

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

MISSOULA COUNTY, MONTANA

Fiscal Year Ended June 30, 2003

**AUDIT REPORT**  
**(Revised)**

**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, 2003

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

MISSOULA COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2003

Geoff Badenoch

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, 2003. Please read it in conjunction with the MRA's financial statements and accompanying notes.

### **Financial Highlights**

- The MRA's net assets increased by \$1,441,854 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 the long term liabilities.
- During the year MRA had revenues of \$3,223,883 and expenses totaling \$2,058,985, which resulted in an excess of \$1,164,898 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 2003 revenues increased by 6% from 2002.
- 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 2003 expenditures were down 27% from 2002.
- The change in fund balance shows a net change of \$1,074,960 during the reporting year. This change reflects net revenue received for the reporting year while reflecting expenditures which were less than revenues and less than expenditures 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 is, "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.

These two statements 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 amount of 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 one debt service fund that meets 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 reconciliation 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, via 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.

### **Capital 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 and restricted cash. The City of Missoula maintains a database of all the MRA's furniture, equipment and computer related assets.

### **Current and Long Term Liabilities**

MRA has both current and long-term liabilities. Current liabilities include accounts payable for project related costs or reimbursements. Long-term liabilities include URD I's outstanding tax increment bond principle and compensated absences for MRA employees.

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 \$3,340,777 total revenue reported in the Statement of Activities, 57% was received from property taxes. The next largest revenue source for MRA is from the State of Montana in the form of personal property tax reimbursements and in the State entitlement grant authorized under House Bill 124. Total revenue from this source is 37% of MRA's total revenue received. The remaining revenue received is from investment earnings and miscellaneous sources.

### **Expenses**

Under the Statement of Activities, 98% of MRA's expenses are expressed under Housing and Community Development. Specifically, MRA's expenses include project assistance under MRA programs, administrative costs including personnel, office supplies, rent, equipment, etc. 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 funds that are transferred from URD II and URD III to URD I. These transfers are done annually to reimburse the first district, which pays for all of the administrative expenses of the Agency.

### **Balances and Transactions of Individual Governmental Funds**

#### *Unreserved fund balance*

	<u>URD I</u>	<u>URD II</u>	<u>URD III</u>
Beginning Balance 7/1/02	\$ 4,222,125	\$285,454	\$ 9,951
Ending Balance 6/30/03	\$ 5,097,798	\$516,744	\$ 48,277
\$ Change	\$ 875,673	\$231,290	\$ 38,326
% Change		21%	81%
			385%

#### *Reserved fund balance*

	<u>Debt Service</u>
Beginning Balance 7/1/02	\$ 458,553
Ending Balance 6/30/03	\$ 361,171
\$ Change	\$ (97,382)
% Change	(21%)

There were only two redevelopment projects undertaken in URD II during fiscal year 2003. The total paid out for these projects was \$53,795. When combined with the administrative transfer of \$50,000, total URD II expenditures were less than revenue received.

URD III is a new district and therefore does not receive a large amount of tax increment revenue. The MRA did not undertake any redevelopment projects in this district with the intent to build up the increment in order to pay for a master planning exercise that is scheduled for fiscal year 2004. The only activity in URD III was the administrative transfer to URD I for \$57,000.

### **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.

Thus far, financial requirements have not exceeded available revenue and MRA continues to respond favorably to requests for financial assistance to 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 funds in the tax increment funds has allowed MRA and the City of Missoula to undertake larger public capital projects than would be 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. 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 are likely to be under subscribed. Still, it is the MRA's practice to be responsive to private sector redevelopment initiatives—even small ones—so these programs are always 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 of the 9.5 acre site. Marketing of the site should begin in spring 2004. MRA has pledged \$1.9 million towards redevelopment activities related to the redevelopment of the Riverfront Triangle.

Two other significant public projects are in the planning phase; Madison Street Pedestrian Bridge has an estimated budget of \$700,000, and the DoubleTree River Access Trail has an estimated budget of \$185,000. Staff is currently investigating the feasibility of these projects.

### **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 is 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 Request For Qualifications phase. A final development agreement has not been executed yet. The next most significant pledged project is the Art Museum of Missoula. The MRA Board 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 to obtain funding. These funds are contractually committed and the commitment will often 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 has pledged a total of \$2 million to this public-private partnership; \$1 million is earmarked for construction costs and \$1 million is 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 \$551,375 of tax increment to assist Missoula County with repairs and remodel of the historic Courthouse building. This project is being completed in phases.

Another significant project, the Ditchstone project entails the construction of a new office building in the Downtown district. MRA has committed approximately \$265,000 towards this private-public partnership.

### **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 affect on the growth of the tax increment fund. While that has not been as important in the URD I fund where early growth during robust periods of increases of taxable value yielded a strong annual increment, less robust growth has been seen in the other two districts. In the third district (URD III), the annual increment revenue showed an unprecedented *decrease* in taxable value. The Montana Department of Revenue attributes this decrease to the changes that resulted in the deregulation of energy in Montana that caused Montana Power Company to sell off its power generation and distribution assets. The sale of the distribution assets caused the new owner, Northwestern Energy, to reduce its presence in Missoula and URD III where the local business office had been located. Other decreases in taxable value of Northwestern Energy property may affect both MRA increment receipts as well as the tax revenue received by taxing entities who levy taxes on Northwestern Energy property.

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" losses experienced as a result of the changes, but the net effect is nearly impossible to predict. This is something that should be tracked and analyzed by the City of Missoula and MRA to produce some measure of the effects for future years.

### **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, 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 two years (June 2005) the tax increment provision of the URD I Urban Renewal Plan will sunset. At that point in time, the fund is to be parceled out to the other taxing jurisdictions. 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 should begin in the next several months so that the MRA, the City, and the other taxing jurisdictions can plan for the distribution and use of the funds.

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. URD III tax increment accrued to date will be utilized for a master planning exercise for the district before individual redevelopment projects are accepted.

Absent energetic and successful redevelopment undertaken in URD II and URD III, in the coming years it will be necessary for MRA to modify its current business practices with respect to staffing and location of offices. It makes sense, for example, to consider a relocation of the offices to a site closer to the remaining two districts. That should be pursued as a way to achieve lower overhead costs. Likewise, it will be necessary to review staffing levels in the coming years to determine whether the current staffing levels can be maintained after the sunset of URD I's tax increment provision.

Over the past year, the MRA Board of Commissioners has carefully reviewed incoming redevelopment projects in consideration of the limited time left in URD I before sunset

and subsequently the limited amount of tax increment remaining to commit. It is significant the Board has specifically directed the Staff to move forward with the completion of the Riverfront Trails System and to pledge funds to the activities that will accomplish this goal. While in past years there were ample contingency funds available in order for the Board to respond with flexibility to redevelopment opportunities, in the last year and in the MRA's FY 04 budget, most funds have been pledged to projects the Board desires MRA to accomplish before sunset. The effect of these actions is that each project that comes to MRA after budget adoption is more carefully evaluated for its public and economic benefit to the district. Also, in the case of a Tax Increment Financing program project, the Staff and Board consider whether the project is worthwhile enough to transfer already pledged but not committed funds from another public project in order to provide assistance to the developer.

Missoula Redevelopment Agency

Christopher Behan  
Acting MRA Director

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

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

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**INDEPENDENT AUDITOR'S REPORT**

Director and 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, Missoula County, Montana, a component unit of the City of Missoula, as of and for the year ended June 30, 2003, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion 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 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, each major fund, the aggregate remaining fund information, as of June 30, 2003, 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.

As described in Note I, the Agency has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as of June 30, 2003.

The management's discussion and analysis and budgetary comparison information on pages 2 through 9 and 29 through 30, 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 methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2003, on our consideration of Missoula Redevelopment Agency, Missoula County, Montana'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.

*Dennings, Downey and Associates, CPA's, P.C.*

November 24, 2003

Missoula Redevelopment Agency  
 (A Component Unit of the City of Missoula)  
 Missoula County, Montana  
**Statement of Net Assets**  
 June 30, 2003

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
<b>Assets</b>	
<b><u>Current Assets</u></b>	
Cash and investments	\$ 6,031,004
Taxes receivable, net	<u>195,940</u>
Total Current Assets	<u>\$ 6,226,944</u>
<b><u>Noncurrent Assets</u></b>	
Restricted Assets	
Cash and investments	\$ 54,000
Total Noncurrent Assets	<u>\$ 54,000</u>
<b>Total Assets</b>	<u>\$ 6,280,944</u>
<b>Liabilities</b>	
<b><u>Current Liabilities</u></b>	
Accounts payable	\$ 101,580
<b><u>Long-term Liabilities</u></b>	
Long-term debt	\$ 540,000
Compensated absences	<u>53,376</u>
Total Long-term Liabilities	<u>\$ 593,376</u>
<b>Total Liabilities</b>	<u>\$ 694,956</u>
<b>Net Assets</b>	
Restricted for debt service	\$ 361,171
Unrestricted	<u>5,224,817</u>
<b>Total Net Assets</b>	<u>\$ 5,585,988</u>

See accompanying Notes to the Financial Statements

Missoula Redevelopment Agency  
 (A Component Unit of the City of Missoula)  
 Missoula County, Montana  
**STATEMENT OF ACTIVITIES**  
 For the Fiscal Year Ended June 30, 2003

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>				<u>Primary Government</u>	<u>Net (Expenses) Revenues and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
		<u>Governmental Activities</u>					
<b>Primary Government:</b>							
Governmental activities:							
Housing and Community Development	\$ 1,857,286	\$ -	\$ -	\$ -	\$ -		(1,857,286)
Interest Expense	41,637	-	-	-	-		(41,637)
<b>Total Governmental Activities</b>	<b>\$ 1,898,923</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>(1,898,923)</b>
General Revenues							
Property taxes for general purposes						\$	1,917,699
Grants and entitlements not restricted to specific programs							1,241,775
Investment earnings							138,642
Miscellaneous							42,661
Total general revenues, special items and transfers						\$	3,340,777
Change in Net Assets						\$	1,441,854
Net Assets - July 1, 2002						\$	4,976,083
Restatements							(27,053)
Restatements (GASB #34)						\$	(804,896)
Net Assets - July 1, 2002- Restated						\$	4,144,134
Net Assets - June 30, 2003						\$	5,585,988

See accompanying Notes to the Financial Statements

Missoula Redevelopment Agency  
 (A Component Unit of the City of Missoula)

Missoula County, Montana

**Balance Sheet**  
**Governmental Funds**

June 30, 2003

	<b>Major URD Fund I</b>	<b>Major URD Fund II</b>	<b>Major Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>					
Current Assets					
Cash and investments	\$ 5,145,378	\$ 510,314	\$ 330,586	\$ 44,727	\$ 6,031,005
Taxes receivable, net	-	21,353	166,618	7,968	195,939
Noncurrent Assets					
Restricted cash and investments	54,000	-	-	-	54,000
<b>Total Assets</b>	<b>\$ 5,199,378</b>	<b>\$ 531,667</b>	<b>\$ 497,204</b>	<b>\$ 52,695</b>	<b>\$ 6,226,944</b>
<b>Liabilities</b>					
Current Liabilities					
Accounts payable	\$ 101,580	\$ -	\$ -	\$ -	\$ 101,580
Deferred revenue	-	14,923	136,033	4,418	155,374
<b>Total Liabilities</b>	<b>\$ 101,580</b>	<b>\$ 14,923</b>	<b>\$ 136,033</b>	<b>\$ 4,418</b>	<b>\$ 256,954</b>
<b>Equity</b>					
Reserved for:					
Debt Services	\$ -	\$ -	\$ 361,171	\$ -	\$ 361,171
Designated for future capital and community development projects	4,015,552	149,000	-	1,500	4,166,052
Unreserved reported in Special Revenue	1,082,246	367,744	-	46,777	1,496,767
<b>Total Equity</b>	<b>\$ 5,097,798</b>	<b>\$ 516,744</b>	<b>\$ 361,171</b>	<b>\$ 48,277</b>	<b>\$ 6,023,990</b>

See accompanying Notes to the Financial Statements

Missoula Redevelopment Agency  
(A Component Unit of the City of Missoula)  
Missoula County, Montana

**Reconciliation of the Governmental Funds Balance Sheet to the  
Statement of Net Assets**

For the Fiscal Year Ended June 30, 2003

**Total fund balances - governmental funds** \$ 6,023,990

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, 155,374  
but are not available soon enough to pay for the current  
period's expenditures, and therefore are deferred  
in the funds.

Long-term liabilities are not due and payable in (593,376)  
the current period and therefore are not reported  
as liabilities in the funds

**Total net assets - governmental activities** \$ 5,585,988

See accompanying Notes to the Financial Statements

Missoula Redevelopment Agency  
(A Component Unit of the City of Missoula)  
Missoula County, Montana

**Statement of Revenues, Expenditures and Changes in Fund Balances**

**Governmental Funds**

For the Year Ended June 30, 2003

	<b>Major URD I</b>	<b>Major URD II</b>	<b>Major Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>					
Tax Increment Property Tax	\$ 1,135,026	\$ 285,933	\$ 285,662	\$ 94,184	\$ 1,800,805
State Personal Property Tax Reimbursement	103,779	3,917	-	-	107,696
State Entitlement	1,100,507	33,343	-	-	1,133,850
Miscellaneous	40,429	2,461	-	-	42,890
Investment Earnings	113,538	9,431	14,531	1,142	138,642
<b>Total Revenues</b>	<b>\$ 2,493,279</b>	<b>\$ 335,085</b>	<b>\$ 300,193</b>	<b>\$ 95,326</b>	<b>\$ 3,223,883</b>
<b>Expenditures:</b>					
Housing and Community Development	\$ 1,616,221	\$ 53,795	\$ -	\$ -	\$ 1,670,016
Debt Service Expense	-	-	291,637	-	291,637
Capital Outlay	97,332	-	-	-	97,332
<b>Total Expenditures</b>	<b>\$ 1,713,553</b>	<b>\$ 53,795</b>	<b>\$ 291,637</b>	<b>\$ -</b>	<b>\$ 2,058,985</b>
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	\$ 212,938	\$ -	\$ -	\$ -	\$ 212,938
Operating transfers out	-	(50,000)	(105,938)	(57,000)	(212,938)
Transfers to other Government	(89,938)	-	-	-	(89,938)
<b>Total other financing sources (uses)</b>	<b>\$ 123,000</b>	<b>\$ (50,000)</b>	<b>\$ (105,938)</b>	<b>\$ (57,000)</b>	<b>\$ (89,938)</b>
Excess Revenues and other sources over Expenditures and other uses	<b>\$ 902,726</b>	<b>\$ 231,290</b>	<b>\$ (97,382)</b>	<b>\$ 38,326</b>	<b>\$ 1,074,960</b>
Fund Balance July 1, 2002	\$ 4,222,125	\$ 285,454	\$ 458,553	\$ 9,951	\$ 4,976,083
Restatements	(27,053)	-	-	-	(27,053)
<b>Fund Balance July 1, 2002 - as restated</b>	<b>\$ 4,195,072</b>	<b>\$ 285,454</b>	<b>\$ 458,553</b>	<b>\$ 9,951</b>	<b>\$ 4,949,030</b>
Fund Balance June 30, 2003	<b>\$ 5,097,798</b>	<b>\$ 516,744</b>	<b>\$ 361,171</b>	<b>\$ 48,277</b>	<b>\$ 6,023,990</b>

See accompanying Notes to the Financial Statements

Missoula Redevelopment Agency  
(A Component Unit of the City of Missoula)  
Missoula County, Montana

**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, 2003

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

Net change in fund balances - total governmental funds	\$ 1,074,960
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.	116,894
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	250,000
Change in net assets - statement of activities	\$ <u>1,441,854</u>

See accompanying Notes to the Financial Statements

**MISSOULA REDEVELOPMENT AGENCY  
(A COMPONENT UNIT OF THE CITY OF MISSOULA)  
MISSOULA COUNTY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2003

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The general purpose financial statements of Missoula Redevelopment Agency, a component unit of the City of Missoula, Missoula, Montana, have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Component Unit's significant accounting policies are described below.

**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: District I in 1978, District II in 1991, and District 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 District I was enacted on December 18, 1978, it 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. As MRA's other two Districts were created after 1980 and they currently have no outstanding tax increment bonds, District II is scheduled to terminate in 2006. District III is scheduled to terminate in December 2015.

The accompanying general-purpose financial statements include all funds, account groups, agencies, boards, commissions, and authorities which meet the criteria of Statement No. 14 for inclusion in the MRA's financial report.

**MISSOULA REDEVELOPMENT AGENCY  
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**NOTES TO THE FINANCIAL STATEMENTS**  
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**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 MRA.

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the MRA 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 MRA's governmental activities. Direct expenses are those that are specifically associated with a program or function. However, the component unit does not collect any program revenue. Accordingly, all revenues, including all property taxes and entitlements, are presented as general revenues.

**Fund Financial Statements** – These statements provide information about the MRA'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.

These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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 general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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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 MRA and are recognized as revenue at that time. The MRA 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 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, general long-term debt and principal, interest, and related costs.

## **C. Budgets and Budgetary Accounting**

### **Budget Process**

An annual appropriated operating budget is adopted each fiscal year for the Special Revenue Funds and Debt Service Funds generally on the modified accrual basis of accounting. Revenues are budgeted in the year they are measurable and available. Expenditures are budgeted in the year they are expected to be incurred. As required by Montana law, the full amount of property taxes levied for the fiscal year is included in the MRA's budget.

**MISSOULA REDEVELOPMENT AGENCY  
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As required by State statute, the MRA follows these procedures to develop their annual budget:

- (a) On or before June 10, department heads and supervisors file with the Mayor who submits them to the City Council 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 component Unit 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 considered 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 City prepares a resolution, notice is published of a public hearing, and a public hearing is held in accordance with state law.

#### **D. Change in Accounting**

The Government Accounting Standards Board (GASB) issued Accounting Standards Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* in June 1999. The statement establishes new financial reporting requirements, requires new information to be reported, and restructured much of the information that governments have reported in the past. Its purpose was to make annual financial reports more comprehensive and easier to understand and use. The statement required implementation by governments of the City's size in fiscal year 2003 of which Missoula Redevelopment Agency is a component unit and consequently must implement in the same year as the City.

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Because of the purpose described above, the MRA has applied the new standard and substantially revised its fiscal year 2003 financial statements. The basis of accounting for the MRA's governmental funds was not changed by the new statement, however, the reporting of government-wide financial statements required the reclassification of some of its funds and the significant addition of information not previously reported including the elimination of certain revenues and expenses.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budget Variances**

Budget variances are primarily due to conservative budgeting or budgeted projects not started or completed in fiscal year 2003.

## **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

### **A. Cash and Cash Equivalents**

The MRA 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, 2003, consisted of government securities and the State Unified Investment Program (STIP). The 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). Special assessments are either billed in one installment due November 30 or two equal installments due November 30 and the following May 31.

**MISSOULA REDEVELOPMENT AGENCY  
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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 Component Unit and the corresponding tax increment amounts for November 2002 property tax billing were as follows:

	<u>Taxable Value</u>	<u>Increment Value</u>
Urban Renewal Component Unit I	\$ 8,045,400	\$ 2,071,413
Urban Renewal Component Unit II	\$ 2,300,133	\$ 440,310
Urban Renewal Component Unit III	\$ 7,145,008	\$ 140,662

### **C. Operating Transfers**

The following is an analysis of operating transfers in and out and transfers to other governments during Fiscal Year 2003:

<u>From</u>	<u>To</u>	<u>Amount</u>
URD II	URD I	\$ 50,000
URD III	URD I	\$ 57,000
URD I	City of Missoula	\$ 89,938
Debt Service	URD I	\$105,938

### **D. Capital Assets**

Capital assets purchased by the Component Unit are owned by the City of Missoula and accordingly are reported as City assets.

### **E. Operating Lease Commitments**

The 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, 2003, amounted to \$20,740.

**MISSOULA REDEVELOPMENT AGENCY**  
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**F. Long-Term Debt**

*Changes in Long-Term Debt Liabilities* – Long-term liability activity for the year ended June 30, 2003, was as follows:

	Balance			Balance
	<u>July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2003</u>
Refunding Tax Increment Bonds	\$ 790,000	\$ -	\$ 250,000	\$ 540,000
Compensated Absences	<u>45,432</u>	<u>7,944</u>	<u>-</u>	<u>53,376</u>
<b>Total</b>	<b><u>\$ 835,432</u></b>	<b><u>\$ 7,944</u></b>	<b><u>\$ 250,000</u></b>	<b><u>\$ 593,376</u></b>

*Tax Increment Bonds* – The bonds are payable solely from and are secured by a first lien and pledge of tax increment revenues from District I. The bond resolution requires, among other things, that all of District I 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 includes returning a portion of the tax increment revenues to the taxing jurisdiction located within District 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, 2003.

<u>Purpose</u>	<u>Origination</u>	<u>Interest</u>	<u>Bond</u>	<u>Due</u>	<u>Bonds</u>	<u>Annual</u>	<u>Balance</u>
	<u>Date</u>	<u>Rate</u>	<u>Term</u>	<u>Date</u>	<u>Amount</u>	<u>Payment</u>	<u>June 30, 2003</u>
Parking Structure	1997	4.2-5.3	20 yrs	2005	\$1,880,000	varies	<u>\$540,000</u>

*Compensated Absences*

It is the MRA'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 the Component Unit service. Employees are allowed to accumulate and carry over a maximum of two times their annual earned amount of vacation. Any vacation hours accumulated beyond the maximum amount allowed, must be utilized within 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 in the general long-term debt account group.

**MISSOULA REDEVELOPMENT AGENCY**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
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*Requirements to Amortize Debt*

The annual requirements to amortize all long-term debt outstanding, except Compensated Absences, as of June 30, 2003, were as follows:

For Fiscal <u>Year Ended</u>	Tax increment <u>Bonds</u>
2004	\$293,355
2005	<u>289,575</u>
Total	<u>\$582,930</u>
Principal	\$540,000
Interest	42,930
Total	<u>\$582,930</u>

**Advance Refunding of Long-Term Debt**

In prior years, the 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, 2003, the outstanding balance of the 1989 defeased bonds is \$845,000.

**G. 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 plan is cost-sharing multiple-employer defined benefit and defined contribution 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, 2003, were:

	<u>PERS</u>
Employer	6.70%
Employee	6.80%
State	.10%

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

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

**MISSOULA REDEVELOPMENT AGENCY  
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June 30, 2003

The Agency and its employees contributions for the years ended June 30, 2001, 2002, and 2003, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>
2001	\$28,459
2002	\$29,847
2003	\$29,258

#### **H. Post Employment Benefits**

Terminated employees may remain on the City's, of which the Agency is a Component Unit, 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 City's health plan to age 65, provided they pay the monthly premiums. State law requires the City 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.

#### **I. Restricted Cash/Investments**

The following restricted cash/investments were held by the MRA as of June 30, 2003. These amounts are reported as noncurrent assets within the cash/investment account on the Statement of Net Assets and the Balance Sheet.

<u>Description</u>	<u>Amount</u>
Reserve for – future debt payments	\$54,000

**MISSOULA REDEVELOPMENT AGENCY  
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**J. Restricted Net Assets and Reserved Fund Balances**

Restricted Net Assets – State law authorizes certain funds and established the criteria for property tax levies for specific purpose. The MRA classifies the net assets of these funds as restricted net assets. These funds and their net assets at June 30, 2003, are as follows:

<u>Debt Service Fund</u>	
Restricted for Debt Service	\$ 361,171

Reserved fund balances agree to restricted net assets.

**K. Designated Fund Balances**

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. The purpose for each is indicated by the account title on the face of the balance sheet.

**L. Restatements**

During the current fiscal year, the following adjustments relating to prior years' transactions were made to net asset and fund balance accounts.

Net Assets	\$ (804,896)	Prior year debt and deferred revenue restated due to conversion to full accrual per GASB #34.
Net Assets and Fund Balances	\$ (27,053)	Prior year expenditures.

**M. 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. The MRA as a department of the City of Missoula, participates in a municipal government self-insurance pool for liability, workers compensation, property and content damage, employee torts, and professional liability. 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.

MISSOULA REDEVELOPMENT AGENCY  
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MISSOULA COUNTY, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2003

**N. Pending Litigation**

There was no pending or threatened litigation or unasserted claims or assessments against the MRA at June 30, 2003.

Missoula Redevelopment Agency  
 (A Component Unit of the City of Missoula)  
 Missoula County, Montana  
**BUDGETARY COMPARISON SCHEDULE**  
 June 30, 2003

	URD I				URD II			
	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	VARIANCE WITH FINAL BUDGET	BUDGETED AMOUNTS		ACTUAL AMOUNTS (BUDGETARY BASIS) See Note A	
	<u>ORIGINAL</u>	<u>FINAL</u>	4,222,125	-	<u>ORIGINAL</u>	<u>FINAL</u>	285,454	285,454
<b>Budgetary Fund Balance, July 1, 2002</b>	4,222,125	4,222,125	4,222,125	-	285,454	285,454	285,454	285,454
<b>Resources (inflows):</b>								
Tax Increment Property Tax	1,214,238	1,214,238	1,135,026	(79,212)	294,829	294,829	285,933	285,933
State Personal Property Tax Reimbursement	103,779	103,779	103,779	-	3,638	3,638	3,917	3,917
State Entitlement	1,032,276	1,032,276	1,100,507	68,231	33,343	33,343	33,343	33,343
CTEP Grant	-	-	-	-	203,463	203,463	-	-
Miscellaneous	1,000	1,000	40,429	39,429	2,461	2,461	2,461	2,461
Investment Earnings	150,000	150,000	113,538	(36,462)	8,000	8,000	9,431	9,431
Operating transfers in	107,000	107,000	212,938	105,938	-	-	-	-
Amounts available for appropriation	6,830,418	6,830,418	6,928,342	97,924	831,188	831,188	620,539	620,539
<b>Charges to Appropriations (outflows):</b>								
Housing and Community Development	4,427,015	4,427,015	1,616,221	2,810,794	356,188	356,188	53,795	53,795
Capital outlay	1,939,800	1,939,800	97,332	1,842,468	425,000	425,000	-	-
Transfers to other governments	666,370	666,370	89,938	576,432	-	-	-	-
Transfers out	-	-	-	-	50,000	50,000	50,000	50,000
Total Charges to appropriations	7,033,185	7,033,185	1,803,491	5,229,694	831,188	831,188	103,795	103,795
Excess (Deficiency) of resources (inflows) over Charges to appropriations (outflows)	(202,767)	(202,767)	5,124,851	5,327,618	-	-	516,744	516,744
Restatements	-	-	(27,053)	(27,053)	-	-	-	-
<b>Budgetary Fund Balance - June 30, 2003</b>	(202,767)	(202,767)	5,097,798	5,300,565	-	-	516,744	516,744

See accompanying Notes to the Financial Statements

Missoula Redevelopment Agency  
 (A Component Unit of the City of Missoula)  
 Missoula County, Montana

**BUDGETARY COMPARISON SCHEDULE**  
**BUDGET-TO-GAAP RECONCILIATION**

**Note A - Explanation of Differences between Budgetary Inflows and Outflows and  
 GAAP Revenues and Expenditures**

	<b>URD I FUND</b>	<b>URD II FUND</b>
<b>Sources/Inflows of resources</b>		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 6,928,342	\$ 620,539
Differences - budget to GAAP		
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(4,222,125)	(285,454)
Transfers from other funds are inflows of budgetary resource but are not revenues for financial reporting purposes	(212,938)	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances- governmental funds	<u><u>\$ 2,493,279</u></u>	<u><u>\$ 335,085</u></u>
<b>Uses/outflows of resources</b>		
Actual amounts(budgetary basis) "total charges to appropriations" from the budgetart comparison schedule	\$ 1,803,491	\$ 103,795
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(89,938)	(50,000)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u><u>\$ 1,713,553</u></u>	<u><u>\$ 53,795</u></u>

See accompanying Notes to the Financial Statements

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

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

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

Director and Board of Commissioners  
Missoula Redevelopment Agency  
Missoula County  
Missoula, Montana

We have audited the financial statements of Missoula Redevelopment Agency, Missoula County, Montana, a component unity of the City of Missoula, as of and for the year ended June 30, 2003, and have issued our report thereon dated November 24, 2003. 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 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.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the organization, 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.

*Dennings, Downey and Associates, CPA's, P.C.*

November 24, 2003

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

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

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

Director and 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, PC.*

November 24, 2003

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

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

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**REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS**

Director and 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.*

November 24, 2003