance of all the Mountain Water Company notes was \$470,776 and \$72,513 in URD II and URD III, respectively.

Collections to maturity at June 30, 2014, are as follows:

Year Ending June 30,	Principal
2015	\$ 19,819
2016	19,729
2017	19,729
2018	19,729
2019	19,729
Thereafter	444,554
Total	<u>\$ 543,289</u>

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 5. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2014, were as follows:

	Beginning Balance	Additions	Debt Retired	Ending Balance	Current Portion
Compensated Absences	\$ 53,306	\$ 29,464	\$ (21,763)	\$ 61,007	\$ 24,157
Notes Payable	7,161,552	69,820	(659,987)	6,571,385	583,309
Guarantor Payable	96,509	-	(17,672)	78,837	23,210
Bonds Payable	11,838,500	-	(337,000)	11,501,500	315,500
Total	<u>\$ 19,149,867</u>	<u>\$ 99,284</u>	<u>\$ (1,036,422)</u>	<u>\$ 18,212,729</u>	<u>\$ 946,176</u>

Bonds Payable

Mill Site Bonds

The Agency issued \$3,600,000 of Tax Increment Urban Renewal Bonds in August 2006. The bonds were issued to finance acquisition of the Champion Mill Site Property located within District II. The bonds were issued at par, bear interest ranging from 4.5% to 5.125%, and are secured by a first lien upon and pledge of tax increment revenues from District II. The bond resolution requires, among other things, that all of District II's tax increment revenues, except revenues generated by the excluded properties as identified in the bond covenants, be deposited in a debt service fund as required to pay principal and interest on the bonds when due, and to provide certain reserves for future bond payments. After all required amounts have been deposited in the accounts, the remaining tax increment funds may be used to pay costs associated with construction of other urban renewal activities within District II, including additional expenses for the Mill Site development, to redeem all or a portion of the Series 2006 bonds or to return a portion of the tax increment revenues to the taxing jurisdictions located within District II, as provided by state law.

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 5. LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

Mill Site Bonds (Continued)

Debt service requirements to maturity on the August 2006 tax increment bonds at June 30, 2014, are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 110,000	\$ 135,350	\$ 245,350
2016	120,000	130,400	250,400
2017	125,000	125,000	250,000
2018	130,000	119,375	249,375
2019	135,000	113,525	248,525
2020-2024	770,000	468,747	1,238,747
2025-2029	980,000	255,239	1,235,239
2030-2034	460,000	33,012	493,012
Total	<u>\$ 2,830,000</u>	<u>\$ 1,380,648</u>	<u>\$ 4,210,648</u>

The Agency issued \$5,750,000 of Tax Increment Urban Renewal Bonds in March 2013. The bonds were issued to finance public improvements on the Champion Mill Site Property located within District II. The bonds were issued at par and bear an interest rate of 3.15%. The bonds are secured by a first lien upon and pledge of tax increment revenues from District II. The Agency estimates tax increment revenues to be sufficient to cover the principal and interest requirements of the Series 2006 and Series 2013 Bonds. The bond resolution requires, among other things, that all of District II's tax increment revenues, except revenues generated by the excluded properties as identified in the bond covenants, be deposited in a debt service fund as required to pay principal and interest on the bonds when due, and to provide certain reserves for future bond payments. After all required amounts have been deposited in the accounts, the remaining tax increment funds may be used to pay costs associated with construction of other urban renewal activities within District II, including additional expenses for the Mill Site development, to redeem all or a portion of the Series 2013 bonds or to return a portion of the tax increment revenues to the taxing jurisdictions located within District II, as provided by state law.

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 5. LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

Mill Site Bonds (Continued)

Debt service requirements to maturity on the March 2013 tax increment bonds at June 30, 2014, are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 125,000	\$ 87,617	\$ 212,617
2016	256,000	169,297	425,297
2017	264,000	161,170	425,170
2018	272,000	152,791	424,791
2019	281,000	144,160	425,160
2020-2024	1,544,000	581,207	2,125,207
2025-2029	1,806,000	322,024	2,128,024
2030-2034	1,015,000	48,433	1,063,433
Total	<u>\$ 5,563,000</u>	<u>\$ 1,666,699</u>	<u>\$ 7,229,699</u>

Intermountain Lumber Site

The Agency issued \$1,753,500 of Tax Increment Urban Renewal Bonds in May 2013. The bonds were issued to finance demolition, site preparation, and infrastructure improvements on the Intermountain Lumber Site Property located within District II. The bonds were issued at par and bear an interest rate of 4.25%. The bonds are secured by a first lien upon and pledge of tax increment revenues derived from the Project Site. The bond resolution requires, among other things, that the Project's tax increment revenues, be deposited in a debt service fund as required to pay principal and interest on the bonds when due. After all required amounts have been deposited in the accounts, the remaining tax increment funds may be used to pay costs associated with construction of other urban renewal activities within District II, including additional expenses for the Lumber Site development, to redeem all or a portion of the Series 2013 bonds or to return a portion of the tax increment revenues to the taxing jurisdictions located within District II, as provided by state law.

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 5. LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

Intermountain Lumber Site (Continued)

Debt service requirements to maturity on the May 2013 tax increment bonds at June 30, 2014, are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 35,500	\$ 74,524	\$ 110,024
2016	74,000	72,239	146,239
2017	76,500	69,063	145,563
2018	80,500	65,769	146,269
2019	83,500	62,326	145,826
2020-2024	475,500	254,575	730,075
2025-2029	585,500	143,448	728,948
2030-2034	342,500	22,153	364,653
Total	<u>\$ 1,753,500</u>	<u>\$ 764,097</u>	<u>\$ 2,517,597</u>

Safeway Bonds

The Agency issued \$1,500,000 of Tax Increment Urban Renewal Revenue Bonds in October 2007. The bonds were issued to finance demolition, site preparation and infrastructure improvements and their associated design costs related with the Safeway, Inc. Project site. The bonds were issued at par, bear interest of 6.95%, and are secured by a first lien upon and pledge of tax increment revenues derived from the Project Site. Should tax increment revenues in any given year not be sufficient to pay the principal and interest payments, Safeway, Inc. (the Guarantor) is obligated to pay the deficiency. Tax increment in excess of debt service requirements will be (1) used to make Guarantor reimbursements for prior debt service deficiencies, (2) retained in an excess tax increment fund until the amount equals the maximum annual debt service for the bonds, and (3) used to prepay the Series 2007 bonds.

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 5. LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

Safeway Bonds (Continued)

Repayment of the debt service deficiency to the Guarantor at June 30, 2014, is scheduled as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>
2015	\$ 23,210
2016	18,226
2017	21,701
2018	15,700
Total	<u>\$ 78,837</u>

Debt service requirements to maturity on the tax increment bonds at June 30, 2014, are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 45,000	\$ 93,478	\$ 138,478
2016	45,000	90,524	135,524
2017	50,000	87,049	137,049
2018	50,000	83,574	133,574
2019	60,000	79,925	139,925
2020-2024	350,000	332,904	682,904
2025-2029	500,000	188,866	688,866
2030-2034	255,000	22,761	277,761
Total	<u>\$ 1,355,000</u>	<u>\$ 979,081</u>	<u>\$ 2,334,081</u>

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 5. LONG-TERM DEBT (CONTINUED)

Notes Payable

MPC Note Payable

In December 2010, the Missoula Parking Commission (MPC) issued \$7,500,000 of bonds to fund the construction of a new parking structure. In April 2014, MPC refunded the 2010 bonds and issued new bonds totaling \$7,160,000. The Agency agreed to fund a portion of the bonds which will be supported by parking revenue and tax increment revenue. The bonds bear interest ranging from 2.00% to 4.35%. The Agency has committed to paying 40% of all principal and interest payments for the life of the bond. The reduction in the bond issuance resulted in proceeds from debt modification of \$44,000 which is reported under other revenues on the Statement of Activities. Under the terms of the agreement, the Agency will transfer \$133,425 of pledged tax increment funds to MPC in two equal installments each year.

Debt service requirements to maturity on the MPC note payable at June 30, 2014, are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 16,000	\$ 52,598	\$ 68,598
2016	114,000	109,770	223,770
2017	60,000	108,290	168,290
2018	102,000	104,390	206,390
2019	170,000	101,330	271,330
2020-2024	516,000	454,610	970,610
2025-2029	682,000	339,632	1,021,632
2030-2034	826,000	189,260	1,015,260
2034-2037	378,000	24,795	402,795
Total	<u>\$ 2,864,000</u>	<u>\$ 1,484,675</u>	<u>\$ 4,348,675</u>

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 5. LONG-TERM DEBT (CONTINUED)

Notes Payable

Brownfields RLF Note Payable

In 2004, the City of Missoula applied for and received a \$1 million grant from the U.S. Environmental Protection agency (EPA) to create a revolving loan fund (RLF) to be used for brownfields remediation. The City entered into a subrecipient agreement with the Missoula Area Economic Development Corporation (MAEDC) to manage the revolving loan fund. MAEDC provided \$200,000 in matching funds required under the EPA grant, creating a total loan fund of \$1.2 million. In August 2006, MAEDC, at the direction of the Missoula Brownfields Cleanup RLF Committee, made a loan of \$1,000,000 bearing interest at 1.5% to MRP LLC, the developer of the Old Sawmill District, with MRA and the City identified as co-borrowers. The loan will be repaid solely from tax increment revenue resulting from the increased taxable value of the property within the Old Sawmill District, and is not a general obligation of the City. For these reasons, the loan is reflected as a liability of MRA. The City received additional funding from EPA and in December 2009, MRA, MRP, and MAEDC elected to increase the loan by \$400,000 under the same terms. Subsequent to issuance, the servicing on the loan transferred to Montana Community Development Corporation. In July 2012, the loan was increased from \$1.125 million to \$1.775 million.

Debt service requirements to maturity on Brownfields note payable at June 30, 2014, are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ -	\$ 24,781	\$ 24,781
2016	-	24,819	24,819
2017	-	24,886	24,886
2018	-	24,717	24,717
2019	-	114,002	114,002
2020-2024	532,687	114,002	646,689
2025-2029	887,812	54,063	941,875
2030-2034	231,802	2,811	234,613
Total	<u>\$ 1,652,301</u>	<u>\$ 384,081</u>	<u>\$ 2,036,382</u>

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 5. LONG-TERM DEBT (CONTINUED)

Notes Payable

First Interstate Bank Note Payable

In December 2010, the Agency issued a note with First Interstate Bank (the Bank) for \$1,623,380 to repay the Bank for project costs incurred that were legally eligible for reimbursement from tax increment funding. The Agency and the Bank have agreed to a repayment schedule that includes a subordinate note that will be financed by the Bank's guaranteed minimum tax payments over 25 years at 6.55%.

Debt service requirements to maturity on the First Interstate Bank note payable at June 30, 2014, are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 32,783	\$ 98,523	\$ 131,306
2016	34,930	96,306	131,236
2017	37,218	93,943	131,161
2018	39,656	91,425	131,081
2019	42,253	88,742	130,995
2020-2024	256,586	396,905	653,491
2025-2029	352,373	297,984	650,357
2030-2034	483,915	162,132	646,047
2034-2037	240,844	16,024	256,868
Total	<u>\$ 1,520,558</u>	<u>\$ 1,341,984</u>	<u>\$ 2,862,542</u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 5. LONG-TERM DEBT (CONTINUED)

Notes Payable (Continued)

Wilma Note Payable

In February 2009, the Agency entered into a Development Agreement with the Master Wilma Condominium Association (the Association) pledging \$250,000 of tax increment funding for façade and sidewalk improvements for the Wilma building. On July 19, 2010, the Agency and the Association amended the Agreement to extend the deadline to make the improvements to September 2010, to allow progress payments and to change the date when final payments would begin to December 2010. On July 20, 2010, the Association assigned the Agreement to Simba Development Group, LLC. As of December 2010, the remaining amount to reimburse Simba was \$220,000 and a reimbursement schedule was adopted as part of the negotiations surrounding the Front Street Parking Structure and First Interstate Bank pledges. The Wilma pledge is subordinate to the Front Street Parking Structure commitment but is not subordinate to the First Interstate Bank commitment. The schedule adopted reimburses Simba over a five-year period at 3.25% interest with semi-annual payments due on December 15 and June 15. In May 2011, Simba received a loan from Bank of Montana secured in part by their interest in the Development Agreement and the Agency agreed to make the semi-annual payment to Bank of Montana.

Debt service requirements to maturity on the Wilma note payable at June 30, 2014, include principal payments of \$34,526 and interest payments of \$725 due in the next fiscal year.

Civic Stadium Notes Payable

In February 2012, the Agency issued a series of ten subordinate lien notes in the aggregate principal amount of \$1,500,000 for the purpose of releasing a portion of the mortgage on the Civic Stadium so that all rights, title, and interest in the Civic Stadium could be transferred to the City free and clear of any lien, mortgage, or encumbrance, keeping the Civic Stadium publicly owned and publicly accessible. None of the notes bear interest. The notes are payable in six equal semiannual installments beginning August 1, 2012 and ending February 1, 2015.

Debt service requirements to maturity on the Civic Stadium notes payable at June 30, 2014, include principal payments of \$500,000 due in the next fiscal year.

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 6. COMMITMENTS

The Agency has entered into contracts for various projects and activities. As of June 30, 2014, the Agency had commitments totaling \$3,243,994 that will be financed from operating funds.

Urban Renewal District II:

Public:

Catlin/Wyoming Landscape	\$	423,029
Cedar Street Triangle		32,693
Milwaukee Trail		174,621
Western		24,851
West Broadway Island Trail and Bridge		74,328

Private:

Dakota Greens		17,400
		<u>746,922</u>
	\$	<u>746,922</u>

Urban Renewal District III:

Public:

Bitterroot Branch Trail	\$	48,988
New URDs		27,871
Reserve Street Trail Crossing		133,158
Grant Street Sidewalks		426,266

Private:

South Crossing		1,687,916
Great Burn Brewing Company		11,484
Starbucks		66,600
		<u>2,402,283</u>
	\$	<u>2,402,283</u>

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 6. COMMITMENTS (CONTINUED)

Front Street Urban Renewal District:

Public:

Front / Main Streets Conversion Study	\$	76,456
Ice Bridge Brewery		164,560
MUTD/UM Transit Study		10,000
	\$	86,456

Riverfront Urban Renewal District:

Public:

Riverfront Triangle Conference Center - Market and Feasibility Study	\$	8,333
	\$	8,333

NOTE 7. RETIREMENT PLAN

The Agency participates in the Montana Public Employees' Retirement System (PERS), a state-administered cost-sharing multiple-employer defined benefit pension plan. The plan is established by state law and administered by the state of Montana. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. Contribution rates are determined by state law. Contribution rates, expressed as a percentage of covered payroll, were as follows:

Rates:				
<u>Year Ended June 30,</u>	<u>Employee</u>	<u>Agency</u>	<u>State</u>	
2014	7.900%	8.070%	0.100%	
2013	6.900%	7.070%	0.100%	
2012	6.900%	7.070%	0.100%	

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 7. RETIREMENT PLAN (CONTINUED)

PERS is a statewide retirement plan established in 1945 and is governed by Title 19, Chapters 2 and 3 of the Montana Code Annotated providing retirement services for substantially all public employees. The PERS is a mandatory multiple-employer, cost-sharing plan administered by the Montana Public Employees' Retirement Administration (MPERA).

PERS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary.

A guaranteed annual benefit adjustment (GABA) of 1.5% or 3%, depending on date of hire, is provided each January for benefit recipients if they have been receiving a benefit for at least 12 months. Members' rights become vested after five years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

The State legislature has the authority to establish and amend contribution rates to the plan. Plan members are required to contribute 7.90% of monthly compensation. Local government entities are required to contribute 8.070% of members' compensation. The state of Montana contributes 0.1% of members' compensation on behalf of local government entities.

The amounts contributed during the years ended June 30, 2014, 2013, and 2012, were equal to the required contribution for each year. The amounts contributed by the Agency and the state of Montana were as follows:

Contributions:		
<u>Year Ended June 30,</u>	<u>Agency</u>	<u>State</u>
2014	\$ 23,497	\$ 291
2013	20,582	291
2012	19,189	271

PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained from PERS at:

Public Employees Retirement Division
 P.O. Box 200131
 1712 Ninth Avenue
 Helena, Montana 59620-0131
 Telephone (406) 444-3154

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 8. INTERFUND TRANSACTIONS

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. Transfers are also used to reimburse Urban Renewal District III for the fund's share of administrative costs. A summary of interfund transfers follows:

	Transfers In	Transfers Out
Urban Renewal District II	\$ 414,550	\$ 381,162
Urban Renewal District III	250,000	-
Front Street URD	154,182	-
Debt Service	335,092	772,662
	\$ 1,153,824	\$ 1,153,824

NOTE 9. RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts, damage or loss of assets, errors and omissions, injuries to employees, employee medical claims, and natural disasters. The Agency manages these risks through participation with the City's risk management practices. Information related to the City's risk management is available in its CAFR.

NOTE 10. POSTEMPLOYMENT BENEFITS

The Agency participates in the City of Missoula's defined benefit health plan. The single employer plan administered by the City is named the Health Benefits Plan for the Employees of the City of Missoula. Benefits and contributions rates are established by the City, with input from the Employee Benefits Committee, and are approved by City Council. The plan's financial information is included as part of the City's self-insurance internal service fund in the City of Missoula CAFR. Terminated employees of the Agency may remain on the City's health insurance plan for up to 18 months if they pay the monthly premiums. This benefit is required under the federal C.O.B.R.A. law. Retirees of the Agency may remain on the City's health plan as long as they wish, provided they pay the monthly premiums. State law requires the Agency to provide this benefit. There are no other postemployment benefits provided by the Agency. The Agency has five employees participating in the plan, one retiree, and no C.O.B.R.A. participants.

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 10. POSTEMPLOYMENT BENEFITS (CONTINUED)

The Agency has adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pension Plans*. GASB Statement No. 45 requires employers to calculate the actuarial liability for future retiree benefits and the annual required contribution (ARC) for retirees. The provisions of this statement were applied prospectively. Information on the City's health benefits plan for retirees is included below.

Retirees and the Agency contribute to the plan. The plan is financed on a pay-as-you-go basis with the Agency contributions ensuring that adequate reserves are maintained in the plan. The Agency's contribution is not contributed to a trust for only retiree benefits so it is not considered a contribution towards the annual required contribution under GASB Statement No. 45. The contributions to the plan are as follows for June 30, 2014.

<u>Coverage</u>	<u>Retiree Contribution</u>	<u>MRA Contribution</u>	<u>Total Premium</u>
Retiree	\$ 631.68	\$ 111.47	\$ 743.15
Retiree, spouse	727.73	128.42	856.15
Retiree, spouse, child	767.68	35.47	803.15
Retiree, spouse, 2 children	807.63	142.52	950.15
Retiree, spouse, 3 children	847.58	149.57	997.15
Retiree, spouse, 4 children	887.53	156.62	1,044.15
Retiree, child	671.63	118.52	790.15
Retiree, 2 children	711.58	125.57	837.15
Retiree, 3 children	751.53	132.62	884.15
Retiree, 4 children	791.48	139.67	931.15

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 10. POSTEMPLOYMENT BENEFITS (CONTINUED)

Based on an actuarial study prepared as of June 30, 2013, the Agency's portion of the annual other postemployment benefit cost was \$16,848 for the fiscal year ended June 30, 2014. This cost and the related net other postemployment benefit obligation consisted of the annual required contribution for the year. There were no qualified contributions made toward this cost. The net other postemployment benefit obligation increased from \$16,848 to \$21,839 at June 30, 2014. A schedule of the Agency's annual OPEB cost is presented below:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual required contribution (ARC)	\$ 8,365	\$ 8,646	\$ 6,702
Interest and ARC Adjustment	<u>(281)</u>	<u>(259)</u>	<u>(198)</u>
Annual OPEB cost	8,084	8,387	6,504
Contributions made	<u>(3,093)</u>	<u>(6,423)</u>	<u>(3,576)</u>
Change in net OPEB obligation	4,991	1,964	2,928
Net OPEB obligation - beginning of year	<u>16,848</u>	<u>14,884</u>	<u>11,956</u>
Net OPEB obligation - end of year	<u>\$ 21,839</u>	<u>\$ 16,848</u>	<u>\$ 14,884</u>
Percentage of annual OPEB cost contribute	38%	77%	55%

As of June 30, 2014, the Agency's portion of the plan had an unfunded accrued actuarial liability of \$85,556. This liability is not recorded under GASB Statement No. 45 since there are no assets allocated to an irrevocable trust for the retiree benefit plan. Therefore, the funded status of the plan is 0%. The annual covered payroll was \$289,782 for fiscal year 2014; the unfunded actuarial liability was 26% of covered payroll.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the substantive plan at the time of the actuarial valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point. Actuarial calculations reflect a long-term prospective and, consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities. Actuarial calculations are performed every two years with the last calculation performed as of June 30, 2013. For the actuarial valuation performed at June 30, 2013, the projected unit credit actuarial cost method was used. The health care cost trend rate was 7.0% for 2013 decreasing to 5% for 2017 and after. The assumed discount and long-term rate of return was 3.326%. The unfunded actuarial liability was amortized on a level-dollar basis over an open period of 30 years. The City of Missoula allocated the annual retired contributions and the underfunded liability to the component units based on the number of active participants in the plan as of June 30, 2014.

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

NOTE 10. POSTEMPLOYMENT BENEFITS (CONTINUED)

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

NOTE 11. RELATED PARTY TRANSACTIONS

The Agency paid the City of Missoula \$113,644 for administrative services.

The City of Missoula provides the Agency with office space through a development agreement. The office space is currently being provided rent-free.

NOTE 12. GOVERNMENTAL FUND BALANCE REPORTING AND SPENDING PRIORITIES

The Agency has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in government funds.

At June 30, 2014, the Agency had a total fund balance in Governmental funds of \$7,988,897. In accordance with GASB Statement No. 54 this fund balance has been classified as follows:

Special Revenue Funds		
Nonspendable	\$ 570,005	Prepaid expenses and notes receivable
Restricted	5,962,564	Restricted for urban renewal development
Debt Service		
Restricted	<u>1,466,328</u>	Restricted for debt service
	<u>\$ 7,998,897</u>	

REQUIRED SUPPLEMENTARY INFORMATION

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2014

	Urban Renewal District II				Urban Renewal District III			
	Budgeted Amounts		Actual	Variance with Final Budget	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final			Original	Final		
Budgetary Fund Balance, July 1, 2013	\$ 4,781,492	\$ 4,781,492	\$ 4,781,492	\$ -	\$ 3,575,464	\$ 3,575,464	\$ 3,575,464	\$ -
Resources (Inflows):								
Miscellaneous	-	-	26,044	26,044	-	-	-	-
Investment earnings (expense)	-	-	363	363	-	-	1,070	1,070
Long-term debt proceeds	-	69,820	69,820	-	-	-	-	-
Tax increment property tax	-	-	-	-	1,651,512	1,837,654	1,797,860	(39,794)
State contribution PERS	-	-	-	-	-	-	291	291
State personal property tax reimbursement	-	-	-	-	-	268,029	268,029	-
Grant	-	-	-	-	-	-	-	-
State entitlement	-	-	-	-	-	-	-	-
Transfers in	281,599	435,855	414,550	(21,305)	250,000	250,000	250,000	-
Amounts available for appropriation	<u>\$ 5,063,091</u>	<u>\$ 5,287,167</u>	<u>5,292,269</u>	<u>\$ 5,102</u>	<u>\$ 5,476,976</u>	<u>\$ 5,931,147</u>	<u>5,892,714</u>	<u>\$ (38,433)</u>
Charges to Appropriations (Outflows):								
Housing and community development	\$ 2,841,850	\$ 2,452,767	1,421,975	\$ 1,030,792	\$ 3,817,763	\$ 4,787,712	1,375,279	\$ 3,412,433
Capital outlay	4,826,157	2,584,400	1,939,173	645,227	1,028,013	843,435	2,483	840,952
Miscellaneous	-	-	1,808	(1,808)	-	-	5,337	(5,337)
Transfers out	250,000	250,000	381,162	(131,162)	-	-	-	-
Total charges to appropriations	<u>\$ 7,918,007</u>	<u>\$ 5,287,167</u>	<u>3,744,118</u>	<u>\$ 1,543,049</u>	<u>\$ 4,845,776</u>	<u>\$ 5,631,147</u>	<u>1,383,099</u>	<u>\$ 4,248,048</u>
Excess of resources (inflows) over charges to appropriations (outflows)			<u>1,548,151</u>				<u>4,509,615</u>	
Budgetary Fund Balance, June 30, 2014			<u>\$ 1,548,151</u>				<u>\$ 4,509,615</u>	

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – SPECIAL REVENUE FUNDS (CONTINUED)
For the Year Ended June 30, 2014

	Front Street District				Riverfront Triangle District			
	Budgeted Amounts		Actual	Variance with Final Budget	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final			Original	Final		
Budgetary Fund Balance, July 1, 2013	\$ 394,349	\$ 394,349	\$ 394,349	\$ -	\$ 17,873	\$ 17,873	\$ 17,873	\$ -
Resources (Inflows):								
Miscellaneous	-	-	10,000	10,000	-	-	-	-
Investment earnings (expense)	-	-	5	5	-	-	6	6
Long-term debt proceeds	-	-	-	-	-	-	-	-
Tax increment property tax	-	-	-	-	4,494	-	-	-
State contribution PERS	-	-	-	-	-	-	-	-
State personal property tax reimbursement	-	-	-	-	-	6,097	6,097	-
Grant	-	110,000	42,473	(67,527)	-	-	-	-
State entitlement	-	-	-	-	-	-	-	-
Transfers in	129,603	101,961	154,182	52,221	-	-	-	-
Amounts available for appropriation	<u>\$ 523,952</u>	<u>\$ 606,310</u>	<u>601,009</u>	<u>\$ (5,301)</u>	<u>\$ 22,367</u>	<u>\$ 23,970</u>	<u>23,976</u>	<u>\$ 6</u>
Charges to Appropriations (Outflows):								
Housing and community development	\$ 403,247	\$ 605,310	141,576	\$ (463,734)	\$ 21,932	\$ 23,970	8,205	\$ (15,765)
Capital outlay	-	-	-	-	-	-	-	-
Miscellaneous	-	-	415	415	-	-	30	30
Transfers out	-	-	-	-	-	-	-	-
Total charges to appropriations	<u>\$ 403,247</u>	<u>\$ 605,310</u>	<u>141,991</u>	<u>\$ (463,319)</u>	<u>\$ 21,932</u>	<u>\$ 23,970</u>	<u>8,235</u>	<u>\$ (15,735)</u>
Excess of resources (inflows) over charges to appropriations (outflows)			<u>459,018</u>				<u>15,741</u>	
Budgetary Fund Balance, June 30, 2014			<u>\$ 459,018</u>				<u>\$ 15,741</u>	

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – BUDGET-TO-GAAP RECONCILIATION –
SPECIAL REVENUE FUNDS
June 30, 2014

Explanation of perspective differences between budgetary inflows and outflows and GAAP revenues and expenditures	Urban Renewal <u>District II</u>	Urban Renewal <u>District III</u>	Front Street <u>District</u>	Riverfront Triangle <u>District</u>
Sources/Inflows of Resources				
Actual available for appropriation from the budgetary comparison schedule	\$ 5,292,269	\$ 5,892,714	\$ 601,009	\$ 23,976
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(4,781,492)	(3,575,464)	(394,349)	(17,873)
Issuance of long-term debt is a budgetary resource but is not a current year revenue for financial reporting purposes	(69,820)	-	-	-
Transfers from other funds are inflows of budgetary resource but are not revenues for financial reporting purposes	<u>(414,550)</u>	<u>(250,000)</u>	<u>(154,182)</u>	<u>-</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 26,407</u>	<u>\$ 2,067,250</u>	<u>\$ 52,478</u>	<u>\$ 6,103</u>
Uses/Outflows of Resources				
Actual total charges to appropriations from the budgetary comparison schedule	\$ 3,744,118	\$ 1,383,099	\$ 141,991	\$ 8,235
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(381,162)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 3,362,956</u>	<u>\$ 1,383,099</u>	<u>\$ 141,991</u>	<u>\$ 8,235</u>

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
SCHEDULE OF FUNDING PROGRESS FOR
RETIREE HEALTH INSURANCE BENEFIT PLAN
 June 30, 2014

Actuarial Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as Percentage of Covered Payroll
2011	\$ -	\$ 80,682	\$ 80,682	0%	\$ 276,145	29%
2013	\$ -	\$ 88,430	\$ 88,430	0%	\$ 235,898	37%

SUPPLEMENTARY INFORMATION

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BALANCE SHEET – COMBINING DEBT SERVICE
June 30, 2014

	Millsite Bonds	MAEDC Brownfields Note	Safeway St. Patrick Hospital Bonds	Front Street Notes	Inter- Mountain Bonds	Total
<u>ASSETS</u>						
Current Assets						
Cash and investments	\$ 326,245	\$ (15)	\$ 78,044	\$ 401,622	\$ 108,786	\$ 914,682
Taxes/assessments receivable, net	282,170	-	-	38,529	-	320,699
Other current assets	212,555	-	-	-	37,262	249,817
Due from other governments	36,733	-	-	9,321	-	46,054
Interfund receivable	14,596	-	-	-	-	14,596
	<u>872,299</u>	<u>(15)</u>	<u>78,044</u>	<u>449,472</u>	<u>146,048</u>	<u>1,545,848</u>
Noncurrent Assets						
Restricted cash	<u>675,665</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>675,665</u>
Total assets	<u>\$ 1,547,964</u>	<u>\$ (15)</u>	<u>\$ 78,044</u>	<u>\$ 449,472</u>	<u>\$ 146,048</u>	<u>\$ 2,221,513</u>
<u>LIABILITIES</u>						
Current Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ 4,213	\$ -	\$ 4,213
Interfund payable	420,131	-	-	115,014	-	535,145
Total liabilities	<u>420,131</u>	<u>-</u>	<u>-</u>	<u>119,227</u>	<u>-</u>	<u>539,358</u>
<u>DEFERRED INFLOW OF RESOURCES:</u>						
Uncollected tax revenue	\$ 201,166	\$ -	\$ -	\$ 14,661	\$ -	\$ 215,827
Total deferred inflow of resources	<u>201,166</u>	<u>-</u>	<u>-</u>	<u>14,661</u>	<u>-</u>	<u>215,827</u>
<u>FUND BALANCES</u>						
Restricted	<u>926,667</u>	<u>(15)</u>	<u>78,044</u>	<u>315,584</u>	<u>146,048</u>	<u>1,466,328</u>
Total fund balances	<u>926,667</u>	<u>(15)</u>	<u>78,044</u>	<u>315,584</u>	<u>146,048</u>	<u>1,466,328</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,547,964</u>	<u>\$ (15)</u>	<u>\$ 78,044</u>	<u>\$ 449,472</u>	<u>\$ 146,048</u>	<u>\$ 2,221,513</u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION –
COMBINING DEBT SERVICE
For the Year Ended June 30, 2014

	Millsite Bonds	MAEDC Brownfields Note	Safeway St. Patrick Hospital Bonds	Front Street Notes	Inter- Mountain Bonds	Total
REVENUES						
Tax increment property tax	\$ 1,403,804	\$ -	\$ -	\$ 436,257	\$ -	\$ 1,840,061
State Entitlement/CMAQ Funds	255,260	-	-	-	-	255,260
State Personal Property Tax Reimbursement	136,178	-	-	49,516	-	185,694
Investment earnings (losses)	251	4	83	6	9	353
Total revenues	<u>1,795,493</u>	<u>4</u>	<u>83</u>	<u>485,779</u>	<u>9</u>	<u>2,281,368</u>
EXPENDITURES						
Current:						
Interest expense	379,176	24,426	97,508	223,837	80,941	805,888
Principal expense	797,000	7,523	57,671	108,479	-	970,673
Miscellaneous	1,252	19	-	249	44	1,564
Total expenditures	<u>1,177,428</u>	<u>31,968</u>	<u>155,179</u>	<u>332,565</u>	<u>80,985</u>	<u>1,778,125</u>
Excess (deficiency) of revenues over expenditures	<u>618,065</u>	<u>(31,964)</u>	<u>(155,096)</u>	<u>153,214</u>	<u>(80,976)</u>	<u>503,243</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	31,942	155,874	-	147,276	335,092
Transfers out	(618,480)	-	-	(154,182)	-	(772,662)
Total other financing sources (uses)	<u>(618,480)</u>	<u>31,942</u>	<u>155,874</u>	<u>(154,182)</u>	<u>147,276</u>	<u>(437,570)</u>
Net change in fund balance	(415)	(22)	778	(968)	66,300	65,673
FUND BALANCES						
Beginning of year	<u>927,082</u>	<u>7</u>	<u>77,266</u>	<u>316,552</u>	<u>79,748</u>	<u>1,400,655</u>
End of year	<u>\$ 926,667</u>	<u>\$ (15)</u>	<u>\$ 78,044</u>	<u>\$ 315,584</u>	<u>\$ 146,048</u>	<u>\$ 1,466,328</u>

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – BUDGET-TO-GAAP RECONCILIATION –
DEBT SERVICE
 June 30, 2014

Explanation of perspective differences between budgetary inflows and outflows and GAAP revenues and expenditures

Sources/Inflows of Resources

Actual available for appropriation from the budgetary comparison schedule	\$ 4,017,115
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(1,400,655)
Transfers from other funds are inflows of budgetary resource but are not revenues for financial reporting purposes	<u>(335,092)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>\$ 2,281,368</u></u>

Uses/Outflows of Resources

Actual total charges to appropriations from the budgetary comparison schedule	\$ 2,550,787
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(772,662)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u><u>\$ 1,778,125</u></u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – DEBT SERVICE
For the Year Ended June 30, 2014

	Major Debt Service			
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Budgetary Fund Balance, July 1, 2013	\$ 1,400,655	\$ 1,400,655	\$ 1,400,655	\$ -
Resources (Inflows):				
Investment earnings	-	-	353	353
Tax increment property tax	1,875,330	1,855,202	1,840,061	(15,141)
State personal property tax reimbursement	-	185,694	185,694	-
State entitlement	255,250	255,260	255,260	-
Transfers in	<u>1,719,378</u>	<u>1,841,040</u>	<u>335,092</u>	<u>(1,505,948)</u>
Amounts available for appropriation	<u>\$ 5,250,613</u>	<u>\$ 5,537,851</u>	<u>4,017,115</u>	<u>\$ (1,520,736)</u>
Charges to Appropriations (Outflows):				
Debt service expenditures	\$ 1,702,612	\$ 1,776,962	1,776,561	\$ 401
Miscellaneous	-	1,423	1,564	141
Transfers out	<u>2,130,590</u>	<u>2,302,902</u>	<u>772,662</u>	<u>1,530,240</u>
Total charges to appropriations	<u>\$ 3,833,202</u>	<u>\$ 4,081,287</u>	<u>2,550,787</u>	<u>\$ 1,530,782</u>
Excess of resources (inflows) over charges to appropriations (outflows)			<u>1,466,328</u>	
Budgetary Fund Balance, June 30, 2014			<u>\$ 1,466,328</u>	

**INDEPENDENT AUDITOR'S 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***

Board of Commissioners
Missoula Redevelopment Agency
Missoula, Montana

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of Missoula Redevelopment Agency (the Agency), a component unit of the City of Missoula, Montana, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated January 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Agency's internal control over financial reporting (internal control) 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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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. We did not identify any deficiencies in internal control we that we consider to be material weaknesses. 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 control over financial reporting 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, significant deficiencies, or material weaknesses. 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.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Anderson Zurmuehlen & Co., P.C.

Missoula, Montana
January 22, 2015



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