

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



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

FINANCIAL REPORT

June 30, 2015



CONTENTS

	<u>PAGE</u>	
ORGANIZATION	1	
INDEPENDENT AUDITOR’S REPORT	2 through 4	
MANAGEMENT’S DISCUSSION AND ANALYSIS	5 through 29	
FINANCIAL STATEMENTS		
<u>Government-wide Financial Statements</u>		
Statement of Net Position	30 and 31	
Statement of Activities.....	32	
<u>Fund Financial Statements</u>		
Balance Sheet – Governmental Funds	33	
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	34	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	35	
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	36	
Notes to Financial Statements.....	37 through 70	
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT’S DISCUSSION AND ANALYSIS		
Budgetary Comparison Schedule – Special Revenue Funds	71 and 72	
Budgetary Comparison Schedule Budget-to-GAAP Reconciliation – Special Revenue Funds	73	
Schedule of Funding Progress for Retiree Health Insurance Benefit Plan.....	74	
Schedule of Proportionate Share of PERS Net Pension Liability	75	
Schedule of PERS Contributions	76	
SUPPLEMENTARY INFORMATION		
Balance Sheet – Combining Debt Service	77	
Statement of Revenues, Expenditures and Changes in Fund Balance – Combining Debt Service.....	78	
Budgetary Comparison Schedule – Debt Service	79	
Budgetary Comparison Schedule Budget-to-GAAP Reconciliation – Debt Service.....	80	
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>		81 and 82

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
ORGANIZATION
Fiscal Year Ended June 30, 2015

Director

Ellen Buchanan Director

Board of Commissioners

Karl Englund Chair

Nancy Moe Vice-Chair

Melanie Brock Member

Ruth Reineking Member

Daniel Kemmis Member

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Missoula Redevelopment Agency
Missoula, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Missoula Redevelopment Agency (the Agency), a component unit of the City of Missoula, Montana, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1, 8 and 14 to the financial statements, the Agency has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of July 1, 2014. Our opinions are not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5–28, budgetary comparison information on pages 71–73, the schedule of funding progress for retiree health insurance program on page 74, the schedule of proportionate share of the PERS net pension liability on page 75, and the schedule of PERS contributions on page 76 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplementary information presented on pages 77–80 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining debt service balance sheet and combining debt service statement of revenues, expenditures and changes in fund balance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the

underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2016, on our consideration of the Missoula Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Anderson Zurmuehlen & Co., P.C.

Missoula, Montana
February 19, 2016

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015

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

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

Our discussion and analysis of the Agency's financial performance provides an overview of its financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the Agency's financial statements and accompanying notes, which begin on page 29.

Financial Highlights

The following tables summarize the financial condition and operating results for 2015 compared to 2014:

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Current assets	\$ 6,110,011	\$ 7,747,208	\$ (1,637,197)
Noncurrent assets	<u>1,236,063</u>	<u>1,241,835</u>	<u>(5,772)</u>
Total assets	<u>7,346,074</u>	<u>8,989,043</u>	<u>(1,642,969)</u>
Deferred outflows of resources	<u>33,265</u>	<u>-</u>	<u>33,265</u>
Total assets and deferred outflows of resource	<u>7,379,339</u>	<u>8,989,043</u>	<u>(1,609,704)</u>
Current liabilities	1,217,007	1,459,993	(242,986)
Long-term liabilities	<u>16,906,360</u>	<u>17,288,392</u>	<u>(382,032)</u>
Total liabilities	<u>18,123,367</u>	<u>18,748,385</u>	<u>(625,018)</u>
Deferred inflows of resources	<u>101,893</u>	<u>-</u>	<u>101,893</u>
Total liabilities and deferred inflows of resour	<u>18,225,260</u>	<u>18,748,385</u>	<u>(523,125)</u>
Net position			
Restricted for debt service	675,665	675,665	-
Unrestricted	<u>(11,521,586)</u>	<u>(10,435,007)</u>	<u>(1,086,579)</u>
Total net position	<u>\$ (10,845,921)</u>	<u>\$ (9,759,342)</u>	<u>\$ (1,086,579)</u>

The beginning net position of Fiscal Year 2015 was restated due to required accruals and activity in accordance with Governmental Accounting Standards Board (GASB) Statement 68. GASB Statement 68 requires governmental agencies to report their proportionate share of liability and pension activity related to the unfunded portion of the Public Employees Retire System.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Revenues			
General revenues	\$ 4,059,235	\$ 4,551,027	\$ (491,792)
Other revenues	<u>-</u>	<u>44,000</u>	<u>(44,000)</u>
Total revenues	<u>4,059,235</u>	<u>4,595,027</u>	<u>(535,792)</u>
Expenses			
Housing and community development	3,967,466	4,901,245	(933,779)
Interest	<u>701,684</u>	<u>805,888</u>	<u>(104,204)</u>
Total expenses	<u>4,669,150</u>	<u>5,707,133</u>	<u>(1,037,983)</u>
Change in net position	(609,915)	(1,112,106)	502,191
Net Position			
Beginning of year	(9,759,342)	(8,647,236)	(1,112,106)
Restatement	<u>(476,664)</u>	<u>-</u>	<u>(476,664)</u>
End of year	<u>\$ (10,845,921)</u>	<u>\$ (9,759,342)</u>	<u>\$ (1,086,579)</u>

- During the year, the Agency had revenues of \$4,059,235 and expenses totaling \$4,669,150 which resulted in a change in net position of (\$609,915) an increase of \$502,191 from 2014.
- 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 2015 revenues were \$535,792 higher than in fiscal year 2014.
- Public/Private Partnership expenditures for fiscal year 2015 included Great Burn Brewing Company, Ponderosa Center, South Crossing (Woodbury), Hicks Building, and Imagine Nation Brewing Company.
- Public projects funded solely or in part with tax increment funds in fiscal year 2015 include Brooks Street Corridor Improvements, North Reserve/Scott Street Master Plan, South Reserve Street Trail Crossing, Bus Shelters (3rd Street & Catlin), Cedar Street Triangle Public Improvements, MAX Wave, Milwaukee Trail Lighting, Silver Park, West Broadway Island, Front/Main Street Conversion Study, Riverfront Triangle Conference Center Feasibility & Market Study and sidewalk and street improvements in URD II & URD III.
- The Agency also paid out \$1,075,368 in principal and \$701,687 in interest for a total of \$1,777,054 in debt service payments.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

Using This Report

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

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

About the Agency

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

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

The fund financial statements provide detailed information about the most significant funds, not the Agency as a whole. The Agency had six urban renewal districts (URDs) active in fiscal year 2015 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. Hellgate URD and North Reserve/Scott Street URD were created on August 25, 2014 and will receive their first transmittal of tax increment in November 2015 provided the 2015 taxable value of the districts is higher than the base year (2014). Tax increment is collected by the County, transferred to the City, and deposited into the respective urban renewal districts' development fund. These funds in turn provide money for the Agency's redevelopment programs: Tax Increment Financing (TIF), Commercial Rehabilitation Loan Program (CRLP), the Code Compliance Assistance Program (CCP) and the Façade Improvement Program (FIP). The TIF program is provided for by State law. The other three programs, CRLP, CCP and FIP, are redevelopment programs approved by the Agency's Board and/or Missoula City Council as allowed by State law.

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

Retirement Plans

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

Capital Assets

Other than office furniture and equipment, the only other capital asset associated to the Agency is a 2015 Dodge Grand Caravan. This company vehicle was purchased through the City's procurement process for \$24,576 and put into service on December 24, 2014. This asset is listed under the City's general capital assets account. The prior company vehicle, a 2001 Dodge Durango, was transferred to the City's fleet of vehicles. All other physical assets or improvements to public assets through purchases or construction undertaken by the Agency are owned by the City of Missoula. Assets created or improved as a result of projects developed with private entities pursuant to urban renewal activities or programs of voluntary or compulsory repairs are assets of the private entities. As reported in the Statement of Net Position, the Agency's assets include cash and investments, taxes/assessments receivable (net), other receivables, 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.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

Current, Noncurrent and Long-Term Liabilities

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

Bonds and Notes Payable

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

\$1,775,000 – Brownfields Revolving Loan Fund: On August 10, 2006, the Millsite 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 July 2, 2012, pursuant to resolution 7712, the amount of the loan was increased to \$1,775,000.

\$1.5 million – Safeway/St. Patrick Hospital Project: 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.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

\$3 million – Front Street Parking Structure: On December 22, 2010, the City of Missoula pursuant to Resolution 7587 pledged \$3 million in tax increment funds from the Front Street URD to the Missoula Parking Commission for payment of Parking Facilities Revenue Bonds issued to construct the Front Street Parking Structure. The pledged TIF was 1.35 times 40% of the average annual debt service of the \$7.5 million Parking Revenue Bonds (Series 2010B) dated December 29, 2010, and was provided in two equal installments of \$134,211. Excess increment was returned to the Agency after the October 1st Bond payment and is used to fulfill subordinate debt requirements. On April 9, 2014, the Missoula Parking Commission redeemed the Series 2010B bonds and reissued \$7,160,000 in Parking Facilities Revenue Refunding Bonds, Series 2014. This decision was made as a result of the reduction of approximately 8.7% in federal subsidy payments due to the sequestration. The Commission was receiving the subsidy as part of the government's direct-pay tax credit for eligible bonds. The Agency confirmed its pledge of tax increment to the Series 2014 Refunding Bonds in the principal amount of \$2,864,000 in Resolution 7864, which was approved on April 7, 2014. The pledged TIF amount on the new bonds is provided in two equal installments of \$133,425. The refunding of the 2010B bonds resulted in \$44,000 proceeds from debt restructuring for the Agency, which was reported as Other Revenue in the government-wide statements for the year ended June 30, 2014.

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

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

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

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

\$1,753,500 – Intermountain Site: On May 20, 2013, the City of Missoula pursuant to Resolution 7782 approved the sale of \$1,753,500 in tax increment urban renewal revenue bonds in URD II to fund certain public improvements related to redevelopment of the former Intermountain Lumber Site along Russell Street. The projects on the site include a residential development known as Corso Apartment Homes and a fitness center known as The Source. The original purchaser of the negotiated sale bonds was First Security Bank, Missoula MT, a division of Glacier Bank. Per Montana Urban Renewal law, the bond term is limited to a final maturity date no later than the existing Series 2006 bond maturity date of July 1, 2031. The interest rate on the bond is 4.250% per annum. Interest is calculated on the basis of a year of 360 days composed of twelve 30-day months. Capitalized interest payments are payable from the bonds funds on January 1 and July 1, 2014. Thereafter, principal and interest payments are payable from tax increment generated by the projects to the City's paying agent, US Bank, on January 1 and July 1, commencing January 1, 2015. Maximum annual debt service per the amortization schedule is \$146,292 in fiscal year 2028.

Refer to Note 5 on page 45 for further information regarding the Agency's long-term debt including schedules of outstanding balances.

Revenues

In fiscal year 2015, the Agency received general revenues and did not generate any program or other revenue. Of the Agency's \$4,059,235 total revenue reported in the Statement of Activities, 76% was tax increment received from property taxes. The next largest revenue source for the Agency is the State of Montana in the form of State entitlement funds authorized under 2001 Legislative House Bill 124, Personal Property Reimbursements authorized under 2011 Legislative Senate Bill 372 and 2013 Legislative Senate Bill 96 and Public Employees Retirement System (PERS) contributions. State of Montana funds account for nearly 20% of the Agency's total revenue received. The Agency also reported \$195,405 in CMAQ grant revenue, and \$1,545 in investment income.

Expenses

Under the Statement of Activities, most of the Agency's expenses are expressed under Housing and Community Development. Specifically, expenses include project assistance under the Agency's redevelopment and rehabilitation programs and administrative costs such as personnel, office supplies and equipment. There was also interest expense paid on the Agency's outstanding bonds and notes, including tax increment revenue bonds (Series 2006 and 2007), URD II Public Improvement and Intermountain Site negotiated sale bonds (2013) and the Series 2014 Front Street Parking Structure Refunding bonds, the Brownfields Revolving Loan Fund Note, First Interstate Bank Note and Wilma Note.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

Special Items, Contributions, Transfers, Other

When applicable, the Agency financially contributes its proportionate share towards City of Missoula activities that affect the Agency, such as purchase of new computer servers and software. In addition, the Agency may contribute to City projects undertaken by other departments within the URDs. The Agency partnered with the City Street department to make improvements to Cedar, Hawthorne and Broadway Streets in URD II in fiscal year 2015 and those contributions were recorded as expenditures in the fund financial statements.

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 the 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 2015 was \$117,053 and was recorded as an administrative expense in the financials. The Agency also reimbursed the City of Missoula \$21,080 for its pro-rata share of General Fund contributions to the Employee Health Benefit Fund over the past five years.

Administrative transfers between districts are done annually to reimburse the district that has paid the administrative expenses of the Agency. In fiscal year 2015, the administrative expenses were paid from URD III. The amount of money transferred in fiscal year 2015 from URD II to URD III for administrative expenses was \$250,000, the budgeted amount for the proportionate share of staff time spent working on projects in URD II during the fiscal year. 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. Hellgate and North Reserve / Scott Street URDs are new districts and did not receive any increment in fiscal year 2015. Staff time spent on their creation and new projects is being tracked for future reconciliation. 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.

Notes Receivable

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

Mountain Water Company: 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 to the Agency the reimbursements he would have received from Mountain Water for making the infrastructure improvements. The Mountain Water Company reimbursement program as authorized under State law includes providing reimbursements to developers for expenses to install, upgrade or extend water mains or fire hydrants. The program does not apply to service lines. Reimbursements occur over a 40-year period. When the Agency approves tax increment financing for eligible Mountain Water Company infrastructure expenses as part of a project, the developer is asked to assign any reimbursements they would receive to the Agency. The reimbursements the Agency receives do not include an interest component; therefore are recorded as cash out and as a note receivable on the fund financial statements.

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

	Contract #	Project Name	District	Final Amended Contract	Total Payments to Date	Outstanding Balance as of 6/30/15
1	3110A007	Eaton Street (Bitterroot) Townhomes	URD III	\$ 40,000	\$ 3,000	\$ 37,000
2	3115A002	Fire Hydrant Installation - S. 1st Street W.	URD II	14,394	-	14,394
3	3112A005	Fire Hydrant Installation - URD II (2 hydrants)	URD II	18,592	930	17,663
4	3112A005	Fire Hydrant Installation - URD III (4 hydrants)	URD III	35,397	1,770	33,628
5	3113A001	Russell Street (Corso) Apartments	URD II	130,179	3,254	126,924
6	3112A001	Western Montana Mental Health Center	URD II	64,915	3,246	61,669
7	3113A004	Wyoming Street	URD II	259,178	6,142	253,036
		Total		\$ 562,656	\$ 18,342	\$ 544,314

Balances and Transactions of Individual Government Funds

	<u>URD I</u>	<u>URD II</u>	<u>URD III</u>
Beginning Balance 7/1/14	\$ 44	\$ 1,548,151	\$ 4,509,615
Ending Balance 6/30/15	44	1,141,753	3,468,160
\$ Change	\$ -	\$ (406,398)	\$ (1,041,455)
% Change	0%	-26%	-23%

	<u>Front Street</u>	<u>Riverfront Triangle</u>	<u>Debt Service</u>
Beginning Balance 7/1/14	\$ 459,018	\$ 15,741	\$ 1,466,328
Ending Balance 6/30/15	585,748	21,830	1,468,484
\$ Change	\$ 126,730	\$ 6,089	\$ 2,156
% Change	28%	39%	0%

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 Fiscal Year Ended June 30, 2015

URD II saw a 26% decrease in fund balance in fiscal year 2015. This decrease was primarily due to the Agency's completion of the Cedar Street, Silver Park and Milwaukee Trail public improvements and the purchase of land for public parking as part of the West Broadway Island project. Total expenditures and transfers were \$1,303,552 including a \$250,000 transfer to URD III for administrative expenses. The following is a summary of contributions to projects and administrative purposes in URD II during fiscal year 2015:

URD II	
Project Name	Expenditure Amount
1205 Idaho Street - Public Improvements	\$ 53,736
3rd & Catlin Street Bus Shelters	14,045
501 S Russell St - Russell Hicks Building	48,837
Admin - Transfers to Other Funds	250,000
Cedar Street Triangle Public Improvements - Construction	316,162
Cedar Street Triangle Public Improvements - Design/Eng/Const. Admin.	32,603
Cedar Street Triangle Public Improvements - Milling/Paving	33,702
Cedar Street Triangle Public Improvements - Professional Services	604
Imagine Nation Brewing Company	61,737
MAX Wave	6,207
MAX Wave - Project Review	1,929
Milwaukee Trail Lighting - Segments 2 & 4 (Ca to Russell & Catlin to Garfield) - Construction	175,002
Milwaukee Trail Lighting - Segments 2 & 4 (Ca to Russell & Catlin to Garfield) - Design/Eng	2,581
Silver Park - 1% for Public Art	18,000
Silver Park - Hal's Walk	13,510
Silver Park - Hydraway Strip Drain	14,104
Silver Park - Ph. IV Design/Eng/Const. Admin	13,083
Silver Park - Ph. IV Misc.	5,395
Silver Park - Public Art Grant	15,000
URD II Western Sidewalk - Phase 4 Design/Eng	23,649
West Broadway Island - Design, Engineering, Const. Admin	38,415
West Broadway Island - Public Parking Improvements	49,989
West Broadway Island - Public Parking Purchase	115,264
Total	\$ 1,303,552

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 Fiscal Year Ended June 30, 2015

URD III saw a 23% decrease in fund balance in fiscal year 2015. This decrease is primarily attributable to a few large projects being completed and paid out during the year. Total expenditures were \$2,834,396 and included \$624,514 for administrative expenses and \$2,209,882 for the following projects:

URD III	
Project Name	Expenditure Amount
Admin - Communication & Transportation	\$ 904
Admin - Employer Contributions	102,293
Admin - Garbage	534
Admin - Gasoline	193
Admin - Machinery and Equipment	32,242
Admin - Office Supplies	2,443
Admin - Other Purchased Services	146
Admin - Other repair & maintenance supplies	746
Admin - Overtime/Termination	36
Admin - PERS Contributions	358
Admin - Printing, Duplication, Binding	1,717
Admin - Professional Services	118,553
Admin - Publicity, Subscriptions and Dues	4,008
Admin - Repair & Maintenance Services	3,884
Admin - Salaries & Wages	322,634
Admin - Salaries / Health Insurance	21,028
Admin - Telephone	944
Admin - Training	296
Admin - Travel	504
Admin- Professional Services	11,000
Admin- Repair & Maintenance Supplies	51
Brooks Street Corridor Public Imp. - Ph. 2 - Design/Eng	133,827
Brooks Street Public Improvemtns - Dore Lane Traffic Lights	37
Brooks Street Trees	138
Burlington-Garfield Sidewalk - Design/Eng/Const. Admin	28,530
Great Burn Brewing Company	11,484
New URDs Creation	3,538
NRSS URD Master Plan	5,978
Ponderosa Center - 2704 Brooks Street	50,000
Reserve Street Trail Crossing - 100% Design	62,527
Reserve Street Trail Crossing - 30% Design	114,735
Reserve Street Trail Crossing - Feasibility Study	27,815
South Crossing - Phase I	1,274,287
Starbucks	52,088
URD III Curb & Sidewalk Project - Adjacent to South Ave	38,711
URD III Grant Street Sidewalk - Construction	378,585
URD III Grant Street Sidewalk - Design/Eng	27,416
URD III Grant Street Sidewalk - Tree Maintenance	188
Total	\$ 2,834,396

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

Front Street URD saw a 28% increase in fund balance in fiscal year 2015. This increase is attributable to there being only one project active in this district. The activity in Front Street URD was primarily for debt service including requirements for the Series 2014 Front Street Parking Structure Refunding Bonds, First Interstate Bank Note, and Wilma Note. Total expenditures were \$65,348 for the Front/Main Conversion Feasibility Study project.

Front Street URD	
Project Name	Expenditure Amount
Front/Main Conversion Feasibility Study	\$ 65,348
Total	\$ 65,348

Riverfront Triangle URD saw a 39% increase in fund balance in fiscal year 2015. This increase is attributable to there being only one project active in this district and a data entry error at the County that resulted in tax increment being attributable to this district in 2015. Currently this district's taxable value is below the base taxable value so there is no tax increment revenue. The district does receive personal property reimbursements from the State. The data entry error has been corrected for future years. Total expenditures were \$8,333 for the Riverfront Triangle Study.

Riverfront Triangle URD	
Project Name	Expenditure Amount
Riverfront Triangle Conf. Ctr Market & Economic Analysis Study	\$ 8,333
Total	\$ 8,333

Hellgate URD – no expenditures were attributed to this district because the first tax increment is expected in November 2015 if the 2015 taxable value of the district exceeds the 2014 base value.

North Reserve – Scott Street URD – no expenditures were attributed to this district because the first tax increment is expected in November 2015 if the 2015 taxable value of the district exceeds the 2014 base value.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

Overall Financial Position

Changes in the Agency's overall financial position from 2014 to 2015 from the Government-wide perspective include a decrease in total assets of \$1,642,969 and a decrease in total liabilities of \$625,018 with a resulting overall net position of (\$10,845,921). The decrease in assets is attributable to the completion of a few large public/private partnerships and solely public projects. The decrease in liabilities is due to no new debt being issued and continued pay down of debt service requirements.

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 five projects primarily in the *planning* phase during fiscal year 2015, the **Brooks Street Improvements - Phase 2** and **Mary Avenue** project in URD III; the **West Broadway Island** in URD II; the **Front/Main Street Conversion Study** in Front Street URD and the **Fox Site** in Riverfront Triangle URD.

Brooks Street Improvements-Phase 2: Phase 2 of the Brooks Street Improvements consists of reconstruction of the key intersections on Brooks Street between Dore Lane and Paxson Street. The improvements are tailored to making Brooks more accessible for bicyclists and pedestrians by slowing traffic and adding amenities. The project, which is being done in conjunction with the Montana Department of Transportation (MDT), will consist of curb extensions, pedestrian scale lighting, landscaping, pedestrian crosswalks and refuges where appropriate, and bicycle lanes. The final phase will add raised medians between Reserve and Paxson and will be funded and installed by Montana Department of Transportation (MDT). Construction of Phase 2 was expected to take place in 2015 with Phase 3 to follow when the State had funding available. This project has been pushed into 2016 due to design approvals required from MDT.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

Mary Avenue Project – Phase 2: MRA staff has worked with Southgate Mall Associates in their effort to “externalize” the mall and create a street network through the Mall which knits it into the surrounding neighborhoods and commercial areas. The owners have made presentations to the MRA Board with the hope that Urban Renewal District III boundaries could be amended to include the Mall in the District and that TIF funds could be available for infrastructure projects that would achieve that goal. The extension of Mary Avenue across the Bitterroot Branch Railroad tracks and through the Mall property, creating an east/west connection between Brooks and Reserve Streets, has been a goal of the City for decades. MRA will continue working with the Mall to bring it into the District and to assist with the extension of Mary Avenue.

West Broadway Island: The West Broadway Island is a five-acre site along the Clark Fork River and West Broadway. The City purchased the property, which is technically not an island, through the Agency in 2012 for use as open space and conservation lands. Much of the site is within the 100-year floodplain and floodway. During fiscal year 2014, the Agency engaged Morrison-Maierle, Inc. to plan and engineer a new pedestrian access along with renovation of an existing access to the property, design new pedestrian trails, stabilize the northern bank, and develop an action plan to minimize noxious weeds and restore native riparian vegetation. Morrison-Maierle’s work also includes design analysis and implementation of public safety measures consistent with the City’s *Crime Prevention through Environmental Design Principles*. The best development for this project includes understanding the design of the Max Wave project, an irrigation diversion replacement and corollary kayak play wave proposed within the river adjacent to the West Broadway Island. During fiscal year 2015, the Max Wave project design was undergoing review by County and State officials. Final design and construction of the West Broadway Island project is proceeding slowly to allow the Max Wave permit review process to be completed and to assure the two projects work well together.

Front / Main Street Conversion Study: A study to determine the feasibility of converting Front and Main Streets from a one way couplet to two way streets was completed in 2015. This was a requirement by MDT if the City wants to be able to access Federal or State funding to implement a conversion. This project is one of the top priorities identified in the Downtown Master Plan and enjoys broad support, particularly from the downtown business community. The study has been finalized to the satisfaction of MDT and work has begun to identify funding to implement the conversion. It will likely be several years before funding sources are identified and are able to be accessed.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

Fox Site: Much of what makes up the Fox Site was given to the City by the owners of the Fox Theater in the mid-1980s. Later, two more adjacent properties were added to make up a comprehensive redevelopment site. Since that time, the City, through the Agency, demolished structures, improved utility infrastructure and removed a buried landfill that was used in the early part of the 20th century. At the direction of the City, the Agency conducted several unsuccessful Request-For-Proposals (RFP) processes seeking a private entity to redevelop the property. The most recent RFP was conducted in 2011. Upon the Agency's recommendation, the City Council authorized the Agency to conduct development agreement negotiations with one of the respondents, Hotel Fox Partners, for redevelopment of the Fox Site to an upscale conference hotel and conference center. At the request of the Mayor, Hotel Fox began investigating the feasibility of a much larger community conference center that may include City participation. Hotel Fox also negotiated a possible land transaction of nearly seven acres of land adjacent to the Fox Site for a much larger development. While continuing to work through these issues, the City Council has granted Hotel Fox extensions regarding negotiating a development agreement for disposition of the Fox Site. Hotel Fox, the Agency and City Staff began negotiating the development agreement, conference center, and potential TIF assistance in 2015.

Pledged Projects

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

The most significant *pledged* projects in fiscal year 2015 were the **South Reserve Street Trail Crossing** and **Wayfinding System** in URD III.

South Reserve Street Trail Crossing: The South Reserve Street Trail Crossing will provide a critical link between the Bitterroot Branch Trail and the Missoula to Lolo Trail (M2L). Missoula County received a federal grant to build the missing trail segment between Reserve Street in Missoula and Lolo, where it will connect with the existing trail that parallels Highway 93 to Hamilton. The Agency's Board approved design, engineering and ultimately construction of a grade separated crossing over Reserve Street due to the high vehicular traffic volumes and high speeds at Reserve and Old Highway 93. The Board authorized the creation of final construction documents with the intention of construction beginning as soon as weather permits in 2016. The anticipated completion date is early in fiscal year 2017.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

Wayfinding: The Agency programmed \$175,000 in fiscal year 2015 to implement a Wayfinding System in URD III. This project has been a part of the Agency's Capital Improvements Program as a placeholder while final planning, design features and funding were being worked out for the City-wide wayfinding system. Wayfinding for the downtown has funding and will be installed in early 2016. The emphasis in URD III is the Brooks Street corridor as a gateway into Missoula from the Bitterroot Valley and an important link to downtown and The University of Montana. Once funding is available to install wayfinding in the surrounding districts, installation can begin in URD III. The Agency continues to work with the Wayfinding Committee and the City to identify funding for the complete system.

Committed Projects

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

The most significant *committed* projects in **URD II** in fiscal year 2015 were the **Cedar Street Triangle Public Improvements, Midtown Apartments, Milwaukee Trail Lighting** and **West Broadway Island Public Parking purchase and improvements project**.

Cedar Street Triangle Public Improvements: The Cedar Street Public Improvements project was completed in fiscal year 2015. Through this public works project, the Agency converted the unimproved section of Cedar Street between Hawthorne Street and West Broadway to a parking street. Curb, gutter, sidewalk, and straight in parking were installed in addition to a landscaped area at Cedar and West Broadway, colored stamped concrete at the cross walks, and decorative street lighting along Cedar and West Broadway. The curb-line and sidewalk along West Broadway between Cedar and Hawthorne were straightened and replaced and street trees were installed. Curb, gutter and sidewalk were also installed on Hawthorne between West Broadway and Cedar. The improvements provide additional parking for the commercial uses in the vicinity along with parking for the newly relocated Poverello Center. Public safety was improved through the installation of sidewalks and street lighting.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

Midtown Apartments: The Midtown Apartment project is located along the entire block of South Fourth Street West between Catlin and Garfield Streets. The project involves construction of a 60-unit apartment complex at a total project cost of approximately \$5,000,000. Tax increment financing assistance up to \$147,513 was approved for costs associated with new sidewalks along South Fourth Street West and portions of Garfield Street, paving a public alley on the north side of the project, installation of drain sumps and landscaping in all three right-of-ways, bank stabilization in the Catlin and Garfield right-of-ways, and upgrade of major utility main lines to the site. The Agency and the developer negotiated a set aside of 10% of the apartments for US Department of Housing and Urban Development (HUD) Section 8 referrals from the Missoula Housing Authority (MHA), or for rental at the current Section 8 levels if no referrals are available. The developer will submit annual reports regarding the set aside to the Agency and MHA, who will monitor compliance with this agreement.

Milwaukee Trail Lighting: During fiscal year 2015, the Agency completed the final phase of the Milwaukee Trail Lighting Project which included installation of lights from California Street to Russell Street and from Catlin Street to Garfield Street. The overall project constructed in three phases provides LED pedestrian lighting along the Milwaukee Trail between Orange Street and the western boundary of Urban Renewal District II. The final phase received substantial federal funding assistance through the Montana Department of Transportation's Community Transportation Enhancement Program (CTEP). The popular lighting project has increased safety and four-season use of the Milwaukee Trail portion of the City's trail system.

West Broadway Island Public Parking: In fiscal year 2015, the Agency purchased a portion of the parking lot located at 1111 West Broadway, which is adjacent to the West Broadway Island project. The parking lot is shared with the newly opened Imagine Nation Brewing Company and Center for Community Transformation, the first such brewery model in the United States. The purchase and development of the lot will allow the City to have dedicated parking for users of the island once it is developed and will provide shared parking for the adjacent business/non-profit.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

The most significant *committed* projects in **URD III** in fiscal year 2015 were the **South Crossing, Glidewell Insurance and Investment Group**, and the **Grant Street sidewalks project**.

South Crossing I & II: This project included a major redevelopment of the former underutilized Kmart building and property. The project has spanned several fiscal years, as large projects almost always do. In May 2013, the Agency committed \$565,543 for demolition of the dilapidated Kmart site. As a result of negotiations between the Agency and the developers, the proposed development was modified to meet the goals the Agency established for redevelopment in URD III in general and Brooks Street in particular. Consequently, in December 2013, an additional \$1,831,824 was committed for reconstruction of Dore Lane with sidewalks on both sides of the new street, construction of new sidewalks with pedestrian scale street lighting and street trees on Brooks, and a total reconstruction of the Brooks/Dore Lane intersection with curb extensions, pedestrian islands, a traffic signal and street lighting. These improvements were completed in fiscal year 2014 and the developer purchased adjacent property to develop South Crossing II. In January 2015, the Agency's Board approved \$425,303 for demolition of the old Cinema 6 theater building and improvements in the public right of way, including curb, gutter, sidewalks, lighting and landscaping. South Crossing II will consist of four new buildings housing a number of commercial uses, including retail, and food and beverage services, and has been designed in a way that meets the Agency's goals of improving the pedestrian environment and enhancing aesthetic appeal.

Glidewell Insurance and Investment Group (GiIG): This project involved the transformation of a building with little detail or aesthetics into a modern commercial building with architectural appeal. In January 2015, the Agency approved \$54,103 for demolition of an addition to the building and improvements in the public right of way. The Agency also approved a \$50,000 Façade Improvement Program grant for façade work. In March 2015, the Agency approved an additional request under the Façade Improvement Program for a no interest loan of \$62,000, repayable over 10 years. The project has transformed the building into attractive office space with significant pedestrian appeal.

Grant Street sidewalks: Completed in fiscal year 2015, this public works project installed curb, gutter and sidewalk along Grant Street between North Avenue and 14th Street. Curb, gutter and sidewalk were also installed on Kensington, Strand, and Burlington Avenue between Grant Street and the Forest Service property. This project reduces a blighting condition in the northwest corner of URD III and increases public safety as Grant Street is designated as a Safe Routes To School street. Trees that were removed to make way for the sidewalk were replaced in various locations in the project area.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

North Reserve – Scott Street (NRSS) Master Plan URD *committed* project:

NRSS Master Plan: At the end of fiscal year 2015, the Agency entered into an agreement with WGM Group to produce the North Reserve-Scott Street Urban Renewal District Master Plan. The primary goal of the Plan is to guide the Agency's priorities and actions, including recommendations to the City regarding zoning, transportation changes, policies and regulations. The Plan will include analyses and recommendations regarding: the type and spatial placement of land uses along with design guidelines for the uses; area-wide transportation modes and routes, which may include new streets and trails; marketing and development strategies for the recommended uses in the overall area and any sub areas; and implementation approaches to guide the Agency and City actions to achieve the Plan's goals.

In addition to the above, the Agency financially participated in several smaller private/public partnerships and publicly funded *committed* projects during fiscal year 2015. These were included in the district's expenditure summaries presented earlier.

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 Share funds authorized under 2001 Legislative House Bill 124. Looking forward, one negative aspect of this situation is that, as the current law reads, the State Entitlement funds that the Agency receives disappear upon the sunset of a district. Unlike the tax increment revenue normally captured by the district, which will revert back to the taxing jurisdictions upon sunset, the State Entitlement amount received annually by the Agency will revert back to the State of Montana. When House Bill 124 was passed into law, only URD II received Entitlement funds. More recent legislative changes to the taxes assessed on personal property included reimbursement components to local tax increment financing districts through the Entitlement Share program. As of fiscal year 2015, all of the Agency's urban renewal districts except the two new districts receive state reimbursements through the Entitlement Share.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

2011 Legislative Session

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

Senate Bill 372: 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 taxpayer; 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. After making an inquiry to the Department of Revenue, it was discovered there was an invalid tax increment financing (TIF) indicator in Missoula County that was used to calculate the reimbursement amounts. On December 4, 2012, the Department of Revenue sent out revised reimbursement schedules for fiscal year 2012 and 2013 for Missoula County TIF districts. The Agency received an additional \$74,374 for fiscal year 2012.

2013 Legislative Session

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

Senate Bill 96: Senate Bill 96 was also passed into law during the 2013 session. This bill reduced the tax rate for a portion of the taxable market value of class eight business equipment owned by a taxpayer. In addition it increased the exemption amount and provided for a partial reimbursement to the local governments, tax increment financing districts, school districts, county school retirement and transportation reimbursement and the university system. Senate Bill 96 increased the exemption amount from \$20,000 to \$100,000 and extended the 1.5% tax rate on class eight business equipment from the first \$3 million in excess of the exemption to the first \$6 million in excess of the exemption. For business equipment market value in excess of \$6 million, the tax rate remains at 3%. Reimbursements provided to local governments and tax increment financing districts have become part of the entitlement share payment. A one time reimbursement attributable to the tax on strict personal property (personal property taxes that are not a lien on real property) was also made during fiscal year 2014. [Note: This narrative has been updated from the fiscal year 2014 audit report, which inadvertently reported an earlier version of the bill.]

2015 Legislative Session

Senate Bill 157: Passed into law during the 2015 legislative session, this bill generally revised the property tax laws. The bill provides for a 2-year reappraisal cycle for class three agricultural and class four residential and commercial property. The purpose of this bill was to mitigate the fluctuations in market value for class three and four properties that occurred during the previously adopted 6-year reappraisal cycle. The bill specifies that class ten property is revalued every six years and all other property are revalued annually. The bill clarifies that the method of appraisal and assessment provided for in Section 15-7-111 MCA must be used in each county of the state so that comparable properties with similar full market values and subject to taxation in Montana have substantially equal taxable values in the tax year.

House Bill 114: Passed during the 2015 legislative session, this bill passed and clarified the laws related to the usage of tax increment remittances to school districts. Tax increment law allows for local governments to enter into agreement with other affected taxing bodies to remit any portion of the annual tax increment not currently required for the payment of costs allowed in 7-15-4288 MCA (tax increment activities) or pledged to the payment of principal and interest on bonds. With respect to any portion of a remittance to a school district, the law now reads that the amount must be used to reduce property taxes or be designated as operating reserve for the fiscal year following the fiscal year in which the remittance was received.

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 Fiscal Year Ended June 30, 2015

State Reimbursements

FY15 MRA Entitlement Share & Class 8 Personal Property Reimbursement Schedule

County Name	TIF Name	TIF Number	Annual Entitlement Share Payments Per 15-1-121(8)(b), MCA (1) (HB 124)		Annual Class 8 Personal Property Reimbursement (SB 372)		Annual Class 8 Personal Property Reimbursement (SB 96)		Total Annual Entitlement & Reimbursement Payment
Missoula	Urban Renewal District III (1-1D)	04-0583D	\$ -	+	\$ 121,116	+	\$ 156,734	=	\$ 277,850
Missoula	Urban Renewal District II (1-1C)	04-0583C	225,251	+	57,789	+	117,246	=	400,286
Missoula	Urban Renewal District II (4-1C)	04-0586C	30,009	+	4,239	+	8,058	=	42,305
Missoula	Front Street URD (1-1F)	04-0583F	-	+	22,983	+	30,992	=	53,975
Missoula	Riverfront URD (1-1R)	04-0583R	-	+	4,494	+	4,822	=	9,316
			\$ 255,260		\$ 210,620		\$ 317,851		\$ 783,732

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 six urban renewal districts that generate tax increment revenue administered by the Agency. URD II and III have existed for a number of years and have established revenues. Several years ago, the City created Front Street and Riverfront Triangle Districts, both of which are part of what was the original downtown district, URD I. They are areas that did not experience the level of redevelopment investment enjoyed by other parts of the downtown district. On August 25, 2014, the City created two new districts, the Hellgate Urban Renewal District and the North Reserve-Scott Street Urban Renewal District. Both have a base tax year of 2014 and per state law their tax increment provisions run 15 years and expire in 2029 (FY30) unless outstanding debt exists in the districts.

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

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

In fiscal year 2011, the Agency sent out a Request for Proposals for the development of the City owned portion of the Riverfront Triangle. The City Council subsequently entered into an agreement with Hotel Fox Partners, LLC to grant them the exclusive right for one year to perform their due diligence and negotiate a Development Agreement with the Agency/City. In January 2013, they received a one-year extension to continue their feasibility studies for a larger conference hotel and community conference center. During fiscal year 2014, a conference center feasibility study, partially funded by the Agency, was undertaken with final recommendations that a regional conference center was feasible, with several alternatives proposed. Decisions about moving forward with development of a conference center, the size, ownership and management structure continued through fiscal year 2015. Those determinations are expected to be completed prior to the end of fiscal 2016. This proposed development is another important component in the implementation of the Downtown Master Plan.

In fiscal year 2014, the Montana Department of Transportation (MDT) initiated a study of the Higgins Avenue and Madison Street Bridges. Staff has been a critical part of that process, particularly as a function of the implementation of the Downtown Master Plan. The result of that study was a decision by MDT to undertake major renovations of the two bridges, both of which are part of the Front Street URD. The Higgins Avenue Bridge will need to be widened in order to provide adequate bicycle and pedestrian accommodations and the Agency will most certainly play a role in those improvements when the time comes and if adequate tax increment resources exist.

In April 2015, Stockman Bank brought a proposal to the Agency to build a five or six story bank and Class A office building on the corner of Broadway and Orange Street in the Riverfront Triangle district. The new building, which will occupy a half block in the prominent downtown location, will include two levels of structured parking, several floors of bank space and rental office space. The Agency granted the Bank the right to proceed without prejudice with the understanding that the Bank's intention was to request tax increment financing assistance for demolition and public improvements in the City's right of ways. Construction of the new building is expected to begin in fiscal year 2016.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Fiscal Year Ended June 30, 2015

At the beginning of the recession, the Agency embarked on a project to build sidewalks in those areas of URD II and URD III that do not presently have any sidewalks or have gaps in the system. The Agency has built over 13 miles of new sidewalks in the past several years and will continue the program until there is a complete sidewalk system in both districts. This program provides sidewalks and improves drainage in lower income neighborhoods that would otherwise not have these amenities in the foreseeable future.

URD III has seen significant investment in fiscal year 2014 and 2015. With assistance from the Agency, South Crossing, a new development on the old Kmart property on South Brooks Street is serving as a catalyst for both public and other private development. Kohls, Cabela's, Petco, Boot Barn, City Brew, Men's Warehouse and other restaurants have been built on the site. The developers purchased an adjacent property where they are constructing four new commercial buildings with assistance from the Agency for demolition and public improvements. The South Crossing development has also spurred the Agency to make a significant investment into improvements to Brooks Street. In fiscal year 2015, reconstruction of the Brooks and Dore Lane intersection and of Dore Lane south of Brooks was completed with a commitment to continue those same improvements north on Brooks to Dixon in fiscal year 2016. The modifications include curb extensions and cross walks at the intersection, a new traffic signal, pedestrian scale lighting, wide sidewalks with street trees and the addition of bike lanes on Brooks.

Summary

Completing Silver Park in URD II's Old Sawmill District was a highlight for the Agency in fiscal year 2015. 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 include design elements that reflect good urban design and add diversity to the housing supply, particularly through the transformation of Brooks Street as an urban street which invites transit, pedestrian and bicycle use. The Agency's efforts continue to be targeted to the creation of more pedestrian friendly, sustainable development patterns and economic development projects. That effort is evidenced by the major sidewalk construction projects in URD II and III with a commitment to completing the networks in both districts. Major undertakings in the coming year will focus on planning efforts in the two new Urban Renewal Districts, redevelopment in the Front Street URD, redevelopment of the Riverfront Triangle property, implementation of the Downtown Master Plan components, encouraging appropriate redevelopment in URD II and III and the creation of affordable housing opportunities.

Missoula Redevelopment Agency
Ellen Buchanan
Director

FINANCIAL STATEMENTS

MISSOULA REDEVELOPMENT AGENCY

(A Component Unit of the City of Missoula)

STATEMENT OF NET POSITION

June 30, 2015

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>Governmental Activities</u>
CURRENT ASSETS	
Cash and investments	\$ 5,593,710
Taxes/assessments receivable, net	345,511
Current portion of notes receivable	20,179
Other current assets	82,375
Due from other governments	<u>68,236</u>
Total current assets	<u>6,110,011</u>
NONCURRENT ASSETS	
Notes receivable	560,398
Restricted cash	<u>675,665</u>
Total noncurrent assets	<u>1,236,063</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions and adjustments	<u>33,265</u>
Total assets and deferred outflows of resources	<u><u>\$ 7,379,339</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)
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2015

<u>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>	<u>Governmental Activities</u>
CURRENT LIABILITIES	
Accounts payable	\$ 520,593
Accrued wages	17,719
Accrued interest	2,197
Due to government	21,028
Compensated absences	30,856
Current portion of notes payable	148,930
Current portion of guarantor payable	8,184
Current portion of tax increment revenue bonds payable	<u>467,500</u>
Total current liabilities	<u>1,217,007</u>
NONCURRENT LIABILITIES	
Post employment benefits	25,366
Compensated absences, less current portion	34,958
Pension liability	394,296
Notes payable, less current portion	5,839,146
Guarantor payable, less current portion	52,594
Tax increment revenue bonds payable, less current portion	<u>10,560,000</u>
Total noncurrent liabilities	<u>16,906,360</u>
Total liabilities	<u>18,123,367</u>
DEFERRED INFLOWS OF RESOURCES	
Pension adjustments	<u>101,893</u>
<u>NET POSITION</u>	
Restricted for debt service	675,665
Unrestricted	<u>(11,521,586)</u>
Total net position	<u>(10,845,921)</u>
Total liabilities, deferred inflows of resources, and fund position	<u>\$ 7,379,339</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, 2015

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Governmental Activities</u>
<u>Governmental Activities</u>		
Housing and community development	\$ 3,967,466	\$ (3,967,466)
Interest expense	701,684	(701,684)
Total governmental activities	<u>4,669,150</u>	<u>(4,669,150)</u>
 Total primary government	 <u>\$ 4,669,150</u>	 <u>(4,669,150)</u>
<u>General Revenues</u>		
Property taxes for general purposes		3,067,045
State contribution - PERS		11,507
State entitlement funds (HB124)		255,260
Personal property reimbursement (SB372 and SB96)		528,473
Grant revenue (CMAQ and CTEP)		195,405
Investment income		<u>1,545</u>
Total general revenues		<u>4,059,235</u>
 Change in net position		 (609,915)
<u>Net Position</u>		
Beginning of year		(9,759,342)
Prior period adjustment for net pension liability		<u>(476,664)</u>
 End of year		 <u>\$ (10,845,921)</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, 2015

	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	\$ 44	\$ 600,999	\$ 3,695,150	\$ 557,737	\$ 27,418	\$ 712,362	\$ 5,593,710
Taxes/assessments receivable, net	3,369	-	133,597	-	-	208,545	345,511
Current portion of notes receivable	-	12,194	7,985	-	-	-	20,179
Other current assets	-	-	3,835	-	412	78,540	82,787
Due from other governments	-	10,485	19,228	-	-	42,224	71,937
Interfund receivable	-	189,530	-	28,011	-	-	217,541
	<u>3,413</u>	<u>813,208</u>	<u>3,859,795</u>	<u>585,748</u>	<u>27,830</u>	<u>1,041,671</u>	<u>6,331,665</u>
Noncurrent Assets							
Notes receivable	-	461,185	99,213	-	-	-	560,398
Restricted cash	-	-	-	-	-	675,665	675,665
	<u>-</u>	<u>461,185</u>	<u>99,213</u>	<u>-</u>	<u>-</u>	<u>675,665</u>	<u>1,236,063</u>
Total assets	<u>\$ 3,413</u>	<u>\$ 1,274,393</u>	<u>\$ 3,959,008</u>	<u>\$ 585,748</u>	<u>\$ 27,830</u>	<u>\$ 1,717,336</u>	<u>\$ 7,567,728</u>
<u>LIABILITIES</u>							
Current Liabilities							
Accounts payable	\$ -	\$ 132,640	\$ 386,066	\$ -	\$ 6,000	\$ -	\$ 524,706
Accrued wages	-	-	17,719	-	-	-	17,719
Due to government	-	-	21,028	-	-	-	21,028
Interfund payable	-	-	-	-	-	217,541	217,541
Accrued interest payable	-	-	-	-	-	2,197	2,197
Total liabilities	<u>-</u>	<u>132,640</u>	<u>424,813</u>	<u>-</u>	<u>6,000</u>	<u>219,738</u>	<u>783,191</u>
<u>DEFERRED INFLOW OF RESOURCES</u>							
Uncollected tax revenue	3,369	-	66,035	-	-	29,114	98,518
Total deferred inflow of resources	<u>3,369</u>	<u>-</u>	<u>66,035</u>	<u>-</u>	<u>-</u>	<u>29,114</u>	<u>98,518</u>
<u>FUND BALANCES</u>							
Nonspendable	-	461,185	103,048	-	-	-	564,233
Restricted	44	680,568	3,365,112	585,748	21,830	1,468,484	6,121,786
Total fund balance	<u>44</u>	<u>1,141,753</u>	<u>3,468,160</u>	<u>585,748</u>	<u>21,830</u>	<u>1,468,484</u>	<u>6,686,019</u>
Total liabilities deferred inflows and fund balances	<u>\$ 3,413</u>	<u>\$ 1,274,393</u>	<u>\$ 3,959,008</u>	<u>\$ 585,748</u>	<u>\$ 27,830</u>	<u>\$ 1,717,336</u>	<u>\$ 7,567,728</u>

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
June 30, 2015

Total fund balances - governmental funds	\$ 6,686,019
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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	98,518
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Deferred outflows and inflows of resources related to
pensions are applicable to future periods and, therefore,
are not reported in the fund

Deferred outflows of resources related to pensions	33,265
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Deferred inflows of resources related to pensions	(101,893)
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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>(17,561,830)</u>
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Total net position - governmental activities	<u>\$ (10,845,921)</u>
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MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	Urban Renewal District I	Urban Renewal District II	Urban Renewal District III	Front Street District	Riverfront Triangle District	Major Debt Service	Total
<u>REVENUES</u>							
Tax increment property tax	\$ -	\$ -	\$ 1,263,864	\$ -	\$ 5,098	\$ 2,175,894	\$ 3,444,856
State contribution - PERS	-	-	358	-	-	-	358
Grant revenue (CMAQ and CTEP)	-	151,298	-	44,107	-	-	195,405
State entitlement funds (HB124)	-	-	-	-	-	255,260	255,260
Personal property reimbursement (SB372 and SB96)	-	-	277,850	-	9,316	241,307	528,473
Investment earnings	-	194	869	128	8	346	1,545
Total revenues	-	151,492	1,542,941	44,235	14,422	2,672,807	4,425,897
<u>EXPENDITURES</u>							
Housing and community development	-	312,424	2,384,496	65,348	8,333	-	2,770,601
Capital outlay	-	741,128	449,900	-	-	-	1,191,028
Debt service expense - interest	-	-	-	-	-	701,684	701,684
Debt service expense - principal	-	-	-	-	-	1,075,370	1,075,370
Miscellaneous	-	-	-	-	-	92	92
Total expenditures	-	1,053,552	2,834,396	65,348	8,333	1,777,146	5,738,775
Excess (deficiency) of revenues over expenditures	-	(902,060)	(1,291,455)	(21,113)	6,089	895,661	(1,312,878)
<u>OTHER FINANCING SOURCES (USES)</u>							
Transfers in	-	745,662	250,000	147,843	-	326,425	1,469,930
Transfers out	-	(250,000)	-	-	-	(1,219,930)	(1,469,930)
Total other financing sources (uses)	-	495,662	250,000	147,843	-	(893,505)	-
Net change in fund balance	-	(406,398)	(1,041,455)	126,730	6,089	2,156	(1,312,878)
<u>FUND BALANCES</u>							
Beginning of year	44	1,548,151	4,509,615	459,018	15,741	1,466,328	7,998,897
End of year	\$ 44	\$ 1,141,753	\$ 3,468,160	\$ 585,748	\$ 21,830	\$ 1,468,484	\$ 6,686,019

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**
For the Year Ended June 30, 2015

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

Net change in fund balances - total governmental funds	\$ (1,312,878)
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	(377,811)
The change in compensated absence payable is reported in the statement of activities as an expense	(4,807)
The change in the other postemployment benefits is reported in the statement of activities as an expense	(3,527)
The decrease in expense due to the decrease in the liability for post employment benefits reported in the statement of activities does not consume current financial resources and, therefore, is not reported in the governmental funds	2,589
On behalf State contributions to pensions not reported as revenues on the Statement of Revenues, Expenditures, and Change in Fund Balance are report as revenues on the Statement of Activities	11,149
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>1,075,370</u>
Change in net position - statement of activities	<u><u>\$ (609,915)</u></u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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 seven urban renewal districts: URD I in 1978, URD II in 1991, URD III in 2000, Front Street district in 2007, Riverfront Triangle district in 2008, North Reserve – Scott Street Urban Renewal District in 2014 and Hellgate Urban Renewal District in 2014. The five-member governing board is appointed by the Mayor and approved by City Council. Due to the control exercised by the City, the Agency is considered a component unit of the City.

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

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

Basis of Presentation and Basis of Accounting

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

Government-wide Statements

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Basis of Accounting (Continued)

Government-wide Statements (Continued)

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

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

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

Fund Financial Statements

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

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Basis of Accounting (Continued)

Fund Financial Statements (Continued)

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

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

Major Funds

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

Special Revenue Funds

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

Debt Service Funds

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Basis of Accounting (Continued)

Classification of Fund Balance

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

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

Expenditure Order for Resource Categories

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Basis of Accounting (Continued)

Budgets and Budgetary Accounting

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

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

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

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

The City Council may amend a final budget when shortfalls in budgeted revenues require reductions in approved appropriations to avert deficit spending; when savings result from unanticipated adjustments in projected expenditures; when unanticipated state or federal monies are received; for bonding; 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, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

The Agency has adopted the provisions of the following GASB pronouncements for fiscal year 2015:

Statement No. 68 – *Accounting and Financial Reporting for Pensions*. This Statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements.

Statement No 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This Statement establishes standards of accounting and financial reporting for amounts associated with contributions made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Estimates

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

Cash and Cash Equivalents

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

Interfund Receivables and Payables

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Increment

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

Taxable valuations for each Urban Renewal District and the corresponding tax increment amounts for November 2014 property tax billing are as follows:

	<u>Taxable Value</u>	<u>Increment Value</u>
Urban Renewal District II	\$ 3,802,603	\$ 1,942,780
Urban Renewal District III	8,470,753	1,466,407
Front Street Urban Renewal District	1,950,387	537,352
Riverfront Triangle Urban Renewal District	120,870	-

Capital Assets

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

Compensated Absences

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

Other Postemployment Benefits

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

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	\$ 990,245
Cash on Hand	7,919
Government Securities	5,094,813
Certificates of Deposit	176,398
Less restricted cash held for debt service reserve	<u>(675,665)</u>
	<u><u>\$ 5,593,710</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.

NOTE 3. OTHER CURRENT ASSETS

Other current assets consist of the following at June 30, 2015:

Prepaid expenses	\$ 3,835
Other receivables	<u>78,540</u>
	<u><u>\$ 82,375</u></u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

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, 2015, the note had an outstanding balance of \$36,600.

In October 2011, the Agency was assigned a \$40,000 note receivable in relation to a Water Main Extension Contract with Mountain Water Company. The note bears interest at 0% and calls for annual payments of \$1,000 over forty years. In 2013, the Agency executed additional notes in relation to the Water Main Extension Contracts and fire hydrant installations with Mountain Water Company for \$508,261. The notes bear interest at 0% and call for annual payments of \$12,707 over forty years. At June 30, 2015, the outstanding balance of all the Mountain Water Company notes was \$473,379 and \$70,598 in URD II and URD III, respectively.

Collections to maturity at June 30, 2015, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>
2016	\$ 20,179
2017	20,179
2018	20,179
2019	20,179
2020	20,179
Thereafter	<u>479,682</u>
Total	<u><u>\$ 580,577</u></u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 5. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2015, were as follows:

	Beginning Balance	Additions	Debt Retired	Ending Balance	Current Portion
Compensated Absences	\$ 61,007	\$ 62,605	\$ (57,798)	\$ 65,814	\$ 35,394
Notes Payable	6,571,385	-	(583,309)	5,988,076	148,930
Guarantor Payable	78,837	-	(18,059)	60,778	8,184
Bonds Payable	11,501,500	-	(474,000)	11,027,500	467,500
Total	<u>\$ 18,212,729</u>	<u>\$ 62,605</u>	<u>\$ (1,133,166)</u>	<u>\$ 17,142,168</u>	<u>\$ 660,008</u>

Bonds Payable

Mill Site Bonds

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 5. LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

Mill Site Bonds (Continued)

Debt service requirements to maturity on the August 2006 tax increment bonds at June 30, 2015, are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 120,000	\$ 130,400	\$ 250,400
2017	125,000	125,000	250,000
2018	130,000	119,375	249,375
2019	135,000	113,525	248,525
2020	140,000	107,450	247,450
2021-2025	810,000	431,066	1,241,066
2026-2030	1,025,000	207,320	1,232,320
2031-2034	235,000	11,162	246,162
Total	<u>\$ 2,720,000</u>	<u>\$ 1,245,298</u>	<u>\$ 3,965,298</u>

Silver Park, Wyoming Street and Trestle Bonds

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

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

NOTE 5. LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

Silver Park, Wyoming Street and Trestle Bonds (Continued)

Debt service requirements to maturity on the March 2013 tax increment bonds at June 30, 2015, are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 260,000	\$ 165,265	\$ 425,265
2017	268,000	157,012	425,012
2018	276,000	148,507	424,507
2019	286,000	139,734	425,734
2020	294,000	130,662	424,662
2021-2025	1,618,000	507,103	2,125,103
2026-2030	1,491,000	212,704	1,703,704
2031-2034	818,000	32,447	850,447
Total	<u>\$ 5,311,000</u>	<u>\$ 1,493,434</u>	<u>\$ 6,804,434</u>

Intermountain Lumber Site

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 5. LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

Intermountain Lumber Site (Continued)

Debt service requirements to maturity on the May 2013 tax increment bonds at June 30, 2015, are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 37,500	\$ 35,732	\$ 73,232
2017	76,500	69,063	145,563
2018	80,500	65,769	146,269
2019	83,500	62,326	145,826
2020	87,000	58,735	145,735
2021-2025	495,500	234,154	729,654
2026-2030	478,500	105,134	583,634
2031-2034	342,500	22,153	364,653
Total	<u>\$ 1,681,500</u>	<u>\$ 653,066</u>	<u>\$ 2,334,566</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, 2015

NOTE 5. LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

Safeway Bonds (Continued)

Repayment of the debt service deficiency to the Guarantor at June 30, 2015, is scheduled as follows:

Year Ending June 30,	Principal
2016	\$ 8,184
2017	11,701
2018	15,177
2019	8,825
2020	12,995
2021-2025	3,896
Total	<u>\$ 60,778</u>

Debt service requirements to maturity on the tax increment bonds at June 30, 2015, are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 50,000	\$ 90,524	\$ 140,524
2017	50,000	87,049	137,049
2018	50,000	83,574	133,574
2019	60,000	79,925	139,925
2020	60,000	75,755	135,755
2021-2025	380,000	308,058	688,058
2026-2030	530,000	153,595	683,595
2031-2034	135,000	7,124	142,124
Total	<u>\$ 1,315,000</u>	<u>\$ 885,604</u>	<u>\$ 2,200,604</u>

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

NOTE 5. LONG-TERM DEBT (CONTINUED)

Notes Payable

MPC Note Payable

In December 2010, the Missoula Parking Commission (MPC) issued \$7,500,000 of bonds to fund the construction of a new parking structure. In April 2014, MPC refunded the 2010 bonds and issued new bonds totaling \$7,160,000. The Agency agreed to fund a portion of the bonds which will be supported by parking revenue and tax increment revenue. The bonds bear interest ranging from 2.00% to 4.35%. The Agency has committed to paying 40% of all principal and interest payments for the life of the bond. The reduction in the bond issuance resulted in proceeds from debt modification of \$44,000 which was reported under other revenues on the Statement of Activities at June 30, 2014. Under the terms of the agreement, the Agency will transfer \$133,425 of pledged tax increment funds to MPC in two equal installments each year.

Debt service requirements to maturity on the MPC note payable at June 30, 2015, are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 114,000	\$ 109,770	\$ 223,770
2017	60,000	108,290	168,290
2018	102,000	104,390	206,390
2019	170,000	101,330	271,330
2020	50,000	98,030	148,030
2021-2025	594,000	435,070	1,029,070
2026-2030	706,000	311,992	1,017,992
2031-2035	860,000	154,853	1,014,853
2036-2037	192,000	8,352	200,352
Total	<u>\$ 2,848,000</u>	<u>\$ 1,432,077</u>	<u>\$ 4,280,077</u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 5. LONG-TERM DEBT (CONTINUED)

Notes Payable (Continued)

Brownfields RLF Note Payable

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

Debt service requirements to maturity on Brownfields note payable at June 30, 2015, are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ -	\$ 24,781	\$ 24,781
2017	-	24,819	24,819
2018	-	24,886	24,886
2019	-	24,717	24,717
2020	-	114,002	114,002
2021-2025	532,687	114,002	646,689
2026-2030	887,812	54,063	941,875
2031-2034	231,802	2,811	234,613
Total	<u>\$ 1,652,301</u>	<u>\$ 384,081</u>	<u>\$ 2,036,382</u>

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2015

NOTE 5. LONG-TERM DEBT (CONTINUED)

Notes Payable (Continued)

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, 2015, are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 34,930	\$ 98,523	\$ 133,453
2017	37,218	96,306	133,524
2018	39,656	93,943	133,599
2019	42,253	91,425	133,678
2020	45,021	88,742	133,763
2021-2025	273,394	396,905	670,299
2026-2030	375,453	297,984	673,437
2031-2035	515,612	162,132	677,744
2036-2037	124,238	16,024	140,262
Total	<u>\$ 1,487,775</u>	<u>\$ 1,341,984</u>	<u>\$ 2,829,759</u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

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. As of June 30, 2015, the Wilma note was paid in full.

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. As of June 30, 2015, the Civic Stadium note was paid in full.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 6. COMMITMENTS

The Agency has entered into contracts for various projects and activities. As of June 30, 2015, the Agency had commitments totaling \$2,535,364 that will be financed from operating funds.

Urban Renewal District II:

Public:

Silver Park	\$ 347,053
Westside Neighborhood Association	7,545
Western	264,276
West Broadway Island Trail and Bridge	46,413

Private:

Midtown Apartments	147,514
	<u>\$ 812,801</u>

Urban Renewal District III:

Public:

Bitterroot Branch Trail	\$ 49,204
Brooks Street Corridor Public Imp.	145,305
NRSS URD Master Plan	230,273
Sidewalks - Burlington/Garfield	67,900
South Reserve St Trail Crossing	326,467

Private:

Allegiance	67,700
Felton Dental	97,984
Glidewell Investments & Insurance Group	166,103
Krispy Kreme	38,000
South Crossing	425,303
TC Glass	23,324
	<u>\$ 1,637,563</u>

Front Street Urban Renewal District:

Public:

A Carousel for Missoula	\$ 50,000
Caras Park Stormwater Improvements	25,000
MUTD/UM Transit Study	10,000
	<u>\$ 85,000</u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 8. PENSION PLAN

Plan Description

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the defined contribution and defined benefit retirement plans. All new members from the universities also have a third option to join the university system's Montana University System Retirement Program (MUS-RP). For members that choose to join the PERS-DCRP or the MUS-RP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

Summary of Benefits

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 – highest average compensation during any consecutive 36 months;
Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months;
Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

Eligibility for benefit

Service retirement:

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

Hired on or after July 1, 2011:	Age 65, 5 years of membership services; Age 70, regardless of membership service.
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Early retirement, actuarially reduced:

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 8. PENSION PLAN (CONTINUED)

Vesting

5 years of membership service

Monthly benefit formula

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)*

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007
- After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

*At this time, as a result of permanent injunction issued in the AMRPE vs State litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013, is pending.

Total number of members (employees) covered by benefit terms as of June 30, 2015:

1. Active plan members: 28,237
2. Inactive members entitled to but not yet receiving benefits or a refund:
 - Vested: 2,925
 - Non-vested: 8,839
3. Inactive members and beneficiaries currently receiving benefits:
 - Service Retirements: 20,080
 - Disability Retirements: 176
 - Survivor Benefits: 425

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 8. PENSION PLAN (CONTINUED)

Overview of Contributions

1. Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan.
2. Member contributions to the system:
 - a. Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
 - b. The 7.90% member contributions is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
3. Employer's contributions to the system:
 - a. State and University System employers are required to contribute 8.27% of members' compensation.
 - b. Local government entities are required to contribute 8.17% of members' compensation.
 - c. School district employers contributed 7.90% of members' compensation.
 - d. Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates.
 - e. Effective July 1, 2013, the additional employer contributions for DCRP and MUS-RP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability.
 - f. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 8. PENSION PLAN (CONTINUED)

Overview of Contributions (Continued)

- 4. Non Employer Contributions
 - a. Special Funding
 - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
 - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
 - b. Not Special Funding
 - i. The State contributes from the Coal Tax Severance fund

Stand-Alone Statements

The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena, MT 59620-0131, 406-444-3154.

CAFR information including standalone financial statements can be found on the website at <http://mpera.mt.gov/annualreports.shtml>

The latest actuarial valuation and experience study can be found at the website at <http://mpera.mt.gov/actuarialvaluations.shtml>

Actuarial Assumptions

The total pension liability is based on the results of an actuarial valuation date of June 30, 2014 (measurement date). There were several significant assumptions and other inputs used to measure the total pension liability. The actuarial assumptions used in the measurement date valuation were based on the results of the last actuarial experience study, dated May 2010, for the six-year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

General Wage Growth* 4.00%

includes Inflation at 3.00%

Merit Increases 0% to 6%

Investment Return 7.75%

Postretirement Benefit Increases

- 3% for members hired prior to July 1, 2007

- 1.5% for members hired on or after July 1, 2007

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

*At this time as a result of permanent injunction issued in the AMRPE vs State litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013 is pending.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 8. PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly. Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2122. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. No municipal bond rate was incorporated in the discount rate.

Target Allocations

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 8. PENSION PLAN (CONTINUED)

Target Analysis

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the system's target asset allocation as of the measurement date, is summarized in the above table.

Sensitivity Analysis

	1.0% Decrease <u>(6.75%)</u>	Current Discount <u>Rate (7.75%)</u>	1.0% Increase <u>(8.75%)</u>
PERS' Net Pension Liability	\$1,982,274,732	\$1,246,010,898	\$625,044,646
Missoula Redevelopment Agency's Net Pension Liability	\$ 627,945	\$ 394,711	\$ 198,002

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the above table presents the net pension liability calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

Summary of Significant Accounting Policies

The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the net pension liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 8. PENSION PLAN (CONTINUED)

Summary of Significant Accounting Policies (Continued)

For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable GASB statements.

Net Pension Liability

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 68 became effective June 30, 2015, and includes requirements to record and report their proportionate share of the collective net pension liability, pension expense, deferred inflows, and deferred outflows of resources associated with pensions.

In accordance with Statement 68, PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf of the employers. Due to the existence of this special funding situation, local governments and school districts are required to report the portion of the State of Montana's proportionate share of the collective net pension liability that is associated with the employer.

The State of Montana also has a funding situation that is not special funding whereby the State General Fund provides contributions from the coal severance tax and interest. All employers are required to report the portion of coal severance tax and interest attributable to the employer.

	Net Pension Liability as of <u>June 30, 2013</u>	Net Pension Liability as of <u>June 30, 2014</u>	Percent of <u>Collective NPL</u>
Agency Proportionate Share	\$507,933	\$394,296	.0317%
State of Montana Proportionate Share associated with the			
Agency	<u>6,203</u>	<u>4,820</u>	<u>.0402%</u>
Total	<u>\$514,136</u>	<u>\$399,531</u>	<u>.0719%</u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 8. PENSION PLAN (CONTINUED)

Net Pension Liability (Continued)

At June 30, 2015, the Agency recorded a liability of \$394,296 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The Agency's proportion of the net pension liability was based on the Agency's contributions received by PERS during the measurement period July 1, 2013, through June 30, 2014, relative to the total Agency contributions received from all of PERS' participating employers. At June 30, 2014, the Agency's proportion was .0317 percent.

Changes in actuarial assumptions and methods: There were no changes in assumptions or other inputs that affected the measurement of the total pension liability.

Changes in benefit terms: There have been no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective net pension liability and the Agency's reporting date that are expected to have a significant effect on the Agency's proportionate share of the collective NPL.

At June 30, 2015, the Agency recognized a pension expense of \$30,500 for its proportionate share of the PERS' pension expense. The Agency also recognized grant revenue of \$11,161 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the Agency.

	<u>Pension expense</u>
Agency's	
Proportionate Share	\$19,339
State of Montana Proportionate Share	
associated with the Agency	<u>11,161</u>
Total	<u>\$30,500</u>

Recognition of Beginning Deferred Outflow – GASB 71

At June 30, 2015, the Agency recognized a beginning deferred outflow of resources for the Agency's fiscal year 2014 contributions of \$30,912.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 8. PENSION PLAN (CONTINUED)

Deferred Inflows and Outflows

At June 30, 2015, the Agency reported its proportionate share of PERS' deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ -	\$ -
Changes in assumptions	-	-
Difference between projected and actual earnings on pension plan investments	-	101,987
Changes in proportion differences between Agency contributions and proportionate share of contributions	208	13
Difference between actual and expected contributions	-	-
Contributions paid to PERS subsequent to the measurement date – fiscal year 2015*	<u>33,092</u>	<u>-</u>
Total	<u>\$33,300</u>	<u>\$102,000</u>

*Amounts reported as deferred outflows of resources related to pensions resulting from the Agency's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Amounts recognized in Pension Expense as a decrease to Pension Expense</u>
2016	\$ 52	\$25,484	\$(25,432)
2017	52	25,484	(25,432)
2018	52	25,549	(25,497)
2019	-	-	-
2020	-	-	-
Thereafter	-	-	-

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 9. 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	\$ 745,662	\$ 250,000
Urban Renewal District III	250,000	-
Front Street URD	147,843	-
Debt Service	326,425	1,219,930
	<u>\$ 1,469,930</u>	<u>\$ 1,469,930</u>

NOTE 10. 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 11. 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, 2015

NOTE 11. POSTEMPLOYMENT BENEFITS (CONTINUED)

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

Retirees and the Agency contribute to the plan. The plan is financed on a pay-as-you-go basis with the Agency contributions ensuring that adequate reserves are maintained in the plan. The Agency's contribution is not contributed to a trust for only retiree benefits so it is not considered a contribution towards the annual required contribution under GASB Statement No. 45. The contributions to the plan are as follows for June 30, 2015.

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 11. POSTEMPLOYMENT BENEFITS (CONTINUED)

Based on an actuarial study prepared as of June 30, 2015, the Agency's portion of the annual other postemployment benefit cost was \$25,366 for the fiscal year ended June 30, 2015. This cost and the related net other postemployment benefit obligation consisted of the annual required contribution for the year. There were no qualified contributions made toward this cost. The net other postemployment benefit obligation increased from \$21,839 to \$25,366 at June 30, 2015. A schedule of the Agency's annual OPEB cost is presented below:

	2015	2014	2013
Annual required contribution (ARC)	\$ 5,931	\$ 8,365	\$ 8,646
Interest and ARC Adjustment	(323)	(281)	(259)
Annual OPEB cost	5,608	8,084	8,387
Contributions made	(2,081)	(3,093)	(6,423)
Change in net OPEB obligation	3,527	4,991	1,964
Net OPEB obligation - beginning of year	21,839	16,848	14,884
Net OPEB obligation - end of year	<u>\$ 25,366</u>	<u>\$ 21,839</u>	<u>\$ 16,848</u>
Percentage of annual OPEB cost contribute	37%	38%	77%

As of June 30, 2015, the Agency's portion of the plan had an unfunded accrued actuarial liability of \$62,486. 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 \$320,344 for fiscal year 2015; the unfunded actuarial liability was 20% of covered payroll.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the substantive plan at the time of the actuarial valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point. Actuarial calculations reflect a long-term prospective and, consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities. Actuarial calculations are performed every two years with the last calculation performed as of June 30, 2013. For the actuarial valuation performed at June 30, 2015, the projected unit credit actuarial cost method was used. The health care cost trend rate was 5.0% for 2015 and after. The assumed discount and long-term rate of return was 3.98%. 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, 2015.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 11. POSTEMPLOYMENT BENEFITS (CONTINUED)

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

NOTE 12. RELATED PARTY TRANSACTIONS

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

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

NOTE 13. 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, 2015, the Agency had a total fund balance in Governmental funds of \$6,686,019. In accordance with GASB Statement No. 54 this fund balance has been classified as follows:

Special Revenue Funds		
Nonspendable	\$ 564,233	Prepaid expenses and notes receivable
Restricted	4,653,302	Restricted for urban renewal development
Debt Service		
Restricted	<u>1,468,484</u>	Restricted for debt service
	<u>\$ 6,686,019</u>	

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2015

NOTE 14. RESTATEMENT OF BEGINNING NET POSITION

The Agency has implemented GASB Statement 68 for the year ended June 30, 2015, regarding the reporting of pension liabilities, and GASB Statement 71, regarding the reporting of pension contributions subsequent to the measurement date of June 30, 2014. Accordingly, beginning net position has been restated to reflect the previously unrecognized pension liability as follows:

Beginning net position, as originally reported	\$ (9,759,342)
Pension liability, June 30, 2013	(507,542)
Retirement contributions in 2014	<u>30,880</u>
Net restatement	<u>(476,664)</u>
Beginning net position, as restated	\$ <u>(10,845,921)</u>

As the pension expense, deferred inflows and deferred outflows related to the net pension liability were not available for the year ended June 30, 2014, the prior year financial statements have not been restated.

NOTE 15. SUBSEQUENT EVENTS

Subsequent to June 30, 2015, the Agency issued \$5,000,000 Series 2015A URD III bonds on December 2, 2015, related to the South Reserve Trail Crossing project. The Agency also issued \$1,364,400 Series 2015 North Reserve Scott Street URD bonds on December 17, 2015, related to the Bretz RV, Consumer Direct, and Edgell projects. Additionally, the Agency anticipates bonding in January 2016 for infrastructure improvements in URD III related to the Mary Avenue improvement project.

REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2015

	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, 2014	\$ 1,548,151	\$ 1,548,151	\$ 1,548,151	\$ -	\$ 4,509,615	\$ 4,509,615	\$ 4,509,615	\$ -
Resources (Inflows):								
Investment earnings (expense)	-	-	194	194	-	-	869	869
Tax increment property tax	-	-	-	-	1,837,654	1,185,913	1,263,864	77,951
State contribution PERS	-	-	-	-	-	-	358	358
State personal property tax reimbursement	-	-	-	-	121,116	277,850	277,850	-
Grant	-	200,000	151,298	(48,702)	-	-	-	-
State entitlement	200,000	-	-	-	-	-	-	-
Transfers in	616,365	766,500	745,662	(20,838)	250,000	250,000	250,000	-
Amounts available for appropriation	<u>\$ 2,364,516</u>	<u>\$ 2,514,651</u>	<u>2,445,305</u>	<u>\$ (69,346)</u>	<u>\$ 6,718,385</u>	<u>\$ 6,223,378</u>	<u>6,302,556</u>	<u>\$ 79,178</u>
Charges to Appropriations (Outflows):								
Housing and community development	\$ 879,248	\$ 1,149,632	312,424	\$ 837,208	\$ 3,962,814	\$ 5,234,690	2,384,496	\$ 2,850,194
Capital outlay	680,000	1,115,019	741,128	373,891	2,145,956	688,688	449,900	238,788
Transfers out	250,000	250,000	250,000	-	-	-	-	-
Total charges to appropriations	<u>\$ 1,809,248</u>	<u>\$ 2,514,651</u>	<u>1,303,552</u>	<u>\$ 1,211,099</u>	<u>\$ 6,108,770</u>	<u>\$ 5,923,378</u>	<u>2,834,396</u>	<u>\$ 3,088,982</u>
Excess of resources (inflows) over charges to appropriations (outflows)			<u>1,141,753</u>				<u>3,468,160</u>	
Budgetary Fund Balance, June 30, 2015			<u>\$ 1,141,753</u>				<u>\$ 3,468,160</u>	

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – SPECIAL REVENUE FUNDS (CONTINUED)
For the Year Ended June 30, 2015

	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, 2014	\$ 459,018	\$ 459,018	\$ 459,018	\$ -	\$ 15,741	\$ 15,741	\$ 15,741	\$ -
Resources (Inflows):								
Investment earnings (expense)	-	-	128	128	-	-	8	8
Tax increment property tax	-	-	-	-	-	-	5,098	5,098
State contribution PERS	-	-	-	-	-	-	-	-
State personal property tax reimbursement	-	-	-	-	4,494	9,316	9,316	-
Grant	-	44,107	44,107	-	-	-	-	-
State entitlement	-	-	-	-	-	-	-	-
Transfers in	164,160	218,465	147,843	(70,622)	-	-	-	-
Amounts available for appropriation	<u>\$ 623,178</u>	<u>\$ 721,590</u>	<u>651,096</u>	<u>\$ (70,494)</u>	<u>\$ 20,235</u>	<u>\$ 25,057</u>	<u>30,163</u>	<u>\$ 5,106</u>
								-
Charges to Appropriations (Outflows):								
Housing and community development	\$ 530,252	\$ 721,590	65,348	\$ (656,242)	\$ 26,862	\$ 25,057	8,333	\$ (16,724)
Capital outlay	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total charges to appropriations	<u>\$ 530,252</u>	<u>\$ 721,590</u>	<u>65,348</u>	<u>\$ (656,242)</u>	<u>\$ 26,862</u>	<u>\$ 25,057</u>	<u>8,333</u>	<u>\$ (16,724)</u>
Excess of resources (inflows) over charges to appropriations (outflows)			<u>585,748</u>				<u>21,830</u>	
Budgetary Fund Balance, June 30, 2015			<u>\$ 585,748</u>				<u>\$ 21,830</u>	

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – BUDGET-TO-GAAP RECONCILIATION –
SPECIAL REVENUE FUNDS
June 30, 2015

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	\$ 2,445,305	\$ 6,302,556	\$ 651,096	\$ 30,163
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(1,548,151)	(4,509,615)	(459,018)	(15,741)
Transfers from other funds are inflows of budgetary resource but are not revenues for financial reporting purposes	<u>(745,662)</u>	<u>(250,000)</u>	<u>(147,843)</u>	<u>-</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 151,492</u>	<u>\$ 1,542,941</u>	<u>\$ 44,235</u>	<u>\$ 14,422</u>
Uses/Outflows of Resources				
Actual total charges to appropriations from the budgetary comparison schedule	\$ 1,303,552	\$ 2,834,396	\$ 65,348	\$ 8,333
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(250,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 1,053,552</u>	<u>\$ 2,834,396</u>	<u>\$ 65,348</u>	<u>\$ 8,333</u>

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
SCHEDULE OF FUNDING PROGRESS FOR
RETIREE HEALTH INSURANCE BENEFIT PLAN
 June 30, 2015

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
2013	\$ -	\$ 85,566	\$ 85,566	0%	\$ 289,782	30%
2015	-	62,486	62,486	0%	320,344	20%

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
SCHEDULE OF PROPORTIONATE SHARE OF
PERS NET PENSION LIABILITY
June 30, 2015

Employer's proportion of the net pension liability	\$ 394,711
Employer's proportionate share of the net pension liability associated with the Employer	0.0317%
State of MT proportionate share of the net pension liability associated with the Employer	<u>4,820</u>
Total	<u><u>\$ 399,531</u></u>
Employer's covered-employee payroll	\$ 358,594
Employer's proportionate share of the net pension liability as of its covered-employee payroll (as a percentage)	110.072%
Plan fiduciary net position the total pension liability (as a percentage)	79.90%

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
SCHEDULE OF PERS CONTRIBUTIONS
June 30, 2015

Contractually required contributions	\$ 33,092
Contributions in relation to the contractually required contributions	33,092
Contribution deficiency (excess)	-
Employer's covered-employee payroll	358,594
Contributions of covered-employee payroll	8.6200%

SUPPLEMENTARY INFORMATION

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BALANCE SHEET – COMBINING DEBT SERVICE
June 30, 2015

	URD II Bonds	Brownfields RLF Note	Safeway St. Patrick Hospital Bonds	Front Street Notes	Inter- Mountain Bonds	Total
<u>ASSETS</u>						
Current Assets						
Cash and investments	\$ 189,643	\$ 3	\$ 74,978	\$ 293,881	\$ 153,857	\$ 712,362
Taxes/assessments receivable, net	172,172	-	-	36,373	-	208,545
Other current assets	-	-	-	78,540	-	78,540
Due from other governments	33,267	-	-	8,957	-	42,224
	<u>395,082</u>	<u>3</u>	<u>74,978</u>	<u>417,751</u>	<u>153,857</u>	<u>1,041,671</u>
Noncurrent Assets						
Restricted cash	<u>675,665</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>675,665</u>
Total assets	<u>\$ 1,070,747</u>	<u>\$ 3</u>	<u>\$ 74,978</u>	<u>\$ 417,751</u>	<u>\$ 153,857</u>	<u>\$ 1,717,336</u>
<u>LIABILITIES</u>						
Current Liabilities						
Interfund payable	\$ 189,530	\$ -	\$ -	\$ 28,011	\$ -	\$ 217,541
Accrued interest payable	-	2,197	-	-	-	2,197
Total liabilities	<u>189,530</u>	<u>2,197</u>	<u>-</u>	<u>28,011</u>	<u>-</u>	<u>219,738</u>
<u>DEFERRED INFLOW OF RESOURCES:</u>						
Uncollected tax revenue	<u>15,909</u>	<u>-</u>	<u>-</u>	<u>13,205</u>	<u>-</u>	<u>29,114</u>
Total deferred inflow of resources	<u>15,909</u>	<u>-</u>	<u>-</u>	<u>13,205</u>	<u>-</u>	<u>29,114</u>
<u>FUND BALANCES</u>						
Restricted	<u>865,308</u>	<u>(2,194)</u>	<u>74,978</u>	<u>376,535</u>	<u>153,857</u>	<u>1,468,484</u>
Total fund balances	<u>865,308</u>	<u>(2,194)</u>	<u>74,978</u>	<u>376,535</u>	<u>153,857</u>	<u>1,468,484</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,070,747</u>	<u>\$ 3</u>	<u>\$ 74,978</u>	<u>\$ 417,751</u>	<u>\$ 153,857</u>	<u>\$ 1,717,336</u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION –
COMBINING DEBT SERVICE
For the Year Ended June 30, 2015

	URD II Bonds	Brownfields RLF Note	Safeway St. Patrick Hospital Bonds	Front Street Notes	Inter- Mountain Bonds	Total
<u>REVENUES</u>						
Tax increment property tax	\$ 1,739,589	\$ -	\$ -	\$ 436,305	\$ -	\$ 2,175,894
State Entitlement/CMAQ Funds	255,260	-	-	-	-	255,260
State Personal Property Tax Reimbursement	187,332	-	-	53,975	-	241,307
Investment earnings (losses)	205	2	20	64	55	346
Total revenues	<u>2,182,386</u>	<u>2</u>	<u>20</u>	<u>490,344</u>	<u>55</u>	<u>2,672,807</u>
<u>EXPENDITURES</u>						
<u>Current:</u>						
Interest expense	309,566	24,781	94,727	198,241	74,369	701,684
Principal expense	862,000	-	58,061	83,309	72,000	1,075,370
Miscellaneous	92	-	-	-	-	92
Total expenditures	<u>1,171,658</u>	<u>24,781</u>	<u>152,788</u>	<u>281,550</u>	<u>146,369</u>	<u>1,777,146</u>
Excess (deficiency) of revenues over expenditures	<u>1,010,728</u>	<u>(24,779)</u>	<u>(152,768)</u>	<u>208,794</u>	<u>(146,314)</u>	<u>895,661</u>
<u>OTHER FINANCING SOURCES (USES)</u>						
Transfers in	-	22,600	149,702	-	154,123	326,425
Transfers out	(1,072,087)	-	-	(147,843)	-	(1,219,930)
Total other financing sources (uses)	<u>(1,072,087)</u>	<u>22,600</u>	<u>149,702</u>	<u>(147,843)</u>	<u>154,123</u>	<u>(893,505)</u>
Net change in fund balance	(61,359)	(2,179)	(3,066)	60,951	7,809	2,156
<u>FUND BALANCES</u>						
Beginning of year	<u>926,667</u>	<u>(15)</u>	<u>78,044</u>	<u>315,584</u>	<u>146,048</u>	<u>1,466,328</u>
End of year	<u>\$ 865,308</u>	<u>\$ (2,194)</u>	<u>\$ 74,978</u>	<u>\$ 376,535</u>	<u>\$ 153,857</u>	<u>\$ 1,468,484</u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – DEBT SERVICE
For the Year Ended June 30, 2015

	Major Debt Service			
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Budgetary Fund Balance, July 1, 2014	\$ 1,466,328	\$ 1,466,328	\$ 1,466,328	\$ -
Resources (Inflows):				
Investment earnings	-	-	346	346
Tax increment property tax	2,326,147	2,006,817	2,175,894	169,077
State personal property tax reimbursement	-	241,307	241,307	-
State entitlement	-	255,260	255,260	-
Transfers in	1,545,623	1,518,417	326,425	(1,191,992)
Amounts available for appropriation	<u>\$ 5,338,098</u>	<u>\$ 5,488,129</u>	<u>4,465,560</u>	<u>\$ (1,022,569)</u>
Charges to Appropriations (Outflows):				
Debt service expenditures	\$ 1,818,192	\$ 1,785,403	1,777,054	\$ 8,349
Miscellaneous	-	-	92	92
Transfers out	2,326,147	2,503,383	1,219,930	1,283,453
Total charges to appropriations	<u>\$ 4,144,339</u>	<u>\$ 4,288,786</u>	<u>2,997,076</u>	<u>\$ 1,291,894</u>
Excess of resources (inflows) over charges to appropriations (outflows)			<u>1,468,484</u>	
Budgetary Fund Balance, June 30, 2015			<u>\$ 1,468,484</u>	

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – BUDGET-TO-GAAP RECONCILIATION –
DEBT SERVICE
June 30, 2015

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

Sources/Inflows of Resources

Actual available for appropriation from the budgetary comparison schedule	\$ 4,465,560
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The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(1,466,328)
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Transfers from other funds are inflows of budgetary resource but are not revenues for financial reporting purposes	<u>(326,425)</u>
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Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 2,672,807</u>
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Uses/Outflows of Resources

Actual total charges to appropriations from the budgetary comparison schedule	\$ 2,997,076
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Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(1,219,930)</u>
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Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 1,777,146</u>
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
Missoula Redevelopment Agency
Missoula, Montana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Missoula Redevelopment Agency (the Agency), a component unit of the City of Missoula, Montana, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated February 19, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Anderson Zurmuehlen & Co., P.C.

Missoula, Montana
February 19, 2016



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