

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

MISSOULA COUNTY, MONTANA

Fiscal Year Ended June 30, 2002

**AUDIT REPORT**  
**(Financial Statements and Additional Information)**

**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, 2002

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

MISSOULA COUNTY, MONTANA

**ORGANIZATION**

Fiscal Year Ended June 30, 2002

Geoff Badenoch Director

**BOARD OF COMMISSIONERS**

Hal Fraser Chairperson

Nancy Moe Vice-Chairperson

Rosalie Cates Member

Karl Englund Member

Ron MacDonald Member

**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 general purpose financial statements of Missoula Redevelopment Agency, Missoula County, Montana, a component unit of the City of Missoula, as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. The general purpose financial statements of the Missoula Redevelopment Agency as of June 30, 2001, were audited by other auditors whose report dated August 23, 2001, expressed an unqualified opinion on those statements.

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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2002, and the results of its operations 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 September 3, 2002, 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.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Missoula Redevelopment Agency, taken as a whole. The additional information on pages 19 through 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of basic financial statements, and, accordingly, we express no opinion on it.

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

September 3, 2002

**MISSOULA REDEVELOPMENT AGENCY**  
**A COMPONENT UNIT OF THE CITY OF MISSOULA**  
**COMBINING BALANCE SHEET**  
 June 30, 2002 and June 30, 2001

<b>GOVERNMENTAL FUNDS</b>							
	<b>SPECIAL REVENUE FUNDS</b>					General	<b>Totals</b> (Memorandum Only)
	Urban	Urban	Urban	Debt	Long-Term		
	Renewal	Renewal	Renewal	Service	Debt Account		
	District I	District II	District III	Funds	Group		2002 2001
<b>ASSETS</b>							
Cash and Investments	\$ 4,919,319	\$ 334,562	\$ 6,962	\$ 458,553	\$ -	\$ 5,719,396	\$ 4,582,563
Tax Increment Receivable	-	18,815	7,407	163,624	-	189,846	116,876
Other Receivables	-	-	-	-	-	-	1,318
Due From Missoula County	-	-	-	-	-	-	581,886
Due From Other Funds	27,591	-	-	-	-	27,591	572,669
Grants Receivable	-	-	-	-	-	-	11,624
Amount Available in Debt							
Service Funds	-	-	-	-	458,553	458,553	454,553
Amount to be Provided to							
Retire Long-Term Debt	-	-	-	-	376,879	376,879	610,283
<b>TOTAL ASSETS</b>	<b>\$ 4,946,910</b>	<b>\$ 353,377</b>	<b>\$ 14,369</b>	<b>\$ 622,177</b>	<b>\$ 835,432</b>	<b>\$ 6,772,265</b>	<b>\$ 6,931,772</b>
<b>LIABILITIES AND EQUITY</b>							
Accounts Payable	\$ 711,442	\$ 53,000	\$ -	\$ -	\$ -	\$ 764,442	\$ 315,191
Accrued Payroll	10,703	-	-	-	-	10,703	9,572
Due to Other Funds	-	-	-	27,591	-	27,591	572,669
Due to Other Governments	2,640	-	-	-	-	2,640	-
Deferred Revenue	-	14,923	4,418	136,033	-	155,374	104,617
Compensated Absences	-	-	-	-	45,432	45,432	34,836
Bonds Payable	-	-	-	-	790,000	790,000	1,030,000
<b>TOTAL LIABILITIES</b>	<b>\$ 724,785</b>	<b>\$ 67,923</b>	<b>\$ 4,418</b>	<b>\$ 163,624</b>	<b>\$ 835,432</b>	<b>\$ 1,796,182</b>	<b>\$ 2,066,885</b>
<b>FUND EQUITY</b>							
Fund Balances							
Reserved for Debt Service	\$ -	\$ -	\$ -	\$ 458,553	\$ -	\$ 458,553	\$ 454,553
Designated for Future Projects	2,661,816	14,740	-	-	-	2,676,556	3,409,371
Unreserved	1,560,309	270,714	9,951	-	-	1,840,974	1,000,963
<b>TOTAL EQUITY</b>	<b>\$ 4,222,125</b>	<b>\$ 285,454</b>	<b>\$ 9,951</b>	<b>\$ 458,553</b>	<b>\$ -</b>	<b>\$ 4,976,083</b>	<b>\$ 4,864,887</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 4,946,910</b>	<b>\$ 353,377</b>	<b>\$ 14,369</b>	<b>\$ 622,177</b>	<b>\$ 835,432</b>	<b>\$ 6,772,265</b>	<b>\$ 6,931,772</b>
See accompanying Notes to Financial Statements							

MISSOULA REDEVELOPMENT AGENCY  
A COMPONENT UNIT OF THE CITY OF MISSOULA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

For the Years Ended June 30, 2002 and June 30, 2001

GOVERNMENTAL FUNDS							
SPECIAL REVENUE FUNDS				TOTALS			
	Urban Renewal District I	Urban Renewal District II	Urban Renewal District III	Debt Service Funds	(MEMORANDUM ONLY)		
REVENUES					2002	2001	Variance
Tax Increment Property Tax	\$ 939,696	\$ 191,445	\$ 83,332	\$ 263,110	\$ 1,477,583	\$ 1,645,255	\$ (167,672)
State Personal Property Tax Reimbursement	121,075	4,570	-		125,645	868,111	(742,466)
State Entitlement	1,100,507	33,343	-		1,133,850	-	1,133,850
Investment Earnings	249,529	12,226	1,482	34,170	297,407	291,319	6,088
Grants and Miscellaneous	2,688	405	-	-	3,093	7,632	(4,539)
Total Revenues	\$ 2,413,495	\$ 241,989	\$ 84,814	\$ 297,280	\$ 3,037,578	\$ 2,812,317	\$ 225,261
EXPENDITURES							
Community Development	\$ 1,594,413	\$ 53,000	\$ 6,500	\$ -	\$ 1,653,913	\$ 962,295	\$ 691,618
Distributions to Other Governments	250,000	-	-	-	\$ 250,000	250,000	\$ -
Debt Service	-	-	-	293,280	293,280	289,505	3,775
Capital Outlay	619,999	-	-	-	619,999	810,476	(190,477)
Total Expenditures	\$ 2,464,412	\$ 53,000	\$ 6,500	\$ 293,280	\$ 2,817,192	\$ 2,312,276	\$ 504,916
Excess (Deficiency) of Revenues over Expenditures	\$ (50,917)	\$ 188,989	\$ 78,314	\$ 4,000	\$ 220,386	\$ 500,041	\$ (279,655)
Other Financing Sources (Uses)							
Transfers In	\$ 126,747	\$ -	\$ -	\$ -	\$ 126,747	\$ 100,000	\$ 26,747
Transfers Out	-	(58,384)	(68,363)	-	(126,747)	(100,000)	(26,747)
Transfers to Other Governments	(109,190)				(109,190)	(24,422)	(84,768)
Total Other Financing Sources	\$ 17,557	\$ (58,384)	\$ (68,363)	\$ -	\$ (109,190)	\$ (24,422)	\$ (84,768)
Excess (Deficiency) of Revenues and Other Sources							
Over Expenditures and Other Uses	\$ (33,360)	\$ 130,605	\$ 9,951	\$ 4,000	\$ 111,196	\$ 475,619	
Fund Balance, July 1, 2001	\$ 4,255,485	\$ 154,849	\$ -	\$ 454,553	\$ 4,864,887	\$ 4,389,268	
Fund Balance, June 30, 2002	\$ 4,222,125	\$ 285,454	\$ 9,951	\$ 458,553	\$ 4,976,083	\$ 4,864,887	
See accompanying Notes to Financial Statements							

**MISSOULA REDEVELOPMENT AGENCY**  
**A COMPONENT UNIT OF THE CITY OF MISSOULA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS**

For the Year Ended June 30, 2002

	Urban Renewal		Urban Renewal		Urban Renewal	
	District I		District II		District III	
	Budget	Actual	Budget	Actual	Budget	Actual
<b>REVENUES</b>						
Tax Increment Property Tax	\$ 2,148,503	\$ 939,696	\$ 208,732	\$ 191,445	\$ 88,963	\$ 83,332
State Personal Property Tax Reimbursement	-	121,075	37,389	4,570	-	-
State Entitlement		1,100,507		33,343		
Investment Earnings	150,000	249,529	8,000	12,226	-	1,482
Grants and Miscellaneous	1,000	2,688	205,924	405	-	-
<b>Total Revenues</b>	<b>\$ 2,299,503</b>	<b>\$ 2,413,495</b>	<b>\$ 460,045</b>	<b>\$ 241,989</b>	<b>\$ 88,963</b>	<b>\$ 84,814</b>
<b>EXPENDITURES</b>						
Community Development	\$ 4,541,133	\$ 1,594,413	\$ 345,720	\$ 53,000	\$ 20,600	\$ 6,500
Distributions to Other Governments	250,000	250,000	-	-	-	-
Debt Service	-	-	-	-	-	-
Capital Outlay	1,655,650	619,999	210,000	-	-	-
<b>Total Expenditures</b>	<b>\$ 6,446,783</b>	<b>\$ 2,464,412</b>	<b>\$ 555,720</b>	<b>\$ 53,000</b>	<b>\$ 20,600</b>	<b>\$ 6,500</b>
Excess (Deficiency) of Revenues over Expenditures	\$ (4,147,280)	\$ (50,917)	\$ (95,675)	\$ 188,989	\$ 68,363	\$ 78,314
<b>Other Financing Sources (Uses)</b>						
Transfers In	\$ 126,747	\$ 126,747	\$ -	\$ -	\$ -	\$ -
Transfers Out	-	-	(58,384)	(58,384)	(68,363)	(68,363)
Transfers to Other Governments	(234,952)	(109,190)	-	-	-	-
<b>Total Other Financing Sources</b>	<b>\$ (108,205)</b>	<b>\$ 17,557</b>	<b>\$ (58,384)</b>	<b>\$ (58,384)</b>	<b>\$ (68,363)</b>	<b>\$ (68,363)</b>
Excess (Deficiency) of Revenues and Other Sources						
Over Expenditures and Other Uses	<b>\$ (4,255,485)</b>	<b>\$ (33,360)</b>	<b>\$ (154,059)</b>	<b>\$ 130,605</b>	<b>\$ -</b>	<b>\$ 9,951</b>
<b>Fund Balance, July 1, 2001</b>		<b>4,255,485</b>		<b>154,849</b>		<b>-</b>
<b>Fund Balance, June 30, 2002</b>		<b>\$ 4,222,125</b>		<b>\$ 285,454</b>		<b>\$ 9,951</b>
See accompanying Notes to Financial Statements						

<b>MISSOULA REDEVELOPMENT AGENCY</b> <b>A COMPONENT UNIT OF THE CITY OF MISSOULA</b>						
<b>COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES</b>						
<b>BUDGET AND ACTUAL - DEBT SERVICE FUNDS AND TOTALS - ALL GOVERNMENTAL FUNDS</b>						
For the Year Ended June 30, 2002						
		Tax Increment Debt			ALL GOVERNMENTAL FUNDS	
		Service Fund			TOTALS	
					(Memorandum Only)	
		Budget	Actual		Budget	Actual
<b>REVENUES</b>						
Tax Increment Property Tax	\$ 297,105	\$ 263,110			\$ 2,743,303	\$ 1,477,583
State Personal Property Tax Reimbursement	-	-			37,389	125,645
State Entitlement	-	-			-	1,133,850
Investment Earnings	-	34,170			158,000	297,407
Grants and Miscellaneous	-	-			206,924	3,093
<b>Total Revenues</b>	<b>\$ 297,105</b>	<b>\$ 297,280</b>			<b>\$ 3,145,616</b>	<b>\$ 3,037,578</b>
<b>EXPENDITURES</b>						
Community Development	\$ -	\$ -			\$ 4,907,453	\$ 1,653,913
Distributions to Other Governments	-	-			250,000	250,000
Debt Service	293,105	293,280			-	293,280
Capital Outlay	-	-			1,865,650	619,999
<b>Total Expenditures</b>	<b>\$ 293,105</b>	<b>\$ 293,280</b>			<b>\$ 7,023,103</b>	<b>\$ 2,817,192</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>\$ 4,000</b>	<b>\$ 4,000</b>			<b>\$ (3,877,487)</b>	<b>\$ 220,386</b>
<b>Other Financing Sources (Uses)</b>						
Transfers In	\$ -	\$ -			\$ 126,747	\$ 126,747
Transfers Out	-	-			(126,747)	(126,747)
Transfers to Other Governments	-	-			(234,952)	(109,190)
<b>Total Other Financing Sources</b>	<b>\$ -</b>	<b>\$ -</b>			<b>\$ (234,952)</b>	<b>\$ (109,190)</b>
<b>Excess (Deficiency) of Revenues and Other Sources</b>						
<b>Over Expenditures and Other Uses</b>	<b>\$ 4,000</b>	<b>\$ 4,000</b>			<b>\$ (4,112,439)</b>	<b>\$ 111,196</b>
<b>Fund Balance, July 1, 2001</b>		<b>454,553</b>				<b>4,864,887</b>
<b>Fund Balance, June 30, 2002</b>		<b>\$ 458,553</b>				<b>\$ 4,976,083</b>
<b>See accompanying Notes to Financial Statements</b>						

**MISSOULA REDEVELOPMENT AGENCY  
(A COMPONENT UNIT OF THE CITY OF MISSOULA)  
MISSOULA, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2002

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of the Component Unit's significant accounting policies:

**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 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. District 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. 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 Component Unit's financial report.

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

The accounts of the Agency are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

MRA has the following fund types and account groups:

**Governmental funds** are used to account for the Agency's general government activities. Governmental fund types use the flow of 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 Agency 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.

Real and personal property tax increment taxes (excluding motor vehicle taxes) and interest earnings are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received and are recognized as revenue at that time. The Agency recorded real and personal property tax increment 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.

Governmental funds include the following fund types:

The **special revenue funds** account for revenue sources that are legally restricted to expenditures for specific purposes.

The **debt service funds** account for the servicing of general long-term debt for which the Agency is obligated in some manner for payment.

**Account Groups.** The **general long-term debt account group** is used to account for general long-term debt and certain other 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 Fund 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 City's budget.

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

- (a) On or before June 10, department heads and supervisors file with the City 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 Agency for the current fiscal year and the sources of revenue by which it is to be financed.
- (c) On or before the fourth Monday in July, the City Council shall make any revisions 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. Memorandum Only--Total Columns**

Total columns on the general-purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position and results of operation in accordance with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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

#### **A. Budget Variances**

Budget variances are primarily due to conservative budgeting or budgeted projects not completed in fiscal year 2002.

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

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

The Agency'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, 2002, consisted of treasury obligations, government securities, and the State Unified Investment Program (STIP).

The Agency does not own specific identifiable investment securities in the pool; therefore, is not subject to categorization. Information regarding investment risk, collateral, security, and market values is available from the City of Missoula Treasurer's office.

#### **2. Receivables**

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

Taxable valuations for each Urban Renewal District and the corresponding tax increment amounts for November 2001 property tax billing were as follows:

	<u>Taxable Value</u>	<u>Increment Value</u>
Urban Renewal District I	\$7,836,474	\$1,862,487
Urban Renewal District II	\$2,177,431	\$317,608
Urban Renewal District III	\$7,139,712	\$135,366

## **B. Interfund Receivables and Payables**

The composition of interfund balances as of June 30, 2002, were as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
URD I	Debt Service Fund	\$27,591

Due to/from primary government and component Units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
City of Missoula	URD I	\$2,640

## **C. Operating Transfers**

The following is an analysis of operating transfers in and out during Fiscal Year 2002:

<u>From</u>	<u>To</u>	<u>Amount</u>
URD III	URD I	\$ 68,363
URD II	URD I	\$ 58,384
URD I	City of Missoula – Tennis Courts	\$ 40,000
URD I	City of Missoula – Art Project	\$ 15,000
URD I	City of Missoula – Downtown Projects	\$ 49,988
URD	City of Missoula – Administrative Transfers	\$ 4,202

## **D. Fixed Assets**

Fixed assets purchased by MRA are owned by the City of Missoula and accordingly are reported as City assets in the City's General Fixed Asset Account Group.

## **E. 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, 2002, amounted to \$19,942.

## F. Long-Term Debt

MRA reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group.

*Changes in Long-Term Debt Liabilities* - During the year ended June 30, 2002, the following changes occurred in liabilities reported in long-term debt:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
Refunding Tax Increment Bonds	\$1,030,000	\$ -	\$ 240,000	\$ 790,000
Compensated Absences	<u>34,836</u>	<u>10,596</u>	<u>-</u>	<u>45,432</u>
<b>Total</b>	<b><u>\$1,064,836</u></b>	<b><u>\$ 10,596</u></b>	<b><u>\$ 240,000</u></b>	<b><u>\$ 835,432</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'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 District I, as provided by state law. In 2002, the City Council returned \$250,000 of District I's tax increment revenues to the respectable taxing jurisdictions.

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 Agency was in compliance with applicable covenants as of June 30, 2002.

Purpose	Origination Date	Interest Rate	Bond Term	Due Date	Bonds Amount	Annual Payment	Balance June 30, 2002
Parking							
Structure	1997	4.2-5.3	20 yrs	2005	\$1,880,000	varies	<u>\$790,000</u>

### ***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 in the general long-term debt account group.

### ***Requirements to Amortize Debt***

The annual requirements to amortize all long-term debt outstanding, except Compensated Absences, as of June 30, 2002, were as follows:

<u>For Fiscal Year Ended</u>	<u>Tax increment Bonds</u>
2003	\$291,105
2004	293,355
2005	<u>289,575</u>
Total	<u>\$874,035</u>

  

Principal	\$790,000
Interest	<u>84,035</u>
Total	<u>\$874,035</u>

### ***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 Agency's financial statements. At June 30, 2002, the outstanding balance of the 1989 defeased bonds is \$1,095,000.

## **G. State-Wide Retirement Plans**

All full-time Agency 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, 2002, 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

The Agency's contributions for the years ended June 30, 2000, 2001, and 2002, as listed below, were equal to the required contributions for each year.

	<u>PERS</u>
2000	\$27,301
2001	\$28,459
2002	\$29,847

## **H. Post Employment Benefits**

Terminated employees may remain on the City's health insurance plan for up to 18 months if they pay the monthly premiums. This benefit is required under the federal 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.

**MISSOULA REDEVELOPMENT AGENCY  
(A COMPONENT UNIT OF THE CITY OF MISSOULA)  
MISSOULA, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2002

**I. Restricted Cash/Investments**

The following restricted cash/investments were held by the Agency as of June 30, 2002. These amounts are reported within the cash/investment account on the Combined Balance Sheet.

<u>Description</u>	<u>Amount</u>
Reserve account-future debt payments	\$79,000

**J. 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 and designated fund balances at June 30, 2002, consisted of:

<u>URD I</u>	
Capital and Community Development Projects (Designated)	\$2,661,816
<u>URDII</u>	
Capital and Community Development Projects (Designated)	\$ 14,740
<u>Debt Service Fund</u>	
Reserve account-future debt payments (Reserved)	\$ 458,553

**K. Risk Management**

The Agency 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, employees torts, and professional liabilities. And, given the lack of coverage available, the Agency 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  
(A COMPONENT UNIT OF THE CITY OF MISSOULA)  
MISSOULA, MONTANA  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2002

**L. Pending Litigation**

There was no pending or threatened litigation or unasserted claims or assessments against the Agency at June 30, 2002.

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

Schedule of Expenditures - Budget and Actual - Urban Renewal District II  
For the Year Ended June 30, 2002

		Budget	Actual	Variance
Administration				
Personnel		\$ 293,456	\$ 282,329	\$ 11,127
Other		350,802	322,195	28,607
	Total Administration before capital outlay	\$ 644,258	\$ 604,525	\$ 39,733
Administration Capital Outlay				
Computers		\$ 10,650	\$ 11,139	\$ (489)
	Total Administration capital outlay	\$ 10,650	\$ 11,139	\$ (489)
	Total Administration including transfers to other City funds & Tax Increment Remittance	\$ 654,908	\$ 615,664	\$ 39,244
	Less transfers to other City funds	\$ (12,952)	\$ (4,202)	\$ (8,750)
	Less Tax Increment Remitted to Taxing Jurisdictions	(250,000)	(250,000)	-
	Total Administration	\$ 391,956	\$ 361,462	\$ 30,494
Acquisition of Property				
Contingency		\$ 200,000	\$ -	\$ 200,000
	Total acquisition of property before capital outlay	\$ 200,000	\$ -	\$ 200,000
Acquisition of Property Capital Outlay				
Civic Stadium		\$ 246,500	\$ -	\$ 246,500
	Total Acquisition of Property capital outlay	\$ 246,500	\$ -	\$ 246,500
	Total Acquisition of Property	\$ 446,500	\$ -	\$ 446,500
Public Works				
Bank Street Pedestrian Mall		\$ 10,000	\$ 11,499	\$ (1,499)
Caras Park Improvements		7,500	-	7,500
City-County Health Department		63,220	56,618	6,602
County Renovation		228,500	-	228,500
Downtown Street Renovations		100,000	49,988	50,012
Lenox Flats		700	-	700
Millennium Project		36,029	47,623	(11,594)
MUTD - Transfer Center Public Art		15,000	15,000	-
Northside RR Crossing Enclosure		9,000	8,696	304
Orange Street Bridge		713,783	571,810	141,973
St. Patrick Hospital - Ambulatory Services		394,781	382,402	12,379
S 3rd Street Triangle Park		7,355	13,478	(6,123)
Tennis Courts		100,000	40,000	60,000
Weir Debris Removal at Caras Park		34,800	-	34,800
Contingency		1,026,384	-	1,026,384
	Total Public Works before capital outlay	\$ 2,747,052	\$ 1,197,114	\$ 1,549,938
Public Works Capital Outlay				
Bank Street Pedestrian Mall		\$ 175,000	\$ 301,285	\$ (126,285)
Caras Park Improvements		42,500	-	42,500
Caras Park Trail Replacement		46,500	-	46,500
Civic Stadium		750,000	-	750,000
Downtown Alley Rehabilitation		100,000	60,781	39,219
Kiwanis Park Trail		20,000	14,435	5,565
Northside Bridge Modifications		31,000	25,709	5,291
S 3rd Street Triangle Park		70,000	133,541	(63,541)
Streetscape Amenities		125,000	53,261	71,739
	Total Public Works capital outlay	\$ 1,360,000	\$ 589,012	\$ 770,988
	Total Public Works including transfers to other city funds	\$ 4,107,052	\$ 1,786,126	\$ 2,320,926
	Less transfers to other city funds	\$ (215,000)	\$ (104,988)	\$ (110,012)
	Total Public Works	\$ 3,892,052	\$ 1,681,138	\$ 2,210,914

<b>Rehabilitation Loans/Grants</b>						
	124 West Pine Street (Kosena)	\$ -	\$ 7,231	\$ (7,231)		
	139 West Front Street (Monte Dolack Gallery)	2,500	2,057	443		
	325 East Broadway (Watercolor Computer Training)	20,136	-	20,136		
	Meadowsweet Herbs	-	1,803	(1,803)		
	Contingency	255,417	-	255,417		
	<b>Total Rehabilitation Loans/Grants</b>	<b>\$ 278,053</b>	<b>\$ 11,091</b>	<b>\$ 266,962</b>		
<b>Planning and Management</b>						
	Fox Site	\$ 40,000	\$ -	\$ 40,000		
	Millenium Building	-	2,078	(2,078)		
	MRL Pedestrian Bridge	-	2,944	(2,944)		
	Non-motorized Transportation Services	10,000	-	10,000		
	Office of Planning and Grants	5,000	-	5,000		
	Riverfront Trail System	-	4,130	(4,130)		
	Contingency	50,000	-	50,000		
	<b>Total Planning and Management</b>	<b>\$ 105,000</b>	<b>\$ 9,151</b>	<b>\$ 95,849</b>		
<b>Clearing and Demolition</b>						
	County Renovation	\$ 170,000	\$ -	\$ 170,000		
	Mustard Seed Restaurant	1,500	1,500	-		
	St. Patrick Hospital - Ambulatory Service	130,222	130,222	-		
	Contingency	750,000	-	750,000		
	<b>Total Clearing and Demolition before capital outlay</b>	<b>\$ 1,051,722</b>	<b>\$ 131,722</b>	<b>\$ 920,000</b>		
<b>Clearing and Demolition Capital Outlay</b>						
	Mustard Seed Restaurant	\$ 38,500	\$ 19,848	\$ 18,653		
	<b>Total Clearing and Demolition capital outlay</b>	<b>\$ 38,500</b>	<b>\$ 19,848</b>	<b>\$ 18,653</b>		
	<b>Total Clearing and Demolition</b>	<b>\$ 1,090,222</b>	<b>\$ 151,569</b>	<b>\$ 938,653</b>		
	<b>Total Expenditures</b>	<b>\$ 6,203,783</b>	<b>\$ 2,214,412</b>	<b>\$ 3,989,371</b>		
	<b>Total Transfers to Other City Funds</b>	<b>\$ 227,952</b>	<b>\$ 109,190</b>	<b>\$ 118,762</b>		
	<b>Total Remitted to Taxing Jurisdictions</b>	<b>\$ 250,000</b>	<b>\$ 250,000</b>	<b>\$ -</b>		
	<b>Grand Total of Expenditures, Transfers and Remittance</b>	<b>\$ 6,681,735</b>	<b>\$ 2,573,602</b>	<b>\$ 4,108,133</b>		

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

**Schedule of Expenditures - Budget and Actual - Urban Renewal District II**  
**For the Year Ended June 30, 2002**

	Budget	Actual	Variance
<b>Administration</b>			
Transfers to Other Funds	\$ 58,384	\$ 58,384	\$ -
Total Administration	<u>\$ 58,384</u>	<u>\$ 58,384</u>	<u>\$ -</u>
<b>Public Works</b>			
Nutritional Laboratories Inc.	\$ 53,000	\$ 53,000	\$ -
Residential Rehabilitation Program	36,000	-	36,000
West Broadway Island Trail	27,000	-	27,000
Contingency	130,510	-	130,510
Total Public Works	<u>\$ 246,510</u>	<u>\$ 53,000</u>	<u>\$ 193,510</u>
<b>Rehabilitation Loans/Grants</b>			
Contingency	\$ 75,000	\$ -	\$ 75,000
Total Rehabilitation Loans/Grants	<u>\$ 75,000</u>	<u>\$ -</u>	<u>\$ 75,000</u>
<b>TEA-21 Activity</b>			
California Street Bridge Enhancements	\$ 25,000	\$ -	\$ 25,000
<b>TEA-21 Activity - Capital Outlay</b>			-
California Street Bridge Enhancements	210,000	-	210,000
Total TEA-21 activity	<u>\$ 235,000</u>	<u>\$ -</u>	<u>\$ 235,000</u>
<b>Total Expenditures</b>	<b><u>\$ 614,894</u></b>	<b><u>\$ 111,384</u></b>	<b><u>\$ 503,510</u></b>

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

Schedule of Expenditures - Budget and Actual - Urban Renewal District II  
For the Year Ended June 30, 2002

		Budget	Actual	Variance
<b>Administration</b>				
	Transfers to Other Funds	\$ 58,384	\$ 58,384	\$ -
	Total Administration	<u>\$ 58,384</u>	<u>\$ 58,384</u>	<u>\$ -</u>
<b>Public Works</b>				
	Nutritional Laboratories Inc.	\$ 53,000	\$ 53,000	\$ -
	Residential Rehabilitation Program	36,000	-	36,000
	West Broadway Island Trail	27,000	-	27,000
	Contingency	130,510	-	130,510
	Total Public Works	<u>\$ 246,510</u>	<u>\$ 53,000</u>	<u>\$ 193,510</u>
<b>Rehabilitation Loans/Grants</b>				
	Contingency	\$ 75,000	\$ -	\$ 75,000
	Total Rehabilitation Loans/Grants	<u>\$ 75,000</u>	<u>\$ -</u>	<u>\$ 75,000</u>
<b>TEA-21 Activity</b>				
	California Street Bridge Enhancements	\$ 25,000	\$ -	\$ 25,000
	TEA-21 Activity - Capital Outlay			-
	California Street Bridge Enhancements	210,000	-	210,000
	Total TEA-21 activity	<u>\$ 235,000</u>	<u>\$ -</u>	<u>\$ 235,000</u>
<b>Total Expenditures</b>		<u>\$ 614,894</u>	<u>\$ 111,384</u>	<u>\$ 503,510</u>

***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 general purpose financial statements of Missoula Redevelopment Agency, a component unit of the City of Missoula, as of and for the year ended June 30, 2002, and have issued our report thereon dated September 3, 2002. 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 general purpose 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 general purpose 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 Director and 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.

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

September 3, 2002

***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.*

September 3, 2002

***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 prior recommendations.

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

September 3, 2002