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, 2010

(With Independent Auditor's Reports Thereon)

CONTENTS

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
ORGANIZATION
Fiscal Year Ended June 30, 2010

Director

Ellen Buchanan .... Director

Board of Commissioners

Hal Fraser .... Chair

Nancy Moe .... Vice-Chair

Rosalie Cates .... Member

Karl Englund .... Member

Daniel Kemmis .... Member

anderson ZURMUEHLEN

ANDERSON ZURMUEHLEN & CO., P.C. · CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS
MEMBER: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS · MSI GLOBAL ALLIANCE INDEPENDENT MEMBER FIRM

1821 SOUTH AVENUE WEST · FIFTH FLOOR · P.O. BOX 2368 · MISSOULA, MT 59806-2368
TEL: 406.721.7800 · FAX: 406.721.4155 · WEB: WWW.AZWORLD.COM

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, 2010, 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, 2010, 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 20, 2010, 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 4–14, the budgetary comparison information on pages 36–38, and the schedules of funding progress and employer contributions on page 39 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements as a whole. The supplementary information presented on pages 40–43 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining debt service balance sheet and statement of revenues, expenditures and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The debt service budgetary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Anderson ZurMuehlen & Co., P.C.

Missoula, Montana
December 20, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2010

The Missoula Redevelopment Agency (MRA) 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 MRA 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 its financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the MRA's financial statements and accompanying notes, which begin on page 15.

Financial Highlights

Condensed Financial Information

The following tables summarize financial condition and operating results for 2010 compared to 2009:

	2010	2009	Increase (Decrease)
Current Assets	**$ 6,218,128**	$ 5,120,212	$ 1,097,916
Noncurrent Assets	**250,400**	250,400	-
Total assets	**6,468,528**	5,370,612	1,097,916
Current Liabilities	**832,848**	331,515	501,333
Long-Term Liabilities	**5,877,534**	5,885,892	(8,358)
Total liabilities	**6,710,382**	6,217,407	492,975
Net Assets			
Restricted for debt service	**250,400**	250,500	(100)
Unrestricted	**(492,254)**	(1,097,295)	605,041
Total net assets	**$ (241,854)**	$ (846,795)	$ 604,941

	2010 Actual	2009 Actual	Increase (Decrease)
Revenues			
General revenues	**$ 3,947,864**	$ 2,886,747	$ 1,061,117
Total revenues	**3,947,864**	2,886,747	1,061,117
Expenses			
Housing and community development	**2,922,343**	1,273,814	1,648,529
Interest	**420,580**	180,100	240,480
Total expenses	**3,342,923**	1,453,914	1,889,009
Change in net assets	**604,941**	1,432,833	(827,892)
Net Assets			
Beginning of year	**(846,795)**	(2,279,628)	1,432,833
End of year	**$ (241,854)**	**$ (846,795)**	$ 604,941

- During the year MRA had revenues of $3,947,864 and expenses totaling $3,342,923, which resulted in an increase of net assets of $604,941.

- 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 2010 revenues were approximately one million higher than in fiscal year 2009.

- Expenditures for fiscal year 2010 were related to redevelopment projects such as Silver Park, Equinox, Garden District Housing Project, Catlin/Wyoming Sidewalks, Brooks Street Commercial Corridor Sidewalks, URD III Residential Sidewalks, Trempers Shopping Center, 1701 Brooks Street, 1720 Brooks Street and 2204 Dixon Avenue. MRA also paid out $566,655 in interest and principal 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 2010 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 no increment was realized in this district in fiscal year 2010. Based on an increase in taxable value from the base as reported by the Montana Department of Revenue, MRA anticipates some increment revenue from the Riverfront Triangle district in November 2010 (FY11). 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 FIP, are 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/assessments receivable (net), 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 bond guarantor payable and tax increment bond debt. Noncurrent liabilities include post-employment benefits, the long-term portion (sick and compensatory hours) of MRA's compensated absences, the Brownfields RLF loan, the amount due to the bond guarantor less current portion 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 an 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 14, 2009 the amount of the loan was increased to $1,525,000. On December 22, 2009 the terms of the Loan Agreement and Note were amended to defer paying principal until 2023.

On October 15, 2007, the City of Missoula pursuant to Resolution 7286, approved the sale of $1.5 million in tax increment revenue bonds related to the Safeway/St. Patrick Hospital project in URD II. The bonds are secured by a first lien upon and pledge of tax increment revenues derived from the project.

Refer to Note 3 on page 27 for further information regarding MRA's long-term debt.

Revenues

In fiscal year 2010, MRA received only general revenues and did not generate any program revenue. Of MRA's $3,947,864 total revenue reported in the Statement of Activities, 86% was tax increment received from property taxes. The next largest revenue source for MRA is the State of Montana in the form of State entitlement funds authorized under House Bill 124 and PERS contributions. State of Montana funds account for 7% of MRA's total revenue received. The remaining 7% revenue received is from intergovernmental receipts, 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 and Series 2007 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 2010.

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 2010 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 2010 from URD III to URD II for administrative expenses was $527,460 and is based on the proportionate share of staff time spent working on projects in URD III in fiscal year 2010, and the staff time spent on projects in the Front Street and Riverfront Triangle districts since their creation. Due to the newness of these two districts and the lack of redevelopment therein, their revenues are not yet able to support full payback for the staff time spent working on their creation. Beginning in fiscal year 2011, administrative expenses will be paid from URD III so a detailed accounting of what the Front Street and Riverfront Triangle districts owe URD III is maintained so a reimbursement to URD III can be made when tax increment revenues from these districts are sufficient.

Balances and Transactions of Individual Government Funds

Unreserved fund balance

	URD I	URD II	URD III
Beginning Balance 7/1/09	$ 4,327	$ 1,917,122	$ 2,685,566
Ending Balance 6/30/10	4,941	2,360,082	2,794,449
$ Change	$ 614	$ 442,960	$ 108,883
% Change	14%	23%	4%

Reserved fund balance

	Front Street	DEBT SERVICE
Beginning Balance 7/1/09	$ 447	$ 381,467
Ending Balance 6/30/10	120,809	289,264
$ Change	$ 120,362	$ (92,203)
% Change	26927%	-24%

URD I's tax increment financing provision sunset in fiscal year 2005. The district was officially closed out (last payments made on projects) 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 23% increase in fund balance in fiscal year 2010. This increase was primarily due to the timing of projects (e.g. Silver Park project delays) and a drop in the number of private redevelopment assistance requests. The total expenditures were $1,653,883, which included $536,032 for administrative expenses and $1,117,851 for projects such as Abbey Carpet, Aspen Sound, Burton Street Repaving, Catlin/Wyoming Sidewalks, Cedar Street Repaving, Equinox housing project, Garden District housing project, Millsite Revitalization (through the Brownfields RLF), Silver Park and the Traffic Signal Box public art project.

URD III saw a 4% increase in fund balance in fiscal year 2010. This slight increase is attributable to several private redevelopment assistance requests, two sizable public improvement (sidewalk) projects undertaken by the MRA and a large ($527,460) administrative transfer to URD II. Since URD III will be covering the administrative costs for the MRA beginning in fiscal year 2011, it covered the amounts due to date to URD II from the newer Front Street and Riverfront Triangle districts. Total expenditures were $1,234,276 for 1701 Brooks Street (Small), 1720 Brooks Street

(Salonen), 2204 Dixon (Schreiber), the Best Place Project, Brooks Street Commercial Corridor Sidewalks, Dearborn Street Repaving, Fairview/Washburn Street Repaving, Missoula Housing Summit, Traffic Signal Box public art project, Trempers and URD III Residential Sidewalks.

Front Street URD saw a 26927% increase in fund balance in fiscal year 2010. This substantial increase is attributable to reappraisal of property values in 2009, reclassification of the Wilma building into condominiums and the partial completion of the new First Interstate Bank building. Total expenditures were $30,000 for the Wilma façade and sidewalk improvement project.

Overall Financial Position

Changes in MRA's overall financial position from 2009 to 2010 include a $1,061,117 increase in overall revenue and a substantial increase of $1,889,009 in expenditures. MRA speculates the additional revenue is attributable to reappraisal of property values by the State of Montana and redevelopment in the districts. Net assets increased by $604,941 from 2009 primarily due to this additional revenue.

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 were still primarily in the planning phase during fiscal year 2010 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.

During fiscal year 2010, the MRA continued to assist the Missoula Parking Commission with the planning for a new parking structure on East Front Street. For the past several years, there have been extended negotiations to: 1) acquire the property needed for the project, 2) come to agreement with First Interstate Bank on their increment reimbursement, and 3) determine what type of bonds could be issued to fund the parking structure project. In early fiscal year 2011, negotiations resulted in a final bond scheme that included: issuing Parking Revenue bonds, which would be partly amortized with tax increment funds, to fund the structure; and the MRA's intent to issue a subordinate lien note to First Interstate Bank to reimburse them for tax increment eligible expenses incurred with the construction of their new bank building.

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.

Once again the most significant *pledged* project in fiscal year 2010 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 and boat ramp to service the Park, the adjacent civic stadium and any future development. Phase III will complete the trail (including the placement of a bridge across an irrigation ditch) to the south terminus of the California Street Bridge and add trail amenities such as lighting, landscaping and irrigation. Phase IV will include the construction of the rest of the Park and its internal trails and amenities. As of the end of fiscal year 2010, Phase II was substantially completed and bids were being prepared for the construction of Phase III.

Committed Projects

If and when project sponsors complete fundraising to a level that allows a project to proceed, *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. When the MRA undertakes public infrastructure improvements within a district, tax increment funds become committed when the project receives approval by the MRA Board.

MRA participated in several private/public partnerships and publicly funded *committed* projects during fiscal year 2010.

URD II private/public partnership projects included: Abbey Carpet, Aspen Sound, Equinox housing project, Garden District housing project, and Millsite Revitalization (through the Brownfields RLF). **URD II public projects included:** Burton Street Repaving, Catlin/Wyoming Sidewalks, Cedar Street Repaving, Silver Park and the Traffic Signal Box public art project.
URD III private/public partnership projects included: 1701 Brooks Street (Small), 1720 Brooks Street (Salonen), 2204 Dixon (Schreiber), the Best Place Project, Missoula Housing Summit and Trempers. **URD III public projects included:** Brooks Street Commercial Corridor Sidewalks, Dearborn Street Repaving, Fairview/Washburn Street Repaving, Traffic Signal Box public art project and URD III Residential Sidewalks.

Taxing Policies

Taxing policies adopted by the Montana State Legislature, for example 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 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 authorized under HB 124. 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 a 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.

During fiscal year 2009, reappraisal took place of all commercial and residential (Class 4) properties in the State of Montana. Per State law, if the value increased on a property, the difference between the old and new values is phased in over a period of six years, when reappraisal takes place again. In addition to reappraisal, substantial changes to the formula used to calculate taxable values of property came out of the 2009 Legislative session. Most notably, the "homestead" and "comstead" exemptions on residential and commercial properties respectively were increased and the factor used in the formula to calculate Taxable Value was decreased in each of the six phase-in years. Although the Legislature's intent was to mitigate the potential tax impact of substantially increased property values, MRA has projected that overall, these actions may result in declining taxable values over the six year period. The net result appears to indicate declining tax revenue for local jurisdictions assuming a level mill value. Local jurisdictions may "float" their mill values to compensate for such loss of value in accordance with M.C.A. 15-10-420. Statewide school levies appear fixed by the state law at a total maximum of 95 mills and do not appear to be flexible to "float" with decreasing taxable value.

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

The City of Missoula has four urban renewal districts that generate tax increment revenue administered by the MRA. URD II and III have existed for a number of years and have established revenues. More recently, the City created Front Street and Riverfront Triangle Districts, both are part of what was the original downtown district, URD I. They are areas that did not experience the level of redevelopment investment enjoyed by other parts 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 life of the district extended, MRA 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. MRA has been building Silver Park, a part of the Old Sawmill District, incrementally, completing a boat ramp, parking lot and part of the riverfront trail system. The trail will be completed by summer, connecting trails on both sides of the Clark Fork River in a continuous loop for the first time. 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. The second phase of the Equinox project, Solstice, is under construction and will add to the community's affordable housing inventory. Home Resources, a building materials and architectural salvage business, relocated to URD II in a greatly expanded site and is the anchor for an emerging sustainable building center. The development of a large apartment and commercial complex is in the planning stages for the property where the Garden District Housing was built.

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. Although no longer part of an urban renewal district, the North Higgins Streetscape project, which was initiated by the MRA when it was part of URD I, was completed in October. This is the first major project identified in the Master Plan to be completed. MRA and the Parking Commission are in the process of selling Economic Recovery Zone Development Bonds that will be used to finance the construction of a new parking structure in the Front Street URD, another catalyst project identified in the Downtown Master Plan. Downtown's major retail anchor, Macy's Department Store, closed last year. MRA is working with the potential buyers of that property in an effort to redevelop the building into a mixed use anchor for the downtown. The construction of the parking facility and the availability of tax increment funds are critical for this project to be successful.

Last year, the MRA embarked on a project to build sidewalks in those areas of URD II and URD III that do not presently have any sidewalks or have gaps in system. The Agency has spent over $2,000,000 in the past year and will continue the program until there is a complete sidewalk system in both districts. This program provides sidewalks and improves drainage in lower income neighborhoods that would otherwise not have these amenities in the foreseeable future.

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 and sidewalk projects in the two urban renewal districts. 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 fiscal year 2010. 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, 2010

	PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES
ASSETS	
CURRENT ASSETS	
Cash and investments	$ 5,640,401
Taxes/assessments receivable, net	525,640
Other receivables	14,482
Prepaid health insurance	3,810
Due from other governments	33,795
Total assets	6,218,128
NONCURRENT ASSETS	
Restricted cash	250,400
Total assets	6,468,528
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	621,050
Accrued wages	14,820
Accrued interest	11,598
Compensated absences	35,045
Current portion of guarantor payable	25,335
Current portion of tax increment revenue bonds payable	125,000
Total current liabilities	832,848
NONCURRENT LIABILITIES	
Post employment benefits	9,335
Long-term portion of compensated absences	15,526
Loan payable	1,096,770
Guarantor payable, less current portion	140,903
Tax increment revenue bonds payable, less current portion	4,615,000
Total noncurrent liabilities	5,877,534
Total liabilities	6,710,382
NET ASSETS	
Restricted for debt service	250,400
Unrestricted	(492,254)
Total net assets	$ (241,854)

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, 2010

FUNCTIONS/PROGRAMS	EXPENSES	GOVERNMENTAL ACTIVITIES
Governmental Activities		
Housing and community development	$ 2,922,343	$ (2,922,343)
Interest expense	420,580	(420,580)
Total governmental activities	3,342,923	(3,342,923)
Total primary government	$ 3,342,923	(3,342,923)
General Revenues		
Property taxes for general purposes		3,402,924
State contribution - PERS		308
HB 124 revenue		283,622
Intergovernmental		226,500
Investment earnings		33,910
Miscellaneous		600
Total general revenues		3,947,864
Change in net assets		604,941
Net Assets		
Beginning of year		(846,795)
End of year		$ (241,854)

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, 2010

	URBAN RENEWAL DISTRICT I	URBAN RENEWAL DISTRICT II	URBAN RENEWAL DISTRICT III	FRONT STREET DISTRICT	MAJOR DEBT SERVICE	TOTAL
ASSETS						
Current Assets						
Cash and investments	$ 4,352	$ 2,623,184	$ 2,788,481	$ 131,387	$ 92,997	$ 5,640,401
Taxes/assessments receivable, net	18,600	-	246,600	27,621	232,819	525,640
Other current assets	12	8,791	8,173	115	1,201	18,292
Due from other governments	-	-	11,783	3,497	18,515	33,795
Interfund receivable	-	148,660	43,597	-	-	192,257
	22,964	2,780,635	3,098,634	162,620	345,532	6,410,385
Noncurrent Assets						
Restricted cash	-	-	-	-	250,400	250,400
Total assets	$ 22,964	$ 2,780,635	$ 3,098,634	$ 162,620	$ 595,932	$ 6,660,785
LIABILITIES						
Current Liabilities						
Accounts payable	$ -	$ 405,733	$ 185,317	$ 30,000	$ -	$ 621,050
Interfund payable	-	-	-	-	192,257	192,257
Accrued wages	-	14,820	-	-	-	14,820
Accrued interest payable	-	-	-	-	11,598	11,598
Deferred revenue	18,023	-	118,868	11,811	102,813	251,515
Total liabilities	18,023	420,553	304,185	41,811	306,668	1,091,240
FUND BALANCES						
Reserved for Debt Service	-	-	-	-	250,400	250,400
Unreserved Fund Balance	4,941	2,360,082	2,794,449	120,809	38,864	5,319,145
Total fund balance	4,941	2,360,082	2,794,449	120,809	289,264	5,569,545
Total liabilities and fund balances	$ 22,964	$ 2,780,635	$ 3,098,634	$ 162,620	$ 595,932	$ 6,660,785

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, 2010

Total fund balances - governmental funds	$ 5,569,545
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	251,515
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	(6,062,914)
Total net assets - governmental activities	$ (241,854)

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 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENT FUNDS

For the Year Ended June 30, 2010

	URBAN RENEWAL DISTRICT I	URBAN RENEWAL DISTRICT II	URBAN RENEWAL DISTRICT III	FRONT STREET DISTRICT	MAJOR DEBT SERVICE	TOTAL
REVENUES						
Tax Increment Property Tax	$ 582	$ 14,949	$ 1,851,066	$ 150,381	$ 1,309,429	$ 3,326,407
State Contribution PERS	-	308	-	-	-	308
Intergovernmental	-	226,500	-	-	-	226,500
State Entitlement/CMAQ Funds	-	283,622	-	-	-	283,622
Investment Earnings (Expense)	32	14,961	19,153	(19)	(217)	33,910
Miscellaneous	-	200	400	-	-	600
Total revenues	614	540,540	1,870,619	150,362	1,309,212	3,871,347
EXPENDITURES						
Current:						
Housing and Community Development	-	872,632	480,745	30,000	-	1,383,377
Capital Outlay	-	781,251	753,531	-	-	1,534,782
Debt Service Expense - Interest	-	-	-	-	420,580	420,580
Debt Service Expense - Principal	-	-	-	-	146,075	146,075
Total expenditures	-	1,653,883	1,234,276	30,000	566,655	3,484,814
Excess (deficiency) of revenues over expenditures	614	(1,113,343)	636,343	120,362	742,557	386,533
OTHER FINANCING SOURCES (USES)						
Transfers In	-	1,528,458	-	-	197,423	1,725,881
Transfers Out	-	-	(527,460)	-	(1,198,421)	(1,725,881)
Issuance of Long-Term Debt	-	27,845	-	-	166,238	194,083
Total other financing sources (uses)	-	1,556,303	(527,460)	-	(834,760)	194,083
Net change in fund balance	614	442,960	108,883	120,362	(92,203)	580,616
FUND BALANCES						
Beginning of year	4,327	1,917,122	2,685,566	447	381,467	4,988,929
End of year	$ 4,941	$ 2,360,082	$ 2,794,449	$ 120,809	$ 289,264	$ 5,569,545

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, 2010

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

Net change in fund balances - total governmental funds	$	580,616
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		76,517
The change in compensated absence payable is reported in the statement of activities as an expense		(1,770)
The change in the other post employment benefits is reported in the statement of activities as an expense		(2,414)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		(194,083)
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.		146,075
Change in net assets - statement of activities	$	604,941

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:
Missoula Redevelopment Agency (the Agency) 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). The Agency 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, the Agency is considered a component unit of the City.

The Agency 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 the Agency.

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, the Agency 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 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.

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.

The Agency 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. The Agency 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. The Agency considers all revenues available if they are collected within 75 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term liabilities which is recognized when due, and certain compensated absences which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the Agency 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.

Due to the nature of the Agency, there is no General Fund.

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, the Agency 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 – used to account for all activities of Front Street District
- Riverfront Triangle District – not reported; no activity for 2010

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents:
The Agency'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.

Interfund Receivables and Payables:
During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. These short-term interfund loans are reported as "interfund receivables and payables."

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 2009 property tax billing are as follows:

	Taxable Value	Increment Value
Urban Renewal District II	$ 3,620,415	$ 1,760,592
Urban Renewal District III	$ 9,541,856	$ 2,537,510
Front Street Urban Renewal District	$ 1,622,092	$ 209,057
Riverfront Triangle	$ 133,871	$ -

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences:
Under terms of state law, the Agency 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.

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

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

Demand deposits	$ 184,339
Repurchase Investment Account	908,926
Government Securities	4,623,059
Certificates of Deposit	174,477
Less restricted cash held for debt service reserve	(250,400)
	$ 5,640,401

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

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

NOTE 3. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2010, were as follows:

	Beginning Balance	Additions	Debt Retired	Ending Balance	Current Portion
Compensated Absences	$ 48,801	$ 2,000	$ (230)	$ 50,571	$ 35,045
MAEDC Note Payable	1,125,000	27,845	(56,075)	1,096,770	-
Gurantor Payable	-	166,238	-	166,238	25,335
Bonds Payable	4,830,000	-	(90,000)	4,740,000	125,000
Total	$ 6,003,801	$ 196,083	$ (146,305)	$ 6,053,579	$ 185,380

The Agency 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.

The Agency issued $1,500,000 of Tax Increment Urban Renewal Revenue Bonds in October 2007. The bonds were issued to finance demolition, site preparation and infrastructure improvements and their associated design costs related with the Safeway, Inc. Project site. 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. In 2010, the Agency received $166,238 from the Guarantor to fund the deficiency in tax increment revenues.

NOTE 3. LONG-TERM DEBT (CONTINUED)

Repayment of the debt service deficiency to the Guarantor at June 30, 2010 is scheduled as follows:

Year Ending June 30,	Principal
2011	$ 25,335
2012	22,107
2013	19,713
2014	22,493
2015	25,273
2016-2020	51,317
Total	$ 166,238

Debt service requirements to maturity on the tax increment bonds at June 30, 2010, are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 125,000	$ 257,529	$ 382,529
2012	135,000	251,169	386,169
2013	145,000	244,063	389,063
2014	150,000	236,558	386,558
2015	155,000	228,828	383,828
2016-2020	915,000	1,012,577	1,927,577
2021-2025	1,190,000	739,124	1,929,124
2026-2030	1,555,000	360,915	1,915,915
2031-2032	370,000	18,286	388,286
Total	$ 4,740,000	$ 3,349,047	$ 8,089,047

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 the Agency 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 the Agency. In December 2009, the loan was increased from $1 million to $1,525,000; the remainder of the terms of the note remained unchanged.

NOTE 3. LONG-TERM DEBT (CONTINUED)

Debt service requirements to maturity on the loan payable at June 30, 2010, follow:

Year Ending June 30,	Principal	Interest	Total
2011	$ -	$ 17,415	$ 17,415
2012	-	17,306	17,306
2013	-	17,306	17,306
2014	-	17,306	17,306
2015	-	17,306	17,306
2016-2020	-	86,529	86,529
2021-2025	605,671	70,809	676,480
2026-2030	491,099	16,022	507,121
Total	$ 1,096,770	$ 259,999	$ 1,356,769

NOTE 4. COMMITMENTS

The Agency has contractual commitments for the following projects and activities:

Urban Renewal District II:

Public:	
Silver Park	$1,136,572
California Street Engineering	22,670
Catlin/Wyoming Sidewalk Project	104,882
Burton Street Chip/Seal	4,204
Cedar Street Chip/Seal	8,142
Catlin Street Paving	101,579
South 2nd Street Paving	26,727
Wyoming Street Paving	79,391
	$1,484,167

NOTE 4. COMMITMENTS (CONTINUED)

Urban Renewal District III:

Public:	
Dearborn Street Chip/Seal	$ 15,574
Fairvew/Washburn Chip/Seal	24,469
Brooks Street Commercial Sidewalk Project	600,000
Franklin to Fort Neighborhood Sidewalk Project	248,718
Private:	
Best Place Project	20,000
Women's Club	256,000
Missoula Federal Credit Union	136,529
Trempers	310,956
	$1,612,246

Front Street Urban Renewal District

Private	
Wilma	$ 50,000

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:

Year Ended June 30,	Employee	Agency	State
2010	6.900%	6.935%	0.100%
2009	6.900%	6.935%	0.100%
2008	6.900%	6.935%	0.100%

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, 2010, 2009, and 2008, were equal to the required contribution for each year. The amounts contributed by the Agency and the State of Montana were as follows:

Contributions: Year Ended June 30,	Agency	State
2010	$ 21,384	$ 308
2009	21,166	305
2008	19,545	287

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

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

NOTE 6. LEASES

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

NOTE 7. INTERFUND TRANSACTIONS

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statue or budget requires to expend them. Transfers are also used to reimburse Urban Renewal District II for the fund's share of administrative costs. A summary of interfund transfers follows:

	Transfers In	Transfers Out
Urban Renewal District II	$ 1,528,458	$ -
Urban Renewal District III	-	527,460
Debt Service	197,423	1,198,421
	$ 1,725,881	$ 1,725,881

NOTE 8. RISK MANAGEMENT

The Agency 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. The Agency 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

The Agency 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 by the City, with input from the Employee Benefits Committee, and are approved by City Council. 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 the Agency 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 the Agency may remain on the City's health plan as long as they wish, provided they pay the monthly premiums. State law requires the Agency to provide this benefit. There are no other postemployment benefits provided by the Agency. The Agency has six employees participating in the plan with no retirees or C.O.B.R.A participants.

NOTE 9. POSTEMPLOYMENT BENEFITS (CONTINUED)

The Agency 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 in included below.

Retirees and the Agency contribute to the plan. The plan is financed on a pay-as-you-go basis with the Agency contributions ensuring that adequate reserves are maintained in the plan. The Agency'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 June 30, 2010:

Coverage	Retiree Contribution	MRA Contribution	Total Premium
Retiree	$ 454.24	$ 80.16	$ 534.40
Retiree, spouse	509.49	89.91	599.40
Retiree, spouse, child	532.87	94.03	626.90
Retiree, spouse, 2 children	556.24	98.16	654.40
Retiree, spouse, 3 children	579.62	102.28	681.90
Retiree, spouse, 4 children	602.99	106.41	709.40
Retiree, child	477.62	84.28	561.90
Retiree, 2 children	500.99	88.41	589.40
Retiree, 3 children	524.37	92.53	616.90
Retiree, 4 children	547.74	96.66	644.40

Based on an actuarial study prepared as of June 30, 2009, the Agency's portion of the annual other post-employment benefit cost was $9,335 for the fiscal year ended June 30, 2010. 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 $6,921 to $9,335 at June 30, 2010. Annual information for previous years will be provided in future years.

As of June 30, 2009, the most recent actuarial valuation date, the Agency's portion of the plan had an unfunded accrued actuarial liability of $75,524. 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 $306,975 for fiscal year 2010; the unfunded actuarial liability was 25% of covered payroll.

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, 2010.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

NOTE 10. RELATED PARTY TRANSACTIONS

The City transferred revenue in the amount of $226,500 to the Agency for the Civic Stadium parking project.

NOTE 11. RECENT ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for the Agency beginning in fiscal year 2011. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The Agency has not assessed the impact of these statements on its financial position and results of operations and has not determined if the adoption of these statements will have a material effect on its basic statements.

NOTE 12. SUBSEQUENT EVENTS

In October 2010, the Board approved a joint bond with the Missoula Parking Commission to construct a new parking structure in the amount of $7,500,000. The Agency's estimated portion of the Parking Revenue Bond is $3,000,000 and will be supported by parking revenue and tax increment revenue. The bonds will be repaid over 25 years and the interest rate will be determined at the time of sale.

In 2007, First Interstate Bank (the Bank) was granted a "Proceed Without Prejudice" from the Agency to start their project while the Agency was forming Front St. URD. In October 2010, the Board approved to reimburse the Bank up to $1,623,080 for project costs the Bank incurred that were legally eligible for reimbursement from tax increment funding under the "Proceed Without Prejudice" agreement. The Agency and the Bank have agreed to a repayment schedule that includes a subordinate note that will be financed by the Bank's guaranteed minimum tax payments over 25 years at 6.55%.

Subsequent to year-end the Agency had four draws on the Brownfield loan totaling $240,649.

REQUIRED SUPLEMENTARY INFORMATION

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2010

	URBAN RENEWAL DISTRICT II				URBAN RENEWAL DISTRICT III			
	BUDGETED AMOUNTS			VARIANCE WITH	BUDGETED AMOUNTS			VARIANCE WITH
	ORIGINAL	FINAL	ACTUAL	FINAL BUDGET	ORIGINAL	FINAL	ACTUAL	FINAL BUDGET
Budgetary Fund Balance, July 1, 2009	$ 1,917,122	$ 1,917,122	$ 1,917,122	$ -	$ 2,685,566	$ 2,685,566	$ 2,685,566	$ -
Resources (Inflows):								
Miscellaneous	-	-	200	200	-	-	400	400
Investment earnings (expense)	45,000	45,000	14,961	(30,039)	60,000	67,125	19,153	(47,972)
Long-term debt proceeds	1,271,000	1,671,000	27,845	(1,643,155)	-	-	-	-
Tax increment property tax	-	-	14,949	14,949	1,435,600	1,881,614	1,851,066	(30,548)
State contribution PERS	250	250	308	58	-	-	-	-
Grant	500,000	587,400	-	(587,400)	-	-	-	-
State entitlement		283,622	283,622	-	-	-	-	-
Intergovernmental	283,622	-	226,500	226,500	-	-	-	-
Transfers in	1,245,761	1,932,837	1,528,458	(404,379)	-	-	-	-
Amounts available for appropriation	$ 5,262,755	$ 6,437,231	4,013,965	$ (2,423,266)	$ 4,181,166	$ 4,634,305	4,556,185	$ (78,120)
Charges to Appropriations (Outflows):								
Housing and community development	$ 2,227,317	$ 2,945,371	872,632	$ 2,072,739	$ 3,925,600	$ 2,899,296	480,745	$ 2,418,551
Capital outlay	3,118,316	3,491,860	781,251	2,710,609	170,000	1,207,547	753,531	454,016
Transfers to other governments		-	-	-	-		-	-
Transfers out	-	-	-	-	-	527,460	527,460	-
Total charges to appropriations	$ 5,345,633	$ 6,437,231	1,653,883	$ 4,783,348	$ 4,095,600	$ 4,634,303	1,761,736	$ 2,872,567
Excess of resources (inflows) over charges to appropriations (outflows)			2,360,082				2,794,449	
Budgetary Fund Balance, June 30, 2010			$ 2,360,082				$ 2,794,449	

	FRONT STREET DISTRICT			
	BUDGETED AMOUNTS			VARIANCE WITH
	ORIGINAL	FINAL	ACTUAL	FINAL BUDGET
Budgetary Fund Balance, July 1, 2009	$ 447	$ 447	$ 447	$ -
Resources (Inflows):				
Miscellaneous	-	-	-	-
Investment earnings (expense)	-	1,550	(19)	(1,569)
Long-term debt proceeds	-	-	-	-
Tax increment property tax	475	155,020	150,381	(4,639)
State contribution PERS	-	-	-	-
Grant	-	-	-	-
State entitlement	-	-	-	-
Intergovernmental	-	-	-	-
Transfers in	-	-	-	-
Amounts available for appropriation	$ 922	$ 157,017	150,809	$ (6,208)
				-
Charges to Appropriations (Outflows):				-
Housing and community development	$ 427	$ 157,017	30,000	$ (127,017)
Capital outlay	-	-	-	-
Transfers to other governments	-	-	-	-
Transfers out	48	-	-	-
Total charges to appropriations	$ 475	$ 157,017	30,000	$ (127,017)
Excess of resources (inflows) over charges to appropriations (outflows)			120,809	
Budgetary Fund Balance, June 30, 2010			$ 120,809	

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – BUDGET-TO-GAAP RECONCILIATION
June 30, 2010

Explanation of perspective differences between budgetary inflows and outflows and GAAP revenues and expenditures	URBAN RENEWAL DISTRICT #2	URBAN RENEWAL DISTRICT #3	FRONT STREET DISTRICT
Sources/Inflows of Resources			
Actual available for appropriation from the budgetary comparison schedule	$ 4,013,965	$ 4,556,185	$ 150,809
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(1,917,122)	(2,685,566)	(447)
Issuance of long-term debt is a budgetary resource but is nt a current year revenue for financial reporting purposes	(27,845)	-	-
Transfers from other funds are inflows of budgetary resource but are not revenues for financial reporting purposes	(1,528,458)	-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 540,540	$ 1,870,619	$ 150,362
Uses/Outflows of Resources			
Actual total charges to appropriations from the budgetary comparison schedule	$ 1,653,883	$ 1,761,736	$ 30,000
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	-	(527,460)	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 1,653,883	$ 1,234,276	$ 30,000

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
SCHEDULE OF FUNDING PROGRESS FOR
RETIREE HEALTH INSURANCE BENEFIT PLAN
June 30, 2010

Actuarial Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as Percentage of Covered Payroll
2009	$ -	$ 75,524	$ 75,524	0%	$ 306,975	25%

SUPLEMENTARY INFORMATION

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2010

	MAJOR DEBT SERVICE			
	BUDGETED AMOUNTS			VARIANCE WITH
	ORIGINAL	FINAL	ACTUAL	FINAL BUDGET
Budgetary Fund Balance, July 1, 2009	$ 381,467	$ 381,467	$ 381,467	$ -
Resources (Inflows):				
Investment earnings	-	8	(217)	(225)
Long-term debt proceeds	-	166,238	166,238	-
Tax increment property tax	1,040,201	1,310,660	1,309,429	(1,231)
Transfers in	531,737	445,573	197,423	(248,150)
Amounts available for appropriation	$ 1,953,405	$ 2,303,946	2,054,340	$ (249,606)
Charges to Appropriations (Outflows):				
Debt service expenditures	$ 512,908	$ 566,655	566,655	$ -
Transfers out	1,040,301	1,403,305	1,198,421	204,884
Total charges to appropriations	$ 1,553,209	$ 1,969,960	1,765,076	$ 204,884
Excess of resources (inflows) over charges to appropriations (outflows)			289,264	
Budgetary Fund Balance, June 30, 2010			$ 289,264	

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – BUDGET-TO-GAAP RECONCILIATION
June 30, 2010

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

	DEBT SERVICE
Sources/Inflows of Resources	
Actual available for appropriation from the budgetary comparison schedule	$ 2,054,340
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(381,467)
Issuance of long-term debt is a budgetary resource but is nt a current year revenue for financial reporting purposes	(166,238)
Transfers from other funds are inflows of budgetary resource but are not revenues for financial reporting purposes	(197,423)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 1,309,212
Uses/Outflows of Resources	
Actual total charges to appropriations from the budgetary comparison schedule	$ 1,765,076
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(1,198,421)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 566,655

MISSOULA REDEVELOPMENT AGENCY

(A Component Unit of the City of Missoula)

BALANCE SHEET – COMBINING DEBT SERVICE

June 30, 2010

	MILLSITE $3.6 M BONDS	MAEDC BROWNFIELDS NOTE	SAFEWAY ST. PATRICK HOSPITAL BONDS	TOTAL
ASSETS				
Current Assets				
Cash and investments	$ 970	$ 11,714	$ 80,313	$ 92,997
Taxes/assessments receivable, net	232,819	-	-	232,819
Other current assets	1,089	112	-	1,201
Due from other governments	18,515	-	-	18,515
	253,393	11,826	80,313	345,532
Noncurrent Assets				
Restricted cash	250,400	-	-	250,400
Total assets	$ 503,793	$ 11,826	$ 80,313	$ 595,932
LIABILITIES				
Current Liabilities				
Interfund payable	$ 192,257	$ -	$ -	$ 192,257
Accrued interest payable	-	11,598	-	11,598
Deferred revenue	102,813	-	-	102,813
Total liabilities	295,070	11,598	-	306,668
FUND BALANCES				
Unreserved Fund Balance	(41,677)	228	80,313	38,864
Reserved Fund Balance	250,400	-	-	250,400
Total fund balances	208,723	228	80,313	289,264
Total liabilities and fund balances	$ 503,793	$ 11,826	$ 80,313	$ 595,932

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, 2010

	MILLSITE $3.6 M BONDS	MAEDC BROWNFIELDS NOTE	SAFEWAY ST. PATRICK HOSPITAL BONDS	TOTAL
REVENUES				
Tax Increment Property Tax	$ 1,309,429	$ -	$ -	$ 1,309,429
Investment Earnings (Expense)	(453)	228	8	(217)
Total revenues	1,308,976	228	8	1,309,212
EXPENDITURES				
Current:				
Interest Expense	158,950	16,551	245,079	420,580
Principal Expense	90,000	56,075	-	146,075
Total expenditures	248,950	72,626	245,079	566,655
Excess (deficiency) of revenues over expenditures	1,060,026	(72,398)	(245,071)	742,557
OTHER FINANCING SOURCES (USES)				
Transfers In	-	38,432	158,991	197,423
Transfers Out	(1,198,421)	-	-	(1,198,421)
Issuance of Long-Term Debt	-	-	166,238	166,238
Total other financing sources (uses)	(1,198,421)	38,432	325,229	(834,760)
Net change in fund balance	(138,395)	(33,966)	80,158	(92,203)
FUND BALANCES				
Beginning of year	347,118	34,194	155	381,467
End of year	$ 208,723	$ 228	$ 80,313	$ 289,264

1821 SOUTH AVENUE WEST · FIFTH FLOOR · P.O. BOX 2368 · MISSOULA, MT 59806-2368
TEL: 406.721.7800 · FAX: 406.721.4155 · WEB: WWW.AZWORLD.COM

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, 2010, and have issued our report thereon dated December 20, 2010. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 ZurMuehlen & Co., P.C.

Missoula, Montana
December 20, 2010