



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)

COMPONENT UNIT FINANCIAL REPORT

June 30, 2012

C O N T E N T S

	<u>PAGE</u>	
ORGANIZATION	1	
INDEPENDENT AUDITOR’S REPORT	2 and 3	
MANAGEMENT’S DISCUSSION AND ANALYSIS	4 to 17	
FINANCIAL STATEMENTS		
<u>Government-wide Financial Statements</u>		
Statement of Net Assets.....	18	
Statement of Activities	19	
<u>Fund Financial Statements</u>		
Balance Sheet – Governmental Funds.....	20	
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	21	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	22	
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23	
Notes to Financial Statements	24 to 44	
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule – Special Revenue Funds	45 and 46	
Budgetary Comparison Schedule Budget-to-GAAP Reconciliation – Special Revenue Funds	47	
Schedule of Funding Progress for Retiree Health Insurance Benefit Plan.....	48	
SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule – Debt Service	49	
Budgetary Comparison Schedule Budget-to-GAAP Reconciliation – Debt Service	50	
Balance Sheet – Combining Debt Service	51	
Statement of Revenues, Expenditures and Changes in Fund Balances – Combining Debt Service	52	
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>		53 and 54
SCHEDULE OF FINDINGS AND RESPONSES.....	55	

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
ORGANIZATION
Fiscal Year Ended June 30, 2012

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

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, 2012, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2012, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 17 and 45 through 47, and the schedule of funding progress and employer contributions on page 48 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements as a whole. The supplementary information presented on pages 49 through 52 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 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. The information has been subjected to the auditing procedures applied in the audit of the 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 provided any assurance on them.

Anderson Zurmuehlen & Co., P.C.

Missoula, Montana
December 21, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2012

The Missoula Redevelopment Agency (the Agency) is a component 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, 2012. Please read it in conjunction with the Agency's financial statements and accompanying notes, which begin on page 18.

Financial Highlights

Condensed Financial Information

The following tables summarize the financial condition and operating results for 2012 compared to 2011:

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Current assets	\$ 5,532,115	\$ 5,978,654	\$ (446,539)
Noncurrent assets	338,200	250,400	87,800
Total assets	<u>5,870,315</u>	<u>6,229,054</u>	<u>(358,739)</u>
Current liabilities	1,195,204	895,591	299,613
Long-term liabilities	11,455,988	10,669,982	786,006
Total liabilities	<u>12,651,192</u>	<u>11,565,573</u>	<u>1,085,619</u>
Net assets			
Restricted for debt service	250,400	250,400	-
Unrestricted	<u>(7,031,277)</u>	<u>(5,586,919)</u>	<u>(1,444,358)</u>
Total net assets	<u>\$ (6,780,877)</u>	<u>\$(5,336,519)</u>	<u>\$ (1,444,358)</u>

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Revenues			
General revenues	<u>\$ 4,425,761</u>	<u>\$ 4,564,370</u>	<u>\$ (138,609)</u>
Total revenues	<u>4,425,761</u>	<u>4,564,370</u>	<u>(138,609)</u>
Expenses			
Housing and community development	<u>5,362,294</u>	<u>9,376,520</u>	<u>(4,014,226)</u>
Interest	<u>568,825</u>	<u>282,515</u>	<u>286,310</u>
Total expenses	<u>5,931,119</u>	<u>9,659,035</u>	<u>(3,727,916)</u>
Change in net assets	<u>(1,505,358)</u>	<u>(5,094,665)</u>	<u>3,589,307</u>
Net Assets			
Beginning of year	<u>(5,336,519)</u>	<u>(241,854)</u>	<u>(5,094,665)</u>
Restatement	<u>61,000</u>	<u>-</u>	<u>61,000</u>
Beginning of year - restated	<u>(5,275,519)</u>	<u>(241,854)</u>	<u>(5,033,665)</u>
End of year	<u>\$ (6,780,877)</u>	<u>\$ (5,336,519)</u>	<u>\$ (1,444,358)</u>

- During the year the Agency had revenues of \$4,425,761 and expenses totaling \$5,931,119, which resulted in a decrease of net assets of \$1,505,358.
- 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 2012 revenues were approximately \$139,000 lower than in fiscal year 2011.
- Expenditures for fiscal year 2012 were related to public/private redevelopment partnerships such as 310 & 316 Inez (Huff), 806 West Spruce Street, Ashlyn Place Apartments (Ault), Allegiance Call Center, Bitterroot Town Homes (Bangs), Elbow Room & Tavern and Southgate Animal Hospital. Public projects funded solely or in part with tax increment funds in fiscal year 2012 include Silver Park, Civic Stadium, Milwaukee Trail, Walnut Street Neighborhood Landscaping, West Broadway Island, Missoula County Records Center, and the placement of street trees and sidewalk and street improvements in URD II & URD III. The Agency also paid out \$869,163 in interest and principal on bonds.

Using This Report

This audit report consists of a series of financial statements. The Statement of Net Assets 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 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 Assets 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 assets (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 assets 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.

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 2012 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 funds, which 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 Assets 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 used at a government auction for \$10,500 and put into service on January 28, 2005. 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 Assets, the Agency's assets include cash and investments, taxes/assessments receivable (net), other receivables, prepaid health insurance premiums 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.

Current, Noncurrent and Long-Term Liabilities

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

On August 6, 2006, the City of Missoula pursuant to Resolution 7120, approved the sale of \$3.6 million 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. 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 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.

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 is 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 is provided in two equal installments of \$134,211. Excess increment is returned to the Agency after the October 1st Bond payment and is used to fulfill subordinate debt requirements.

Resolution 7587 also authorized the issuance of a Front Street URD Subordinate Lien Note to First Interstate Bank in the amount of \$1,623,380. The Series 2010 Note will bear interest at the annual rate of 6.55% for a period of 25 years.

Resolution 7587 also clarified that previously incurred obligations payable from Front Street URD tax increment would be subordinate to the payment of the Series 2010 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 City Civic Stadium. 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, currently outstanding in the principal amount of \$3,907,680.56 and with accrued interest of \$1,067,666.93 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, 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.

Refer to Note 5 on page 31 for further information regarding the Agency's long-term debt.

Revenues

In fiscal year 2012, the Agency received only general revenues and did not generate any program revenue. Of the Agency's \$4,425,761 total revenue reported in the Statement of Activities, 88% was tax increment received from property taxes. The next largest revenue source for the Agency is the State of Montana in the form of pass thru Federal Transportation Funds via the Community Transportation Enhancement Program (CTEP), State entitlement funds authorized under House Bill 124, Personal Property Reimbursements authorized under 2011 Legislative Senate Bill 372 and Public Employees Retirement System (PERS) contributions. State of Montana funds account for nearly 12% of the Agency's total revenue received. The Agency incurred investment losses of \$9,355 in fiscal year 2012.

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 Series 2006 and Series 2007 tax increment revenue bonds, the Brownfields RLF 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. Both of these types of activities are reflected as "transfers to other governments" in the financial statements. Neither of the above scenarios was applicable in fiscal year 2012.

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 2012 was \$106,090 and was recorded as an administrative expense in the financials.

Administrative transfers between districts are done annually to reimburse the district that has paid the administrative expenses of the Agency. In fiscal year 2012, the administrative expenses were paid from URD III, whereas in prior years they had been paid from URD II. The amount of money transferred in fiscal year 2012 from URD II to URD III for administrative expenses was \$250,999 and is based on the proportionate share of staff time spent working on projects in URD II in fiscal year 2012. 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.

In fiscal year 2011, the Agency granted an interest free loan to The Women's Center under the Façade Improvement Program for improvements to its 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 in the fund financial statements.

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 for making the infrastructure improvement, to the Agency. The assignment is for \$40,000 over 40 years. The first reimbursement was received in July 2012. This assignment does not include an interest component; therefor it was recorded as cash out and as a Note Receivable on the fund financial statements.

Balances and Transactions of Individual Government Funds

	<u>URD I</u>	<u>URD II</u>	<u>URD III</u>
Beginning Balance 7/1/11	\$ 5,248	\$ 2,448,391	\$ 1,969,627
Restatement	-	-	61,000
Beginning Balance - restated	5,248	2,448,391	2,030,627
Ending Balance 6/30/12	5,248	1,593,665	2,152,456
\$ Change	\$ -	\$ (854,726)	\$ 121,829
% Change	0%	-35%	6%

Reserved fund balance

	<u>Front Street</u>	<u>Riverfront Triangle</u>	<u>Debt Service</u>
Beginning Balance 7/1/11	\$ 66,412	\$ 20,644	\$ 828,224
Restatement	-	-	-
Beginning Balance - restated	66,412	20,644	828,224
Ending Balance 6/30/12	266,937	13,190	898,613
\$ Change	\$ 200,525	\$ (7,454)	\$ 70,389
% Change	302%	-36%	8%

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.

URD II saw a 35% decrease in fund balance in fiscal year 2012. This decrease was primarily due to the Agency's extensive work on public improvement projects in the district and two private/public partnerships. Total expenditures were \$3,175,344 including \$250,999 to URD III for administrative expenses. The following projects were active in URD II in 2012:

2012 Street Tree Project	Milwaukee Trail Construction & Lighting
310 & 316 Inez Street (Huff)	Old Sawmill District Methane Abatement/Lighting
806 West Spruce Street	Scott/Toole Intersection Improvements
Ashlyn Place Apartments	Sidewalks & Streets – URD II Western
Brownfields RLF (Millsite)	Silver Park
California Street Engineering	Urban Street Car Study Funding
Catlin/Wyoming ROW Landscape	Walnut Street Neighborhood – ROW Landscaping
Civic Stadium	West Broadway Island Trail & Bridge

URD III saw a 6% increase in fund balance in fiscal year 2012. This slight increase is primarily attributable to the Agency’s expending about the same amount of increment as was received. Total expenditures were \$2,138,382 and included \$496,487 for administrative expenses and \$1,641,895 for the following projects:

2012 Street Tree Project	Sidewalks – Brooks St Commercial
Allegiance Call Center	Sidewalks – Residential
Bitterroot Town Homes (Bangs)	Sidewalks Needs Assessment
Elbow Room Tavern & Restaurant	Southgate Animal Hospital
Missoula County Records Center	Streets – Residential Sidewalks – Milling/Paving

Front Street URD saw a 302% increase in fund balance in fiscal year 2012. This increase is attributable to there being only one project funded in this district. The activity in Front Street URD was primarily on the debt service side including requirements for the Series 2010B Front Street Parking Structure Bonds, First Interstate Bank Note, and Wilma Note. Total expenditures were \$2,750 in support of the Urban Street Car Study.

Riverfront Triangle URD saw a 36% decrease in fund balance in fiscal year 2012. This decrease is attributable to reduced incremental taxable value for 2012 and the expenditure of \$12,922 for the Riverfront Triangle/St. Patrick Hospital Parking Study.

Overall Financial Position

Changes in the Agency’s overall financial position from 2011 to 2012 from the Government-wide perspective include a decrease in net assets of \$358,739 and an increase in total liabilities of \$1,085,619. This is attributable to the Agency’s expenditures exceeding annual revenues and the issuance of additional long-term debt in URD II related to the Civic Stadium acquisition.

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.

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 three projects primarily in the *planning* phase during fiscal year 2012, the Old Sawmill District and Intermountain Lumber site in URD II and the Fox Site in Riverfront Triangle URD.

The developers of the Old Sawmill District received assistance from the Agency to buy the lease on the land in 2006 and continue to receive assistance to facilitate site remediation. The soils remediation is complete and work is nearing completion on methane abatement. Closeout of the Voluntary Cleanup Plan is expected in fiscal year 2013. Construction of public infrastructure, namely Wyoming Street and replacement of the Montana Rail Link Trestle, will most likely trigger the next significant expenditure of tax increment funds on the project.

For several decades, the Intermountain Lumber Company sold wholesale lumber and hardware from a 12-acre parcel on North Russell Street. The business moved 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. During that time, MHA re-platted the site into several large lots to be served by a new east-west connector street linking Catlin and Russell Streets. The plan did not come to fruition for MHA so it, with Agency assistance, constructed an income-qualified development on nearly three acres and listed the remainder for sale. Some years later, a group of investors with experience developing large apartment projects entered into a sale agreement with MHA. Currently, the developer group (Montana Apartment Company) has proposed a 224-unit apartment complex within seven buildings for the site plus buildings for resident amenities such as laundry, workout facility, movie theater, community rooms, etc. The plan also includes future marketing of three lots adjacent to Russell Street for commercial or mixed-use development. The developer has approached the Agency to discuss assistance in providing utility main lines to the site, demolition of structures and other items remaining from the site's lumber outlet days, and construction of the new public street with pedestrian facilities. Because of the magnitude of the project and potential eligible TIF contribution, if the Agency decides to participate, a TIF bond amortized by the increased taxes just from the new improvements on the site would be needed.

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 smaller adjacent properties were added to make up a comprehensive redevelopment site. Between the time the site was acquired and 2005, 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 for one year with one of the respondents, Hotel Fox Partners, for redevelopment of the Fox Site to an upscale conference hotel and conference center. By the end of fiscal year 2012, the potential developer was

conducting market study and financing feasibility investigations prior to negotiating the development agreement.

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.

Once again the most significant *pledged* project in fiscal year 2012 was Silver Park. The Agency pledged tax increment towards the development of a 14.5-acre park along the Clark Fork River as part of the Old Sawmill District project. Design and construction of the Park was divided into four phases as funding became available. The primary purpose for the first phase was to construct a non-motorized trail 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 near the trail’s connection to the California Street Bridge. During fiscal year 2012, phase three was completed and a preliminary design scope for phase four was initiated. Phase four will complete the Park in accordance to an approved master plan. It is the Agency’s intent to bond for Phase Four of the Park improvements together with the cost of constructing Wyoming Street through the Old Sawmill District site and replacement of the Montana Rail Link Trestle at the intersection of Cregg Lane and Wyoming Street Right-of-way.

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.

During fiscal year 2012, the most significant committed project for the Agency was the Civic Stadium. The City of Missoula approved the use of \$2,000,000 in tax increment revenue to purchase the interest of certain secured lenders in the Civic Stadium. The City Council authorized an initial payment of \$500,000 and the issuance of \$1,500,000 in Civic Stadium Subordinate Lien Notes payable over three years. The negotiated settlement and agreements were finalized in February 2012 and the Stadium is now owned by the City of Missoula.

In addition, the Agency participated in several public/private partnerships and publicly funded *committed* projects during fiscal year 2012.

URD II

- **public/private partnership projects:** 310 & 316 Inez (Huff), 806 West Spruce Street (Stewart/Richlen), Ashlyn Place Apartments (Ault)
- **public projects:** Brownfields RLF for Old Sawmill District, California Street Engineering, Milwaukee Trail Construction & Lighting, Old Sawmill District Methane Abatement Lighting, Scott/Toole Intersection Improvements, Urban Street Car Funding, Walnut Street Neighborhood Landscaping, West Broadway Island, sidewalk, streets, street trees and landscaping improvements

URD III

- **public/private partnership projects:** Allegiance Call Center, Bitterroot Town Homes (Bangs), Elbow Room Tavern & Restaurant, Southgate Animal Hospital
- **public projects:** Missoula County Records Center, sidewalk, streets, street trees and landscaping improvements

FRONT STREET URD

- **public/private partnership projects:** none
- **public projects:** Urban Street Car Study

RIVERFRONT TRIANGLE URD

- **public/private partnership projects:** none
- **public projects:** Riverfront Triangle/St. Patrick Hospital Parking Study

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.

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 funds authorized under 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 a district sunsets. Currently only URD II receives State Entitlement funds.

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 value 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 House Bill 124) by 10%. In fiscal year 2011, URD II’s entitlement share was \$283,622 (1-1C = \$250,279; 4-1C = \$33,343); beginning in fiscal year 2012, the amount was to be reduced by \$28,362 to \$255,260.

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 will receive an additional \$74,373.83 for fiscal year 2012 and the reimbursement schedule for fiscal year 2013 is shown below.

County Name	TIF Name	TIF Number	Annual Entitlement Share Payments Per 15-1-121(8)(b), MCA (1)		Annual Class 8 Personal Property Reimbursement		Total Annual Entitlement & Reimbursement Payment		Semiannual Payment
Missoula	Urban Renewal District III (1-1D)	04-0583D	\$0.00	+	\$121,115.56	=	\$ 121,115.56	/2=	\$60,557.78
Missoula	Urban Renewal District II (1-1C)	04-0583C	\$250,279.00	+	\$57,789.45	=	\$ 308,068.45	/2=	\$154,034.23
Missoula	Urban Renewal District II (4-1C)	04-0586C	\$30,009.00	+	\$4,238.69	=	\$ 34,247.69	/2=	\$17,123.85
Missoula	Front Street URD (1-1F)	04-0583F	\$0.00	+	\$22,982.54	=	\$ 22,982.54	/2=	\$11,491.27
Missoula	River Front URD (1-1R)	04-0583R	\$0.00	+	\$4,494.11	=	\$ 4,494.11	/2=	\$2,247.06
			\$280,288.00		\$210,620.35		\$ 490,908.35		\$245,454.18

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 and are administered by the Agency. URD II and III have existed for a number of years and have established revenues. More recently, the City created Front Street and Riverfront Triangle Districts, both 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.

URD II is a district that has been slower to redevelop. The Agency's involvement in the Old Sawmill District project allowed the Agency 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 Agency has been building Silver Park, a part of the Old Sawmill District, incrementally. This year saw the completion of a vital segment of the Riverfront Trail system and a new boat ramp in the Park. Environmental remediation of the entire site has been completed with the removal of wood waste and installation of methane abatement and monitoring systems. The Voluntary Cleanup Plan should be closed out in fiscal year 2013. Play Ball Missoula secured donation of land and constructed a civic stadium for minor league baseball and other community events with the intention that it would be ultimately owned by the City. The Agency and the City purchased the Civic Stadium through the use of URD II tax increment funds and restructuring existing debt to be financed with lease payment revenues. With assistance from Agency, Homewood has completed Equinox, the first phase of a much needed affordable housing project in URD II. In fiscal year 2012, Homewood completed the second phase, Solstice, which consists of additional affordable housing units and commercial space in a mixed use building. Another project underway in URD II is the private development of more than 200 units of market rate apartments. The Agency and developer are in the final stages of structuring the financing. The investment of tax increment financing in public infrastructure will play a key role in the success of this project located on the old Intermountain Lumber site. The City has received a Record of Decision for the Environmental Impact Statement for the reconstruction of Russell and South 3rd Streets. The State has been negotiating design contracts for Russell Street and the design of Third Street is underway by an engineering firm under contract with the City. These are key arterial streets in URD II; consequently, it is anticipated that significant redevelopment will occur when the redesign and improvements are completed.

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 Downtown Master Plan was unanimously adopted as part of the City's Growth Policy. Upon adoption of the Plan, the Downtown Master Plan Implementation Committee was formed with the Agency staff actively involved in the effort. One success story to date is construction of the North Higgins Streetscape project, which was initiated by the Agency when it was part of URD I. In Front Street URD, the Agency is managing the construction of a new parking structure, another catalyst project identified in the Downtown Master Plan. Completion of the East Front Street Parking Structure is anticipated midway through fiscal year 2013. Through the efforts of the Agency and the Implementation Committee, funds have been secured to fund the preliminary engineering needed to convert the Front and Main Streets one-way couplet to two-way traffic. This modification is seen by many as key to encouraging strong retail development along those streets.

In fiscal year 2012, 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. This development is another important step 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 spent over \$4,000,000 in the past three 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.

Summary

Highlights for fiscal year 2012 include the purchase of the Civic Stadium through the use of URD II tax increment funds and City debt financed through Stadium lease payment revenues. The Agency continued to put a great deal of effort into the completion of Silver Park in the Old Sawmill District development. Managing the construction of the new parking structure on East Front Street has been a major project for the Agency. Completion is currently projected for December 2012. The Agency will have a significant role in determining the final design of Russell Street and the reconstruction of South 3rd Street. 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 mixed use development and add diversity to the housing supply. The Agency's efforts continue to be targeted at 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 complete the networks in both districts. Major undertakings in the coming year will focus on development in the Front Street URD, completion of the parking structure, redevelopment of the Riverfront Triangle property, implementation of the Downtown Master Plan components, development of the Old Sawmill District including Silver Park 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 ASSETS

June 30, 2012

	PRIMARY GOVERNMENT
	GOVERNMENTAL
<u>ASSETS</u>	<u>ACTIVITIES</u>
CURRENT ASSETS	
Cash and investments	\$ 4,588,469
Taxes/assessments receivable, net	795,158
Current portion of notes receivable	7,100
Other current assets	83,481
Due from other governments	57,907
Total assets	<u>5,532,115</u>
NONCURRENT ASSETS	
Notes receivable	87,800
Restricted cash	<u>250,400</u>
Total assets	<u>5,870,315</u>
<u>LIABILITIES</u>	
CURRENT LIABILITIES	
Accounts payable	348,976
Accrued wages	12,214
Accrued interest	31,338
Compensated absences	34,889
Current portion of loans payable	603,074
Current portion of guarantor payable	19,713
Current portion of tax increment revenue bonds payable	145,000
Total current liabilities	<u>1,195,204</u>
NONCURRENT LIABILITIES	
Post employment benefits	14,884
Long-term portion of compensated absences	16,181
Loans payable, less current portion	6,992,333
Guarantor payable, less current portion	97,590
Tax increment revenue bonds payable, less current portion	4,335,000
Total noncurrent liabilities	<u>11,455,988</u>
Total liabilities	<u>12,651,192</u>
<u>NET ASSETS</u>	
Restricted for debt service	250,400
Unrestricted	<u>(7,031,277)</u>
Total net assets	<u>\$ (6,780,877)</u>

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, 2012

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>GOVERNMENTAL ACTIVITIES</u>
<u>Governmental Activities</u>		
Housing and community development	\$ 5,362,294	\$ (5,362,294)
Interest expense	<u>568,825</u>	<u>(568,825)</u>
Total governmental activities	<u>5,931,119</u>	<u>(5,931,119)</u>
 Total primary government	 <u><u>\$ 5,931,119</u></u>	 <u><u>(5,931,119)</u></u>
<u>General Revenues</u>		
Property taxes for general purposes		3,912,006
State contribution - PERS		271
State entitlement funds (HB124)		280,288
Personal property reimbursement (SB372)		177,111
Grant revenue (CTEP)		65,021
Investment losses		(9,355)
Miscellaneous		<u>419</u>
Total general revenues		<u>4,425,761</u>
 Change in net assets		 <u><u>(1,505,358)</u></u>
 Net Assets		
Beginning of year		(5,336,519)
Restatement		<u>61,000</u>
Beginning of year - restated		<u><u>(5,275,519)</u></u>
 End of year		 <u><u>\$ (6,780,877)</u></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, 2012

	URBAN RENEWAL DISTRICT I	URBAN RENEWAL DISTRICT II	URBAN RENEWAL DISTRICT III	FRONT STREET DISTRICT	RIVERFRONT TRIANGLE DISTRICT	MAJOR DEBT SERVICE	TOTAL
<u>ASSETS</u>							
Current Assets							
Cash and investments	\$ 5,242	\$ 1,592,131	\$ 2,130,952	\$ 241,566	\$ 15,137	\$ 603,441	\$ 4,588,469
Taxes/assessments receivable, net	22,488	-	446,614	-	758	325,298	795,158
Current portion of notes receivable	-	-	7,100	-	-	-	7,100
Other current assets	6	1,966	5,194	128	17	76,170	83,481
Due from other governments	-	-	36,728	-	-	21,179	57,907
Interfund receivable	-	134,460	-	25,243	-	-	159,703
	<u>27,736</u>	<u>1,728,557</u>	<u>2,626,588</u>	<u>266,937</u>	<u>15,912</u>	<u>1,026,088</u>	<u>5,691,818</u>
Noncurrent Assets							
Notes receivable	-	-	87,800	-	-	-	87,800
Restricted cash	-	-	-	-	-	250,400	250,400
	<u>-</u>	<u>-</u>	<u>87,800</u>	<u>-</u>	<u>-</u>	<u>250,400</u>	<u>338,200</u>
Total assets	<u>\$ 27,736</u>	<u>\$ 1,728,557</u>	<u>\$ 2,714,388</u>	<u>\$ 266,937</u>	<u>\$ 15,912</u>	<u>\$ 1,276,488</u>	<u>\$ 6,030,018</u>
<u>LIABILITIES</u>							
Current Liabilities							
Accounts payable	\$ -	\$ 134,892	\$ 211,795	\$ -	\$ 2,289	\$ -	\$ 348,976
Interfund payable	-	-	-	-	-	159,703	159,703
Accrued wages	-	-	12,214	-	-	-	12,214
Accrued interest payable	-	-	-	-	-	31,338	31,338
Deferred revenue	22,488	-	337,923	-	433	186,834	547,678
Total liabilities	<u>22,488</u>	<u>134,892</u>	<u>561,932</u>	<u>-</u>	<u>2,722</u>	<u>377,875</u>	<u>1,099,909</u>
<u>FUND BALANCES</u>							
Nonspendable	-	-	91,635	-	-	-	91,635
Restricted	5,248	1,593,665	2,060,821	266,937	13,190	898,613	4,838,474
Total fund balance	<u>5,248</u>	<u>1,593,665</u>	<u>2,152,456</u>	<u>266,937</u>	<u>13,190</u>	<u>898,613</u>	<u>4,930,109</u>
Total liabilities and fund balances	<u>\$ 27,736</u>	<u>\$ 1,728,557</u>	<u>\$ 2,714,388</u>	<u>\$ 266,937</u>	<u>\$ 15,912</u>	<u>\$ 1,276,488</u>	<u>\$ 6,030,018</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 ASSETS
June 30, 2012

Total fund balances - governmental funds	\$ 4,930,109
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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	547,678
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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>(12,258,664)</u>
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Total net assets - governmental activities	<u>\$ (6,780,877)</u>
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MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	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	\$ -	\$ -	\$ 2,013,800	\$ -	\$ 5,468	\$ 1,827,949	\$ 3,847,217
State contribution - PERS	-	-	271	-	-	-	271
Grant revenue (CTEP)	-	65,021	-	-	-	-	65,021
State entitlement funds (HB124)	-	280,288	-	-	-	-	280,288
Investment losses	-	(238)	(5,278)	44	-	(3,883)	(9,355)
Miscellaneous	-	-	419	-	-	-	419
Total revenues	-	345,071	2,009,212	44	5,468	1,824,066	4,183,861
<u>EXPENDITURES</u>							
<u>Current:</u>							
Housing and community development	-	587,757	1,198,170	2,750	12,922	25,000	1,826,599
Capital outlay	-	2,587,587	940,212	-	-	-	3,527,799
Debt service expense - interest	-	-	-	-	-	568,825	568,825
Debt service expense - principal	-	-	-	-	-	300,338	300,338
Total expenditures	-	3,175,344	2,138,382	2,750	12,922	894,163	6,223,561
Excess (deficiency) of revenues over expenditures	-	(2,830,273)	(129,170)	(2,706)	(7,454)	929,903	(2,039,700)
<u>OTHER FINANCING SOURCES (USES)</u>							
Transfers in	-	656,283	250,999	203,231	-	203,850	1,314,363
Transfers out	-	(250,999)	-	-	-	(1,063,364)	(1,314,363)
Issuance of long-term debt	-	1,570,263	-	-	-	-	1,570,263
Total other financing sources (uses)	-	1,975,547	250,999	203,231	-	(859,514)	1,570,263
Net change in fund balance	-	(854,726)	121,829	200,525	(7,454)	70,389	(469,437)
<u>FUND BALANCES</u>							
Beginning of year	5,248	2,448,391	1,969,627	66,412	20,644	828,224	5,338,546
Restatement	-	-	61,000	-	-	-	61,000
Beginning of year - restated	5,248	2,448,391	2,030,627	66,412	20,644	828,224	5,399,546
End of year	\$ 5,248	\$ 1,593,665	\$ 2,152,456	\$ 266,937	\$ 13,190	\$ 898,613	\$ 4,930,109

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 BALANCES OF GOVERNMENTAL FUNDS TO THE
 STATEMENT OF ACTIVITIES**
 For the Year Ended June 30, 2012

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

Net change in fund balances - total governmental funds	\$ (469,437)
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	241,900
The change in compensated absence payable is reported in the statement of activities as an expense	(4,968)
The change in the other post employment benefits is reported in the statement of activities as an expense	(2,928)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(1,570,263)
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>300,338</u>
Change in net assets - statement of activities	<u><u>\$ (1,505,358)</u></u>

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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.

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 assets 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, 2012

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 Assets 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.

Over the past several years, Missoula County has experienced delays in preparing and mailing the property tax bills. This delay is considered an extenuating circumstance in accordance with GAAP. In response to the billing delays the Agency extended its revenue recognition period from 60 days to 75.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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 recorded as deferred revenue, with a corresponding reduction in revenues, as required by generally accepted accounting principles. In addition, prior period delinquent taxes collected in the current period were recorded as revenue in the current period as required by generally accepted accounting principles. 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. This fund is 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, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Basis of Accounting (Continued):

Fund Balance Classification:

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 fund 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, 2012

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 operation 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.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2011 property tax billing are as follows:

	<u>Taxable Value</u>	<u>Increment Value</u>
Urban Renewal District II	\$ 3,680,706	\$ 1,820,883
Urban Renewal District III	9,671,079	2,666,733
Front Street Urban Renewal District	2,029,194	616,159
Riverfront Triangle Urban Renewal District	168,865	11,077

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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*.

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	\$ 453,818
Cash on hand	1,532
Government Securities	4,291,348
Certificates of Deposit	92,171
Less restricted cash held for debt service reserve	<u>(250,400)</u>
	<u><u>\$ 4,588,469</u></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.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 3. OTHER CURRENT ASSETS

Other current assets consist of the following at June 30, 2012:

Interest receivable	\$ 4,141
Prepaid expenses	3,835
Missoula Parking Commission receivable	<u>75,505</u>
	<u><u>\$ 83,481</u></u>

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, 2012, the note had an outstanding balance of \$54,900.

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. At June 30, 2012, the note had an outstanding balance of \$40,000.

NOTE 5. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2012, were as follows:

	Beginning Balance	Additions	Debt Retired	Ending Balance	Current Portion
Bonds Payable	\$ 4,615,000	\$ -	\$ (135,000)	\$ 4,480,000	\$ 145,000
Notes Payable	6,166,879	1,570,263	(141,735)	7,595,407	603,074
Guarantor Payable	140,906	-	(23,603)	117,303	19,713
Compensated Absences	<u>46,102</u>	<u>29,054</u>	<u>(24,086)</u>	<u>51,070</u>	<u>34,889</u>
Total	<u><u>\$ 10,968,887</u></u>	<u><u>\$ 1,599,317</u></u>	<u><u>\$ (324,424)</u></u>	<u><u>\$ 12,243,780</u></u>	<u><u>\$ 802,676</u></u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 5. LONG-TERM DEBT (CONTINUED)

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 and site development 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.

Debt service requirements to maturity on the August 2006 tax increment bonds at June 30, 2012, are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 105,000	\$ 145,025	\$ 250,025
2014	110,000	140,300	250,300
2015	110,000	135,350	245,350
2016	120,000	130,400	250,400
2017	125,000	125,000	250,000
2018-2022	705,000	536,125	1,241,125
2023-2027	890,000	346,898	1,236,898
2028-2032	880,000	106,875	986,875
Total	<u>\$ 3,045,000</u>	<u>\$ 1,665,973</u>	<u>\$ 4,710,973</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, 2012

NOTE 5. LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

Safeway Bonds (Continued)

Repayment of the debt service deficiency to the Guarantor at June 30, 2012, is scheduled as follows:

Year Ending June 30,	Principal
2013	\$ 19,713
2014	22,493
2015	25,273
2016	18,227
2017	21,701
2018-2022	9,896
Total	<u>\$ 117,303</u>

Debt service requirements to maturity on the tax increment bonds at June 30, 2012, are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 40,000	\$ 99,038	\$ 139,038
2014	40,000	96,258	136,258
2015	45,000	93,478	138,478
2016	45,000	90,524	135,524
2017	50,000	87,049	137,049
2018-2022	305,000	377,733	682,733
2023-2027	435,000	252,458	687,458
2028-2032	475,000	77,840	552,840
Total	<u>\$ 1,435,000</u>	<u>\$ 1,174,378</u>	<u>\$ 2,609,378</u>

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. The Agency agreed to fund \$3,000,000 of the bonds which will be supported by parking revenue and tax increment revenue. The bonds bear interest ranging from 2.29% to 8.0%. The Agency has committed to paying 40% of all principal and interest payments for the life of the bond. Under the terms of the agreement, the Agency will transfer \$134,211 to MPC on March 15 and September 15 of each year. MPC will make the required debt service payments on April 1 and October 1 of each year, and the difference between the Agency's transfers and the actual debt service will be refunded back to the Agency on October 15 of each year.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 5. LONG-TERM DEBT (CONTINUED)

Notes Payable (Continued)

MPC Note Payable (Continued)

As of June 30, 2012, the Agency had recorded a receivable of \$75,505 which represents the \$134,211 transfer made on March 15, 2012, less the interest payment made on April 1, 2012 of \$58,706. An additional \$134,211 was transferred in October 2012. After the debt service payments are made by MPC in October 2012, the Agency expects to receive \$123,010 from MPC.

Debt service requirements to maturity on the MPC note payable at June 30, 2012, are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 28,000	\$ 117,202	\$ 145,202
2014	30,000	116,732	146,732
2015	30,000	116,134	146,134
2016	70,000	114,958	184,958
2017	96,000	112,802	208,802
2018-2022	530,000	515,889	1,045,889
2023-2027	638,000	405,197	1,043,197
2028-2032	784,000	255,477	1,039,477
2032-2036	760,000	68,640	828,640
Total	<u>\$ 2,966,000</u>	<u>\$ 1,823,031</u>	<u>\$ 4,789,031</u>

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 sub recipient 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. In August 2007, the loan was increased from \$1 million to \$1.125 million. 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.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 5. LONG-TERM DEBT (CONTINUED)

Notes Payable (Continued)

Brownfields RLF Note Payable (Continued)

Debt service requirements to maturity on Brownfields note payable at June 30, 2012, are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ -	\$ 21,750	\$ 21,750
2014	-	21,690	21,690
2015	-	21,690	21,690
2016	-	21,690	21,690
2017	-	21,750	21,750
2018-2022	70,729	108,510	179,239
2023-2027	738,148	78,483	816,631
2028-2032	611,893	21,588	633,481
Total	<u>\$ 1,420,770</u>	<u>\$ 317,151</u>	<u>\$ 1,737,921</u>

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, 2012, are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 28,876	\$ 102,558	\$ 131,434
2014	30,767	100,604	131,371
2015	32,783	98,523	131,306
2016	34,930	96,306	131,236
2017	37,218	96,943	134,161
2018-2022	226,010	428,484	654,494
2023-2027	310,381	341,349	651,730
2028-2032	426,248	221,688	647,936
2033-2037	452,988	61,691	514,679
Total	<u>\$ 1,580,201</u>	<u>\$ 1,548,146</u>	<u>\$ 3,128,347</u>

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012

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, 2012, are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 46,198	\$ 3,802	\$ 50,000
2014	47,712	2,288	50,000
2015	34,526	725	35,251
Total	<u>\$ 128,436</u>	<u>\$ 6,815</u>	<u>\$ 135,251</u>

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.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 5. LONG-TERM DEBT (CONTINUED)

Notes Payable (Continued)

Civic Stadium Notes Payable (Continued)

Debt service requirements to maturity on the Civic Stadium notes payable at June 30, 2012, are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>
2013	\$ 500,000
2014	500,000
2015	<u>500,000</u>
Total	<u><u>\$ 1,500,000</u></u>

NOTE 6. COMMITMENTS

The Agency has entered into contracts for various projects and activities. As of June 30, 2012, the Agency had commitments totaling \$1,097,990 that will be financed from operating funds.

Urban Renewal District II:

Public:

California Street Engineering	\$ 20,765
Catlin/Wyoming Landscape	3,228
Milwaukee Trail	124,133
Scott/Toole Intersection	108,842
Sidewalk Improvement Projects	163,610
Silver Park	24,486
Street Tree Project	1,872
Fire Hydrants	24,400
Walnut Street	575
Intermountain Lumber Site	34,520

Private:

Brownsfield	258,332
Inez	36,533
Western Montana Mental Health Center	<u>97,773</u>
	<u><u>\$ 899,069</u></u>

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012

NOTE 6. COMMITMENTS (CONTINUED)

Urban Renewal District III:

Public:

Fire Hydrants	\$ 47,250
Sidewalk Improvement Projects	4,303
Street Tree Project	6,324
Street Improvement Project	83,319

Private:

First Security Bank	5,322
	<u>\$ 146,518</u>

Front Street Urban Renewal District:

Public:

Downtown Building & Business Inventory	<u>\$ 2,875</u>
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Riverfront Triangle Urban Renewal District:

Public:

Parking Study	<u>\$ 1,328</u>
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NOTE 7. RETIREMENT PLAN

The Agency participates in the Montana Public Employees' Retirement System (MPERS), 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>
2012	6.900%	7.070%	0.100%
2011	6.900%	7.070%	0.100%
2010	6.900%	7.070%	0.100%

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 7. RETIREMENT PLAN (CONTINUED)

MPERS 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 MPERS is a mandatory multiple-employer, cost-sharing plan administered by the Montana Public Employees' Retirement Administration (MPERA).

MPERS 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 6.90% of monthly compensation. Local government entities are required to contribute 7.070% 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, 2012, 2011, and 2010, 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>
2012	\$ 19,189	\$ 271
2011	20,937	296
2010	21,384	308

MPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained from MPERS 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, 2012

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:

	<u>Transfers In</u>	<u>Transfers Out</u>
Urban Renewal District II	\$ 656,283	\$ 250,999
Urban Renewal District III	250,999	-
Front Street URD	203,231	-
Debt Service	203,850	1,063,364
	<u>\$ 1,314,363</u>	<u>\$ 1,314,363</u>

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, 2012

NOTE 10. POSTEMPLOYMENT BENEFITS (CONTINUED)

The Agency adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pension Plans*, in fiscal year 2009. 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, 2012.

Coverage	Retiree Contribution	MRA Contribution	Total Premium
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

Based on an actuarial study prepared as of June 30, 2011, the Agency's portion of the annual other post-employment benefit cost was \$14,884 for the fiscal year ended June 30, 2012. 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 post-employment benefit obligation increased from \$11,956 to \$14,884 at June 30, 2012. A schedule of the Agency's annual OPEB cost is presented below:

	2012	2011	2010
Annual required contribution (ARC)	\$ 6,702	\$ 6,532	\$ 6,985
Interest and ARC Adjustment	(198)	(364)	(188)
Annual OPEB cost	6,504	6,168	6,797
Contributions made	(3,576)	(3,547)	(4,383)
Change in net OPEB obligation	2,928	2,621	2,414
Net OPEB obligation - beginning of year	11,956	9,335	6,921
Net OPEB obligation - end of year	<u>\$ 14,884</u>	<u>\$ 11,956</u>	<u>\$ 9,335</u>
Percentage of annual OPEB cost contribute	55%	58%	64%

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 10. POSTEMPLOYMENT BENEFITS (CONTINUED)

As of June 30, 2011, the most recent actuarial valuation date, the Agency's portion of the plan had an unfunded accrued actuarial liability of \$82,785. 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 \$272,110 for fiscal year 2012; the unfunded actuarial liability was 30% 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. For the actuarial valuation performed at June 30, 2011, the projected unit credit actuarial cost method was used. The health care cost trend rate was 6.5% for 2011 decreasing to 5% for 2015 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, 2012.

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 \$106,090 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.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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, 2012, the Agency had a total fund balance in Governmental funds of \$4,930,109. In accordance with GASB Statement No. 54 this fund balance has been classified as follows:

Special Revenue Funds			
Nonspendable	\$	91,635	Prepaid expenses and notes receivable
Restricted		3,939,861	Restricted for urban renewal development
Debt Service			
Restricted		<u>898,613</u>	Restricted for debt service
		<u>\$4,930,109</u>	

NOTE 13. RESTATEMENT

During the current year, it was determined that a prior year note receivable totaling \$61,000 was incorrectly recorded as an expenditure instead of a note receivable in the URD III fund. To correct this error, the beginning fund balance of the URD III fund of \$1,969,627, as originally reported, has been increased to \$2,030,627. In addition, beginning net assets for governmental activities of \$(5,336,519), as originally reported, have been increased to \$(5,275,519).

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 14. SUBSEQUENT EVENTS

During 2012, the Agency discovered that the Tax Increment Financing (TIF) district boundaries used by the Montana Department of Revenue to calculate reimbursement payments under SB372 appeared to be incorrect. In December 2012, the Montana Department of Revenue confirmed that the 2012 reimbursement for revenue loss on strict personal property made in August 2012 was incorrect. The amounts of the underpayments (overpayments) for each fund are as follows:

Urban Renewal District II	\$ 43,830
Urban Renewal District III	29,618
Front Street Urban Renewal District	6,571
River Front Urban Renewal District	<u>(5,644)</u>
	<u><u>\$ 74,375</u></u>

These amounts have been recorded as accounts receivable and deferred revenue as of June 30, 2012.

In July 2012, the Brownfields RLF note payable was increased to \$1,775,000. The remaining terms of the note remain unchanged.

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, 2012

	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, 2011	\$ 2,448,391	\$ 2,448,391	\$ 2,448,391	\$ -	\$ 1,969,627	\$ 1,969,627	\$ 2,030,627	\$ 61,000
Resources (Inflows):								
Miscellaneous	-	-	-	-	-	7,519	419	(7,100)
Investment earnings (expense)	10,000	1,000	(238)	(1,238)	15,000	1,000	(5,278)	(6,278)
Long-term debt proceeds	363,990	1,578,595	1,570,263	(8,332)	-	-	-	-
Tax increment property tax	-	-	-	-	1,885,795	2,015,943	2,013,800	(2,143)
State contribution PERS	250	-	-	-	-	-	271	271
Grant	561,249	65,021	65,021	-	-	-	-	-
State entitlement	283,622	255,260	280,288	25,028	-	-	-	-
Transfers in	917,677	673,115	656,283	(16,832)	250,000	250,000	250,999	999
Amounts available for appropriation	<u>\$ 4,585,179</u>	<u>\$ 5,021,382</u>	<u>5,020,008</u>	<u>\$ (1,374)</u>	<u>\$ 4,120,422</u>	<u>\$ 4,244,089</u>	<u>4,290,838</u>	<u>\$ (14,251)</u>
Charges to Appropriations (Outflows):								
Housing and community development	\$ 2,553,460	\$ 1,983,457	587,757	\$ 1,395,700	\$ 2,887,748	\$ 2,848,815	1,198,170	\$ 1,650,645
Capital outlay	1,693,410	2,787,925	2,587,587	200,338	2,057,496	1,094,855	940,212	154,643
Transfers out	250,000	250,000	250,999	(999)	-	-	-	-
Total charges to appropriations	<u>\$ 4,496,870</u>	<u>\$ 5,021,382</u>	<u>3,426,343</u>	<u>\$ 1,595,039</u>	<u>\$ 4,945,244</u>	<u>\$ 3,943,670</u>	<u>2,138,382</u>	<u>\$ 1,805,288</u>
Excess of resources (inflows) over charges to appropriations (outflows)			<u>1,593,665</u>				<u>2,152,456</u>	
Budgetary Fund Balance, June 30, 2012			<u>\$ 1,593,665</u>				<u>\$ 2,152,456</u>	

	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, 2011	\$ 66,412	\$ 66,412	\$ 66,412	\$ -	\$ 20,644	\$ 20,644	\$ 20,644	\$ -
Resources (Inflows):								
Miscellaneous	-	-	-	-	-	-	-	-
Investment earnings (expense)	-	-	44	44	-	-	-	-
Long-term debt proceeds	-	-	-	-	-	-	-	-
Tax increment property tax	-	-	-	-	23,783	8,321	5,468	(2,853)
State contribution PERS	-	-	-	-	-	-	-	-
Grant	-	-	-	-	-	-	-	-
State entitlement	-	-	-	-	-	-	-	-
Transfers in	-	145,478	203,231	57,753	-	-	-	-
Amounts available for appropriation	<u>\$ 66,412</u>	<u>\$ 211,890</u>	<u>269,687</u>	<u>\$ 57,797</u>	<u>\$ 44,427</u>	<u>\$ 28,965</u>	<u>26,112</u>	<u>\$ (2,853)</u>
				-				-
Charges to Appropriations (Outflows):								
Housing and community development	\$ 120,809	\$ 211,890	2,750	\$ (209,140)	\$ 23,783	\$ 28,965	12,922	\$ (16,043)
Capital outlay	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total charges to appropriations	<u>\$ 120,809</u>	<u>\$ 211,890</u>	<u>2,750</u>	<u>\$ (209,140)</u>	<u>\$ 23,783</u>	<u>\$ 28,965</u>	<u>12,922</u>	<u>\$ (16,043)</u>
Excess of resources (inflows) over charges to appropriations (outflows)			<u>266,937</u>				<u>13,190</u>	
Budgetary Fund Balance, June 30, 2012			<u>\$ 266,937</u>				<u>\$ 13,190</u>	

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – BUDGET-TO-GAAP RECONCILIATION –
SPECIAL REVENUE FUNDS
June 30, 2012

NOTE 1

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

	URBAN RENEWAL DISTRICT II	URBAN RENEWAL DISTRICT III	FRONT STREET DISTRICT	RIVERFRONT TRIANGLE DISTRICT
Sources/Inflows of Resources				
Actual available for appropriation from the budgetary comparison schedule	\$ 5,020,008	\$ 4,290,838	\$ 269,687	\$ 26,112
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(2,448,391)	(2,030,627)	(66,412)	(20,644)
Issuance of long-term debt is a budgetary resource but is not a current year revenue for financial reporting purposes	(1,570,263)	-	-	-
Transfers from other funds are inflows of budgetary resource but are not revenues for financial reporting purposes	(656,283)	(250,999)	(203,231)	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 345,071</u>	<u>\$ 2,009,212</u>	<u>\$ 44</u>	<u>\$ 5,468</u>
Uses/Outflows of Resources				
Actual total charges to appropriations from the budgetary comparison schedule	\$ 3,426,343	\$ 2,138,382	\$ 2,750	\$ 12,922
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(250,999)	-	-	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 3,175,344</u>	<u>\$ 2,138,382</u>	<u>\$ 2,750</u>	<u>\$ 12,922</u>

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
SCHEDULE OF FUNDING PROGRESS FOR
RETIREE HEALTH INSURANCE BENEFIT PLAN
 June 30, 2012

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
2009	\$ -	\$ 75,524	\$ 75,524	0%	\$ 306,975	25%
2011	\$ -	\$ 80,682	\$ 80,982	0%	\$ 276,145	29%

SUPPLEMENTARY INFORMATION

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – DEBT SERVICE
For the Year Ended June 30, 2012

	MAJOR DEBT SERVICE			
	BUDGETED AMOUNTS			VARIANCE WITH
	ORIGINAL	FINAL	ACTUAL	FINAL BUDGET
Budgetary Fund Balance, July 1, 2011	\$ 828,224	\$ 828,224	\$ 828,224	\$ -
Resources (Inflows):				
Investment earnings	-	-	(3,883)	(3,883)
Tax increment property tax	1,851,724	1,833,381	1,827,949	(5,432)
Transfers in	890,450	1,170,266	203,850	(966,416)
Amounts available for appropriation	<u>\$ 3,570,398</u>	<u>\$ 3,831,871</u>	<u>2,856,140</u>	<u>\$ (975,731)</u>
Charges to Appropriations (Outflows):				
Debt service expenditures	\$ 449,854	\$ 869,440	869,163	\$ 277
Housing and community development	50,000	25,000	25,000	-
Other purchased services	268,422	-	-	-
Transfers out	1,808,127	1,988,829	1,063,364	925,465
Total charges to appropriations	<u>\$ 2,576,403</u>	<u>\$ 2,883,269</u>	<u>1,957,527</u>	<u>\$ 925,742</u>
Excess of resources (inflows) over charges to appropriations (outflows)			<u>898,613</u>	
Budgetary Fund Balance, June 30, 2012			<u>\$ 898,613</u>	

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – BUDGET-TO-GAAP RECONCILIATION –
DEBT SERVICE
June 30, 2012

NOTE 1

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

	<u>DEBT SERVICE</u>
Sources/Inflows of Resources	
Actual available for appropriation from the budgetary comparison schedule	\$ 2,856,140
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(828,224)
Transfers from other funds are inflows of budgetary resource but are not revenues for financial reporting purposes	<u>(203,850)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 1,824,066</u>
Uses/Outflows of Resources	
Actual total charges to appropriations from the budgetary comparison schedule	\$ 1,957,527
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(1,063,364)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 894,163</u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BALANCE SHEET – COMBINING DEBT SERVICE
June 30, 2012

	MILLSITE BONDS	MAEDC BROWNFIELDS NOTE	SAFEWAY ST. PATRICK HOSPITAL BONDS	FRONT STREET NOTES	TOTAL
<u>ASSETS</u>					
Current Assets					
Cash and investments	\$ 251,966	\$ 30,666	\$ 81,491	\$ 239,318	\$ 603,441
Taxes/assessments receivable, net	252,441	-	-	72,857	325,298
Other current assets	382	8	-	75,780	76,170
Due from other governments	19,552	-	-	1,627	21,179
	<u>524,341</u>	<u>30,674</u>	<u>81,491</u>	<u>389,582</u>	<u>1,026,088</u>
Noncurrent Assets					
Restricted cash	<u>250,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>250,400</u>
Total assets	<u>\$ 774,741</u>	<u>\$ 30,674</u>	<u>\$ 81,491</u>	<u>\$ 389,582</u>	<u>\$ 1,276,488</u>
<u>LIABILITIES</u>					
Current Liabilities					
Interfund payable	\$ 134,460	\$ -	\$ -	\$ 25,243	\$ 159,703
Accrued interest payable	800	30,538	-	-	31,338
Deferred revenue	137,546	-	-	49,288	186,834
Total liabilities	<u>272,806</u>	<u>30,538</u>	<u>-</u>	<u>74,531</u>	<u>377,875</u>
<u>FUND BALANCES</u>					
Restricted	<u>501,935</u>	<u>136</u>	<u>81,491</u>	<u>315,051</u>	<u>898,613</u>
Total fund balances	<u>501,935</u>	<u>136</u>	<u>81,491</u>	<u>315,051</u>	<u>898,613</u>
Total liabilities and fund balances	<u>\$ 774,741</u>	<u>\$ 30,674</u>	<u>\$ 81,491</u>	<u>\$ 389,582</u>	<u>\$ 1,276,488</u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
COMBINING DEBT SERVICE
For the Year Ended June 30, 2012

	MILLSITE \$3.6 M BONDS	MAEDC BROWNFIELDS NOTE	SAFEWAY ST. PATRICK HOSPITAL BONDS	FRONT STREET NOTES	TOTAL
<u>REVENUES</u>					
Tax increment property tax	\$ 1,363,881	\$ -	\$ -	\$ 464,068	\$ 1,827,949
Investment losses	(3,022)	8	-	(869)	(3,883)
Total revenues	<u>1,360,859</u>	<u>8</u>	<u>-</u>	<u>463,199</u>	<u>1,824,066</u>
<u>EXPENDITURES</u>					
<u>Current:</u>					
Interest expense	150,625	21,345	102,894	293,961	568,825
Principal expense	100,000	19,823	58,603	121,912	300,338
Caras Park obligation	-	-	-	25,000	25,000
Total expenditures	<u>250,625</u>	<u>41,168</u>	<u>161,497</u>	<u>440,873</u>	<u>894,163</u>
Excess (deficiency) of revenues over expenditures	<u>1,110,234</u>	<u>(41,160)</u>	<u>(161,497)</u>	<u>22,326</u>	<u>929,903</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers in	-	41,168	162,682	-	203,850
Transfers out	(860,133)	-	-	(203,231)	(1,063,364)
Total other financing sources (uses)	<u>(860,133)</u>	<u>41,168</u>	<u>162,682</u>	<u>(203,231)</u>	<u>(859,514)</u>
Net change in fund balance	250,101	8	1,185	(180,905)	70,389
<u>FUND BALANCES</u>					
Beginning of year	<u>251,834</u>	<u>128</u>	<u>80,306</u>	<u>495,956</u>	<u>828,224</u>
End of year	<u>\$ 501,935</u>	<u>\$ 136</u>	<u>\$ 81,491</u>	<u>\$ 315,051</u>	<u>\$ 898,613</u>

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 Directors
Missoula Redevelopment Agency
Missoula, Montana

We have audited the financial statements of the governmental activities and each major fund of Missoula Redevelopment Agency, a component unit of the City of Missoula, Montana, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 21, 2012. 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.

Internal Control Over Financial Reporting

Management of Missoula Redevelopment Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Missoula Redevelopment Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Missoula Redevelopment Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Missoula Redevelopment Agency's internal control over financial reporting.

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.

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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as finding 2012-1 that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Missoula Redevelopment 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*.

Missoula Redevelopment Agency's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Missoula Redevelopment Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management, and relevant federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Zurmuehlen & Co., P.C.

Missoula, Montana
December 21, 2012

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2012

Finding 2012-1

Material Restatement of Prior Period Balances

Condition: During the current year, it was determined that a prior year note receivable totaling \$61,000 was incorrectly recorded as an expenditure instead of a note receivable in the URD III fund. This resulted in a material adjustment to prior period balances.

Criteria: When a material audit adjustment is recorded, it indicates a significant deficiency in internal control over financial reporting due to the quantitative impact on the fund and government-wide financial statements.

Cause: The Agency executed a note receivable as part of its Façade Improvement Program in 2011. This was the first time the Agency had dealt with a transaction of this nature. When repayments on the note commenced in February 2012, it was determined that the note had not been properly recorded in the prior year. The transaction was not correctly recorded because the client did not have experience with these types of transactions.

Effect: A material audit adjustment was required in the URD III fund.

Recommendation: We recommend that management implement procedures to ensure that when new transactions occur, the accounting requirements for those transactions are researched accordingly.

Client response and corrective actions: The Agency is in agreement with Anderson ZurMuehlen's recommendation and intends to communicate more effectively with the City of Missoula's finance staff to ensure that new transactions are booked accurately. In addition, the Agency intends to contract with an independent accountant to provide consultation services throughout the year.