



The accompanying financial statements and report are intended for the original recipient.

They must be presented in their entirety and may not be modified in any manner.

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

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

**June 30, 2009**

**(With Independent Auditor's Reports Thereon)**

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MISSOULA REDEVELOPMENT AGENCY  
(A Component Unit of the City of Missoula)  
ORGANIZATION  
Fiscal Year Ended June 30, 2009

**Director**

Ellen Buchanan ..... Director

**Board of Commissioners**

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

## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Missoula Redevelopment Agency  
Missoula, Montana

We have audited the accompanying financial statements of the governmental activities and each major fund of Missoula Redevelopment Agency (the Agency), a component unit of the City of Missoula, Montana, as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Missoula Redevelopment Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Missoula Redevelopment Agency, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2009, on our consideration of the Missoula Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4-13 and the budgetary comparison information on pages 34-36 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Missoula, Montana  
December 29, 2009

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Fiscal Year Ended June 30, 2009

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, 2009. Please read it in conjunction with the MRA's financial statements and accompanying notes, which begin on page 14.

### **Financial Highlights**

#### **Condensed Financial Information**

The following tables summarize financial condition and operating results for 2009 compared to 2008:

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Current Assets	<u>\$ 5,120,212</u>	<u>\$ 3,927,551</u>	<u>\$ 1,192,661</u>
Noncurrent Assets	<u>250,400</u>	<u>250,500</u>	<u>(100)</u>
<b>Total assets</b>	<b><u>5,370,612</u></b>	<b><u>4,178,051</u></b>	<b><u>1,192,561</u></b>
Current Liabilities	<u>331,515</u>	<u>489,954</u>	<u>(158,439)</u>
Long-Term Liabilities	<u>5,885,892</u>	<u>5,967,725</u>	<u>(81,833)</u>
<b>Total liabilities</b>	<b><u>6,217,407</u></b>	<b><u>6,457,679</u></b>	<b><u>(240,272)</u></b>
<b>Net Assets</b>			
Restricted for debt service	<u>250,400</u>	<u>250,500</u>	<u>(100)</u>
Unrestricted	<u>(1,097,195)</u>	<u>(2,530,128)</u>	<u>1,432,933</u>
<b>Total net assets</b>	<b><u>\$ (846,795)</u></b>	<b><u>\$(2,279,628)</u></b>	<b><u>\$ 1,432,833</u></b>

	<u>2009</u> <u>Actual</u>	2008 Actual	Increase (Decrease)
<b>Revenues</b>			
General revenues	<u>\$ 2,886,747</u>	\$ 1,814,199	\$ 1,072,548
Total revenues	<u>2,886,747</u>	1,814,199	1,072,548
<b>Expenses</b>			
Housing and community development	<u>1,273,814</u>	2,885,250	(1,611,436)
Interest	<u>180,100</u>	182,791	(2,691)
Total expenses	<u>1,453,914</u>	3,068,041	(1,614,127)
Change in net assets	<u>1,432,833</u>	(1,253,842)	2,686,675
<b>Net Assets</b>			
Beginning of year	<u>(2,279,628)</u>	(1,025,786)	(1,253,842)
End of year	<u>\$ (846,795)</u>	<u>\$ (2,279,628)</u>	<u>\$ 1,432,833</u>

- During the year MRA had revenues of \$2,886,747 and expenses totaling \$1,453,914, which resulted in an increase of net assets of \$1,432,833.
- MRA's revenues are derived primarily from tax increment property tax, State Personal Property Tax Reimbursements, State Entitlements, and investment earnings. Small amounts of revenue are received from other miscellaneous sources. MRA's fiscal year 2009 revenues were approximately one million higher than in fiscal year 2008.
- Expenditures for fiscal year 2009 were related to redevelopment projects such as Silver Park, Equinox, Garden District Housing Project, California Street Sidewalk Engineering, Missoula Federal Credit Union, 2200 Dixon Avenue residential project, and final pay off of the South Avenue Improvements Project SID. MRA also paid out \$180,100 in interest and processing fees on bonds.

## Using This Report

This audit report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities are government-wide statements, which are required by Governmental Accounting Standards Board (GASB) Statement 34. These statements report on all of MRA's activities and are on full-accrual basis. They are intended to present a long-term view of the MRA's finances.

The Balance Sheet and Income Statement (Statement of Revenues, Expenditures and Changes in Fund Balances) are considered fund financial statements, which are financial statements that report on one or more funds (governmental funds) of the governmental entity. These statements are on a modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds are used to account for the acquisition, use, and balances of expendable financial resources and the related current liabilities. Governmental funds include general funds, special revenue funds, debt service funds, and capital projects funds. The fund financial statements tell how MRA's redevelopment activities were financed in the short term as well as what remains for future redevelopment. Also, these statements report the MRA's operations in more detail than the government-wide statements by providing information about the MRA's most significant funds.

## About MRA

Two of the most important questions asked about the MRA are, "How well did MRA respond to redevelopment opportunities in the past fiscal year"? and "What ability will it have to respond to future redevelopment opportunities"? The Statement of Net Assets and the Statement of Activities report information about the MRA as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

You can think of the MRA's net assets (the difference between assets and liabilities) as one way to measure the MRA's financial health, or financial position. Over time, increases or decreases in the MRA's net assets are one indicator of whether MRA has been responding to redevelopment opportunities at a level equal to, above, or below its annual revenue. When reviewing MRA's overall financial position, however, other non-financial factors should also be considered such as changes in the property tax assessment formula, which is determined by the State legislature, the total mills levied by the taxing jurisdictions and whether MRA has sold bonds to assist a redevelopment project.

The fund financial statements provide detailed information about the most significant funds, not the MRA as a whole. MRA had four urban renewal districts (URDs) in fiscal year 2009 and each has its own fund. URD II, URD III, and Front Street URD derived a majority of their revenue from tax increment provisions allowed by State law. In July 2008, the City formed Riverfront Triangle URD, which also has a tax increment provision but the first tax increment revenue from this district (if any improvements occur) is anticipated in November 2009 (FY10). Tax increment is collected by the County, transferred to the City, and then is deposited into the urban renewal districts' development funds, which in turn provide money for MRA's redevelopment programs: Tax Increment Financing (TIF), Commercial Rehabilitation Loan Program (CRLP), the Code Compliance Assistance Program

(CCP) and the Façade Improvement Program (FIP). The TIF program is provided for by State law. The other three programs, CRLP, CCP, and FIB, were redevelopment programs approved by the MRA Board and/or Missoula City Council as allowed by State law.

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

### **Retirement Plans**

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

### **Fixed Assets**

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

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

MRA has current and noncurrent liabilities. Current liabilities include accounts payable for project related expenditures, accrued wages, accrued interest, the current portion (vacation hours) of MRA's compensated absences and the current portion of the tax increment bond debt. Noncurrent liabilities include postemployment benefits, the long term portion (sick and compensatory hours) of MRA's compensated absences, the Brownfields RLF loan and the outstanding bond debt less the current portion payable.

On August 6, 2006, the City of Missoula pursuant to Resolution 7120 approved the sale of \$3.6 million in tax increment revenue bonds related to the Old Sawmill District project in URD II. The bond terms are 25 years and therefore extend the life of URD II until 2031. The Series 2006 \$3.6 million tax increment bonds received a AA rating from Standard & Poors; the first rating of a tax increment bond in the State of Montana.

On August 10, 2006, the Missoula Revitalization Project LLC, the City of Missoula and the MRA entered into a Loan Agreement and Note with the Missoula Area Economic Development Corp for a \$1,000,000 loan, later increased to \$1,125,000, from the Missoula Brownfields Revolving Loan Fund. Tax Increment currently received from the Old Sawmill District property and the tax increment generated as a result of the environmental remediation of the property was pledged to

service the loan over the life of URD II. On December 22, 2009, the terms of the Loan Agreement and Note were amended to defer paying principal until 2023. On December 14, 2009, the amount of the loan was increased to \$1,525,000.

On October 15, 2007, the City of Missoula pursuant to Resolution 72860 approved the sale of \$1.5 million in tax increment revenue bonds related to the Safeway/St. Patrick project in URD II. The bonds are secured by a first lien upon and pledge of tax increment revenues derived from the project.

### **Revenues**

In fiscal year 2009, MRA received only general revenues and did not generate any program revenue. Of MRA's \$2,886,747 total revenue reported in the Statement of Activities, 85% was tax increment received from property taxes. The next largest revenue source for MRA is the State of Montana in the form of PERS contributions and State entitlement funds authorized under House Bill 124. State of Montana funds account for 10% of MRA's total revenue received. The remaining 5% revenue received is from investment earnings and miscellaneous sources.

### **Expenses**

Under the Statement of Activities, most of MRA's expenses are expressed under Housing and Community Development. Specifically, MRA's expenses include project assistance under MRA programs and administrative costs such as personnel, office supplies and equipment. There was also interest expense paid on the Series 2006 tax increment revenue bonds and Brownfields RLF Note.

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

MRA financially contributes its proportionate share towards City of Missoula activities that affect the Agency, such as purchase of new computer servers and software. These administrative activities are reflected as "transfers to other governments" in the financial statements. MRA contributions to City projects undertaken by other departments are also reflected under the "transfers to other governments" category. The MRA's transfers to other governments was \$0 in fiscal year 2009.

In addition, the MRA contracts with the City of Missoula to provide administrative support as well as assistance from Engineering, Public Works, Finance, Parks and Recreation, and Attorney's Office on various projects. The amount paid to the City also includes MRA's pro rata share of the City's liability insurance coverage for errors and omissions. The amount paid in fiscal year 2009 was \$100,000 and was recorded as an administrative expense in the financials.

Administrative transfers between districts are done annually to reimburse the district that has paid the administrative expenses of the Agency. At this time, URD II pays the administrative expenses of the Agency. The amount of money transferred in fiscal year 2009 from URD III to URD II for administrative expenses was \$84,404 and is based on the proportionate share of staff time spent working on projects in that district. Staff time spent working on Front Street URD and Riverfront Triangle URD projects is tracked so a reimbursement to URD II can be made when tax increment revenues from these new districts are sufficient.

## Balances and Transactions of Individual Government Funds

### *Unreserved fund balance*

	URD I	URD II	URD III
Beginning Balance 7/1/08	\$ 1,501	\$ 2,003,286	\$ 1,413,447
Ending Balance 6/30/09	<u>4,327</u>	<u>1,917,122</u>	<u>2,685,564</u>
\$ Change	<u>\$ 2,826</u>	<u>\$ (86,164)</u>	<u>\$ 1,272,117</u>
% Change	65%	-4%	47%

### *Reserved fund balance*

	DEBT SERVICE
Beginning Balance 7/1/08	\$ 263,839
Ending Balance 6/30/09	<u>381,467</u>
\$ Change	<u>\$ 117,628</u>
% Change	31%

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

URD II saw a 4% decrease in fund balance in fiscal year 2009. The total expenditures were \$1,159,636, which included \$522,603 for administrative expenses and \$637,033 for projects such as Silver Park, Equinox housing project, Garden District housing project, California Street Engineering, California Street Bridge Planter, and Bond Counsel services.

URD III saw a 47% increase in fund balance in fiscal year 2009. Although several projects were underway during the year, only three projects were completed and reimbursed for their expenses. Total expenditures were \$111,501 for 2200 Dixon Avenue (Gregory), Missoula Federal Credit Union (Russell Street), and South Avenue Improvements SID.

### **Overall Financial Position**

Changes in MRA's overall financial position from 2008 to 2009 include a \$1,025,331 increase in overall revenue and a substantial decrease (\$1,617,140) in expenditures. MRA speculates the additional revenue is attributable to a correction made by the State of Montana regarding application of increment value to centrally assessed property in URD III but has never received confirmation of this from the State of Montana Department of Revenue. Net assets increased from 2008 primarily due to this additional revenue and smaller project expenditures.

Due to ever changing project completion schedules, it is not uncommon for projects that are budgeted in one year to be completed in another year. The MRA tax increment funds, as they are accrued, are *planned, pledged or committed* to projects.

### **Planned Projects**

Planned projects are projects that are under consideration and in the pre-development stage. During this stage, estimated budgets are created as "place holders." As project planning proceeds, the MRA

Board may pledge or commit to the projects, or abandon them if costs or circumstances warrant it. Similarly, the MRA funds a number of redevelopment programs adopted by the Missoula City Council. These programs are made available to assist private property owners with smaller projects that fit the program objectives and criteria. Since it is impossible to determine in advance how many property owners might apply for assistance under these programs, at any given time the program budgets may be underutilized. Still, it is the MRA's practice to be responsive to private sector redevelopment initiatives—even small ones—so these programs are adequately funded each year.

Two exciting projects that was still primarily in the planning phase during fiscal year 2009 were the Old Sawmill District project in URD II and the Front Street Parking Structure in Front Street URD. The developers of the Old Sawmill District received assistance from MRA to buy the lease on the land and continue to receive assistance to facilitate site remediation. The soils remediation is complete and work continues on methane abatement and ground water monitoring. Construction of infrastructure will trigger the next significant expenditure of tax increment funds on the project.

The MRA is assisting the Missoula Parking Commission with the planning and construction of a new parking structure on East Front Street. There have been extended negotiations to acquire the property needed for the project. Once that is concluded, contracts will be let for design and construction.

### **Pledged Projects**

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

The most significant pledged project in fiscal year 2009 was Silver Park. The City pledged tax increment towards the development of a 14.5 acre park along the Clark Fork River as part of the Old Sawmill District project. Design of the park was divided into two phases to allow a Phase I Trail along the river to be initiated in late fiscal year 2008. During fiscal year 2009 it was determined that subsequent phasing would be required to complete various sections of the overall Park. Phase II would entail construction of a parking lot to service the park, adjacent civic stadium and future development. Phase III will complete the trail to the south terminus of California Street Bridge and add trail amenities such as lighting and landscaping. Phase IV will include the construction of the rest of the Park and its internal trails.

### **Committed Projects**

If and when the project sponsors complete fund-raising to a level that allows the project to proceed, the *pledged* funds become *committed* through use of development agreements. Development agreements specify required performance by the project sponsor in order to obtain tax increment funding. The funds become contractually committed in the development agreement and often the commitment will bridge one or more fiscal years.

MRA had several committed projects during fiscal year 2009. URD II projects included: 1275 S. 1st Street W., Equinox, Garden District, California Street Engineering and California Street Bridge Planter. URD III projects included: 2200 Dixon Avenue (Gregory), Missoula Federal Credit Union,

Kent Street sidewalks, Fairview and Washburn Street improvements, and South Avenue sidewalk and tree improvements.

### **Taxing Policies**

Taxing policies adopted by the Montana State Legislature, in particular those that decrease the valuation of personal property or business equipment have had an effect on the growth of the tax increment funds. While these changes did not have a significant effect on the URD I fund (where early growth during robust periods of increasing taxable value yielded strong annual increments), less robust growth has been seen in the other two districts.

Often the Legislature will provide reimbursement or other mechanisms to offset the financial impact their policy changes have on local taxing jurisdictions. MRA's revenues are tied to revenues collected by the local taxing jurisdictions. State reimbursements or entitlements are intended to "make whole" on the losses experienced as a result of tax policy changes. An example of such revenue MRA receives from the State of Montana is the State Entitlement funds. Looking forward, one negative aspect of this situation is that, as the current law reads, the State Entitlement funds that MRA receives disappear upon the sunset of the district. Unlike the tax increment revenue normally captured by the district, which will revert back to the taxing jurisdictions upon sunset, the State Entitlement amount received annually by MRA will revert back to the State of Montana. Currently only URD II receives State Entitlement Funds.

### **Budget to Actual Variances**

Occasionally, there will be variations between budgeted amounts for projects and the actual amount expended. This is due to timing anomalies that are driven by project completion dates. Often times MRA may budget funds for a project in one fiscal year but expend them in a later year if the project is put on hold or delayed for other reasons. A variety of factors from weather and financing to the availability of supplies, material or equipment may cause a project schedule to slip. In Montana, where the construction season straddles two fiscal years, it is not uncommon for a project to begin in one fiscal year and be completed in a subsequent fiscal year.

### **Currently Known Facts**

With the formation of Riverfront Triangle URD in July 2008 (FY09), the City now has four urban renewal districts. URD II and III have existed for a number of years and more recently, the City created Front Street URD and Riverfront Triangle URD. These two new districts are part of what was the original downtown district, URD I. They are areas that did not experience the redevelopment investment enjoyed by the core of the downtown district.

In the past, many of the URD II expenditures of tax increment funds were for projects that did not result in substantial increases to the district's tax base. A number of projects were done by not-for-profit entities. MRA's recent involvement in the Old Sawmill District project allowed the Agency to extend the life of URD II through the issuance of tax increment revenue bonds. The bonds were issued for 25 years effectively extending the district's life to 2031. With the district extended, MRA has expanded the District boundaries to more appropriately reflect areas of need and is focusing on several large redevelopment projects as well as smaller spinoff projects that will rely on MRA for assistance. The new Safeway grocery store, which opened in late 2008, is one of those major projects that will be a catalyst for other redevelopment in the district. The development of the

Equinox and Garden District Housing projects, both assisted through the use of tax increment financing, will encourage further investment and redevelopment in URD II.

In 2008, the MRA partnered with the Downtown Business Improvement District, the Missoula Parking Commission, the Missoula Downtown Association, and private investors to create the Greater Downtown Master Plan. The Master Plan encompasses much of the West Broadway corridor, the east/west spine of URD II and all of the Front Street and Riverfront Triangle Urban Renewal Districts. The Downtown Master Plan was unanimously adopted as part of the City's Growth Policy and the MRA staff is now actively involved in implementation. This plan will serve as a guide as MRA makes decisions about the investment of tax increment funds in private projects and infrastructure improvements in the Front Street URD, Riverfront Triangle URD and URD II.

An important initiative that MRA is pursuing in URD II and III is the development of a program to assist with the provision of attainable or affordable housing. Missoula is reaching a crisis point relative to the ability of its citizens to purchase or lease housing in the City. MRA is working closely with the Mayor's office, the Office of Planning and Grants, and housing developers to create a program using tax increment financing to help mitigate this problem. It is anticipated that the community will determine that a significant portion of future housing needs will be accommodated in the downtown, URD II and URD III where infrastructure exists to support density. Once the City has established those policies, MRA may request the City Council to issue as much as \$1M in tax increment bonds in those Districts.

MRA's primary effort in the newly formed Front Street URD is focused on the construction of a new parking structure as was referenced earlier. This project is a joint venture with the Parking Commission and will be funded through the issuance of tax increment and parking revenue bonds. The East Front Street Parking Structure is a cornerstone project in the implementation of the Downtown Master Plan and in the retention and recruitment of the retail businesses vital to the success of downtown.

At the direction of the City Council, the MRA issued a Request For Proposals for the development of approximately three acres located in the Riverfront Triangle URD and owned by the City. There were no acceptable responses to the RFP and in the current economic downturn; efforts to develop that property have been put on hold. Tax increment financing will be a critical part of the success of that redevelopment when the timing and the economy are right.

The City requested that the County sub-allocate some of their capacity from the Recovery Zone Bonds made available through the American Recovery and Reinvestment Act (ARRA). \$7M of capacity was allocated to the City for construction of the main street through the Old Sawmill District and the construction of Silver Park. It is undetermined whether this bonding capacity will be used, but it is available to the City/MRA and, if used, would be debt serviced with tax increment revenues.

## **Summary**

Over the past year, MRA has continued to put a great deal of effort into the Old Sawmill District development on the former Champion Millsite and the land acquisition, design and construction of the East Front Street Parking Structure. Work continues on the design and construction of portions of Silver Park.

MRA will work with its partner organizations to facilitate the implementation of the Downtown Master Plan, including the development of the new parking structure and redevelopment of the Riverfront Triangle. The Agency continues to seek out redevelopment opportunities in URD III that will support mixed use development and add diversity to the housing supply. The MRA's efforts continue to be targeted at the creation of more pedestrian friendly, sustainable development patterns and economic development projects. That effort is evidenced by the construction of three major sidewalk construction projects in URD II and III in FY10. These projects are the first phase of a long term commitment to complete the sidewalk network in these low income areas. Major undertakings in the coming year will focus on development in the Front Street URD, construction of the parking structure, redevelopment of the Riverfront Triangle property, implementation of the Downtown Master Plan, development of the Old Sawmill District including Silver Park and the creation of affordable housing opportunities.

Missoula Redevelopment Agency  
Ellen Buchanan  
Director

FINANCIAL STATEMENTS

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**STATEMENT OF NET ASSETS**  
 June 30, 2009

	<u>PRIMARY GOVERNMENT</u>
	<u>GOVERNMENTAL</u>
	<u>ACTIVITIES</u>
<b><u>ASSETS</u></b>	
<b>CURRENT ASSETS</b>	
Cash and investments	\$ 4,755,503
Taxes/assessments receivable, net	176,404
Other receivables	99
Prepaid health insurance	3,420
Due from other governments	<u>184,786</u>
Total assets	<u>5,120,212</u>
<b>NONCURRENT ASSETS</b>	
Restricted cash	<u>250,400</u>
Total assets	<u>5,370,612</u>
<b><u>LIABILITIES</u></b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	188,840
Accrued wages	9,407
Accrued interest	8,438
Compensated absences	34,830
Current portion of tax increment revenue bonds payable	<u>90,000</u>
Total current liabilities	<u>331,515</u>
<b>NONCURRENT LIABILITIES</b>	
Post employment benefits	6,921
Long-term portion of compensated absences	13,971
Loan payable	1,125,000
Tax increment revenue bonds payable, less current portion	<u>4,740,000</u>
Total noncurrent liabilities	<u>5,885,892</u>
Total liabilities	<u>6,217,407</u>
<b><u>NET ASSETS</u></b>	
Restricted for debt service	250,400
Unrestricted	<u>(1,097,195)</u>
Total net assets	<u>\$ (846,795)</u>

The Notes to Financial Statements are an integral part of this statement.

# MISSOULA REDEVELOPMENT AGENCY

(A Component Unit of the City of Missoula)

## STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2009

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>GOVERNMENTAL ACTIVITIES</u>
<b>Governmental Activities</b>		
Housing and community development	\$ 1,273,814	\$ (1,273,814)
Interest expense	<u>180,100</u>	<u>(180,100)</u>
Total governmental activities	<u>1,453,914</u>	<u>(1,453,914)</u>
 Total primary government	<u>\$ 1,453,914</u>	<u>(1,453,914)</u>
<b>General Revenues</b>		
Property taxes for general purposes		2,467,288
State contribution - PERS		301
HB 124 revenue		283,623
Investment earnings		135,515
Miscellaneous		<u>20</u>
Total general revenues		<u>2,886,747</u>
 Change in net assets		1,432,833
 Net Assets		
Beginning of year		<u>(2,279,628)</u>
 End of year		<u>\$ (846,795)</u>

The Notes to Financial Statements are an integral part of this statement.

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
 June 30, 2009

	URBAN RENEWAL DISTRICT I	URBAN RENEWAL DISTRICT II	URBAN RENEWAL DISTRICT III	FRONT STREET DISTRICT	MAJOR DEBT SERVICE	<u>TOTAL</u>
<b><u>ASSETS</u></b>						
Current Assets						
Cash and investments	\$ 2,923	\$ 2,111,949	\$ 2,593,022	\$ 402	\$ 47,207	\$ 4,755,503
Taxes/assessments receivable, net	18,493	-	75,591	81	80,879	175,044
Other current assets	-	3,420	-	1	98	3,519
Due from other governments	1,404	-	92,542	44	92,200	186,190
	<u>22,820</u>	<u>2,115,369</u>	<u>2,761,155</u>	<u>528</u>	<u>220,384</u>	<u>5,120,256</u>
Noncurrent Assets						
Restricted cash	-	-	-	-	250,400	250,400
Total assets	<u>\$ 22,820</u>	<u>\$ 2,115,369</u>	<u>\$ 2,761,155</u>	<u>\$ 528</u>	<u>\$ 470,784</u>	<u>\$ 5,370,656</u>
<b><u>LIABILITIES</u></b>						
Current Liabilities						
Accounts payable	\$ -	\$ 188,840	\$ -	\$ -	\$ -	\$ 188,840
Accrued wages	-	9,407	-	-	-	9,407
Accrued interest payable	-	-	-	-	8,438	8,438
Deferred revenue	18,493	-	75,591	81	80,879	175,044
	<u>18,493</u>	<u>198,247</u>	<u>75,591</u>	<u>81</u>	<u>89,317</u>	<u>381,729</u>
<b><u>FUND BALANCES</u></b>						
Reserved for Debt Service	-	-	-	-	250,400	250,400
Unreserved Fund Balance	4,327	1,917,122	2,685,564	447	131,067	4,738,527
	<u>4,327</u>	<u>1,917,122</u>	<u>2,685,564</u>	<u>447</u>	<u>381,467</u>	<u>4,988,927</u>
Total liabilities and fund balances	<u>\$ 22,820</u>	<u>\$ 2,115,369</u>	<u>\$ 2,761,155</u>	<u>\$ 528</u>	<u>\$ 470,784</u>	<u>\$ 5,370,656</u>

The Notes to Financial Statements are an integral part of this statement.

**MISSOULA REDEVELOPMENT AGENCY**  
(A Component Unit of the City of Missoula)  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET ASSETS**  
June 30, 2009

Total fund balances - governmental funds	\$ 4,988,927
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	175,000
Long-term liabilities, both current and noncurrent portions are not due and payable in the current period and therefore are not reported as liabilities in the funds	<u>(6,010,722)</u>
Total net assets - governmental activities	<u>\$ (846,795)</u>

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –**  
**GOVERNMENT FUNDS**  
 For the Year Ended June 30, 2009

	URBAN RENEWAL DISTRICT I	URBAN RENEWAL DISTRICT II	URBAN RENEWAL DISTRICT III	FRONT STREET DISTRICT	MAJOR DEBT SERVICE	TOTAL
<b><u>REVENUES</u></b>						
Tax Increment Property Tax	\$ 2,754	\$ 569	\$ 1,400,516	\$ 445	\$ 1,019,348	\$ 2,423,632
State Contribution PERS	-	301	-	-	-	301
State Entitlement/CMAQ Funds	-	283,623	-	-	-	283,623
Investment Earnings	72	63,873	67,506	2	4,062	135,515
Miscellaneous	-	20	-	-	-	20
<b>Total revenues</b>	<b>2,826</b>	<b>348,386</b>	<b>1,468,022</b>	<b>447</b>	<b>1,023,410</b>	<b>2,843,091</b>
<b><u>EXPENDITURES</u></b>						
<u>Current:</u>						
Housing and Community Development	-	1,022,445	111,501	-	-	1,133,946
Capital Outlay	-	137,191	-	-	-	137,191
Debt Service Expense - Interest	-	-	-	-	180,100	180,100
Debt Service Expense - Principal	-	-	-	-	85,000	85,000
<b>Total expenditures</b>	<b>-</b>	<b>1,159,636</b>	<b>111,501</b>	<b>-</b>	<b>265,100</b>	<b>1,536,237</b>
Excess (deficiency) of revenues over expenditures	2,826	(811,250)	1,356,521	447	758,310	1,306,854
<b><u>OTHER FINANCING SOURCES (USES)</u></b>						
Transfers In	-	741,308	-	-	51,926	793,234
Transfers Out	-	(16,222)	(84,404)	-	(692,608)	(793,234)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>725,086</b>	<b>(84,404)</b>	<b>-</b>	<b>(640,682)</b>	<b>-</b>
Net change in fund balance	2,826	(86,164)	1,272,117	447	117,628	1,306,854
<b><u>FUND BALANCES</u></b>						
Beginning of year	1,501	2,003,286	1,413,447	-	263,839	3,682,073
<b>End of year</b>	<b>\$ 4,327</b>	<b>\$ 1,917,122</b>	<b>\$ 2,685,564</b>	<b>\$ 447</b>	<b>\$ 381,467</b>	<b>\$ 4,988,927</b>

The Notes to Financial Statements are an integral part of this statement.

# MISSOULA REDEVELOPMENT AGENCY

(A Component Unit of the City of Missoula)

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2009

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

Net change in fund balances - total governmental funds	\$ 1,306,854
Tax increment revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements	43,656
The change in compensated absence payable is reported in the statement of activities as an expense	4,244
The change in the other post employment benefits is reported in the statement of activities as an expense	(6,921)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets.	<u>85,000</u>
Change in net assets - statement of activities	<u>\$ 1,432,833</u>

# MISSOULA REDEVELOPMENT AGENCY

(A Component Unit of the City of Missoula)

## NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

#### **Reporting Entity:**

Missoula Redevelopment Agency (MRA) was established in 1978 by the City of Missoula (the "City") as a separate legal entity in accordance with state urban renewal laws (Section 7-15-4201 MCA). MRA has the authority to renovate property within blighted areas legally designated as urban renewal districts, but the authority to exercise the power of eminent domain, acquire and resell property, and to issue tax increment bonds remains with the City. The City has established five urban renewal districts: URD I in 1978, URD II in 1991, URD III in 2000, Front Street district in 2007, and Riverfront Triangle district in 2008. The five-member governing board is appointed by the Mayor and approved by City Council. Due to the control exercised by the City, MRA is considered a component unit of the City.

MRA has no authority to levy taxes. However, under the City's Urban Renewal Plans, revenue derived from incremental property taxes, which result from increases in the taxable value of property within an urban renewal district, are designated for urban renewal purposes and provide the primary funding source for MRA.

State law provides that the tax increment provisions applicable to a renewal district established prior to 1980 be terminated seventeen years after enactment or when all tax increment bonds have been retired. For districts established after 1980, state law provides they be terminated fifteen years after enactment or when all tax increment bonds have been retired. Because the tax increment provisions for URD I were enacted on December 18, 1978, MRA was scheduled to terminate on December 18, 1995. However, the City issued tax increment bonds on December 15, 1989, as permitted by state law. The issuance of these bonds extended the tax increment provisions for the term of the bonds, whose final maturity was July 1, 2005. URD II was scheduled to terminate in 2006, but was extended to 2031 through the issuance of tax increment bonds on August 15, 2006. URD III is scheduled to terminate in December 2015. Front Street URD is scheduled to terminate in 2022. Riverfront Triangle URD is scheduled to terminate in 2023.

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

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

#### **Government-wide Statements:**

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

**MISSOULA REDEVELOPMENT AGENCY**  
(A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2009

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

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

**Government-wide Statements (Continued):**

These statements are reported using the economic resources measurement focus and the accrual basis of accounting. The activities of the Agency are generally financed through incremental property taxes and state entitlements. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function. However, the Agency does not collect any program revenue. Accordingly, all revenues, including all property taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets have been eliminated.

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

**Fund Financial Statements:**

These statements provide information about the Agency's funds. The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column in the governmental funds statements. MRA reports all of their urban renewal districts as major funds. Individual debt service funds are aggregated into a single debt service major fund.

Governmental fund financial statements use the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. MRA considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term liabilities which is recognized when due, and certain compensated absences which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

**MISSOULA REDEVELOPMENT AGENCY**  
(A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2009

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

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

**Fund Financial Statements (Continued):**

During 2009 a delay in preparing and mailing the property tax bills occurred at Missoula County. This delay is considered an extenuating circumstance in accordance with GAAP. In response to the billing delay MRA extended its revenue recognition period from 60 days to 75.

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

**Major Funds:**

GASB Statement No. 34 requires that all governmental funds whose assets, liabilities, revenues or expenditures exceed 10% or more of the total for all government funds be reported as major funds. An entity may also determine if a fund should be reported as major that does not meet the above requirement. Accordingly, MRA has chosen to record all of their funds as major funds. A description of these funds follows:

*Special Revenue Funds*

- Urban Renewal District I – used to account for all activities of District I
- Urban Renewal District II – used to account for all activities of District II
- Urban Renewal District III – used to account for all activities of District III
- Front Street District – not reported; no activity for 2008
- Riverfront Triangle District – not reported; no activity for 2008

*Debt Service Funds*

These are used to account for the accumulation of resources for, and the payment of tax increment debt principal, interest and related costs, and to comply with the requirements of the tax increment bond covenants and resolutions. This fund is included as a debt service fund in the City's financial statements.

**MISSOULA REDEVELOPMENT AGENCY**  
(A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2009

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

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

**Budgets and Budgetary Accounting:**

An annual appropriated operating budget is adopted each fiscal year for the governmental funds on the modified accrual basis of accounting. Revenues 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 increment derived from property taxes levied for the fiscal year is included in the Agency's budget.

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

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

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

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

**MISSOULA REDEVELOPMENT AGENCY**  
(A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2009

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

**Cash and Cash Equivalents:**

MRA's cash is held by the City Treasurer and pooled with other City cash. Interest earned on pooled investments is distributed to each contributing entity and fund on a pro rata basis. Authorized investments allowed by Section 20-9-213, MCA, include savings or time deposits in a state or national bank, building or loan association, or credit union insured by the FDIC or NCUA located in the state; repurchase agreements; and the State Unified Investment Program. Further, Section 7-6-202, MCA, authorizes investments in U.S. government treasury bills, notes, bonds, U.S. Treasury obligations, treasury receipts, general obligations of certain agencies of the United States, and U.S. government security money market fund if the fund meets certain conditions.

**Tax Increment:**

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

Taxable valuations for each Urban Renewal District and the corresponding tax increment amounts for November 2008 property tax billing are as follows:

	<u>Taxable Value</u>	<u>Increment Value</u>
Urban Renewal District II	\$ 3,520,504	\$ 1,392,741
Urban Renewal District III	\$ 8,937,450	\$ 1,933,104
Front Street Urban Renewal District	\$ 1,413,675	\$ 640

**Capital Assets:**

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

**Compensated Absences:**

Under terms of state law, MRA employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for all accumulated vacation leave and 25% of accumulated sick leave. Expenditures for these compensated absences are recorded when paid, because the amounts expected to be liquidated from current resources do not vary materially from year to year. Compensated absences to be funded from future resources are reflected as liabilities in the government-wide financial statements to the extent they are vested.

**MISSOULA REDEVELOPMENT AGENCY**  
(A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2009

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

**Other Postemployment Benefits:**

The Agency recognizes and reports its postemployment health care benefits in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

**NOTE 2. CASH AND INVESTMENTS**

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

Demand deposits	\$ 51,412
Repurchase Investment Account	114,377
Government Securities	4,677,227
Certificates of Deposit	162,887
Less restricted cash held for debt service reserve	<u>(250,400)</u>
	<u>\$ 4,755,503</u>

The City's investment pool does not have a credit rating. Investment in the pool exposes MRA to interest rate risk due to the underlying investment in government securities. This risk is managed by the City.

Information regarding insurance coverage or collateralization, interest rate risk, and investment in derivatives and similar instruments for the investment in the City's investment pool is available in the City's comprehensive annual financial report. There is no regulatory oversight for the City's investment pool, and participants' equity in the pool approximates the fair value of the underlying investments.

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2009

**NOTE 3. LONG-TERM DEBT**

Changes in long-term debt for the year ended June 30, 2009, were as follows:

	Beginning			Ending Balance	Current	
	Balance	Additions	Debt Retired		Portion	
Compensated Absences	\$ 53,045	\$ 1,245	\$ (5,489)	\$ 48,801	\$ 34,830	
MAEDC Note Payable	1,125,000	-	-	1,125,000	-	
Bonds Payable	4,915,000	-	(85,000)	4,830,000	90,000	
<b>Total</b>	<b>\$ 6,093,045</b>	<b>\$ 1,245</b>	<b>\$ (90,489)</b>	<b>\$ 6,003,801</b>	<b>\$ 124,830</b>	

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

MRA issued \$1,500,000 of Tax Increment Urban Renewal Revenue Bonds in October 2007. The bonds were issued to finance a portion of the costs of site preparation, designing, constructing, and carrying out the infrastructure improvements associated with the Safeway, Inc. Project. The bonds were issued at par, bear interest of 6.95%, and are secured by a first lien upon and pledge of tax increment revenues derived from the Project Site. Should tax increment revenues in any given year not be sufficient to pay the principal and interest payments, Safeway, Inc. (the "Guarantor") is obligated to pay the deficiency. Tax increment in excess of debt service requirements will be (1) used to make Guarantor reimbursements for prior debt service deficiencies, (2) retained in an excess tax increment fund until the amount equals the maximum annual debt service for the bonds, and (3) used to prepay the Series 2007 bonds.

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2009

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

Debt service requirements to maturity on the tax increment bonds at June 30, 2009, are as follows:

<u>Year Ending</u>	<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	2010	\$ 90,000	\$ 405,733	\$ 495,733
	2011	125,000	257,529	382,529
	2012	135,000	251,169	386,169
	2013	145,000	244,062	389,062
	2014	150,000	236,557	386,557
	2015-2019	675,000	864,750	1,539,750
	2020-2024	1,065,000	859,618	1,924,618
	2025-2029	1,400,000	524,938	1,924,938
	2030-2032	<u>1,045,000</u>	<u>112,336</u>	<u>1,157,336</u>
	<b>Total</b>	<b><u>\$ 4,830,000</u></b>	<b><u>\$ 3,756,691</u></b>	<b><u>\$ 8,586,691</u></b>

The City of Missoula applied for and received a \$1 million grant from the U.S. Environmental Protection agency (EPA) to create a revolving loan fund to be used for Brownfields remediation of the Old Sawmill District located within URD II. The City entered into a subrecipient agreement with the Missoula Area Economic Development Corporation (MAEDC) to manage the revolving loan fund. MAEDC provided \$200,000 in matching funds required under the EPA grant, creating a total loan fund of \$1.2 million. In August 2006, MAEDC made a loan of \$1,000,000 bearing interest at 1.5% to MRP LLC, the developer of the Old Sawmill District, with MRA and the City identified as co-borrowers. The loan will be repaid solely from tax increment revenue resulting from the increased taxable value of the property within the Old Sawmill District, and is not a general obligation of the City. For these reasons, the loan is reflected as a liability of MRA. In August 2007, the loan was increased from \$1 million to \$1.125 million.

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2009

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

Debt service requirements to maturity on the loan payable at June 30, 2009, follow:

<u>Year Ending</u>	<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ -	\$ 16,875	\$ 16,875	
2011	-	16,875	16,875	
2012	-	16,875	16,875	
2013	-	16,875	16,875	
2014	-	16,875	16,875	
2015-2019	-	84,375	84,375	
2020-2024	320,092	74,449	394,541	
2025-2029	566,323	41,521	607,845	
2030-2032	238,585	4,491	243,076	
<b>Total</b>	<b><u>\$ 1,125,000</u></b>	<b><u>\$ 289,212</u></b>	<b><u>\$ 1,414,212</u></b>	

Subsequent to June 30, 2009, the MAEDC note payable was increased to \$1,525,000. The remainder of the terms of the note remained unchanged.

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

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

Urban Renewal District II:

Public:

Silver Park	\$ 19,726
California Street Engineering	22,670
Traffic Signal Box Public Art Project	3,000

Private:

1275 South 1st Street West	55,097
Abbey Carpet	25,558
Aspen Sound	5,640
CCP/CRLP Programs	75,000
Equinox	150,000
Garden District Housing Project	43,000
	<b><u>\$ 399,691</u></b>

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2009

**NOTE 4. COMMITMENTS AND DESIGNATED FUND BALANCES (CONTINUED)**

Urban Renewal District III:

Public:

Fairview and Washburn Street Improvement	\$ 67,000
Kent Avenue Crosswalk Improvements	15,000
Brooks Street Commercial Sidewalk Project	130,258
Franklin to Fort Neighborhood Sidewalk Project	206,641
Traffic Signal Box Public Art Project	3,000

Private:

1701 Brooks Street	41,350
2200 Dixon Avenue	2,450
2204 Dixon Avenue	19,000
Missoula Federal Credit Union	136,529
Trempers	<u>407,614</u>
	<u>\$1,028,842</u>

Front Street Urban Renewal District

Private

Wilma	<u>\$ 50,000</u>
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**NOTE 5. RETIREMENT PLAN**

The Agency participates in the Montana Public Employees' Retirement System (MPERS), a state-administered cost-sharing multiple-employer defined benefit pension plan. The plan is established by state law and administered by the state of Montana. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. Contribution rates are determined by state law. Contribution rates, expressed as a percentage of covered payroll, for each of the three fiscal years were as follows:

Rates:

<u>Year Ended June 30,</u>	<u>Employee</u>	<u>Agency</u>	<u>State</u>
2009	6.900%	6.935%	0.100%
2008	6.900%	6.935%	0.100%
2007	6.900%	6.800%	0.100%

**MISSOULA REDEVELOPMENT AGENCY**  
(A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2009

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

MPERS is a statewide retirement plan established in 1945 and is governed by Title 19, Chapters 2 and 3 of the Montana Code Annotated providing retirement services for substantially all public employees. The MPERS is a mandatory multiple-employer, cost sharing plan administered by the Montana Public Employees' Retirement Administration (MPERA).

MPERS offers retirement, disability and death benefits to plan members and their beneficiaries. Benefit eligibility is age 60 with at least five years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarial reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary.

A guaranteed annual benefit adjustment (GABA) of 1.5% or 3%, depending on date of hire, is provided each January for benefit recipients if they have been receiving a benefit for at least 12 months. Members' rights become vested after five years of service. The authority to establish, amend and provide cost of living adjustments for the plan is assigned to the State legislature.

The State legislature has the authority to establish and amend contribution rates to the plan. Plan members are required to contribute 6.90% of monthly compensation. Local government entities are required to contribute 6.935% of members' compensation. The State of Montana contributes 0.1% of members' compensation on behalf of local government entities.

The amounts contributed during the years ended June 30, 2009, 2008, and 2007, were equal to the required contribution for each year. The amounts contributed by the Agency and the State of Montana were as follows:

<b>Contributions:</b>		
<u>Year Ended June 30,</u>	<u>Agency</u>	<u>State</u>
2009	\$ 21,166	\$ 305
2008	19,545	287
2007	18,255	268

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

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

**MISSOULA REDEVELOPMENT AGENCY**  
(A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2009

**NOTE 6. LEASES**

The City provides MRA with office space through a development agreement. The office space is provided rent-free through November 2011.

**NOTE 7. INTERFUND TRANSACTIONS**

Urban Renewal District III transferred \$84,404 to Urban Renewal District II for its share of administrative costs.

Front Street District and Riverfront Triangle Districts earned minimal tax increment revenues in 2009. These districts will reimburse Urban Renewal District II for their share of administrative costs when increment revenues allow.

**NOTE 8. RISK MANAGEMENT**

MRA is exposed to various risks of loss related to torts, damage or loss of assets, errors and omissions, injuries to employees, employee medical claims, and natural disasters. MRA manages these risks through participation with the City's risk management practices. Information related to the City's risk management is available in its comprehensive annual financial report.

**NOTE 9. POSTEMPLOYMENT BENEFITS**

MRA participates in the City of Missoula's defined benefit health plan. The single employer plan administered by the City is named the Health Benefits Plan for the Employees of the City of Missoula. Benefits and contributions rates are established and may be amended by the City of Missoula's Employee Benefits Committee. The plan's financial information is included as part of the City's self insurance internal service fund in the City of Missoula Comprehensive Annual Financial Report. Terminated employees of MRA 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 C.O.B.R.A. law. Retirees of MRA may remain on the City's health plan as long as they wish, provided they pay the monthly premiums. State law requires MRA to provide this benefit. There are no other postemployment benefits provided by MRA. MRA has six employees participating in the plan with no retirees or C.O.B.R.A participants.

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 June 30, 2009

**NOTE 9. POSTEMPLOYMENT BENEFITS (CONTINUED)**

MRA adopted the provisions of GASB Statement 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pension Plans," in fiscal year 2009. GASB 45 requires employers to calculate the actuarial liability for future retiree benefits and the annual required contribution (ARC) for retirees. The provisions of this statement were applied prospectively. Information on the City's health benefits plan for retirees is included below.

Retirees and MRA contribute to the plan. The plan is financed on a pay-as-you-go basis with MRA contributions ensuring that adequate reserves are maintained in the plan. MRA's contribution is not contributed to a trust for only retiree benefits so it is not considered a contribution towards the annual required contribution under GASB 45. The contributions to the plan are as follows for July 1, 2009:

Coverage	Retiree Contribution	MRA Contribution	Total Premium
Retiree	\$ 539.24	\$ 140.76	\$ 680.00
Retiree, spouse	594.49	150.51	745.00
Retiree, spouse, child	617.87	154.63	772.50
Retiree, spouse, 2 children	641.24	158.76	800.00
Retiree, spouse, 3 children	664.62	162.88	827.50
Retiree, spouse, 4 children	687.99	167.01	855.00
Retiree, child	562.62	144.88	707.50
Retiree, 2 children	585.99	149.01	735.00
Retiree, 3 children	609.37	153.13	762.50
Retiree, 4 children	632.74	157.26	790.00

Based on an actuarial study prepared as of June 30, 2009, MRA's portion of the annual other post-employment benefit cost was \$6,921 for the fiscal year ended June 30, 2009. This cost and the related net other postemployment benefit obligation consisted of the annual required contribution for the year. There were no additional components since fiscal year 2009 was the first year of implementation of GASB 45. There were no qualified contributions made toward this cost. The net other post-employment benefit obligation increased from zero to \$6,921 at June 30, 2009. Annual information for previous years will be provided in future years.

As of June 30, 2009, the most recent actuarial valuation date, MRA's portion of the plan had an unfunded accrued actuarial liability of \$74,826. This liability is not recorded under GASB 45 since there are no assets allocated to an irrevocable trust for the retiree benefit plan. Therefore, the funded status of the plan is 0%. The annual covered payroll was \$176,481 for fiscal year 2009; the unfunded actuarial liability was 42.4 % of covered payroll.

**MISSOULA REDEVELOPMENT AGENCY**  
(A Component Unit of the City of Missoula)  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2009

**NOTE 9. POSTEMPLOYMENT BENEFITS (CONTINUED)**

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Projections of benefits for the plan are based on types of benefits provided under the substantive plan at the time of the actuarial valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point. Actuarial calculations reflect a long-term prospective and, consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities. For the actuarial valuation performed at June 30, 2009, the projected unit credit actuarial cost method was used. The health care cost trend rate was 7% for 2009 decreasing to 5% for 2013 and after. The assumed discount and long-term rate of return was 1.64%. The unfunded actuarial liability was amortized on a level-dollar basis over an open period of 30 years. The City of Missoula allocated the annual retired contributions and the underfunded liability to the component units based on the number of active participants in the plan as of June 30, 2009.

REQUIRED SUPPLEMENTARY INFORMATION

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**BUDGETARY COMPARISON SCHEDULE**  
 For the Year Ended June 30, 2009

	URBAN RENEWAL DISTRICT II				URBAN RENEWAL DISTRICT III			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL			ORIGINAL	FINAL		
Budgetary Fund Balance, July 1, 2008	\$ 2,048,705	\$ 2,003,286	\$ 2,003,286	\$ -	\$ 1,024,341	\$ 1,413,447	\$ 1,413,447	\$ -
Resources (Inflows):								
Miscellaneous	-	-	20	20	40,000	-	-	-
Investment earnings	90,000	90,000	63,873	(26,127)	-	40,000	67,506	27,506
Long-term debt proceeds	1,271,250	1,271,000	-	(1,271,000)	-	-	-	-
Tax increment property tax	-	-	569	569	516,876	1,435,600	1,400,516	(35,084)
State contribution PERS	250	250	301	51	-	-	-	-
State personal property tax reimbursement	-	-	-	-	-	-	-	-
State entitlement	283,622	283,622	283,623	1	-	-	-	-
Intergovernmental (CTEP)	500,000	500,000	-	(500,000)	-	-	-	-
Transfers in	1,474,199	1,393,820	741,308	(652,512)	-	-	-	-
Amounts available for appropriation	<u>\$ 5,668,026</u>	<u>\$ 5,541,978</u>	<u>3,092,980</u>	<u>\$ (2,448,998)</u>	<u>\$ 1,581,217</u>	<u>\$ 2,889,047</u>	<u>2,881,469</u>	<u>\$ (7,578)</u>
Charges to Appropriations (Outflows):								
Housing and community development	\$ 2,510,008	\$ 2,953,025	1,022,445	\$ 1,930,580	\$ 1,795,876	\$ 2,726,047	111,501	\$ 2,614,546
Capital outlay	2,672,905	2,587,497	137,191	2,450,306	88,000	88,000	-	88,000
Transfers to other governments	1,408	1,408	-	1,408	-	-	-	-
Transfers out	-	-	16,222	(16,222)	75,000	75,000	84,404	(9,404)
Total charges to appropriations	<u>\$ 5,184,321</u>	<u>\$ 5,541,930</u>	<u>1,175,858</u>	<u>\$ 4,366,072</u>	<u>\$ 1,958,876</u>	<u>\$ 2,889,047</u>	<u>195,905</u>	<u>\$ 2,693,142</u>
Excess of resources (inflows) over charges to appropriations (outflows)			<u>1,917,122</u>				<u>2,685,564</u>	
Budgetary Fund Balance, June 30, 2009			<u>\$ 1,917,122</u>				<u>\$ 2,685,564</u>	

MAJOR DEBT SERVICE				
	BUDGETED AMOUNTS		VARIANCE WITH FINAL BUDGET	
	ORIGINAL	FINAL	ACTUAL	
Budgetary Fund Balance, July 1, 2008	\$ 962,828	\$ 263,839	\$ 263,839	\$ -
Resources (Inflows):				
Investment earnings	-	-	4,062	4,062
Tax increment property tax	871,182	1,040,201	1,019,348	(20,853)
Transfers in	37,611	298,901	51,926	(246,975)
Amounts available for appropriation	<u>\$ 1,871,621</u>	<u>\$ 1,602,941</u>	<u>1,339,175</u>	<u>\$ (263,766)</u>
Charges to Appropriations (Outflows):				
Debt service expenditures	\$ 305,291	\$ 265,100	265,100	\$ -
Transfers out	871,182	793,226	692,608	100,618
Total charges to appropriations	<u>\$ 1,176,473</u>	<u>\$ 1,058,326</u>	<u>957,708</u>	<u>\$ 100,618</u>
Excess of resources (inflows) over charges to appropriations (outflows)			<u>381,467</u>	
Budgetary Fund Balance, June 30, 2009			<u>\$ 381,467</u>	

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**BUDGETARY COMPARISON SCHEDULE – BUDGET-TO-GAAP RECONCILIATION**  
 June 30, 2009

**NOTE 1**

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

	URBAN RENEWAL DISTRICT #2	URBAN RENEWAL DISTRICT #3	DEBT SERVICE
<b>Sources/Inflows of Resources</b>			
Actual available for appropriation from the budgetary comparison schedule	\$ 3,092,980	\$ 2,881,469	\$ 1,339,175
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(2,003,286)	(1,413,447)	(263,839)
Transfers from other funds are inflows of budgetary resource but are not revenues for financial reporting purposes	<u>(741,308)</u>	<u>-</u>	<u>(51,926)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 348,386</u>	<u>\$ 1,468,022</u>	<u>\$ 1,023,410</u>
<b>Uses/Outflows of Resources</b>			
Actual total charges to appropriations from the budgetary comparison schedule	\$ 1,175,858	\$ 195,905	\$ 957,708
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(16,222)</u>	<u>(84,404)</u>	<u>(692,608)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 1,159,636</u>	<u>\$ 111,501</u>	<u>\$ 265,100</u>

SUPPLEMENTARY INFORMATION

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**BALANCE SHEET – COMBINING DEBT SERVICE**  
 June 30, 2009

	<u>MILLSITE \$3.6 M BONDS</u>	<u>MAEDC BROWNFIELDS NOTE</u>	<u>SAFEWAY ST. PATRICK HOSPITAL BONDS</u>	<u>TOTAL</u>
<b><u>ASSETS</u></b>				
<b>Current Assets</b>				
Cash and investments	\$ 4,518	\$ 42,534	\$ 155	\$ 47,207
Taxes/assessments receivable, net	80,879	-	-	80,879
Other current assets	-	98	-	98
Due from other governments	92,200	-	-	92,200
	<u>177,597</u>	<u>42,632</u>	<u>155</u>	<u>220,384</u>
<b>Noncurrent Assets</b>				
Restricted cash	<u>250,400</u>	-	-	<u>250,400</u>
Total assets	<u>\$ 427,997</u>	<u>\$ 42,632</u>	<u>\$ 155</u>	<u>\$ 470,784</u>
<b><u>LIABILITIES</u></b>				
<b>Current Liabilities</b>				
Accrued interest payable	-	8,438	\$ -	8,438
Deferred revenue	<u>80,879</u>	-	-	<u>80,879</u>
Total liabilities	<u>80,879</u>	<u>8,438</u>	-	<u>89,317</u>
<b><u>FUND BALANCES</u></b>				
Unreserved Fund Balance	96,718	34,194	155	131,067
Reserved Fund Balance	<u>250,400</u>	-	-	<u>250,400</u>
Total fund balances	<u>347,118</u>	<u>34,194</u>	<u>155</u>	<u>381,467</u>
Total liabilities and fund balances	<u>\$ 427,997</u>	<u>\$ 42,632</u>	<u>\$ 155</u>	<u>\$ 470,784</u>

**MISSOULA REDEVELOPMENT AGENCY**  
 (A Component Unit of the City of Missoula)  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –**  
**COMBINING DEBT SERVICE**  
 June 30, 2009

	<u>MILLSITE \$3.6 M BONDS</u>	<u>MAEDC BROWNFIELDS NOTE</u>	<u>SAFEWAY ST. PATRICK HOSPITAL BONDS</u>	<u>TOTAL</u>
<b><u>REVENUES</u></b>				
Tax Increment Property Tax	\$ 1,019,348	\$ -	\$ -	\$ 1,019,348
Investment Earnings (Expense)	3,905	165	(8)	4,062
Total revenues	<u>1,023,253</u>	<u>165</u>	<u>(8)</u>	<u>1,023,410</u>
<b><u>EXPENDITURES</u></b>				
<b><u>Current:</u></b>				
Interest Expense	161,975	16,875	1,250	180,100
Principal Expense	<u>85,000</u>	<u>-</u>	<u>-</u>	<u>85,000</u>
Total expenditures	<u>246,975</u>	<u>16,875</u>	<u>1,250</u>	<u>265,100</u>
Excess (deficiency) of revenues over expenditures	<u>776,278</u>	<u>(16,710)</u>	<u>(1,258)</u>	<u>758,310</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfers In	-	50,513	1,413	51,926
Transfers Out	<u>(692,608)</u>	<u>-</u>	<u>-</u>	<u>(692,608)</u>
Total other financing sources (uses)	<u>(692,608)</u>	<u>50,513</u>	<u>1,413</u>	<u>(640,682)</u>
Net change in fund balance	83,670	33,803	155	117,628
<b><u>FUND BALANCES</u></b>				
Beginning of year	<u>263,448</u>	<u>391</u>	<u>-</u>	<u>263,839</u>
End of year	<u>\$ 347,118</u>	<u>\$ 34,194</u>	<u>\$ 155</u>	<u>\$ 381,467</u>

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

Board of Directors  
Missoula Redevelopment Agency  
Missoula, Montana

We have audited the financial statements of the governmental activities and each major fund of Missoula Redevelopment Agency, a component unit of the City of Missoula, Montana, as of and for the year ended June 30, 2009, and have issued our report thereon dated December 29, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

*Anderson Zurmehlen & Co., PC.*

Missoula, Montana  
December 29, 2009