**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.**

& COMPANY

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

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

**June 30, 2005**

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

CONTENTS

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

# ORGANIZATION

Fiscal Year Ended June 30, 2005

## Director

Ellen Buchanan ................................................................. Director

## Board of Commissioners

Hal Fraser ................................................................. Chair

Nancy Moe ................................................................. Vice-Chair

Rosalie Cates ................................................................. Member

Karl Englund ................................................................. Member

Daniel Kemmis ................................................................. Member

& COMPANY

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, 2005, 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, 2005, 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 November 18, 2005, 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 and budgetary comparison information on pages 4-12, 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 ZurMuehlen & Co., P.C.

Missoula, Montana
November 18, 2005

## Management's Discussion and Analysis

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, 2005. Please read it in conjunction with the MRA's financial statements and accompanying notes.

## Financial Highlights

Condensed Financial Information

The following tables summarize financial condition and operating results for 2005 compared to 2004:

| | 2005 | 2004 | Increase (Decrease) |
|---|---|---|---|
| Current Assets | $6,005,562 | $7,185,034 | (1,179,472) |
| Noncurrent Assets | - | 54,000 | (54,000) |
| Total assets | 6,005,562 | 7,239,034 | (1,233,472) |
| Current Liabilities | 507,540 | 886,107 | (378,567) |
| Long-Term Liabilities | 10,503 | 14,598 | (4,095) |
| Total liabilities | 518,043 | 900,705 | (382,662) |
| Net Assets | | | |
| Restricted for debt service | - | 309,786 | (309,786) |
| Unrestricted | 5,487,519 | 6,028,543 | (541,024) |
| Total net assets | $5,487,519 | $6,338,329 | $ (850,810) |

| | 2005 Actual | 2004 Actual | Increase (Decrease) Over 2004 |
|---|---|---|---|
| Revenues | | | |
| General revenues | $4,216,258 | $4,078,880 | $ 137,378 |
| Total revenues | 4,216,258 | 4,078,880 | 137,378 |
| Expenses | | | |
| Housing and community development | 5,052,449 | 3,298,009 | 1,754,440 |
| Interest | 14,619 | 28,530 | (13,911) |
| Total expenses | 5,067,068 | 3,326,539 | 1,740,529 |
| Change in net assets | (850,810) | 752,341 | (1,603,151) |
| Net Assets | | | |
| Beginning of year | 6,338,329 | 5,585,988 | 752,341 |
| End of year | $5,487,519 | $6,338,329 | $ (850,810) |

- During the year MRA had revenues of $4,216,258 and expenses totaling $5,067,068, which resulted in a decrease of net assets of $850,810.

- 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 2005 revenues increased by 3% from fiscal year 2004.

- Expenditures include amounts for MRA's redevelopment programs, projects, debt service for the outstanding bonds in Urban Renewal District I (URD I) and an amount released to the taxing jurisdictions from URD I's development account. MRA's fiscal year 2005 expenditures were up 52% from fiscal year 2004.

## Using This Report

This audit report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the MRA as a whole and present a longer-term view of the MRA's finances. Fund financial statements tell how MRA's redevelopment activities were financed in the short term as well as what remains for future redevelopment. Fund financial 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.

The Statement of Net Assets and the Statement of Activities report the MRA's net assets and changes in them. 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, and the total mills levied by the taxing jurisdictions within the urban renewal districts.

The fund financial statements provide detailed information about the most significant funds, not the MRA as a whole. MRA has three urban renewal districts (URDs), each with its own tax increment provision and development fund. MRA has four debt service funds that meet the requirements of the URD I tax increment bond covenants. The individual tax increment development funds 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 provided for by State law.

The MRA's redevelopment and debt service activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the MRA's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the MRA's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in the reconciliations included in the financial statements.

**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, other receivables, amounts due from other governments and restricted cash. The City of Missoula maintains a database of all the MRA's furniture, equipment and computer related assets.

**Current and Noncurrent Liabilities**

MRA has both current and noncurrent liabilities. Current liabilities include accounts payable for project related expenditures and the current portion (vacation hours) of MRA's compensated absences. Noncurrent liabilities include the noncurrent portion (sick and compensatory hours) of MRA's compensated absences.

MRA completed its payment of URD I's tax increment bond indebtedness on June 30, 2005. No other indebtedness exists at this time. Discussions have begun with the Millsite Revitalization Project LLP and the Missoula Housing Authority about the possibility of issuing tax increment bonds to finance public infrastructure in URD II in relation to projects anticipated on the former Champion Mill Site property and the former Intermountain Lumber Company site, respectively. Analysis of those projects and their ability to allow MRA to service significant new debt will have to be undertaken as the projects gain more definition and momentum.

The credit rating of MRA's potential tax increment bonds is unknown at this time. However, the one tax increment bond issued in URD I was successfully refinanced twice and was retired on June 30, 2005. MRA and the City of Missoula have demonstrated fiscal responsibility in the issuance of debt and, other factors and externalities notwithstanding, there is no reason at present to believe the bond market would unfavorably rate future issues based on past performance.

**Revenues**

In FY2005, MRA received only general revenues and did not generate any program revenue. Of MRA's $4,216,258 total revenue reported in the Statement of Activities, 62% 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 the State entitlement grant authorized under House Bill 124. Total revenue from this source is 29% of MRA's total revenue received. The remaining revenue received is from investment earnings and miscellaneous sources.

**Expenses**

Under the Statement of Activities, 99% of MRA's expenses are expressed under Housing and Community Development and 1% is related to Debt Service Interest payments.

Specifically, MRA's expenses include project assistance under MRA programs, administrative costs including personnel, office supplies and equipment, rent, and debt service related costs.

**Special Items, Contributions, Transfers, Other**

In FY2005, MRA's URD I fund disbursed $250,000 of tax increment funds to the seven taxing jurisdictions in the district. This disbursement is allowed by State Law and is approved annually by the Missoula City Council. Also, 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. MRA's administrative transfers between districts are done annually to reimburse URD I for the Agency's administrative expenses, which are paid solely from the URD I fund. The amount of money transferred from URD II and URD III to URD I is based on the proportionate share of staff time spent working on projects in those districts.

**Balances and Transactions of Individual Government Funds**

*Unreserved fund balance*

| | URD I | URD II | URD III |
|---|---|---|---|
| Beginning Balance 7/1/04 | $ 5,087,439 | $ 828,888 | $ 64,326 |
| Ending Balance 6/30/05 | 3,705,391 | 1,320,549 | 256,350 |
| $ Change | $(1,382,048) | $ 491,661 | $ 192,024 |
| % Change | (27%) | 59% | 299% |

*Reserved fund balance*

| | Debt Service |
|---|---|
| Beginning Balance 7/1/03 | $ 336,286 |
| Ending Balance 6/30/04 | - |
| $ Change | $ (336,286) |
| % Change | (100%) |

URD I saw a significant drop in fund balance as fiscal year 2005 was the last year of this district's tax increment provision and the last year the district had the ability to commit tax increment to redevelopment projects. As such, many projects were approved and completed. A handful of projects that were in progress as of June 30, 2005, were carried over to fiscal year 2006 by resolution of the City Council.

URD II saw an increase in fund balance in fiscal year 2005 as there were only three redevelopment projects that were granted assistance from MRA. Two projects were business related and one project involved a large housing development along the Clark Fork River. The total paid out for these projects was $40,232. No funds were transferred to URD I for administrative costs this year as URD II had a credit from the previous year's transfer.

URD III saw an increase in fund balance in fiscal year 2005 as there were only two projects that were granted assistance from MRA. The major project involved providing funds for additional landscaping and streetscape amenities for the Brooks/South/Russell street reconfiguration project. The other project involved demolition of a blighted building along Reserve Street to make way for a new commercial development.

The total paid out for these two projects was $71,466. URD III also transferred funds to URD I for administrative costs in an amount of $34,106.

MRA's tax increment bonds were retired as of June 30, 2005, so the Debt Service fund was zeroed out at the end of fiscal year 2005.

**Overall Financial Position**

The MRA's overall financial position has improved for URD II and URD III in the sense that revenue assets have increased. This allows the MRA to undertake more projects in its redevelopment efforts. Fiscal year 2005 was URD I's last year to commit tax increment to redevelopment projects. The fund balance in this district dropped significantly due to projects being completed and paid out during the fiscal year.

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. This often results in the condition where MRA revenues exceed expenditures. Over the years, this scenario resulted in a buildup of the URD I tax increment fund to several millions of dollars. The accumulation of money in the URD I tax increment fund allowed the MRA and the City of Missoula to undertake larger public capital improvement projects than would have been otherwise undertaken out of the City's general fund or capital improvements fund. 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 in the planning phase during fiscal year 2005 was the Downtown Street Renovation project on North Higgins Avenue. This project encompasses pedestrian amenities such as wider sidewalks, benches, improved lighting and bulb-out crossings. Implementing diagonal parking and turn lanes are also anticipated as part of this project. This project progressed from the planning phase through the pledged and committed phase by year's end.

**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 Riverfront Triangle was MRA's most significant pledged project during fiscal year 2005. The Triangle refers to the area bordered by Broadway Street on the north, Orange Street on the east and the Clark Fork River. The entire redevelopment area includes the former Fox Theater, Holiday gas station and Mustard Seed restaurant property, which were all acquired by the City. The site also includes property owned by St. Patrick Hospital and other businesses. Treating the site comprehensively has allowed the City to proceed with a plan of comprehensive redevelopment for the area. A few years ago, the Hospital and MRA co-sponsored a community planning charrette process and engaged a consultant to prepare an urban design plan for the 10-acre site. In fiscal year 2005, MRA pledged $1.9 million towards remediation of the 75 year old landfill on the City-owned portion of the site. In addition, the funds would allow relocation and upgrade of utilities, which makes the site more desirable for future developers. At the end of fiscal year 2005, these pledged funds became committed funds through design and construction contracts with WGM and Envirocon, respectively and a City Council resolution.

Another significant pledged project during fiscal year 2005 was the McCormick Park Aquatics Center. The MRA Board pledged $1.5 million towards this project contingent on the passing of the Aquatics bond in November 2003. The bond passed and the project was designed and bid. The bids came back overwhelmingly above the estimate and many amenities of the project had to be removed. As a result of the cost overruns, the MRA pledged an additional $300,000 to the project. Transfer of the $1,800,000 tax increment monies to a special aquatics fund was completed in fiscal year 2005.

The next most significant pledged project is the Missoula Skatepark. As of June 30, 2005, the MRA Board had pledged up to $175,000 to this project contingent on the remaining funds being secured through private donations. At the end of fiscal year 2005, these pledged funds became committed funds through a Development Agreement and a City Council resolution.

**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 which 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 committed a total of $2 million in tax increment assistance to the Civic Stadium project; $1 million earmarked for construction costs and $1 million committed towards public infrastructure improvements, such as streets, parking lots, sidewalks and trails. As of June 30, 2005, $231,500 remains of the public infrastructure funds. Those funds have been committed through a development agreement and will be utilized for parking improvements for the stadium.

Another significant project that MRA has committed funds to is the Missoula County Courthouse Restoration project. A few years ago the MRA committed $551,376 of tax increment to assist

Missoula County with repairing and restoring the historic Courthouse building. In June 2004, Missoula County reported significant cost savings for the work they had undertaken to date. As a result, the MRA Board approved Missoula County's request to use the savings to undertake façade and code compliance work on the nearby Public Defender and Youth Court buildings and ADA access improvements between the Courthouse and Annex. Carryover funds for this project are secured through a development agreement and the project is estimated to be complete by fall 2005.

The Clark Fork Commons is another committed project that entails the construction of a 25-unit town home development on land acquired from private owners by the Missoula Housing Authority (MHA). The land was subsequently purchased by North Missoula Community Development Corporation (NMCDC). The project is designed to allow low-to-moderate income residents to purchase homes through the use of various federal, local, and private subsidies. The total estimated cost of the project is $3.2 million and the MRA committed $144,631 in tax increment assistance. As of June 30, 2005, carryover funds were secured through a development agreement and the project is estimated to be completed by spring 2006.

**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 have not had 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 those revenues collected by the local taxing jurisdictions. These reimbursements or entitlements are intended to "make whole" on the losses experienced as a result of the 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.

**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 not completed when planned. A variety of factors from weather and fund raising 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 year.

**Currently Known Facts**

As of June 30, 2005, the tax increment provision of the URD I Urban Renewal Plan has sunset or ended. In anticipation of that date, the MRA secured all funds pledged or committed to projects through development agreements and construction contracts. In addition, the City Council passed

Resolution #6929 committing any additional funds due to URD I but not yet received (taxes receivable and delinquent taxes) to the North Higgins Ave Streetscape project. Any funds remaining after completion of the carryover projects, or as of June 30, 2006, will be disbursed to the seven taxing jurisdictions in proportion to their property tax revenue from the district.

In URD II, expenditures of tax increment funds to date have been largely for projects that have not resulted in increases to that district's tax increment fund in a way that favorably compares with the experience in URD I. However, URD II has still been able to undertake tax generating redevelopment projects in the district. Due to the more residential nature of URD II, tax increment revenue will never match the more commercial area of URD I. MRA staff is currently investigating the possibility of extending this district through the issuance of tax increment bonds for one or more projects. These projects are in the planning phase and would require substantial tax increment assistance. Absent the issuance of tax increment bonds, this district is scheduled to sunset on June 30, 2006.

URD III tax increment funded the Brooks/South/Russell Enhancement project, which complimented the larger State of Montana CMAQ project rerouting traffic in this congested area. MRA also pledged tax increment monies toward public improvements (sidewalks, curbs, gutters, and street trees) along South Avenue in conjunction with the City's widening and reconfiguration of this street.

With the sunset of the URD I tax increment provision, the MRA's largest funding source, the staff and Board looked for ways to increase increment in the remaining Districts and reduce the operating costs of the Agency. During fiscal year 2005, the MRA and the City entered into a joint venture to conduct a space needs assessment for the City. In addition, the City committed to provide a rent free home for the MRA in or near City Hall for five (5) years.

Over the past year, the MRA Board has been very discriminating when considering URD I projects that are appropriate for funding. They have emphasized the completion of the Ron MacDonald Riverfront Trails System, projects that set the stage for major redevelopment to occur after the tax increment funds are no longer available, large private projects with significant impact on the area, appropriations that assure the success of past investments, and infrastructure projects that will extend the vitality of the downtown. Each new project that has come to the MRA for funding is reviewed with increasing scrutiny with respect to its economic impact, lifespan, and contribution to the greater area. This is a bit of a departure from the approach in past years when the Board was much more flexible as they considered funding requests. It is the goal of the MRA to leave the downtown, URD I, with a legacy and a framework that the City, the downtown organizations, and property owners can continue to build upon.

Missoula Redevelopment Agency

Ellen Buchanan
Director

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

Statement of Net Assets
June 30, 2005

| | Primary Government Governmental Activities |
|---|---|
| **ASSETS** | |
| Current Assets | |
| Cash and investments | $ 5,672,750 |
| Taxes/assessments receivable, net | 245,993 |
| Prepaid rent | 24,700 |
| Due from other governments | 62,119 |
| Total assets | 6,005,562 |
| **LIABILITIES** | |
| Current Liabilities | |
| Accounts payable | 477,279 |
| Compensated absences | 30,261 |
| Total current liabilities | 507,540 |
| Noncurrent Liabilities | |
| Long-term portion of compensated absences | 10,503 |
| Total noncurrent liabilities | 10,503 |
| Total liabilities | 518,043 |
| **NET ASSETS** | |
| Unrestricted | 5,487,519 |
| Total net assets | $ 5,487,519 |

The accompanying notes are an integral part of these financial statements.

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

Statement of Activities
For the Year Ended June 30, 2005

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expenses) Revenues and Changes in Net Assets: Governmental Activities |
|---|---|---|---|---|---|
| Governmental Activities | | | | | |
| Housing and community development | $ 5,052,449 | $ - | $ - | $ - | $ (5,052,449) |
| Interest expense | 14,619 | - | - | - | (14,619) |
| Total governmental activities | 5,067,068 | - | - | - | (5,067,068) |
| Total primary government | $ 5,067,068 | $ - | $ - | $ - | (5,067,068) |
| General Revenues | | | | | |
| Property taxes for general purposes | | | | | 2,630,744 |
| Reimbursement for personal property | | | | | 71,797 |
| State contribution - PERS | | | | | 246 |
| HB 124 revenue | | | | | 1,133,850 |
| Investment earnings | | | | | 236,090 |
| Miscellaneous | | | | | 143,531 |
| Total general revenues | | | | | 4,216,258 |
| Change in net assets | | | | | (850,810) |
| Net Assets | | | | | |
| Beginning of year | | | | | 6,338,329 |
| End of year | | | | | $ 5,487,519 |

The accompanying notes are an integral part of these financial statements.

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

Balance Sheet
Governmental Funds
June 30, 2005

| | Urban Renewal District #1 | Urban Renewal District #2 | Urban Renewal District #3 | Major Debt Service | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current Assets | | | | | |
| Cash and investments | $ 4,107,562 | $ 1,315,133 | $ 250,011 | $ 44 | $ 5,672,750 |
| Taxes/assessments receivable, net | 166,925 | 58,522 | 20,546 | - | 245,993 |
| Other current assets | 24,700 | - | - | - | 24,700 |
| Due from other governments | 50,364 | 5,416 | 6,339 | - | 62,119 |
| Total assets | $ 4,349,551 | $ 1,379,071 | $ 276,896 | $ 44 | $ 6,005,562 |
| **LIABILITIES** | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | $ 477,235 | $ - | $ - | $ 44 | $ 477,279 |
| Deferred revenue | 166,925 | 58,522 | 20,546 | - | 245,993 |
| Total liabilities | 644,160 | 58,522 | 20,546 | 44 | 723,272 |
| **FUND BALANCES** | | | | | |
| Unreserved Fund Balance | 3,705,391 | 1,320,549 | 256,350 | - | 5,282,290 |
| Total liabilities and fund balances | $ 4,349,551 | $ 1,379,071 | $ 276,896 | $ 44 | $ 6,005,562 |

The accompanying notes are an integral part of these financial 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, 2005

| | |
|---|---|
| Total fund balances - governmental funds | $ 5,282,290 |
| 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 | 245,993 |
| Long-term liabilities, both current and noncurrent portions are not due payable in the current period and therefore are not reported as liabilities in the funds | (40,764) |
| Total net assets - governmental activities | $ 5,487,519 |

The accompanying notes are an integral part of these financial statements.

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

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

| | Urban Renewal District #1 | Urban Renewal District #2 | Urban Renewal District #3 | Major Debt Service | Total |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Tax Increment Property Tax | $ 1,966,953 | $ 456,008 | $ 292,945 | $ - | $ 2,715,906 |
| State Contribution PERS | 246 | - | - | - | 246 |
| State Personal Property Tax Reimbursement | 68,538 | 3,259 | - | - | 71,797 |
| State Entitlement | 1,100,507 | 33,343 | - | - | 1,133,850 |
| Investment Earnings | 180,389 | 36,820 | 4,650 | 14,231 | 236,090 |
| Miscellaneous | 141,070 | 2,461 | - | - | 143,531 |
| Total revenues | 3,457,703 | 531,891 | 297,595 | 14,231 | 4,301,420 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| Housing and Community Development | 2,336,589 | 40,230 | 71,465 | - | 2,448,284 |
| Capital Outlay | 735,713 | - | - | - | 735,713 |
| Debt Service Expense - Interest | - | - | - | 14,619 | 14,619 |
| Debt Service Expense - Principal | - | - | - | 275,000 | 275,000 |
| Total expenditures | 3,072,302 | 40,230 | 71,465 | 289,619 | 3,473,616 |
| Excess (deficiency) of revenues over expenditures | 385,401 | 491,661 | 226,130 | (275,388) | 827,804 |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Transfers In | 95,004 | - | - | - | 95,004 |
| Transfers Out | - | - | (34,106) | (60,898) | (95,004) |
| Transfers to Other Governments | (1,862,453) | - | - | | (1,862,453) |
| Total other financing sources (uses) | (1,767,449) | - | (34,106) | (60,898) | (1,862,453) |
| Net change in fund balance | (1,382,048) | 491,661 | 192,024 | (336,286) | (1,034,649) |
| **FUND BALANCES** | | | | | |
| Beginning of year | 5,087,439 | 828,888 | 64,326 | 336,286 | 6,316,939 |
| End of year | $ 3,705,391 | $ 1,320,549 | $ 256,350 | $ - | $ 5,282,290 |

The accompanying notes are an integral part of these financial 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, 2005

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

| | |
|---|---|
| Net change in fund balances - total governmental funds | $ (1,034,649) |
| 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 | (85,162) |
| The change in compensated absence payable is reported in the statement of activities as an expense | (5,999) |
| 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 | 275,000 |
| Change in net assets - statement of activities | $ (850,810) |

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements
June 30, 2005

## 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, 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. Because the tax increment provisions for District 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 extends the tax increment provisions for the term of the bonds, whose final maturity is July 1, 2005. URD II is scheduled to terminate in 2006, as required by State law, which amended the term of urban renewal districts to fifteen years after enactment. URD III is scheduled to terminate in December 2015.

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 restricted resources to expenses incurred before using unrestricted 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.

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.

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

*Debt Service Fund*

- This fund accounts for accumulations of resources for, and the payment of, principal, interest, and related costs of long-term liabilities.

<u>Budgets and Budgetary Accounting</u> – 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.

Note 1 – Summary of Significant Accounting Policies (Continued)

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 current 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.

<u>Cash and Cash Equivalents</u> – 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.

Note 1 – Summary of Significant Accounting Policies (Continued)

Receivables – 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 2004 property tax billing are as follows:

| | Taxable Value | Increment Value |
|---|---|---|
| Urban Renewal District I | $ 8,683,811 | $ 2,709,824 |
| Urban Renewal District II | $ 2,567,881 | $ 708,058 |
| Urban Renewal District III | $ 7,431,330 | $ 426,984 |

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.

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 | $ 223,276 |
| Repurchase Investment Account | 101,998 |
| Government Securities | 3,658,426 |
| Investment in State Short-Term Investment Pool | 1,610,279 |
| Certificates of Deposit | 78,771 |
| Total | $ 5,672,750 |

Note 2 – Cash and Investments (Continued)

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.

Note 3 – Due From Other Governments

The amount due from other governments is the second half of the state personal property tax reimbursement which is received by Missoula County in June, but not received by the City until July.

Note 4 – Long-Term Debt

Changes in long-term debt for the year ended June 30, 2005, were as follows:

| | Beginning Balance | Additions | Debt Retired | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Refunding Tax Increment Bonds | $ 275,000 | $ - | $ 275,000 | $ - | $ - |
| Compensated Absences | 34,765 | 5,999 | - | 40,764 | 30,261 |
| Total | $ 309,765 | $ 5,999 | $ (275,000) | $ 40,764 | $ 30,261 |

MRA issued $3,000,000 of Tax Increment Renewal Bonds in December 1989. The bonds were issued to finance construction of a multi-level parking structure located within District I. In 1997, MRA defeased the 1989 bonds by placing the proceeds of Tax Increment Renewal Refunding Bonds issued in April 1997 in an irrevocable trust to provide all future debt service payments on the old bond issue. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in MRA's financial statements. As of June 30, 2005, the outstanding balance of the 1989 defeased bonds is $300,000.

The refunding bonds have an average yield of 4.96% over the life of the bonds and have stated interest rates ranging from 4.2% to 5.3%. Final payment was due July 1, 2005; however, it was made before June 30, 2005.

Note 5 – 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. For Urban Renewal District I, commitments exceed fund balance at June 30, 2005, in anticipation of budgeted revenue for fiscal year 2006. If anticipated revenue is not collected, the commitment to Downtown Streets Renovation would be reduced.

| | |
|---|---|
| Urban Renewal District I: | |
| Public: | |
| Allegra Building Mural | $ 10,125 |
| Brennan's Wave | 175,000 |
| Civic Stadium | 231,500 |
| County Renovation | 76,595 |
| Downtown Street Renovation | 315,098 |
| Madison Street Pedestrian Bridge | 1,121,765 |
| McCormick Park Trail Lighting | 80,018 |
| Riverfront Triangle (Fox Site) | 1,451,170 |
| Skatepark | 398,228 |
| Space Needs Assessment for City | 25,000 |
| Private: | |
| 119 West Main Street (LaFlesch) | 23,364 |
| Barrett Productions | 109,818 |
| Peak Development | 72,750 |
| Total | $ 4,090,431 |
| | |
| Urban Renewal District II: | |
| Private: | |
| Clark Fork Commons (Cedar St.) | $ 131,261 |
| McKenzie Project | 97,500 |
| Western Montana Mental Health Center | 14,000 |
| | $ 242,761 |
| Urban Renewal District III: | |
| Public: | |
| Brooks/South/Russell Enhancements | $ 13,904 |

Note 6 – 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 2005, expressed as a percentage of covered payroll.

Note 6 – Retirement Plan (Continued)

The amounts contributed during the years ended June 30, 2003, 2004, and 2005 were equal to the required contribution for each year. The amounts contributed by both the Agency and its employees were as follows:

| | |
|---|---|
| 2003 | $ 29,258 |
| 2004 | $ 33,019 |
| 2005 | $ 36,555 |

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 7 – Leases

MRA leases office space for its operations on a yearly basis. In 2005, MRA leased its office space from an outside party under a triple net lease for $23,407 and prepaid rent of $24,700 for fiscal year 2006.

Note 8 – Interfund Transactions

The Debt Service Fund transferred $60,898 to URD I for fund balance in excess of debt service requirements. Urban Renewal District III transferred $34,106 to Urban Renewal District I for its share of administrative costs. Urban Renewal District I transferred $1,862,453 to the City; of this transfer, $1,800,000 was for the Aquatics project, $45,000 was for the Silver Lagoon project, $7,328 was for the Boone and Crockett trail, and $10,125 was for MRA's share of various administrative projects.

Note 9 – 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.

REQUIRED SUPPLEMENTARY INFORMATION

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

Budgetary Comparison Schedule
For the Year Ended June 30, 2005

| | Urban Renewal District #1 | | | | Urban Renewal District #2 | | | |
|---|---|---|---|---|---|---|---|---|
| | Budgeted Amounts | | | Variance With | Budgeted Amounts | | | Variance With |
| | Original | Final | Actual | Final Budget | Original | Final | Actual | Final Budget |
| Budgetary Fund Balance, July 1, 2004 | $ 4,866,233 | $ 4,866,233 | $ 5,087,439 | $ 221,206 | $ 823,050 | $ 823,050 | $ 828,888 | $ 5,838 |
| Resources (Inflows): | | | | | | | | |
| Miscellaneous | 389,423 | 389,423 | 141,070 | (248,353) | - | - | 2,461 | 2,461 |
| Investment earnings | 110,000 | 110,000 | 180,389 | 70,389 | 5,000 | 5,000 | 36,820 | 31,820 |
| Internal services | - | - | - | - | - | - | - | - |
| Tax increment property tax | 1,909,071 | 1,909,071 | 1,966,953 | 57,882 | 498,827 | 498,827 | 456,008 | (42,819) |
| State contribution PERS | - | - | 246 | 246 | - | - | - | - |
| State personal property tax reimbursement | 69,186 | 69,186 | 68,538 | (648) | 2,612 | 2,612 | 3,259 | 647 |
| State entitlement | 1,100,507 | 1,100,507 | 1,100,507 | - | 33,343 | 33,343 | 33,343 | - |
| Intergovernmental (CTEP) | 203,463 | 203,463 | - | (203,463) | - | - | - | - |
| Transfers in | 196,537 | 196,537 | 95,004 | (101,533) | - | - | - | - |
| Amounts available for appropriation | $ 8,844,420 | $ 8,844,420 | 8,640,146 | $ (204,274) | $ 1,362,832 | $ 1,362,832 | 1,360,779 | $ (2,053) |
| Charges to Appropriations (Outflows): | | | | | | | | |
| Housing and community development | $ 3,517,616 | $ 3,011,331 | 2,336,589 | $ 674,742 | $ 1,047,832 | $ 1,047,832 | 40,230 | $ 1,007,602 |
| Capital outlay | 3,719,679 | 3,970,636 | 735,713 | 3,234,923 | 215,000 | 215,000 | - | 215,000 |
| Transfers to other governments | 1,607,125 | 1,862,453 | 1,862,453 | - | - | - | - | - |
| Transfers out | - | - | - | - | 100,000 | 100,000 | - | 100,000 |
| Total charges to appropriations | $ 8,844,420 | $ 8,844,420 | 4,934,755 | $ 3,909,665 | $ 1,362,832 | $ 1,362,832 | 40,230 | $ 1,322,602 |
| Excess (deficiency) of resources (inflows) over charges to appropriations (outflows) | | | 3,705,391 | | | | 1,320,549 | |
| Budgetary Fund Balance, June 30, 2005 | | | $ 3,705,391 | | | | $ 1,320,549 | |

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

Budgetary Comparison Schedule (Continued)
For the Year Ended June 30, 2005

| | Urban Renewal District #3 | | | |
|---|---|---|---|---|
| | Budgeted Amounts | | | Variance With |
| | Original | Final | Actual | Final Budget |
| Budgetary Fund Balance, July 1, 2004 | $ 64,326 | $ 64,326 | $ 64,326 | $ - |
| Resources (Inflows): | | | | |
| Miscellaneous | - | - | - | - |
| Investment earnings | 300 | 300 | 4,650 | 4,350 |
| Internal services | - | - | - | - |
| Tax increment property tax | 300,810 | 300,810 | 292,945 | (7,865) |
| State contribution PERS | - | - | - | - |
| State personal property tax reimbursement | - | - | - | - |
| State entitlement | - | - | - | - |
| Intergovernmental (CTEP) | - | - | - | - |
| Transfers in | - | - | - | - |
| Amounts available for appropriation | $ 365,436 | $ 365,436 | 361,921 | $ (3,515) |
| Charges to Appropriations (Outflows): | | | | |
| Housing and community development | $ 265,436 | $ 315,436 | 71,465 | $ 243,971 |
| Capital outlay | 50,000 | - | - | - |
| Debt Service | - | - | - | - |
| Transfers out | 50,000 | 50,000 | 34,106 | 15,894 |
| Total charges to appropriations | $ 365,436 | $ 365,436 | 105,571 | $ 259,865 |
| Excess (deficiency) of resources (inflows) over charges to appropriations (outflows) | | | 256,350 | |
| Budgetary Fund Balance, June 30, 2005 | | | $ 256,350 | |

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

Budgetary Comparison Schedule
Budget-to-GAAP Reconciliation
June 30, 2005

**Note 1 -** Explanation of perspective differences between budgetary inflows and outflows and GAAP revenues and expenditures

| | Urban Renewal District #1 | Urban Renewal District #2 | Urban Renewal District #3 |
|---|---|---|---|
| Sources/Inflows of Resources | | | |
| Actual available for appropriation from the budgetary comparison schedule | $ 8,640,146 | $ 1,360,779 | $ 361,921 |
| The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes | (5,087,439) | (828,888) | (64,326) |
| Transfers from other funds are inflows of budgetary resource but are not revenues for financial reporting purposes | (95,004) | - | - |
| Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds | $ 3,457,703 | $ 531,891 | $ 297,595 |
| Uses/Outflows of Resources | | | |
| Actual total charges to appropriations from the budgetary comparison schedule | $ 4,934,755 | $ 40,230 | $ 105,571 |
| Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes | (1,862,453) | - | (34,106) |
| Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds | $ 3,072,302 | $ 40,230 | $ 71,465 |

& COMPANY

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, 2005, which collectively comprise Missoula Redevelopment Agency's basic financial statements and have issued our report thereon dated November 18, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Commissioners, management, and the City of Missoula and is not intended to be and should not be used by anyone other than these specified parties.

Anderson ZurMuehlen & Co., P.C.

Missoula, Montana
November 18, 2005