

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



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

**COMPONENT UNIT FINANCIAL STATEMENTS**  
**AND REQUIRED**  
**SUPPLEMENTARY INFORMATION**

**June 30, 2007**

**(With Independent Auditors' Reports Thereon)**

## C O N T E N T S

	<u>PAGE</u>
ORGANIZATION .....	1
INDEPENDENT AUDITORS' REPORT .....	2 and 3
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	4 to 12
FINANCIAL STATEMENTS	
<u>Government-wide Financial Statements</u>	
Statement of Net Assets .....	13
Statement of Activities.....	14
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds .....	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	18
Notes to Financial Statements.....	19 to 29
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule.....	30 and 31
Budgetary Comparison Schedule – Budget-to-GAAP Reconciliation .....	32
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> .....	33 and 34
Schedule of Findings and Responses .....	35

MISSOULA REDEVELOPMENT AGENCY  
(A Component Unit of the City of Missoula)  
ORGANIZATION  
Fiscal Year Ended June 30, 2007

**Director**

Ellen Buchanan ..... Director

**Board of Commissioners**

Hal Fraser ..... Chair

Nancy Moe ..... Vice-Chair

Rosalie Cates ..... Member

Karl Englund ..... Member

Daniel Kemmis ..... Member



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## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Missoula Redevelopment Agency  
Missoula, Montana

We have audited the accompanying financial statements of the governmental activities and each major fund of Missoula Redevelopment Agency, a component unit of the City of Missoula, Montana, as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Missoula Redevelopment Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Missoula Redevelopment Agency, as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2007, on our consideration of the Missoula Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4-12 and the budgetary comparison information on pages 30-32 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Anderson Zuerchle & Co., P.C.*

Missoula, Montana  
December 20, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2007

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

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

Our discussion and analysis of the MRA's financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the MRA's financial statements and accompanying notes, which begin on page 13.

### Financial Highlights

#### Condensed Financial Information

The following tables summarize financial condition and operating results for 2007 compared to 2006:

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Current Assets	<b>\$ 3,248,564</b>	\$ 2,616,923	\$ 631,641
Noncurrent Assets	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u><b>3,248,564</b></u>	<u>2,616,923</u>	<u>631,641</u>
Current Liabilities	<b>148,147</b>	191,393	(43,246)
Long-Term Liabilities	<u><b>4,427,827</b></u>	<u>12,059</u>	<u>4,415,768</u>
Total liabilities	<u><b>4,575,974</b></u>	<u>203,452</u>	<u>4,372,522</u>
Net Assets			
Unrestricted	<u><b>(1,076,910)</b></u>	<u>2,413,471</u>	<u>(3,490,381)</u>
Total net assets	<u><b>\$(1,076,910)</b></u>	<u>\$ 2,413,471</u>	<u>\$ (3,490,381)</u>

	<u>2007 Actual</u>	<u>2006 Actual</u>	<u>Increase (Decrease) Over 2006</u>
Revenues			
General revenues	<u>\$ 1,754,549</u>	<u>\$ 1,752,396</u>	<u>\$ 2,153</u>
Total revenues	<u>1,754,549</u>	<u>1,752,396</u>	<u>2,153</u>
Expenses			
Housing and community development	<u>5,089,071</u>	<u>4,826,444</u>	<u>262,627</u>
Interest	<u>149,822</u>	<u>-</u>	<u>149,822</u>
Total expenses	<u>5,238,893</u>	<u>4,826,444</u>	<u>412,449</u>
Change in net assets	<u>(3,484,344)</u>	<u>(3,074,048)</u>	<u>(410,296)</u>
Net Assets			
Beginning of year	<u>2,413,471</u>	<u>5,487,519</u>	<u>(3,074,048)</u>
End of year	<u><u>\$ (1,070,873)</u></u>	<u><u>\$ 2,413,471</u></u>	<u><u>\$ (3,484,344)</u></u>

- During the year MRA had revenues of \$1,754,549 and expenses totaling \$5,238,893, which resulted in a decrease of net assets of \$3,484,344.
- MRA'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. MRA's fiscal year 2007 revenues were slightly higher than in fiscal year 2006.
- Expenditures for fiscal year 2007 were related to redevelopment projects including the Old Sawmill District (Mill Site) project. MRA commitments for this project included \$1,000,000 in tax increment funds as security for a Brownfields Revolving Loan Fund loan for site cleanup and MRA also sold tax increment bonds to fund the lease buyout from Idaho Timber. MRA paid out \$149,822 in interest and processing fees on the bonds.

### Using This Report

This audit report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities are government-wide statements, which are required by Governmental Accounting Standards Board (GASB) Statement 34. These statements report on all of MRA's activities and are on full-accrual basis. They are intended to present a long-term view of the MRA'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 projects funds. The fund financial statements tell how MRA's redevelopment activities were financed in the short term as well as what remains for future redevelopment. Also, these statements report the MRA's operations in more detail than the government-wide statements by providing information about the MRA's most significant funds.

Two of the most important questions asked about the MRA are, "How well did MRA respond to redevelopment opportunities in the past fiscal year?" and "What ability will it have to respond to future redevelopment opportunities?" The Statement of Net Assets and the Statement of Activities report information about the MRA 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 MRA's net assets-the difference between assets and liabilities-as one way to measure the MRA's financial health, or financial position. Over time, increases or decreases in the MRA's net assets are one indicator of whether MRA has been responding to redevelopment opportunities at a level equal to, above, or below its annual revenue. When reviewing MRA'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 MRA has sold bonds to assist a redevelopment project.

The fund financial statements provide a breakdown and detailed information about the MRA's most significant funds, not the MRA as a whole. MRA had two urban renewal districts (URDs) in fiscal year 2007 and both districts derived a majority of their revenue from a tax increment provision allowed by State law. Tax increment is collected by the County, is transferred to the City and is then deposited into the urban renewal districts' development funds, which in turn provide money for MRA's redevelopment programs: Tax Increment Financing (TIF), Commercial Rehabilitation Loan Program (CRLP), and the Code Compliance Assistance Program (CCP). The TIF program is provided for by State law. The other two programs, CRLP and CCP, were redevelopment programs approved by the Missoula City Council as allowed by State law.

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

### **Retirement Plans**

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

### **Fixed Assets**

Other than office furniture and equipment used by the MRA staff, the MRA has no other physical assets itself. All other physical assets or improvements to public assets through purchases or construction undertaken by MRA are owned by the City of Missoula. Assets created or improved as a result of projects developed with private entities pursuant to urban renewal activities or programs of voluntary or compulsory repairs are assets of the private entities. As reported in the Statement of Net Assets, MRA's assets include cash and investments, taxes receivable, prepaid health insurance premiums, and amounts due from other governments. The City of Missoula maintains a database of all the MRA's furniture, equipment and computer related assets.

### **Current, Noncurrent and Long-Term Liabilities**

MRA has current and noncurrent liabilities. Current liabilities include accounts payable for project related expenditures, accrued wages, the current portion (vacation hours) of MRA's compensated absences, the accrued interest on the Series 2006 Tax Increment Urban Renewal Note and the current portion of the Series 2006 Tax Increment Urban Renewal Bond debt. Noncurrent liabilities include the long-term portion (sick and compensatory hours) of MRA's compensated absences, the principal amount of the Series 2006 Tax Increment Urban Renewal Note and the outstanding tax increment bond debt less the current portion payable.

On August 6, 2006, the City of Missoula pursuant to Resolution 7120 approved the sale of \$3.6 million in tax increment revenue bonds related to the Old Sawmill District project in URD II. The bond terms are 25 years and therefore extend the life of URD II until 2031. The Series 2006 \$3.6 million tax increment bonds received a AA rating from Standard & Poors; the first rating of a tax increment bond in the State of Montana. On August 10, 2006, the Missoula Revitalization Project LLC, the City of Missoula and the MRA entered into a Loan Agreement with the Missoula Area Economic Development Corp for a \$1,000,000 loan, later increased to \$1,125,000, from the Missoula Brownfields Revolving Loan Fund. Tax Increment generated as a result of the environmental remediation of the Old Sawmill District property was pledged to service the loan over the life of URD II until July 1, 2031. MRA anticipates issuing additional tax increment bonds related to the following projects in fiscal year 2008: Safeway-St. Pats project, First Interstate Bank project, and possibly a bond to help fund attainable housing projects in URD II.

### **Revenues**

In fiscal year 2007, MRA received only general revenues and did not generate any program revenue. Of MRA's \$1,754,549 total revenue reported in the Statement of Activities, 75% was tax increment received from property taxes. The next largest revenue source for MRA is the State of Montana in the form of PERS contributions, personal property tax reimbursements and State entitlement funds authorized under House Bill 124. State of Montana funds account for 16% of MRA's total revenue received. The remaining revenue received is from investment earnings (8%) and miscellaneous sources (<1%).

## Expenses

Under the Statement of Activities, most of MRA's expenses are expressed under Housing and Community Development. Specifically, MRA's expenses include project assistance under MRA programs (including the Series 2006 Tax Increment Urban Renewal Note and Urban Renewal Bonds) and administrative costs such as personnel, office supplies and equipment. There was also accrued interest on the Series 2006 Tax Increment Urban Renewal Note and interest expense paid on the Series 2006 Tax Increment Urban Renewal Bonds.

## Special Items, Contributions, Transfers, Other

MRA financially contributes its proportionate share towards City of Missoula activities that affect the Agency, such as purchase of new computer servers and software. These administrative activities are reflected as "transfers to other governments" in the financial statements. MRA contributions to City projects undertaken by other departments are also reflected under the "transfers to other governments" category. The MRA's transfers to other governments was \$4,855 in fiscal year 2007.

In addition the MRA contracts with the City of Missoula to provide administrative support as well as assistance from Engineering, Public Works, Finance, Parks and Recreation, and Attorney's Office on various projects. The amount paid to the City also includes MRA's pro rata share of the City's liability coverage for errors and omissions. The amount paid in fiscal year 2007 was \$28,903 and was recorded as an administrative expense in the financials.

Administrative transfers between districts are done annually to reimburse the district that has paid the administrative expenses of the Agency. At this time, URD II pays the administrative expenses of the Agency. The amount of money transferred in fiscal year 2007 from URD III to URD II for administrative expenses was \$68,636 is based on the proportionate share of staff time spent working on projects in that district.

## Balances and Transactions of Individual Government Funds

### *Unreserved fund balance*

	URD I	URD II	URD III
Beginning Balance 7/1/06	\$ 17,705	\$ 1,689,797	\$ 629,518
Ending Balance 6/30/07	-	1,755,091	1,055,152
\$ Change	<u>\$ (17,705)</u>	<u>\$ 65,294</u>	<u>\$ 425,634</u>
% Change	(99%)	28%	146%

### *Reserved fund balance*

	<u>DEBT SERVICE</u>
Beginning Balance 7/1/06	\$ -
Ending Balance 6/30/07	<u>536,813</u>
\$ Change	<u>\$ 536,813</u>
% Change	100%

URD I was officially closed out or terminated in fiscal year 2007. Payments of delinquent taxes due to MRA are still transferred to the City when received by the County.

URD II saw a slight increase (\$65,294) in fund balance in fiscal year 2007. The total paid out in fiscal year 2007 for projects was \$4,466,537, which included the Old Sawmill District project Urban Renewal Note and Urban Renewal Bonds. Two other prominent projects completed during the year were Joe Easton's project at 1101 South 3rd Street West and the West Broadway Corridor Vision Plan. MRA administrative expenses of \$444,468 were also paid from URD II and other expenses included Debt Service Fiscal Charges of \$94,339 and Transfers to Other Governments of \$4,855 for MRA's share of City administrative expenditures.

URD III saw a \$425,634 increase in fund balance in fiscal year 2007. Although several projects were in progress only one project was completed and paid out in fiscal year 2007. MRA assisted the Prunyn Veterinary Clinic redevelopment project with curb, gutter and sidewalks improvements.

### **Overall Financial Position**

Changes in MRA's overall financial position from 2006 to 2007 include a small increase in overall revenue (\$2,153), an overall decrease in Agency expenditures (\$587,551) but a substantial decrease (\$3,484,344) in net assets due to the Series 2006 Tax Increment Urban Renewal Note and the Series 2006 Tax Increment Urban Renewal Bonds both issued in URD II.

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 MRA tax increment funds, as they are accrued, are *planned, pledged or committed* to projects.

### **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 MRA Board may pledge or commit to the projects, or abandon them if costs or circumstances warrant it. Similarly, the MRA 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 MRA's practice to be responsive to private sector redevelopment initiatives—even small ones—so these programs are adequately funded each year.

One exciting project that was still primarily in the planning phase during fiscal year 2007 is the Old Sawmill District project in URD II. Although the developers received assistance from MRA both in the form of reimbursement from tax increment funds the Brownfields Revolving Loan Fund loan they received for site remediation and in the form of tax increment bonds sold to buy the lease on the property from Idaho Timber, this complex project was still undergoing planning and design. The environmental remediation of the soils, a critical first step before development, was begun in 2007, followed closely by the deconstruction of most of the buildings. Construction of infrastructure is scheduled to begin in the spring of 2008. That will trigger the next significant expenditure of tax increment funds on the project.

### **Pledged Projects**

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

The most significant pledged project in fiscal year 2007 was the City Shops / Safeway / St. Patrick Hospital project. Several years ago, the MRA Board pledged, with City Council approval, up to \$1,500,000 in tax increment bond funds to assist with demolition, soil cleanup, site preparation, public improvements, and relocation of tenants for this project. The project entails combining City and Hospital property to facilitate a land swap with Safeway. Safeway will construct a new grocery supermarket on the combined site. St. Patrick Hospital will receive the current Safeway site and utilize it for future expansion of its medical campus.

### **Committed Projects**

If and when the project sponsors complete fund-raising to a level that allows the project to proceed, the *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.

MRA had several committed projects during fiscal year 2007. URD II projects included: Bike Doctor on 1101 Toole Avenue, Joe Easton’s project at 1101 South 3rd Street West, Rod Huff’s project at 222 and 224 Inez Street, Headwaters Point office building on West Broadway, Lemer’s project on Cooper and Russell Street and the Greater Downtown Master Plan. URD III projects included: Missoula Federal Credit Union and Prudential Real Estate both on Russell Street near Mount Avenue, Dearborn Condominiums on Dearborn Avenue, Pruyn Veterinary Clinic on Russell Street, and City Life Community Center at 1515 Fairview Street.

### **Taxing Policies**

Taxing policies adopted by the Montana State Legislature, in particular 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 two districts.

Often the Legislature will provide reimbursement or other mechanisms to offset the financial impact their policy changes have on local taxing jurisdictions. MRA’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. Two examples of such revenue MRA receives from the State of Montana include State Personal Property Reimbursements and State Entitlement funds. Looking forward, one negative aspect of this situation is that, as the current law reads, the State Entitlement funds that MRA receives disappear upon the sunset of the 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 MRA will revert back to the State of Montana. Currently only URD II receives State Personal Property Reimbursements and State Entitlement Funds.

### **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 MRA will budget funds for projects in one fiscal year but expend them in later years if for some reason 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**

In the past, URD II expenditures of tax increment funds were largely for projects that did not result in substantial increases to the district's tax base. Many projects were done by not-for-profit entities. MRA's recent involvement in the Old Sawmill District project allowed the Agency to extend the life of URD II through the issuance of tax increment revenue bonds. The bonds were issued for 25 years effectively extending the district's life to 2031. With the district extended, MRA has expanded the District 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 MRA for assistance.

West Broadway is the spine of a major portion of URD II. It is the only east-west arterial north of the Clark Fork River and presents major redevelopment opportunities as downtown redevelopment patterns migrate west. MRA partnered with the City to fund the development of a corridor vision plan for West Broadway from Orange Street to Mullan Road. This plan will serve as a guide as MRA makes decisions about the investment of tax increment funds in private projects and infrastructure improvements in this area.

An important initiative that MRA is pursuing in URD II is the development of a program to assist with the provision of attainable or affordable housing. Missoula is reaching a crisis point relative to the ability of its citizens to purchase or lease housing in the City. MRA is working closely with the Mayor's office, the Office of Planning and Grants, and housing developers to create a program using tax increment financing to help mitigate this problem.

In URD III, several projects came to MRA for assistance during fiscal year 2007. The majority of these were service related businesses but one project involved the construction of high density residential units near Southgate Mall. The MRA continues to work with the owners of undeveloped acreage south of the Southgate Mall in an effort to encourage a mixed use development which would include retail, office and residential.

In response to a request from the MRA, the City Council created the Front Street Urban Renewal District in early fiscal year 2008. The catalyst for the new District was the need to build structured parking to support a new six-story office building that will house First Interstate Bank and other professional offices. Also, private developers are considering other properties in the immediate vicinity for multi-story redevelopment (including upper floor residential units) as a result of the additional parking that will be available nearby. The parking will be funded through a combination of parking revenue and tax increment revenue bonds.

## **Summary**

Over the past year, MRA has put a great deal of effort into the Old Sawmill District development on the former Champion Millsite. Those efforts are coming to fruition as environmental remediation nears completion, subdivision and zoning has been approved, and legal agreements are close to finalization. Infrastructure construction, lot sales and construction of the new 14-acre Silver Park could begin as early as spring 2008. MRA has partnered with the Missoula Parking Commission, Downtown Business Improvement District, Missoula Downtown Association, and private interests to develop a master plan for the greater downtown area, which includes a significant portion of URD II. This area is in transition as the town grows into a city with urban densities and the conflicts that come with that maturity. The Agency continues to seek out redevelopment opportunities in URD III that will support mixed use development and add diversity to the housing supply. The MRA's efforts are targeted at the creation of more pedestrian friendly, sustainable development patterns. A major undertaking in the coming year will focus on the new Front Street District and the construction of new parking structures, quality office space, and housing opportunities.

Missoula Redevelopment Agency  
Ellen Buchanan  
Director

## FINANCIAL STATEMENTS

## MISSOULA REDEVELOPMENT AGENCY

(A Component Unit of the City of Missoula)

## STATEMENT OF NET ASSETS

June 30, 2007

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	<u>PRIMARY GOVERNMENT</u>
	<u>GOVERNMENTAL</u>
	<u>ACTIVITIES</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash and investments	\$ 3,040,602
Taxes/assessments receivable, net	134,905
Prepaid health insurance	4,020
Due from other governments	<u>69,037</u>
Total assets	<u>3,248,564</u>
NONCURRENT ASSETS	
Restricted cash	<u>250,500</u>
Total assets	<u>3,499,064</u>
<u>LIABILITIES</u>	
CURRENT LIABILITIES	
Accounts payable	11,089
Accrued wages	6,014
Accrued interest	6,037
Compensated absences	40,007
Current portion of tax increment revenue bonds payable	<u>85,000</u>
Total current liabilities	<u>148,147</u>
NONCURRENT LIABILITIES	
Long-term portion of compensated absences	12,827
Loan payable	1,000,000
Tax increment revenue bonds payable, less current portion	<u>3,415,000</u>
Total noncurrent liabilities	<u>4,427,827</u>
Total liabilities	<u>4,575,974</u>
<u>NET ASSETS</u>	
Restricted for debt service	250,500
Unrestricted	<u>(1,327,410)</u>
Total net assets	<u>\$ (1,076,910)</u>

The Notes to Financial Statements are an integral part of these statements.

# MISSOULA REDEVELOPMENT AGENCY

(A Component Unit of the City of Missoula)

## STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES
<u>Governmental Activities</u>					
Housing and community development	\$ 5,089,071	\$ -	\$ -	\$ -	\$ (5,089,071)
Interest expense	155,859	-	-	-	(155,859)
Total governmental activities	5,244,930	-	-	-	(5,244,930)
 Total primary government	 \$ 5,244,930	 \$ -	 \$ -	 \$ -	 (5,244,930)
<u>General Revenues</u>					
Property taxes for general purposes					1,315,227
Reimbursement for personal property					1,306
State contribution - PERS					263
HB 124 revenue					283,622
Grant revenue					-
Investment earnings					146,692
Miscellaneous					7,439
Total general revenues					1,754,549
 Change in net assets					 (3,490,381)
 Net Assets					
Beginning of year					2,413,471
End of year					\$ (1,076,910)

The Notes to Financial Statements are an integral part of these statements.

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
 June 30, 2007



	URBAN RENEWAL DISTRICT I	URBAN RENEWAL DISTRICT II	URBAN RENEWAL DISTRICT III	MAJOR DEBT SERVICE	TOTAL
<b><u>ASSETS</u></b>					
Current Assets					
Cash and investments	\$ -	\$ 1,759,067	\$ 1,031,035	\$ 250,500	\$ 3,040,602
Taxes/assessments receivable, net	21,785	-	30,644	82,476	134,905
Other current assets	-	4,020	-	-	4,020
Due from other governments	-	7,305	25,919	35,813	69,037
	<u>21,785</u>	<u>1,770,392</u>	<u>1,087,598</u>	<u>368,789</u>	<u>3,248,564</u>
Noncurrent Assets					
Restricted cash	-	-	-	250,500	250,500
 Total assets	 <u>\$ 21,785</u>	 <u>\$ 1,770,392</u>	 <u>\$ 1,087,598</u>	 <u>\$ 619,289</u>	 <u>\$ 3,499,064</u>
<b><u>LIABILITIES</u></b>					
Current Liabilities					
Accounts payable	\$ -	\$ 9,287	\$ 1,802	\$ -	\$ 11,089
Accrued wages	-	6,014	-	-	6,014
Deferred revenue	21,785	-	30,644	82,476	134,905
Total liabilities	<u>21,785</u>	<u>15,301</u>	<u>32,446</u>	<u>82,476</u>	<u>152,008</u>
<b><u>FUND BALANCES</u></b>					
Reserved for Debt Service	-	-	-	250,500	250,500
Unreserved Fund Balance	-	1,755,091	1,055,152	286,313	3,096,556
Total fund balance	<u>-</u>	<u>1,755,091</u>	<u>1,055,152</u>	<u>536,813</u>	<u>3,347,056</u>
 Total liabilities and fund balances	 <u>\$ 21,785</u>	 <u>\$ 1,770,392</u>	 <u>\$ 1,087,598</u>	 <u>\$ 619,289</u>	 <u>\$ 3,499,064</u>

The Notes to Financial Statements are an integral part of these statements.

MISSOULA REDEVELOPMENT AGENCY  
(A Component Unit of the City of Missoula)  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
June 30, 2007

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Total fund balances - governmental funds \$ 3,347,056

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 134,905

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 (4,558,871)

Total net assets - governmental activities \$ (1,076,910)

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**GOVERNMENT FUNDS**  
 For the Year Ended June 30, 2007

	URBAN RENEWAL DISTRICT I	URBAN RENEWAL DISTRICT II	URBAN RENEWAL DISTRICT III	MAJOR DEBT SERVICE	TOTAL
<b><u>REVENUES</u></b>					
Tax Increment Property Tax	\$ 8,936	\$ 45,803	\$ 496,710	\$ 749,799	\$ 1,301,248
State Contribution PERS	-	263	-	-	263
State Personal Property Tax	-	405	-	901	1,306
Reimbursement					
State Entitlement/CMAQ Funds	-	283,622	-	-	283,622
Grant	-	-	-	-	-
Investment Earnings	(5)	90,688	41,437	14,572	146,692
Miscellaneous	-	7,439	-	-	7,439
Total revenues	<u>8,931</u>	<u>428,220</u>	<u>538,147</u>	<u>765,272</u>	<u>1,740,570</u>
<b><u>EXPENDITURES</u></b>					
<b><u>Current:</u></b>					
Housing and Community Development	26,636	641,875	35,965	-	704,476
Capital Outlay	-	4,269,130	7,912	-	4,277,042
Debt Service Expense - Fiscal Charges	-	94,339	-	-	94,339
Debt Service Expense - Interest	-	-	-	149,822	149,822
Debt Service Expense - Principal	-	-	-	100,000	100,000
Total expenditures	<u>26,636</u>	<u>5,005,344</u>	<u>43,877</u>	<u>249,822</u>	<u>5,325,679</u>
Excess (deficiency) of revenues over expenditures	<u>(17,705)</u>	<u>(4,577,124)</u>	<u>494,270</u>	<u>515,450</u>	<u>(3,585,109)</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>					
Transfers In	-	298,373	-	485,640	784,013
Transfers Out	-	-	(68,636)	(714,777)	(783,413)
Transfers to Other Governments	-	(4,855)	-	-	(4,855)
Issuance of Long-Term Debt	-	4,348,900	-	250,500	4,599,400
Total other financing sources (uses)	<u>-</u>	<u>4,642,418</u>	<u>(68,636)</u>	<u>21,363</u>	<u>4,595,145</u>
Net change in fund balance	(17,705)	65,294	425,634	536,813	1,010,036
<b><u>FUND BALANCES</u></b>					
Beginning of year	<u>17,705</u>	<u>1,689,797</u>	<u>629,518</u>	<u>-</u>	<u>2,337,020</u>
End of year	<u>\$ -</u>	<u>\$ 1,755,091</u>	<u>\$ 1,055,152</u>	<u>\$ 536,813</u>	<u>\$ 3,347,056</u>

The Notes to Financial Statements are an integral part of these statements.

# MISSOULA REDEVELOPMENT AGENCY

(A Component Unit of the City of Missoula)

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2007

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

Net change in fund balances - total governmental funds	\$ 1,010,036
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	13,979
The change in compensated absence payable is reported in the statement of activities as an expense	(8,359)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(6,037)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(4,600,000)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets.	<u>100,000</u>
Change in net assets - statement of activities	<u>\$ (3,490,381)</u>

# MISSOULA REDEVELOPMENT AGENCY

(A Component Unit of the City of Missoula)

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007



### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **Reporting Entity:**

Missoula Redevelopment Agency (MRA) 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). MRA 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 three urban renewal districts: URD I in 1978, URD II in 1991, and URD III in 2000. The five-member governing board is appointed by the Mayor and approved by City Council. Due to the control exercised by the City, MRA is considered a component unit of the City.

MRA 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 MRA.

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 bonds have been retired. For districts established after 1980, state law provides they be terminated fifteen years after enactment or when all tax increment bonds have been retired. Because the tax increment provisions for URD I were enacted on December 18, 1978, MRA 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.

MISSOULA REDEVELOPMENT AGENCY  
(A Component Unit of the City of Missoula)  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2007

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation and Basis of Accounting:**

**Government-wide Statements:**

The statement of net assets and the statement of activities report information about the overall financial position and activities of the Agency. Eliminations have been made to minimize the double-counting of internal activities.

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 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 No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets have been eliminated.

MRA generally applies board designated funds to expenses incurred before using undesignated resources when both restricted and unrestricted net assets are available.

**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. All of the remaining funds are aggregated and reported in a single column as nonmajor funds. MRA reports all of their funds as major funds.

MISSOULA REDEVELOPMENT AGENCY  
(A Component Unit of the City of Missoula)  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2007

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation and Basis of Accounting: (Continued)**

**Fund Financial Statements: (Continued)**

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. MRA considers all revenues available if they are collected within 30 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.

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

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, MRA has chosen to record all of their 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

MISSOULA REDEVELOPMENT AGENCY  
(A Component Unit of the City of Missoula)  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2007

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation and Basis of Accounting: (Continued)**

*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 indenture. This fund is included as a debt service fund in the City's financial statements.

**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 (except for property taxes) 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 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 their annual budget:

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

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

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

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2007

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Cash Equivalents:**

MRA'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.

**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, they become delinquent (and a lien 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 billed in two halves, the first due thirty days after billing; the second due September 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 2006 property tax billing are as follows:

	<u>Taxable Value</u>	<u>Increment Value</u>
Urban Renewal District II	\$ 2,971,734	\$ 1,111,991
Urban Renewal District III	\$ 7,698,594	\$ 694,248

**Capital Assets:**

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

**Compensated Absences:**

Under terms of state law, MRA 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.

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2007



**NOTE 2. CASH AND INVESTMENTS**

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

Demand Deposits	\$ 96,041
Repurchase Investment Account	896,411
Government Securities	2,140,671
Investment in State Short-Term Investment Pool	81,335
Certificates of Deposit	<u>76,644</u>
	3,291,102
Less restricted cash held for debt service reserve	<u>(250,500)</u>
	<u><u>\$ 3,040,602</u></u>

The City's investment pool does not have a credit rating. Investment in the pool exposes MRA 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. 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.

Recent media reports have stated that the Short Term Investment Pool (STIP), along with many other public and private money market type accounts, holds asset-backed securities called Structural Investment Vehicles (SIV). These types of investments are issued by financial institutions and/or investment managers and are backed by underlying assets of various types. The investment rating of certain SIVs held by STIP was downgraded to CCC on November 9, 2007, which according to the Montana Board of Investments was approximately 3.69% of total STIP investments. At June 30, 2007, MRA's investment in STIP amounted to 2.5% of its total investments. As of August 15, 2007, the City of Missoula only had \$5,000 invested in STIP. The effect of the potential revaluation of STIP would not be material to MRA's financial statements.

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2007



**NOTE 3. LONG-TERM DEBT**

Changes in long-term debt for the year ended June 30, 2007, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Debt Retired</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Compensated Absences	\$ 44,475	\$ 8,359	\$ -	\$ 52,834	\$ 40,007
MAEDC Note Payable	-	1,000,000	-	1,000,000	-
Bonds Payable	-	3,600,000	100,000	3,500,000	85,000
Total	<u>\$ 44,475</u>	<u>\$ 4,608,359</u>	<u>\$ 100,000</u>	<u>\$ 4,552,834</u>	<u>\$ 125,007</u>

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

Debt service requirements to maturity on the tax increment bonds at June 30, 2007, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 85,000	\$ 165,500	\$ 250,500
2009	85,000	161,675	246,675
2010	90,000	157,850	247,850
2011	95,000	153,800	248,800
2012	100,000	149,525	249,525
2013-2017	570,000	676,075	1,246,075
2018-2022	705,000	536,125	1,241,125
2023-2027	890,000	346,538	1,236,538
2028-2031	880,000	106,875	986,875
Total	<u>\$ 3,500,000</u>	<u>\$ 2,453,963</u>	<u>\$ 5,953,963</u>

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2007



**NOTE 3. LONG-TERM DEBT (CONTINUED)**

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 to be used for brownfields remediation of the Old Sawmill District located within URD II. 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 made a loan of \$1,000,000 bearing interest at 1.5% to MRP LLC, the developer of the Old Sawmill District, with MRA and the City identified as co-borrowers. The loan will be repaid solely from tax increment revenue resulting from the increased taxable value of the property within the Old Sawmill District, and is not a general obligation of the City. For these reasons, the loan is reflected as a liability of MRA. In August 2007, the loan was increased from \$1 million to \$1.125 million.

Debt service requirements to maturity, based on the final loan amount of \$1.125 million, follow:

Year Ending June 30,	Principal	Interest	Total
2008	\$ -	\$ 14,324	\$ 14,324
2009	20,571	16,875	37,446
2010	41,605	16,411	58,016
2011	42,232	15,784	58,016
2012	42,867	15,149	58,016
2013-2017	224,215	65,866	290,081
2018-2022	241,610	48,471	290,081
2023-2027	260,355	29,726	290,081
2028-2031	251,545	9,527	261,072
Total	<u>\$ 1,125,000</u>	<u>\$ 232,133</u>	<u>\$ 1,357,133</u>

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2007

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**NOTE 4. COMMITMENTS AND DESIGNATED FUND BALANCES**

MRA has contractual commitments for the following projects and activities and, therefore, designates a portion of fund balance for these activities.

Urban Renewal District II:

Public:

Greater Downtown Master Plan	\$ 100,000
Silver Park	66,780

Private:

1275 South 1st Street West	29,625
1904 Cooper Street	12,700
Headwaters Point Office Building	<u>110,000</u>
	<u>\$ 319,105</u>

Urban Renewal District III:

Public:

South Avenue Improvements	\$ 15,176
South Avenue Tree Watering	9,973

Private:

City Life Community Center	37,000
Dearborn Project	51,000
Missoula Federal Credit Union	59,900
Prudential Real Estate	<u>53,900</u>
	<u>\$ 226,949</u>

**NOTE 5. RETIREMENT PLAN**

All full-time employees of MRA are covered under the Montana Public Employees' Retirement System (PERS). The plan is established by state law and administered by the State of Montana. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. Contribution rates are determined by state law. The contribution rate for employees was 6.8%, employers was 6.9%, and State of Montana was .1% in 2007, expressed as a percentage of covered payroll.

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2007



**NOTE 5. RETIREMENT PLAN (CONTINUED)**

The amounts contributed during the years ended June 30, 2005, 2006, and 2007 were equal to the required contribution for each year. The amounts contributed by both the Agency and its employees were as follows:

2005	\$ 36,555
2006	39,308
2007	37,047

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

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

**NOTE 6. LEASES**

MRA leases office space for its operations on a yearly basis. MRA leased its office space from an outside party under a triple net lease for \$11,161 through November 2006. In December 2006, the City provided MRA with office space through a development agreement. The office space will be provided rent-free through November 2011.

**NOTE 7. INTERFUND TRANSACTIONS**

Urban Renewal District III transferred \$68,636 to Urban Renewal District II for their share of administrative costs. Urban Renewal District II transferred \$4,855 to the city for MRA's share of various administrative projects.

**MISSOULA REDEVELOPMENT AGENCY**  
(A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2007

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**NOTE 8. RISK MANAGEMENT**

MRA 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. MRA manages these risks through participation with the City's risk management practices. Information related to the City's risk management is available in its comprehensive annual financial report.

**NOTE 9. SUBSEQUENT EVENTS**

Subsequent to June 30, 2007, the City issued \$1.5 million in tax increment revenue bonds under URD II with a maturity date of July 2031. Interest rates on the bonds are 6.95%. Bond proceeds will be used for the Safeway/St Patrick's Hospital Project.

Subsequent to June 30, 2007, the City Council established the Front Street urban renewal district for potential redevelopment projects in that area.

Prior to June 30, 2007, the City Council determined that blight existed in the Riverfront Triangle area of Missoula. MRA is currently developing a plan and ordinance that will establish an urban renewal district for the Riverfront Triangle.

Subsequent to June 30, 2007, the MAEDC note payable was increased to \$1,125,000. The remainder of the terms of the note remained unchanged.

REQUIRED SUPPLEMENTARY INFORMATION

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**BUDGETARY COMPARISON SCHEDULE**  
 For the Year Ended June 30, 2007

	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, 2006	\$ 1,630,576	\$ 1,689,797	\$ 1,689,797	\$ -	\$ 646,336	\$ 629,518	\$ 629,518	\$ -
Resources (Inflows):								
Miscellaneous	7,404	7,404	7,439	35	474,997	506,114	496,710	(9,404)
Investment earnings	30,000	40,000	90,688	50,688	8,000	10,000	41,437	31,437
Long-term debt proceeds	-	3,348,900	4,348,900	1,000,000	-	-	-	-
Tax increment property tax	553,445	43,340	45,803	2,463	-	-	-	-
State contribution PERS	-	-	263	263	-	-	-	-
State personal property tax reimbursement	1,306	1,306	405	(901)	-	-	-	-
State entitlement	283,622	283,622	283,622	-	-	-	-	-
Intergovernmental (CTEP)	-	-	-	-	-	-	-	-
Transfers in	75,000	341,040	298,373	(42,667)	-	-	-	-
Amounts available for appropriation	<u>\$ 2,581,353</u>	<u>\$ 5,755,409</u>	<u>6,765,290</u>	<u>\$ 1,009,881</u>	<u>\$ 1,129,333</u>	<u>\$ 1,145,632</u>	<u>1,167,665</u>	<u>\$ 22,033</u>
Charges to Appropriations (Outflows):								
Housing and community development	\$ 2,233,155	\$ 2,061,764	\$ 641,875	\$ 1,419,889	\$ 994,213	\$ 1,010,747	\$ 35,965	\$ 974,782
Capital outlay	339,890	3,688,790	4,269,130	(580,340)	60,120	59,885	7,912	51,973
Debt service expenditures	-	-	94,339	(94,339)	-	-	-	-
Transfers to other governments	1,104	4,855	4,855	-	-	-	-	-
Transfers out	-	-	-	-	75,000	75,000	68,636	6,364
Total charges to appropriations	<u>\$ 2,574,149</u>	<u>\$ 5,755,409</u>	<u>5,010,199</u>	<u>\$ 745,210</u>	<u>\$ 1,129,333</u>	<u>\$ 1,145,632</u>	<u>112,513</u>	<u>\$ 1,033,119</u>
Excess of resources (inflows) over charges to appropriations (outflows)			<u>1,755,091</u>				<u>1,055,152</u>	
Budgetary Fund Balance, June 30, 2007			<u>\$ 1,755,091</u>				<u>\$ 1,055,152</u>	

	MAJOR DEBT SERVICE			
	BUDGETED AMOUNTS			VARIANCE WITH
	ORIGINAL	FINAL	ACTUAL	FINAL BUDGET
Budgetary Fund Balance, July 1, 2006	\$ -	\$ -	\$ -	\$ -
<u>Resources (Inflows):</u>				
Investment earnings	-	-	14,572	14,572
Long-term debt proceeds	-	251,100	250,500	(600)
State personal property tax reimbursement	-	-	901	901
Tax increment property tax	-	765,762	749,799	(15,963)
Transfers in	-	499,722	485,640	(14,082)
Amounts available for appropriation	<u>\$ -</u>	<u>\$ 1,516,584</u>	<u>1,501,412</u>	<u>\$ (15,172)</u>
<u>Charges to Appropriations (Outflows):</u>				
Debt service expenditures	-	249,822	249,822	-
Transfers out	-	765,762	714,777	50,985
Total charges to appropriations	<u>\$ -</u>	<u>\$ 1,015,584</u>	<u>964,599</u>	<u>\$ 50,985</u>
Excess of resources (inflows) over charges to appropriations (outflows)			<u>536,813</u>	
Budgetary Fund Balance, June 30, 2007			<u>\$ 536,813</u>	

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**BUDGETARY COMPARISON SCHEDULE – BUDGET-TO-GAAP RECONCILIATION**  
 June 30, 2007



**NOTE 1**

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

	URBAN RENEWAL <u>DISTRICT #2</u>	URBAN RENEWAL <u>DISTRICT #3</u>	DEBT SERVICE <u>SERVICE</u>
<b>Sources/Inflows of Resources</b>			
Actual available for appropriation from the budgetary comparison schedule	\$ 6,765,290	\$ 1,167,665	\$ 1,501,412
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(1,689,797)	(629,518)	-
Transfers from other funds are inflows of budgetary resource but are not revenues for financial reporting purposes	(298,373)	-	(485,040)
Proceeds from long term debt are inflows of budgetary resource but are not revenues for financial reporting purposes	<u>(4,348,900)</u>	<u>-</u>	<u>(251,100)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 428,220</u>	<u>\$ 538,147</u>	<u>\$ 765,272</u>
<b>Uses/Outflows of Resources</b>			
Actual total charges to appropriations from the budgetary comparison schedule	\$ 5,010,199	\$ 112,513	\$ 964,599
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(4,855)</u>	<u>(68,636)</u>	<u>(714,777)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 5,005,344</u>	<u>\$ 43,877</u>	<u>\$ 249,822</u>



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Missoula Redevelopment Agency  
Missoula, Montana

We have audited the financial statements of governmental activities and each major fund of Missoula Redevelopment Agency, a component unit of the City of Missoula, Montana, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be

prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as Finding 07-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that Finding 07-01 is a material weakness.

#### Compliance and Other Matters

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

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

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

*Anderson Zuer Muehlen & Co., P.C.*

Missoula, Montana  
December 20, 2007

MISSOULA REDEVELOPMENT AGENCY  
(A Component Unit of the City of Missoula)  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended June 30, 2007

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Finding 07-01 – MAEDC Revolving Loan

Criteria:

Management of the Agency is responsible to establish and maintain internal controls which minimize the risk that its financial statements will fail to include all necessary adjustments for them to be in conformity with generally accepted accounting principles.

Condition:

During the audit, we determined that the Agency had failed to record a \$1 million loan from the Missoula Area Economic Development Corporation related to an EPA grant to the City of Missoula.

Cause:

This condition resulted from a failure in communications between the personnel who were aware of the transaction and the accounting personnel responsible for recording transactions in the Agency's accounting records.

Effect:

As a result of the omission, the Agency's financial statements were materially misstated.

Recommendation:

We recommend that any time there is a complex transaction that involves both the Agency and other parties, that accounting personnel are informed of the transaction so they can determine the appropriate accounting treatment.

Agency Response:

This oversight occurred during a challenging time in the Agency's efforts to manage the Old Sawmill District project, a complex redevelopment project of great importance to the City of Missoula. The project has multiple funding sources and, at the time, had a number of issues that were time sensitive and in flux. It should be noted that the repayment of the Brownfields loan involves a very discreet portion of the tax increment to be generated solely as a result of the remediation of the property and, if the project were to fail, has no requirement to be repaid from other sources. This finding is entirely the result of a failure in internal communications. The obligation was approved by both the MRA Board and the City Council in public meetings involving public hearings. The public, elected and appointed officials and all obligated parties were, and are, aware of the obligation and understand the requirements of the loan documents. The Agency will work with the City on future complex transactions to assure that all obligations are recorded properly.