MISSOULA REDEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE CITY OF MISSOULA)

MISSOULA COUNTY, MONTANA

Fiscal Year Ended June 30, 2004

AUDIT REPORT

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

MISSOULA REDEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE CITY OF MISSOULA)

MISSOULA COUNTY, MONTANA

Fiscal Year Ended June 30, 2004

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MISSOULA REDEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE CITY OF MISSOULA)

MISSOULA COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2004

DIRECTOR

Ellen Buchanan	Director

BOARD OF COMMISSIONERS

Hal Fraser	Chairperson
Nancy Moe	Vice-Chairperson
Rosalie Cates	Member
Karl Englund	Member
Daniel Kemmis	Member

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, 2004. Please read it in conjunction with the MRA's financial statements and accompanying notes.

Financial Highlights

- The MRA's net assets increased by $752,341 due primarily to a net change in fund balances. Other reasons for the increase include taxes receivable and repayment of long-term debt principal, which reduced long-term liabilities.

- During the year MRA had revenues of $3,903,099 and expenses totaling $3,603,286 (excluding Transfers to Other Governments), which resulted in an excess of $299,813 of revenues over expenditures.

- 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 2004 revenues increased by 21% from 2003.

- Expenditures include amounts for MRA's redevelopment programs, projects, debt service for the outstanding bonds in URD I and an amount released to the taxing jurisdictions from URD I's development account. MRA's 2004 expenditures were up 75% from 2003.

- The change in fund balance shows a net change of $292,949 during the reporting year. This change reflects total revenue received for the reporting year while reflecting expenditures and transfers to other governments which were less than revenues and less than budgeted.

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 (URD), 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.

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 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 URD I's outstanding tax increment bond principle and the noncurrent portion (sick and compensatory hours) of MRA's compensated absences.

MRA will be completing its payment of tax increment bond indebtedness on June 30, 2005. The tax increment funds and reserves are adequately provided for and there should be no difficulty in meeting this obligation. No other indebtedness exists or is planned for in URD I, although discussions have begun with the Missoula Housing Authority and others about the possibility of issuing tax increment bonds to finance public infrastructure in URD II in relation to a project anticipated on the former Intermountain Lumber Company site. Analysis of those projects and their ability to allow MRA to service significant new debt will have to be undertaken as the project gains more definition.

The credit rating of MRA's potential tax increment bonds is unknown at this time. However, the one tax increment bond issued has been successfully refinanced twice. 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

MRA receives only general revenues and does not generate any program revenue. Of MRA's $4,078,880 total revenue reported in the Statement of Activities, 64% was 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 30% 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

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's other transfers include monies transferred from URD II and URD III to URD I. These transfers are done annually to reimburse URD I for the Agency's administrative expenses, which are paid solely from this fund.

Balances and Transactions of Individual Governmental Funds

Unreserved fund balance

	URD I	URD II	URD III
Beginning Balance 7/1/03	$ 5,097,798	$ 516,744	$ 48,277
Ending Balance 6/30/04	$ 5,087,439	$ 828,888	$ 64,326
$ Change	$ (10,359)	$ 312,144	$ 16,049
% Change	(.2%)	60%	33%

Reserved fund balance

	Debt Service
Beginning Balance 7/1/03	$ 361,171
Ending Balance 6/30/04	$ 336,288
$ Change	$ (24,883)
% Change	(7%)

There was only one redevelopment project undertaken in URD II during fiscal year 2004. The total paid out for this project was $4,797. When combined with the administrative transfer of $100,000 to URD I, total URD II expenditures were $312,144 less than revenue received.

URD III is a new district and therefore does not receive a large amount of tax increment revenue. The only project that MRA undertook in this district was a redevelopment master planning exercise that cost $110,000. When combined with the administrative transfer of $20,000 to URD I, total URD III expenditures were $16,049 less than revenue received.

Overall Financial Position

The MRA's overall financial position has improved in the sense that revenue assets have increased, allowing the MRA to undertake more projects in its redevelopment efforts. During fiscal year 2004, MRA maintained a healthy fund balance, which enabled the Agency's Board of Commissioners to respond favorably to requests for financial assistance for worthy projects.

Due to project completion schedules, it is not uncommon for projects which 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, it has resulted in a buildup of the URD I tax increment fund to several million dollars. The accumulation of money in the URD I tax increment fund has allowed MRA and the City of Missoula to undertake larger public capital 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 under utilized 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.

The Riverfront Triangle is MRA’s most significant planned project and 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. The Hospital and MRA co-sponsored a community planning charrette process and engaged a consultant to prepare an urban design plan for the 9.5 acre site. Marketing of the site should begin in spring 2005. MRA has pledged $1.9 million towards activities related to the redevelopment of the Riverfront Triangle.

Two smaller public projects that include MRA assistance are in the planning phase; the Downtown Traffic and Streetscape project on N. Higgins Ave has an estimated budget of $200,000 and the McCormick Park Skatepark project has an estimated budget of $350,000.

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. Often times this period is also a time for project design development and approvals.

MRA’s most significant pledged project during fiscal year 2004 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 is currently in the design phase. Transfer of MRA tax increment monies to a special aquatics fund is anticipated in fiscal year 2005. The next most significant pledged project is the Missoula Art Museum of Missoula. As of June 30, 2004, the MRA Board had pledged $500,000 to this project contingent on the remaining funds being secured through private donations, grants and government loans.

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.

The Civic Stadium project is under construction and is the recipient of MRA’s largest amount of tax increment assistance. The MRA Board committed a total of $2 million to this public-private partnership; with $1 million earmarked for construction costs and $1 million committed towards public infrastructure improvements, such as streets, parking lots, sidewalks and trails.

The next most significant project is the Missoula County Courthouse Remodel. A few years ago the MRA committed $551,376 of tax increment to assist Missoula County with repairing and remodeling 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, ADA access improvements between the Courthouse and Annex, and sidewalk repairs.

The Clark Fork Commons is another significant project that entails the construction of a 25-unit town home development on land acquired from private owners by the Missoula Housing Authority and 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.

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.

The effect of the Legislature's tax policy changes on MRA revenues and those of other local taxing jurisdictions has been offset to a large degree by payments intended to "make whole" on the losses experienced as a result of the changes (State Personal Property Reimbursements and State Entitlement funds). Looking forward, one negative aspect of this situation is that as the current law reads, State Entitlement funds currently received by MRA's URD I fund disappear upon sunset of this district. Unlike the tax increment revenue normally captured by the district, which will be diverted back to the other taxing jurisdictions upon sunset, the $1,133,850 State Entitlement amount received annually by MRA will revert back to the State of Montana.

Budget to Actual Variances

MRA typically reports significant 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 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

In one year (June 30, 2005), the tax increment provision of the URD I Urban Renewal Plan will sunset. At that point in time, all remaining tax increment funds that are not committed to a project through a Development Agreement will revert back to the seven taxing jurisdictions in the district. State law provides: "Any amounts remaining in the special fund or any reserve fund after termination of the tax increment provision must be distributed among the various taxing bodies in proportion to their property tax revenue from the district."[7-15-4292 (2) MCA]. Planning for that eventuality has already begun and MRA has discussed the anticipated fund balance available on June 30, 2005 with the City and the other taxing jurisdictions.

In URD II, expenditures of tax increment funds to date have been largely for projects that have not resulted in increases to the URD II 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 accrued within the next year will be used to fund a Brooks/South/Russell Enhancement project that will compliment the larger State of Montana CMAQ project, which will reroute traffic in this congested area.

In anticipation of the sunset of the URD I tax increment provision, the MRA's largest funding source, the staff and Board are looking for ways to increase increment in the remaining Districts and reduce the operating costs of the Agency. There is currently an effort being made to joint venture with the City in the purchase and renovation of a downtown building that would provide a rent free home for the MRA for the next 20 years. The location would provide easy access to both City Hall and the remaining Districts. With the challenges presented by URD III, every effort will be made to maintain current staffing levels. The redevelopment of this very diverse area will require all of the staff resources that can be made available.

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 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; whereas, in past years, the Board was much more flexible when considering funding requests. It is the goal of the MRA to leave URD I with a legacy that the City and the downtown organizations can continue to build upon.

Missoula Redevelopment Agency

Ellen Buchanan
Director

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Missoula Redevelopment Agency
Missoula County
Missoula, Montana

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Missoula Redevelopment Agency, a component unit of the City of Missoula, Missoula County, Montana, as of and for the year ended June 30, 2004, 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 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 financial position of the governmental activities, each major fund and the aggregate remaining funds of the Missoula Redevelopment Agency, a component unit of the City of Missoula, Missoula County, Montana, as of June 30, 2004, and the respective changes in financial position, where applicable, 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 9, 2004, on our consideration of the Missoula Redevelopment Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Robert K. Denning, CPA · Kim M. Downey, CPA

The management's discussion and analysis and budgetary comparison information on pages 2 through 8 and 26 through 27, 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.

Denning, Downey and Associates, CPA's, P.C.

December 9, 2004

Missoula Redevelopment Agency
A Component of the City of Missoula
Statement of Net Assets
June 30, 2004

		Primary Government Governmental Activities
ASSETS		
Current Assets		
Cash and investments	$	6,523,232
Taxes/Assessments receivable, net		552,359
Other receivables		142
Due from other governments		109,301
Total Current Assets	$	7,185,034
Noncurrent Assets		
Cash and investments	$	54,000
Total Noncurrent Assets	$	54,000
Total Assets	$	7,239,034
LIABILITIES		
Current Liabilities		
Accounts payable	$	590,940
Compensated Absences		20,167
Tax Increment Bond Liabilites - Due within one year		275,000
Total Current Liabilities	$	886,107
Noncurrent Liabilities		
Long-Term portion of Compensated Absences	$	14,598
Total Noncurrent Liabilities	$	14,598
Total Liabilities	$	900,705
NET ASSETS		
Restricted for debt service	$	309,786
Unrestricted		6,028,543
Total Net Assets	$	6,338,329

See accompanying Notes to the Financial Statements

Missoula Redevelopment Agency
A Component Unit of the City of Missoula
Statement of Activities
For the Fiscal Year Ended June 30, 2004

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets Primary Government	
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Total**
Primary Government:						
Governmental activities:						
Housing and Community Development	$ 3,298,009	$ -	$ -	-	$ (3,298,009)	$ (3,298,009)
Interest Expense	28,530	-	-	-	(28,530)	(28,530)
Total Governmental Activities	$ 3,326,539	$ -	$ -	$ -	$ (3,326,539)	$ (3,326,539)
Total Primary Government	$ 3,326,539	$ -	$ -	$ -	$ (3,326,539)	$ (3,326,539)
		General Revenues				
		Property taxes for general purposes			$ 2,615,661	$ 2,615,661
		Reimburse for personal property			89,747	89,747
		State Contribution - PERS			247	247
		HB 124 Revenue			1,133,850	1,133,850
		Investment earnings			150,904	150,904
		Miscellaneous			88,471	88,471
		Total general revenues			$ 4,078,880	$ 4,078,880
		Change in Net Assets			$ 752,341	$ 752,341
		Net Assets - Beginning			$ 5,585,988	$ 5,585,988
		Net Assets - Ending			$ 6,338,329	$ 6,338,329

See accompanying Notes to the Financial Statements

Missoula Redevelopment Agency
A Component Unit of the City of Missoula
Balance Sheet
Governmental Funds
June 30, 2004

	Urban Renewal District #1	Urban Renewal District #2	Major Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS					
Current Assets					
Cash and investments	$ 5,376,286	$ 810,765	$ 308,786	$ 53,895	$ 6,549,732
Taxes/Assessments receivable, net	512,452	29,001	-	10,906	552,359
Other receivables	142	-	-	-	142
Due from other governments	80,747	18,123	-	10,431	109,301
Total Current Assets	$ 5,969,627	$ 857,889	$ 308,786	$ 75,232	$ 7,211,534
Noncurrent Assets					
Restricted Cash and Investments	-	-	27,500	-	27,500
Total Noncurrent Assets	$ -	$ -	$ 27,500	$ -	$ 27,500
Total Assets	$ 5,969,627	$ 857,889	$ 336,286	$ 75,232	$ 7,239,034
LIABILITIES					
Current Liabilities					
Accounts payable	$ 590,940	$ -	$ -	$ -	$ 590,940
Deferred revenue	291,248	29,001	-	10,906	331,155
Total Liabilities	$ 882,188	$ 29,001	$ -	$ 10,906	$ 922,095
FUND BALANCES					
Reserved for debt service	$ -	$ -	$ 336,286	$ -	$ 336,286
Unreserved Retained Earnings	5,087,439	828,888	-	64,326	5,980,653
Total Fund Balance	5,087,439	828,888	336,286	64,326	6,316,939
Total Liabilities and Fund Balance	$ 5,969,627	$ 857,889	$ 336,286	$ 75,232	$ 7,239,034

See accompanying Notes to the 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, 2004

Total fund balances - governmental funds	$	6,316,939
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds		-
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.		331,155
Long-term liabilities, both current and non current portions are not due payable in the current period and therefore are not reported as liabilities in the funds		(309,765)
Total net assets - governmental activities	$	6,338,329

See accompanying Notes to the 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 Fiscal Year Ended June 30, 2004

	Urban Renewal District #1	Urban Renewal District #2	Major Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES					
Tax Increment Property Tax	$ 1,632,842	$ 364,890	$ 296,463	$ 145,688	$ 2,439,883
State Contribution PERS	247	-	-	-	247
State Personal Property Tax Reimbursement	86,482	3,265	-	-	89,747
State Entitlement	1,100,507	33,343	-	-	1,133,850
Investment Earnings	125,359	15,443	9,738	361	150,901
Miscellaneous	88,471	-	-	-	88,471
Total revenues	$ 3,033,908	$ 416,941	$ 306,201	$ 146,049	$ 3,903,099
EXPENDITURES					
Current:					
Housing and Community Development	$ 2,436,539	$ 4,797	$ -	$ 110,000	$ 2,551,336
Capital Outlay	758,420	-	-	-	758,420
Debt Service Expense - Interest	-	-	28,530	-	28,530
Debt Service Expense - Principal	-	-	265,000	-	265,000
Total expenditures	$ 3,194,959	$ 4,797	$ 293,530	$ 110,000	$ 3,603,286
Excess (deficiency) of revenues over expenditures	$ (161,051)	$ 412,144	$ 12,671	$ 36,049	$ 299,813
OTHER FINANCING SOURCES (USES)					
Transfers In	$ 157,556	$ -	$ -	$ -	$ 157,556
Transfers (Out)	-	(100,000)	(37,556)	(20,000)	(157,556)
Transfers to Other Governments	(6,864)	-	-	-	(6,864)
Total other financing sources (uses)	$ 150,692	$ (100,000)	$ (37,556)	$ (20,000)	$ (6,864)
Net Change in Fund Balance	$ (10,359)	$ 312,144	$ (24,885)	$ 16,049	$ 292,949
Fund Balance - Beginning	$ 5,097,798	$ 516,744	$ 361,171	$ 48,277	$ 6,023,990
Fund Balance - Ending	$ 5,087,439	$ 828,888	$ 336,286	$ 64,326	$ 6,316,939

See accompanying Notes to the 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 Fiscal Year Ended June 30, 2004

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

Net change in fund balances - total governmental funds	$	292,949
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded change in net assets differs from the change in fund balance by cost of the assets sold.		- -
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		175,781
Some expenses reported in the statement of activies do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
The change in compensated absence payable is reported on the statement of activities as an expense		18,611
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		
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.		265,000
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with the governmental activities.		-
Change in net assets - statement of activities	$	752,341

See accompanying Notes to Financial Statements

I. 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.

A. 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 remain 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.

Urban Renewal District I is located entirely within the Missoula School District No. 1. Urban Renewal District II is located partially in Missoula School District No. 1 and partially in Hellgate School District No. 4. Urban Renewal District III is located entirely within the Missoula School District No. 1

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 provision 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 extends the tax increment provisions for the term of the bonds, whose final maturity date 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.

In determining the financial reporting entity, the District complies with the provisions of GASB statement No, 14, *The Financial Reporting Entity* and includes all component units of which the District appointed a voting majority of the units' board; the District is either able to impose it's will on the unit or a financial benefit or burden relationship exists.

B. Measurement Focus, Basis of Accounting, and Basis of Presentation

Basis of Presentation and Basis of Accounting

Government-wide Statements – The statement of net assets and the statement of activities show information about the overall financial position and activities of the District. 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 District 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 District's governmental activities. Direct expenses are those that are specifically associated with a program or function. However, the District 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 #34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated.

The 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 District'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 non-major funds.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual. (i.e. when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The 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 (excluding motor vehicle taxes), special assessments, charges for current services, and interest earnings are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the District and are recognized as revenue at that time. The District recorded real and personal property taxes and assessments levied 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 and assessments 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 total for all government funds also be reported as major funds. Accordingly, the MRA reports the following major governmental funds:

Urban Redevelopment I - account for revenue sources that are legally restricted to expenditures for specific purposes.

Urban Redevelopment II - account for revenue sources that are legally restricted to expenditures for specific purposes.

Debt Service Fund – This fund accounts for accumulations of resources for, and the payment of, principal, interest, and related costs of long term liabilities.

C. Budgets and Budgetary Accounting

1. Budget Process

An annual appropriated operating budget is adopted each fiscal year for the Special Revenue Funds and Debt Service 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 District's budget.

As required by State statute, the District follows these procedures to develop their annual budget:

(a) On or before June 10, department heads and supervisors file with the District 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 District 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 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. 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 District prepares a resolution, notice is published of a public hearing, and a public hearing is held in accordance with state law.

II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Cash and Cash Equivalents

MRA's cash is held by the City Treasurer and pooled with other City cash. 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.

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.

The City's investment portfolio as of June 30, 2004, consisted of government securities and the State Unified Investment Program (STIP). MRA does not own specific identifiable investment securities in the pool; therefore, is not subject to categorization. Information regarding investment risk, collateral, security, and fair values is available from the City of Missoula Treasurer's office, 435 Ryman Street, Missoula, MT 59902.

B. 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. Special assessments are either billed in one installment due November 30 or two equal installments due November 30 and the following May 31. Personal property taxes (other that those billed with real estate) are generally billed no later then 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 Component Unit and the corresponding tax increment amounts for November 2002 property tax billing were as follows:

	Taxable Value	Increment Value
Urban Renewal District #1	$ 8,861,044	$ 2,887,057
Urban Renewal District #2	$ 2,371,729	$ 511,906
Urban Renewal District #3	$ 7,208,878	$ 204,532

C. Inventories

The cost of inventories are recorded as expenditures when purchased.

D. Interfund Transfers

The following is an analysis of operating transfers in and out during Fiscal Year 2004:

Purpose	From	To	Amount
Transfer of interest earned	Debt Service-Major	URD I-Major	$37,556
Administration	URD II-Major	URD I-Major	$100,00
Administration	URD III-Nonmajor	URD I-Major	$20,000

All of the above are governmental funds.

E. Capital Assets

Capital assets purchased by MRA are owned by the City of Missoula and accordingly are reported as City Capital Assets.

F. Operating Lease Commitments

MRA is bound by one lease commitment for office space which is renewed annually. The lease is considered for accounting purposes to be an operating lease. Minimum lease payments for the fiscal year ended June 30, 2004, amounted to $22,399.

G. Long-Term Debt

In the component unit financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums are expensed at the date of sale.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuances costs are reported as expenditures.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2004, the following changes occurred in long term liabilities;

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due within one year
Refunding Tax Increment Bonds	$ 540,000	$ -	$ 265,000	$ 275,000	$ 275,000
Compensated Absences	53,376	3,625	22,236	34,765	20,168
Total	$ 593,376	$ 3,625	$ 287,236	$ 309,765	$ 295,168

Tax Increment Bonds – The bonds are payable solely from and are secured by a first lien and pledge of tax increment revenues from URD I. The bond resolution requires, among other things, that all of the District's tax increment revenues 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 projects within District I, which may include returning a portion of the tax increment revenues to the taxing jurisdictions located within URD I, as provided by state law.

The bond resolutions include various restrictive covenants. The more significant covenants require that cash be restricted and reserved for current and future debt service. The District was in compliance with applicable covenants as of June 30, 2004.

Purpose	Origination Date	Interest Rate	Bond Term	Due Date	Bonds Amount	Annual Payment	Balance June 30,2004
Parking Structure	1997	4.2%-5.3%	20 yrs	2005	$1,880,000	Varies	$275,000

Annual interest rates are defined in the Bond Resolution based on stated maturity date. The interest rate is 5.3% for fiscal year 2005 as defined in the bond resolution.

Compensated Absences Payable
It is the City's policy and state law to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from City service. Employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation, but no more than 90 days into the new calendar year. There is no restriction on the amount of sick leave that may be accumulated. Upon separation, employees are paid 100 percent of accumulated vacation and 25 percent of accumulated sick leave. The liability associated with governmental fund-type employees is reported on the Statement of Net Assets as part of the Governmental Activities liabilities.

Requirements to Amortize Debt

The annual requirements to amortize all long-term debt outstanding, except Compensated Absences, as of June 30, 2004, were as follows:

For Fiscal Year Ended	Tax increment Bonds
2005	$289,575
Principal	275,000
Interest	$ 14,575
Total	$289,575

Advance Refunding of Long-Term Debt

In prior years, MRA defeased certain tax increment bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the MRA's financial statements. At June 30, 2004, the outstanding balance of the 1989 defeased bonds is $580,000.

H. State-Wide Retirement Plans

All full-time MRA employees 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 plans are cost-sharing multiple-employer defined benefit plans that provide retirement, disability and death benefits to plan members and beneficiaries, with amounts determined by the State.

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2004, were:

	PERS
Employer	6.90%
Employee	6.80%

State	.10%

The State contribution qualifies as an on-behalf payment. These amounts have been recorded in the agency's financial statements.

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling:

1. Public Employees Retirement Division, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154

The Agency and its employees contributions for the years ended June 30, 2002, 2003, and 2004, as listed below, were equal to the required contributions for each year.

	PERS
2002	$29,847
2003	$29,258
2004	$33,019

I. Post Employment Benefits

Terminated employees may remain on the MRA's health insurance plan for up to 18 months if they pay the monthly premiums. This benefit is required under the federal COBRA law. Retirees may remain on the MRA's health plan to age 65, provided they pay the monthly premiums. State law requires the MRA to provide this benefit. No cost can be estimated for the above benefits, although there is the probability that there are higher medical costs for retirees which would result in additional costs to the insurance program.

J. Restricted Cash/Investments

The following restricted cash/investments were held by the MRA as of June 30, 2004. These amounts are reported within the noncurrent assets - cash/investment account on the Balance Sheet and Statement of Net Assets.

Description	Amount
Reserve account-future debt payments	$27,500

K. Fund Equity

Reservations of equity show amounts that are not appropriate for expenditure or are legally restricted for specific uses. Designations of equity are used to show the amounts within unreserved equity which are intended to be used for specific purposes but are not legally restricted.

Reserved fund balances at June 30, 2004, consisted of:

Debt Service Fund	
Reserve for Debt Service	$309,786

L. Risk Management

The MRA faces considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employee torts, and professional liabilities. And, given the lack of coverage available, the MRA has no coverage for potential losses from environmental damages. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

M. Pending Litigation

There was no pending or threatened litigation or unasserted claims or assessments against the MRA at June 30, 2004.

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901

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

Board of Commissioners
Missoula Redevelopment Agency
Missoula County
Missoula, Montana

We have audited the governmental activities, each major fund and the aggregate remaining fund information of Missoula Redevelopment Agency, a component unit of the City of Missoula, Missoula County, Montana, as of and for the year ended June 30, 2004, which collectively comprise the Missoula Redevelopment Agency's basic financial statements and have issued our report thereon dated December 9, 2004. 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.

Compliance
As part of obtaining reasonable assurance about whether the Missoula Redevelopment Agency's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

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 opinion on the financial statements and not to provide assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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.

Robert K. Denning, CPA · Kim M. Downey, CPA

This report is intended solely for the information and use of the Board of Commissioners, management, the Montana Department of Administration, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Denning, Downey and Associates, CPA's, P.C.

December 9, 2004

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901

REPORT ON OTHER COMPLIANCE, FINANCIAL, AND INTERNAL ACCOUNTING CONTROL MATTERS

Board of Commissioners
Missoula Redevelopment Agency
Missoula County
Missoula, Montana

There were no other compliance, financial, or internal accounting matters.

Denning, Downey and Associates, CPA's, P.C.

December 9, 2004

Robert K. Denning, CPA · Kim M. Downey, CPA

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of Commissioners
Missoula Redevelopment Agency
Missoula County
Missoula, Montana

The prior audit report contained no recommendations.

Denning, Downey and Associates, CPA's, P.C.

December 9, 2004

Robert K. Denning, CPA · Kim M. Downey, CPA