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 REPORT

June 30, 2011

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

Karl Englund..Chair

Nancy Moe..Vice-Chair

Rosalie Cates ....Member

Ruth Reineking..Member

Daniel Kemmis..Member

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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

To the 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, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express 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, 2011, 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 19, 2011, 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 4–15, the budgetary comparison information on pages 42–43, and the schedules of funding progress and employer contributions on page 45 are not a required part of the basic financial statements but is 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 46–49 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 do not express an opinion or provided any assurance on them.

Anderson Zurmuehlen & Co., P.C.

Missoula, Montana
December 19, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2011

The Missoula Redevelopment Agency (the Agency) is a component of the City of Missoula (the City). Its budget is prepared at the same time as the City Budget and undergoes review and approval by City officials as part of the City's budgeting process. Moreover, all expenditures of the Agency are reviewed and approved by the Missoula City Finance Office and the Missoula City Council.

The financial statements of the Agency are based on information provided by the Missoula County Treasurer and the City Finance Office. The Agency records are reconciled with the information prepared and maintained by the City.

Our discussion and analysis of the Agency's financial performance provides an overview of its financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the Agency's financial statements and accompanying notes, which begin on page 16.

Financial Highlights

Condensed Financial Information

The following tables summarize the financial condition and operating results for 2011 compared to 2010:

	2011	2010	Increase (Decrease)
Current Assets	**$ 5,978,654**	$ 6,218,128	$ (239,474)
Noncurrent Assets	**250,400**	250,400	-
Total assets	**6,229,054**	6,468,528	(239,474)
Current Liabilities	**895,591**	832,848	62,743
Long-Term Liabilities	**10,669,982**	5,877,534	4,792,448
Total liabilities	**11,565,573**	6,710,382	4,855,191
Net Assets			
Restricted for debt service	**250,400**	250,400	-
Unrestricted	**(5,586,919)**	(492,254)	(5,094,665)
Total net assets	**$ (5,336,519)**	$ (241,854)	$ (5,094,665)

	2011	2010	Increase (Decrease)
Revenues			
General revenues	**$ 4,564,370**	$ 3,947,864	$ 616,506
Total revenues	**4,564,370**	3,947,864	616,506
Expenses			
Housing and community development	**9,376,520**	2,922,343	6,454,177
Interest	**282,515**	420,580	(138,065)
Total expenses	**9,659,035**	3,342,923	6,316,112
Change in net assets	**(5,094,665)**	604,941	(5,699,606)
Net Assets			
Beginning of year	**(241,854)**	(846,795)	604,941
End of year	**$ (5,336,519)**	**$ (241,854)**	$ (5,094,665)

- During the year the Agency had revenues of $4,564,370 and expenses totaling $9,659,035, which resulted in a decrease of net assets of $5,094,665.
- The Agency'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. The Agency's fiscal year 2011 revenues were approximately $616,000 higher than in fiscal year 2010.
- Expenditures for fiscal year 2011 were related to public/private redevelopment partnerships such as Spruce Street Plaza, Wilson Heights Apartments, Missoula Federal Credit Union, Missoula Nissan, Trempers, The Women's Club (Red Willow Center), and Elbow Room. Public projects funded solely or in part with tax increment funds in fiscal year 2011 include Silver Park, Catlin/Wyoming/2nd Street Sidewalks, Brooks Street Commercial Corridor Sidewalks, URD III Residential Sidewalks, Kent Avenue Crosswalks, Street repaving and chip sealing projects, TIGER grant and the Best Place Project. MRA also paid out $499,680 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) active in fiscal year 2011 and each has its own fund. URD II, URD III, Front Street URD and Riverfront Triangle URD all derived a majority of their revenue from tax increment provisions allowed by State law. Tax increment is collected by the County, transferred to the City, and deposited into the respective 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.

Capital Assets

Other than office furniture and equipment used by the MRA staff, the MRA has no other physical assets itself. All other physical assets or improvements to public assets through purchases or construction undertaken by MRA are owned by the City of Missoula. Assets created or improved as a result of projects developed with private entities pursuant to urban renewal activities or programs of voluntary or compulsory repairs are assets of the private entities. As reported in the Statement of Net Assets, MRA's assets include cash and investments, taxes/assessments receivable (net), other receivables, prepaid health insurance premiums and amounts due from other governments. MRA complies with the City of Missoula's Fixed Asset Management System with respect to tracking 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 loans payable, guarantor payable and tax increment bond payable. Noncurrent liabilities include post-employment benefits, the long-term portion (sick and compensatory hours) of MRA's compensated absences, and the long term portion of the loans payable, guarantor payable and tax increment bond 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 (MAEDC) 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. In the fall of 2011, the Montana Community Development Corporation, with City approval, assumed the rights and responsibilities of MAEDC under the extant subrecipient agreement.

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.

On December 22, 2010, the City of Missoula pursuant to Resolution 7587, pledged $3 million in tax increment funds from the Front Street URD to the Missoula Parking Commission for payment of Parking Facilities Revenue Bonds issued to construct the Front Street Parking Structure. The pledged TIF is 1.35 times 40% of the average annual debt service of the $7.5 million parking revenue bonds (Series 2010B) dated 12/29/2010 provided in two equal installments of $134,211. Excess increment is returned to MRA after the October 1st Bond payment and is used to fulfill subordinate debt requirements.

Resolution 7587 also authorized the issuance of a Front Street URD Subordinate Lien Note to First Interstate Bank in the amount of $1,623,380. The Series 2010 Note will bear interest at the annual rate of 6.55% for a period of 25 years, extending the life of the district until 2035.

Resolution 7587 also clarified that previously incurred obligations payable from Front Street URD tax increment would be subordinate to the payment of the 2010 Bonds and any additional bonds. Front Street URD's previous obligation to the Wilma project was renegotiated to a Promissory Note in the outstanding principal amount of $220,000 bearing interest at the rate of 3.25% per annum, payable in semiannual payments of principal and interest in the amount of $25,000, on each December 15 and June 15, commencing December 15, 2010, until paid.

Refer to Note 3 on page 29 for further information regarding MRA's long-term debt.

Revenues

In fiscal year 2011, MRA received only general revenues and did not generate any program revenue. Of MRA's $4,564,370 total revenue reported in the Statement of Activities, 84% was tax increment received from property taxes. The next largest revenue source for MRA is the State of Montana in the form of pass thru Federal Transportation Funds via the Community Transportation Enhancement Program (CTEP), State entitlement funds authorized under House Bill 124 and Public Employees Retirement System (PERS) contributions. State of Montana funds account for nearly 16% of MRA's total revenue received. The remaining 1% revenue received is from investment earnings.

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, the Brownfields RLF Note and Wilma Note.

Special Items, Contributions, Transfers, Other
When applicable, MRA financially contributes its proportionate share towards City of Missoula activities that affect the Agency, such as purchase of new computer servers and software. In addition, MRA may contribute to City projects undertaken by other departments within the URDs. Both of these types of activities are reflected as "transfers to other governments" in the financial statements. Neither of the above scenarios were applicable in fiscal year 2011.

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 2011 was $103,000 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. In fiscal year 2011, the administrative expenses were paid from URD III, whereas in prior years they had been paid from URD II. The amount of money transferred in fiscal year 2011 from URD II to URD III for administrative expenses was $211,176 and is based on the proportionate share of staff time spent working on projects in URD II in fiscal year 2011. Since tax increment is still limited (due to commitments to debt service or lack of redevelopment) in the Front Street and Riverfront Triangle URDs, staff time spent on their creation and working on projects in those districts is still being tracked for future reconciliation of administrative expenses. A detailed accounting of what each district owes URD III is maintained so a reimbursement can be made when tax increment revenues from these districts are sufficient.

Balances and Transactions of Individual Government Funds

	URD I	URD II	URD III
Beginning Balance 7/1/10	$ 4,941	$ 2,360,082	$ 2,794,449
Ending Balance 6/30/11	5,248	2,448,391	1,969,627
$ Change	$ 307	$ 88,309	$ (824,822)
% Change	6%	4%	-30%
Reserved fund balance	Front Street	Riverfront Triangle	Debt Service
Beginning Balance 7/1/10	$ 120,809	$ -	$ 289,264
Ending Balance 6/30/11	66,412	20,644	828,224
$ Change	$ (54,397)	$ 20,644	$ 538,960
% Change	-45%	n/a	186%

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 4% increase in fund balance in fiscal year 2011. This relatively low increase was primarily due to MRA's extensive work on public improvement projects in the district. Total expenditures were $1,654,939 for the following projects: Catlin/Wyoming/2nd Street sidewalks, street milling and repaving, Burton/Cedar Street chip sealing, Catlin/Montana Street sidewalks, TIGER II grant application, Silver Park, Millsite Revitalization (through the Brownfields RLF) and Spruce Street Plaza. In addition, URD II transferred $211,176 to URD III for administrative expenses.

URD III saw a 30% decrease in fund balance in fiscal year 2011. This decrease is primarily attributable to several large private redevelopment projects and two sizable public improvement projects undertaken by the MRA. Total expenditures were $2,823,429 and included $519,077 for administrative expenses and $2,304,352 for the following projects: 1701 Brooks Street (Small), Wilson Heights (39th Street) Apartments, Missoula Federal Credit Union, Missoula Nissan, Trempers, Women's Club (Red Willow Center), Elbow Room Tavern & Restaurant, Best Place Project, Bitterroot Branch Trail, Kent Ave Crosswalks, Dearborn/Fairview/Washburn chip sealing, Traffic Signal Box public art project, Brooks Street Commercial Corridor sidewalks and URD III Residential sidewalks phases I, II & III.

Front Street URD saw a 45% decrease in fund balance in fiscal year 2011. This decrease is primarily attributable to the debt service requirements of the Front Street Parking Structure bonds, First Interstate Bank note, Wilma note and contribution to Caras Park project. Total expenditures were $4,899,000, which included $4,843,380 in long term debt issuance (posted to income statement) and $55,620 in payouts for the following projects: Wilma, Caras Park, Downtown Foundation grant, and Downtown Property Inventory.

Overall Financial Position

Changes in MRA's overall financial position from 2010 to 2011 include a $616,506 increase in overall revenue and a substantial increase of $6,316,112 in expenditures. MRA speculates the additional revenue is attributable to redevelopment in the districts. The additional expenditures are related to several large private redevelopment grants, the sizable public improvement projects underway in URD II and URD III and the long term debt issuance in Front Street URD. Net assets decreased by $5,094,665 from 2010 primarily due to the large expenditures detailed above.

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.

Three projects primarily in the planning phase during fiscal year 2011 include the Old Sawmill District and Civic Stadium, both in URD II; and the Fox Site in Riverfront Triangle URD.

The developers of the Old Sawmill District received assistance from MRA to buy the lease on the land in 2006 and continue to receive assistance to facilitate site remediation. The soils remediation is complete and work continued on methane abatement and ground water monitoring in fiscal year 2011. Construction of public infrastructure will most likely trigger the next significant expenditure of tax increment funds on the project.

Many years ago, the non-profit entity Play Ball Missoula embarked on a project to secure donation of land and raise funds for the construction of a minor league baseball stadium. The land was secured and donated to the City and the Civic Stadium construction was completed several years ago. Play Ball's efforts to raise adequate funding stalled for a number of reasons and they are currently in default to several creditors, both secured and unsecured. During fiscal year 2011, the City and MRA worked with Play Ball to purchase the Stadium through the use of URD II tax increment funds and a series of debt instruments secured only through lease payments from Mountain Baseball. In August 2011, City Council approved the use of tax increment funds and special revenue bonds to purchase the Stadium. Final negotiations continue with the parties involved and it is anticipated that the effort will be successful in near future and the Civic Stadium will be owned by the City of Missoula without any encumbrances.

Much of what makes up the Fox Site was given to the City by the owners of the Fox Theater in the mid-1980s. Later, two more smaller adjacent properties were added to make up a comprehensive redevelopment site. Between the time the site was acquired and 2005, the City, through MRA, demolished structures, improved utility infrastructure and removed a landfill that was used in the early part of the 20th century. At the direction of the City, MRA also conducted several unsuccessful Request-For-Proposals (RFP) processes seeking a private entity to redevelop the property. In May 2011, MRA advertised another RFP for which responses were due in August 2011. Subsequently, upon MRA recommendation, the City Council authorized MRA to conduct formal development agreement negotiations with Hotel Fox Partners for redevelopment of the Fox Site to an upscale conference hotel.

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 2011 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 and construction of the Park was divided into four phases as funding became available. The primary purpose for the first three phases was to connect a non-motorized trail along the riverfront between the existing trail near the Civic Stadium and the California Street Pedestrian Bridge. Phase 1 constructed the basic trail and placed three timber-frame bench shelters along it. Phase 2 included construction of a parking lot east of the stadium and a boat ramp to the Clark Fork River. Phase 3 included landscaping the Phase 2 improvements, constructing lighting along the entire trail and in the parking lot, placement of a bridge over an irrigation ditch on the west end of the trail, and installing irrigation and landscaping on approximately six acres next to the trail. During fiscal year 2011, Phase 2 was completed and Phase 3 initiated (to be fully completed in mid-FY12). Phase 4 will complete the Park in accordance with an approved master plan. However, no funding or financing source has been identified.

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 formalize MRA staff or board approval of a project and specify required performance by the project sponsor in order to obtain tax increment assistance. 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.

During fiscal year 2011, the MRA partnered with the Missoula Parking Commission to issue $7.5 million in Parking Revenue Bonds to fund a new parking structure on East Front Street. MRA's tax increment funds were committed to partially amortize the Parking Revenue Bonds; MRA's commitment is $3 million. In addition, MRA issued a $1,623,380 subordinate lien note to First Interstate Bank to reimburse them for tax increment eligible expenses incurred with the construction of their new bank building. Concurrently, MRA renegotiated its prior commitment to the Wilma project in the form of a $220,000 subordinate note.

In addition, MRA participated in several private/public partnerships and publicly funded *committed* projects during fiscal year 2011.

URD II

- **public/private partnership projects:** Millsite Revitalization (through the Brownfields RLF) and Spruce Street Plaza.
- **public projects:** Catlin/Wyoming/2nd Street sidewalks, street milling and repaving, Burton/Cedar Street chip sealing, Catlin/Montana Street sidewalks, TIGER II grant application, and Silver Park.

URD III

- **public/private partnership projects:** 1701 Brooks Street (Small), Wilson Heights (39th Street) Apartments, Missoula Federal Credit Union, Missoula Nissan, Trempers, Women's Club (Red Willow Center) and Elbow Room Tavern & Restaurant.
- **public projects:** Best Place Project, Bitterroot Branch Trail, Kent Ave Crosswalks, Dearborn/Fairview/Washburn chip sealing, Traffic Signal Box public art project, Brooks Street Commercial Corridor sidewalks and URD III Residential sidewalks phases I, II & III.

FRONT STREET URD

- **public/private partnership projects:** First Interstate Bank and Wilma.
- **public projects:** Front Street Parking Structure, Downtown Foundation, Downtown Property Inventory and Caras Park.

RIVERFRONT TRIANGLE URD

- **public/private partnership projects:** none
- **public projects included:** Traffic Signal Box public art project

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 MCA 15-1-121. 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.

During the 2011 legislative session, House Bill 495 was passed into law. This bill revised statutory appropriations and local government entitlement share payments. For tax increment financing districts, this bill reduced their current State Entitlements (established under HB 124 in 2002) by 10%. In fiscal year 2011, URD II's entitlement share was $283,622. Beginning in fiscal year 2012, MRA's entitlement is anticipated to be reduced by $28,362 to $255,260.

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.

URD II is a district that has been slow to redevelop. MRA's 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 debt was issued for 25 years which extended 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. This year saw the completion of a vital segment of the riverfront trail system and a new boat ramp in the park. Environmental remediation of the entire site continues with the removal of wood waste and installation of methane abatement and monitoring systems. Play Ball Missoula secured donation of land and constructed a civic stadium for minor league baseball and other community events with the intention that it would be ultimately owned by the City. The MRA and the City are working with Play Ball to purchase the stadium through the use of URD II tax increment funds and debt financed through lease payment revenues. With assistance from MRA, Homeword has completed Equinox, the first phase of a much needed affordable housing project and is nearing completion of the second phase, Solstice, which consists of additional affordable housing units and commercial space in a mixed use building. The private development of more than 200 units of market rate apartments is in the final stages of structuring the financing. The investment of tax increment financing in public infrastructure will play a key role in the success of the project. The City has received a Record of Decision for the Environmental Impact Statement for the reconstruction of Russell and S. 3rd Streets. These are key arterial streets within District II; consequently, it is anticipated that significant redevelopment will occur when the redesign and improvements are completed.

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. Upon adoption of the plan, the Downtown Master Plan Implementation Committee was formed with the MRA staff actively involved in the effort. Success stories to date include construction the North Higgins Streetscape project, which was initiated by the MRA when it was part of URD I, was completed last year. MRA is working with the Parking Commission to manage the construction of a new parking structure in the Front Street URD, another catalyst project identified in the Downtown Master Plan. That project is one of the key catalyst projects identified in the master plan, is financed primarily through revenue bonds serviced by parking revenues and tax increment revenues from the Front Street URD. Through the efforts of the MRA and the implementation committee, funds have been secured to fund the preliminary engineering needed to convert the Front & Main Streets one-way couplet to two-way traffic. This modification is seen by many as key to encouraging strong retail development along those streets.

The MRA sent out a Request for Proposals for the development of the City owned portion of the Riverfront Triangle. Five responses were received and evaluated, with two being deemed responsive to the RFP. The MRA Board forwarded a recommendation to the City Council to enter into an agreement with Hotel Fox Partners, LLC to grant them the exclusive right for one year to perform their due diligence and negotiate a Development Agreement with the MRA/City. This development is another important step in the implementation of the Downtown Master Plan.

At the beginning of the recession, 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 $4,000,000 in the past two years 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

The MRA has continued to put a great deal of effort into the Old Sawmill District development and the acquisition of the Civic Stadium. Managing the construction of the new parking structure on East Front Street will be a major project for MRA until completion, currently projected for August 2012. Work continues on the design and construction of portions of Silver Park and sidewalk projects in the two urban renewal districts. The Agency will have a significant role in determining the final design of Russell Street and the reconstruction of S. 3rd Street. MRA will work with its partner organizations to continue implementation of the Downtown Master Plan 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 major sidewalk construction projects in URD II and III with a commitment to complete the networks in both districts. Major undertakings in the coming year will focus on development in the Front Street URD, completion of the parking structure, redevelopment of the Riverfront Triangle property, implementation of the Downtown Master Plan components, purchase of the Civic Stadium, development of the Old Sawmill District including Silver Park and the creation of affordable housing opportunities.

Missoula Redevelopment Agency
Ellen Buchanan
Director

F I N A N C I A L   S T A T E M E N T S

MISSOULA REDEVELOPMENT AGENCY

(A Component Unit of the City of Missoula)

STATEMENT OF NET ASSETS

June 30, 2011

	PRIMARY GOVERNMENT
	GOVERNMENTAL
ASSETS	ACTIVITIES
CURRENT ASSETS	
Cash and investments	$ 5,030,587
Taxes/assessments receivable, net	635,846
Other receivables	139,422
Prepaid health insurance	3,068
Due from other governments	169,731
Total assets	5,978,654
NONCURRENT ASSETS	
Restricted cash	250,400
Total assets	6,229,054
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	555,456
Accrued wages	9,274
Accrued interest	20,000
Compensated absences	31,842
Current portion of loans payable	121,912
Current portion of guarantor payable	22,107
Current portion of tax increment revenue bonds payable	135,000
Total current liabilities	895,591
NONCURRENT LIABILITIES	
Post employment benefits	11,956
Long-term portion of compensated absences	14,260
Loans payable, less current portion	6,044,967
Guarantor payable, less current portion	118,799
Tax increment revenue bonds payable, less current portion	4,480,000
Total noncurrent liabilities	10,669,982
Total liabilities	11,565,573
NET ASSETS	
Restricted for debt service	250,400
Unrestricted	(5,586,919)
Total net assets	$ (5,336,519)

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, 2011

FUNCTIONS/PROGRAMS	EXPENSES	GOVERNMENTAL ACTIVITIES
Governmental Activities		
Housing and community development	$ 9,376,520	$ (9,376,520)
Interest expense	282,515	(282,515)
Total governmental activities	9,659,035	(9,659,035)
Total primary government	$ 9,659,035	(9,659,035)
General Revenues		
Property taxes for general purposes		3,843,054
State contribution - PERS		296
HB 124 revenue		283,622
Grant revenue		434,979
Investment earnings		2,419
Total general revenues		4,564,370
Change in net assets		(5,094,665)
Net Assets		
Beginning of year		(241,854)
End of year		$ (5,336,519)

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, 2011

	URBAN RENEWAL DISTRICT I	URBAN RENEWAL DISTRICT II	URBAN RENEWAL DISTRICT III	FRONT STREET DISTRICT	RIVERFRONT TRIANGLE DISTRICT	MAJOR DEBT SERVICE	TOTAL
ASSETS							
Current Assets							
Cash and investments	$ 5,242	$ 2,362,469	$ 2,184,071	$ 66,259	$ 15,270	$ 397,276	$ 5,030,587
Taxes/assessments receivable, net	22,488	-	302,159	-	5,471	305,728	635,846
Other current assets	6	2,179	5,478	153	(11)	134,685	142,490
Due from other governments	-	132,132	16,815	-	-	20,784	169,731
Interfund receivable	-	147,646	-	-	-	66,300	213,946
	27,736	2,644,426	2,508,523	66,412	20,730	924,773	6,192,600
Noncurrent Assets							
Restricted cash	-	-	-	-	-	250,400	250,400
Total assets	$ 27,736	$ 2,644,426	$ 2,508,523	$ 66,412	$ 20,730	$ 1,175,173	$ 6,443,000
LIABILITIES							
Current Liabilities							
Accounts payable	$ -	$ 196,035	$ 359,421	$ -	$ -	$ -	$ 555,456
Interfund payable	-	-	-	-	-	213,946	213,946
Accrued wages	-	-	9,274	-	-	-	9,274
Accrued interest payable	-	-	-	-	-	20,000	20,000
Deferred revenue	22,488	-	170,201	-	86	113,003	305,778
Total liabilities	22,488	196,035	538,896	-	86	346,949	1,104,454
FUND BALANCES							
Nonspendable	-	-	3,068	-	-	-	3,068
Restricted	5,248	2,448,391	1,966,559	66,412	20,644	828,224	5,335,478
Total fund balance	5,248	2,448,391	1,969,627	66,412	20,644	828,224	5,338,546
Total liabilities and fund balances	$ 27,736	$ 2,644,426	$ 2,508,523	$ 66,412	$ 20,730	$ 1,175,173	$ 6,443,000

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, 2011

Total fund balances - governmental funds	$ 5,338,546
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	305,778
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	(10,980,843)
Total net assets - governmental activities	$ (5,336,519)

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 – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2011

	URBAN RENEWAL DISTRICT I	URBAN RENEWAL DISTRICT II	URBAN RENEWAL DISTRICT III	FRONT STREET DISTRICT	RIVERFRONT TRIANGLE DISTRICT	MAJOR DEBT SERVICE	TOTAL
REVENUES							
Tax Increment Property Tax	$ 295	$ -	$ 1,789,265	$ 682	$ 21,669	$ 1,976,883	$ 3,788,794
State Contribution PERS	-	-	296	-	-	-	296
Intergovernmental	-	434,979	-	-	-	-	434,979
State Entitlement/CMAQ Funds	-	283,622	-	-	-	-	283,622
Investment Earnings (Expense)	12	4,502	(2,130)	541	(25)	(482)	2,418
Total revenues	307	723,103	1,787,431	1,223	21,644	1,976,401	4,510,109
EXPENDITURES							
Current:							
Housing and Community Development	-	488,267	1,830,479	1,874,000	1,000	25,000	4,218,746
Capital Outlay	-	1,166,672	992,950	3,000,000	-	-	5,159,622
Debt Service Expense - Interest	-	-	-	-	-	282,515	282,515
Debt Service Expense - Principal	-	-	-	25,000	-	192,165	217,165
Total expenditures	-	1,654,939	2,823,429	4,899,000	1,000	499,680	9,878,048
Excess (deficiency) of revenues over expenditures	307	(931,836)	(1,035,998)	(4,897,777)	20,644	1,476,721	(5,367,939)
OTHER FINANCING SOURCES (USES)							
Transfers In	-	937,761	211,176	-	-	199,766	1,348,703
Transfers Out	-	(211,176)	-	-	-	(1,137,527)	(1,348,703)
Issuance of Long-Term Debt	-	293,560	-	4,843,380	-	-	5,136,940
Total other financing sources (uses)	-	1,020,145	211,176	4,843,380	-	(937,761)	5,136,940
Net change in fund balance	307	88,309	(824,822)	(54,397)	20,644	538,960	(230,999)
FUND BALANCES							
Beginning of year	4,941	2,360,082	2,794,449	120,809	-	289,264	5,569,545
End of year	$ 5,248	$ 2,448,391	$ 1,969,627	$ 66,412	$ 20,644	$ 828,224	$ 5,338,546

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, 2011

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

Net change in fund balances - total governmental funds	$ (230,999)
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	54,263
The change in compensated absence payable is reported in the statement of activities as an expense	4,469
The change in the other post employment benefits is reported in the statement of activities as an expense	(2,623)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(5,136,940)
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.	217,165
Change in net assets - statement of activities	$ (5,094,665)

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 debt has been retired. For districts established after 1980, state law provides they be terminated fifteen years after enactment or when all tax increment debt has 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 was scheduled to terminate in 2022 but was extended to 2035 through the issuance of a tax increment note on December 22, 2010. 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.

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.

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Basis of Accounting (Continued):

Fund Financial Statements (Continued)**:**

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 – used to account for all activities of Riverfront Triangle District

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 and note 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):

Fund Balance Classification**:**
The Agency has adopted GASB Statement No. 54, which redefines how fund balances of the governmental funds are presented in the financial statements. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- Restricted – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions or by enabling legislation.
- Committed – Constraint is internally imposed by City Council by resolution.
- Assigned – Amounts the Agency intends to use for a specific purpose. Constraint is internally expressed intent by government body or authorized official through budget approval process or express assignment.
- Unassigned – No constraints and negative balance in non-general fund funds.

Beginning fund balances for the Agency's governmental funds have been restated to reflect the above classifications.

Expenditure Order for Resource Categories

Order	Special Revenue Funds	Debt Service Funds
First:	Restricted	Assigned
Second:	Committed	Committed
Third:	Assigned	Restricted
Fourth:	Unassigned	Unassigned

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)

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates

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" in the fund financial statements.

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 usually billed at the end of April. The first half is due thirty days after billing (usually by May 31) and the second half is due November 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 2010 property tax billing are as follows:

	Taxable Value	Increment Value
Urban Renewal District II	$ 3,752,007	$ 1,892,184
Urban Renewal District III	9,508,130	2,503,784
Front Street Urban Renewal District	2,229,992	816,957
Riverfront Triangle Urban Renewal District	189,937	32,079

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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	$ 14,157
Repurchase Investment Account	339,480
Government Securities	4,856,951
Certificates of Deposit	70,399
Less restricted cash held for debt service reserve	(250,400)
	$ 5,030,587

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, 2011, were as follows:

	Beginning Balance	Additions	Debt Retired	Ending Balance	Current Portion
Bonds Payable	$ 4,740,000	$ -	$ (125,000)	$ 4,615,000	$ 135,000
Notes Payable	1,096,770	5,136,940	(66,831)	6,166,879	121,912
Guarantor Payable	166,238	-	(25,332)	140,906	22,107
Compensated Absences	50,571	26,565	(31,034)	46,102	31,842
Total	$ 6,053,579	$ 5,163,505	$ (248,197)	$ 10,968,887	$ 310,861

Bonds Payable

Mill Site Bonds

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.

Debt service requirements to maturity on the August 2006 tax increment bonds at June 30, 2011, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	$ 100,000	$ 149,525	$ 249,525
2013	105,000	145,025	250,025
2014	110,000	140,300	250,300
2015	110,000	135,350	245,350
2016	120,000	130,400	250,400
2017-2021	675,000	566,500	1,241,500
2022-2026	850,000	390,460	1,240,460
2027-2031	1,075,000	157,938	1,232,938
Total	$ 3,145,000	$ 1,815,498	$ 4,960,498

NOTE 3. LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

Safeway Bonds
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.

Repayment of the debt service deficiency to the Guarantor at June 30, 2011, is scheduled as follows:

Year Ending June 30,	Principal
2012	$ 22,107
2013	19,713
2014	22,493
2015	25,273
2016	18,227
2017-2021	33,093
Total	$ 140,906

Debt service requirements to maturity on the tax increment bonds at June 30, 2011, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	$ 35,000	$ 101,644	$ 136,644
2013	40,000	99,038	139,038
2014	40,000	96,258	136,258
2015	45,000	93,478	138,478
2016	45,000	90,524	135,524
2017-2021	285,000	397,887	682,887
2022-2026	405,000	281,127	686,127
2027-2031	575,000	116,065	691,065
Total	$ 1,470,000	$ 1,276,021	$ 2,746,021

NOTE 3. LONG-TERM DEBT (CONTINUED)

Notes Payable

MPC Note Payable
In December 2010, the Missoula Parking Commission (MPC) issued $7,500,000 of bonds to fund the construction of a new parking structure. The Agency agreed to fund $3,000,000 of the bonds which will be supported by parking revenue and tax increment revenue. The bonds bear interest ranging from 2.29% to 8.0%. The Agency has committed to paying 40% of all principal and interest payments for the life of the bond. Under the terms of the agreement, the Agency will transfer $134,211 to MPC on March 15 and September 15 of each year. MPC will make the required debt service payments on April 1 and October 1 of each year, and the difference between the Agency's transfers and the actual debt service will be refunded back to the Agency on October 15 of each year. As of June 30, 2011, the Agency had recorded a receivable of $134,211 which represents the transfer made on March 15, 2011. An additional $134,211 was transferred in October 2011. After the debt service payments are made by MPC in October 2011, the Agency expects to receive $145,387 from MPC.

Debt service requirements to maturity on the MPC note payable at June 30, 2011, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	$ 34,000	$ 147,742	$ 181,742
2013	28,000	117,202	145,202
2014	30,000	116,732	146,732
2015	30,000	116,134	146,134
2016	70,000	114,958	184,958
2017-2021	514,000	53,084	567,084
2022-2026	612,000	430,301	1,042,301
2027-2031	752,000	288,800	1,040,800
2032-2036	930,000	105,820	1,035,820
Total	$ 3,000,000	$ 1,490,773	$ 4,490,773

NOTE 3. LONG-TERM DEBT (CONTINUED)

Notes Payable (Continued)

Brownfields RLF Note Payable

In 2004, 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 (RLF) to be used for brownfields remediation. The City entered into a sub recipient 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, at the direction of the Missoula Brownfields Cleanup RLF Committee, 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. The City received additional funding from EPA and in December 2009, MRA, MRP, and MAEDC elected to increase the loan by $400,000 under the same terms. On September 27, 2011, the MAEDC board decided to voluntarily dissolve the organization. With City approval, the Montana Community Development Corporation (MCDC) assumed the rights and responsibilities of MAEDC under the extant subrecipient agreement.

Debt service requirements to maturity on Brownfields note payable at June 30, 2011, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	$ -	$ 10,762	$ 10,762
2013	-	21,392	21,392
2014	-	21,392	21,392
2015	-	21,392	21,392
2016	-	21,392	21,392
2017-2021	-	106,960	106,960
2022-2026	650,243	90,708	740,951
2027-2031	720,087	32,366	752,453
Total	$ 1,370,330	$ 326,364	$ 1,696,694

First Interstate Bank Note Payable

In December 2010, the Agency issued a note with First Interstate Bank (the Bank) for $1,623,380 to repay the Bank for project costs incurred that were legally eligible for reimbursement from tax increment funding. 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%.

NOTE 3. LONG-TERM DEBT (CONTINUED)

Notes Payable (Continued)

First Interstate Bank Note Payable (Continued)
Debt service requirements to maturity on the First Interstate Bank note payable at June 30, 2011, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	$ 43,179	$ 140,952	$ 184,131
2013	28,876	102,558	131,434
2014	30,767	100,604	131,371
2015	32,783	98,523	131,306
2016	34,930	96,306	131,236
2017-2021	212,117	442,833	654,950
2022-2026	291,300	361,054	652,354
2027-2031	400,045	248,750	648,795
2032-2036	549,383	94,518	643,901
Total	$ 1,623,380	$ 1,686,098	$ 3,309,478

Wilma Note Payable
In February 2009, MRA entered into a Development Agreement with the Master Wilma Condominium Association (the Association) pledging $250,000 of tax increment funding for façade and sidewalk improvements for the Wilma building. On July 19, 2010, MRA and the Association amended the Agreement to extend the deadline for them to make the improvements to September 2010, to allow progress payments and to change the date when final payments would begin to December 2010. On July 20, 2010, the Association assigned the Agreement to Simba Development Group, LLC. As of December 2010, the remaining amount to reimburse Simba was $220,000 and a reimbursement schedule was adopted as part of the negotiations surrounding the Front Street Parking Structure and First Interstate Bank pledges. The Wilma pledge is subordinate to the Front Street Parking Structure commitment but is not subordinate to the First Interstate Bank commitment. The schedule adopted reimburses Simba over a five-year period at 3.25% interest with semi-annual payments due on December 15 and June 15. In May 2011, Simba received a loan from Bank of Montana secured in part by their interest in the Development Agreement and MRA agreed to make the semi-annual payment to Bank of Montana.

NOTE 3. LONG-TERM DEBT (CONTINUED)

Notes Payable (Continued)

Wilma Note Payable (Continued)
Debt service requirements to maturity on the Wilma note payable at June 30, 2011, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	$ 44,733	$ 5,267	$ 50,000
2013	46,198	3,802	50,000
2014	47,712	2,288	50,000
2015	34,526	725	35,251
Total	$ 173,169	$ 12,082	$ 185,251

NOTE 4. COMMITMENTS

The Agency has entered into contracts for various projects and activities. As of June 30, 2011, the Agency had commitments totaling $3,718,444 that will be financed from operating funds.

Urban Renewal District II:	
Public:	
California Street Engineering	$ 22,670
Catlin/Wyoming Landscape	7,328
Civic Stadium	500,000
Milwaukee Trail	159,700
Old Sawmill District	32,500
Scott/Toole Intersection	70,000
Sidewalk Improvement Projects	405,857
Silver Park	105,096
Street Improvement Projects	43,561
Urban Street Car Study	2,750
West Broadway Island Trail and Bridge	27,500
Private:	
Ashlyn Place Apartments	149,885
Brownsfield	78,595
Inez	74,000
West Spruce Street	211,971
Western Montana Mental Health Center	97,773
	$ 1,989,186

NOTE 4. COMMITMENTS (CONTINUED)

Urban Renewal District III:

Public:		
Best Place Project	$	10,000
Missoula County Records Center		194,046
Sidewalk Improvement Projects		882,714
Street Improvement Project		243,345
Private:		
Allegiance Call Center		57,440
Bitterroot Town Homes		84,450
Elbow Room Tavern & Restaurant		271,388
Southgate Animal Hospital		50,000
	$	1,793,383

Front Street Urban Renewal District

Public:		
Caras Park	$	25,000
Urban Street Car Study		2,750
Private:		
Wilma		50,000
	$	77,750

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
2011	6.900%	7.070%	0.100%
2010	6.900%	7.070%	0.100%
2009	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 5 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 5 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 5 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 7.070% 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, 2011, 2010, and 2009, 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
2011	$ 20,937	$ 296
2010	21,384	308
2009	19,545	305

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

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

NOTE 6. 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 III for the fund's share of administrative costs. A summary of interfund transfers follows:

	Transfers In	Transfers Out
Urban Renewal District II	$ 937,761	$ 211,176
Urban Renewal District III	211,176	-
Debt Service	199,766	1,137,527
	$ 1,348,703	$ 1,348,703

NOTE 7. 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 8. 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 five employees participating in the plan, one retiree, and no C.O.B.R.A participants.

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.

NOTE 8. POSTEMPLOYMENT BENEFITS (CONTINUED)

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, 2011:

Coverage	Retiree Contribution	MRA Contribution	Total Premium
Retiree	$ 509.49	$ 89.91	$ 599.40
Retiree, spouse	564.74	99.66	664.40
Retiree, spouse, child	588.12	103.79	691.91
Retiree, spouse, 2 children	611.49	107.91	719.40
Retiree, spouse, 3 children	634.87	112.04	746.91
Retiree, spouse, 4 children	658.24	116.16	774.40
Retiree, child	532.87	94.04	626.91
Retiree, 2 children	556.24	98.16	654.40
Retiree, 3 children	579.62	102.29	681.91
Retiree, 4 children	602.99	106.41	709.40

Based on an actuarial study prepared as of June 30, 2011, the Agency's portion of the annual other post-employment benefit cost was $11,956 for the fiscal year ended June 30, 2011. 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 $9,335 to $11,956 at June 30, 2011. A schedule of the Agency's annual OPEB cost is presented below:

	2011	2010	2009
Annual required contribution (ARC)	$ 6,532	$ 6,985	$ 6,921
Interest and ARC Adjustment	(364)	(188)	-
Annual OPEB cost	6,168	6,797	6,921
Contributions made	(3,547)	(4,383)	-
Change in net OPEB obligation	2,621	2,414	6,921
Net OPEB obligation - beginning of year	9,335	6,921	-
Net OPEB obligation - end of year	$ 11,956	$ 9,335	$ 6,921
Percentage of annual OPEB cost contribute	58%	64%	-

NOTE 8. POSTEMPLOYMENT BENEFITS (CONTINUED)

As of June 30, 2011, the most recent actuarial valuation date, the Agency's portion of the plan had an unfunded accrued actuarial liability of $80,682. 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 $276,145 for fiscal year 2011; the unfunded actuarial liability was 29% of covered payroll.

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, 2011, the projected unit credit actuarial cost method was used. The health care cost trend rate was 7% for 2011 decreasing to 5% for 2015 and after. The assumed discount and long-term rate of return was 3.326%. 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, 2011.

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 9. RELATED PARTY TRANSACTIONS

The Agency paid the City of Missoula $103,000 for administrative services.

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

NOTE 10. GOVERNMENTAL FUND BALANCE REPORTING AND SPENDING PRIORITIES

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 a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in government funds.

In fiscal year 2011 the Agency had a total fund balance in Governmental funds of $5,338,546. In accordance with GASB Statement 54 this fund balance has been classified as follows:

Special Revenue Funds		
Nonspendable	$ 3,068	Prepaid expenses
Restricted	4,507,254	Restricted for urban renewal development
Debt Service		
Restricted	828,224	Restricted for debt service
	$5,338,546	

NOTE 11. SUBSEQUENT EVENTS

Subsequent to June 30, 2011, the Missoula City Council granted the Agency one year of exclusive rights to negotiate a development agreement for the redevelopment of the Fox Site with Fox Hotel, LLC. The Council also requested that the Agency both negotiate and enter into an initial agreement that includes schedules for negotiation and completion of a development agreement, and to negotiate a development agreement with Fox Hotel, LLC for the Council to review and approve that, at minimum, includes all items listed on the Request For Proposal for inclusion in the development and fully addressed land costs.

NOTE 11. SUBSEQUENT EVENTS (CONTINUED)

Subsequent to June 30, 2011, the Missoula City Council approved the following actions related to the purchase and financing of the Civic Stadium project:

- Approved the Civic Stadium project as an urban renewal project.
- Approved the use of $2,000,000 in tax increment revenues to finance a portion of the project and set forth the intention to make an initial payment of $500,000 to secured lenders and to issue notes in the principle amount of $1,500,000 payable to the secured lenders
- Approved the use of the revenues of the lease to finance a portion of the project and sets forth the intention to issue $1,555,000 in Civic Stadium revenue bonds to Montana Community Development Corporation and Missoula Federal Credit Union, as secured lenders
- Approved the Civic Stadium Agreement and the Lease and Use Agreement which stipulates rental payments of $120,000 per year, payable in equal installments on June 30, July 31, August 31 and September 30 each year commencing on June 30, 2012

All agreements associated with the Civic Stadium are to be executed upon closing, which as of the financial statement issue date, had not occurred.

REQUIRED SUPLEMENTARY INFORMATION

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2011

	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, 2010	$ 2,360,082	$ 2,360,082	$ 2,360,082	$ -	$ 2,794,449	$ 2,794,449	$ 2,794,449	$ -
Resources (Inflows):								
Miscellaneous	-	-	-	-	250,000	-	-	-
Investment earnings (expense)	45,000	10,000	4,502	(5,498)	67,125	15,000	(2,130)	(17,130)
Long-term debt proceeds	-	363,990	293,560	(70,430)	-	-	-	-
Tax increment property tax	-	-	-	-	1,881,614	1,856,280	1,789,265	(67,015)
State contribution PERS	250	250	-	(250)	-	-	296	296
Grant	587,400	561,249	434,979	(126,270)	-	-	-	-
State entitlement		283,622	283,622	-	-	-	-	-
Intergovernmental	283,622	-	-	-	-	-	-	-
Transfers in	864,137	917,677	937,761	20,084	-	250,000	211,176	(38,824)
Amounts available for appropriation	$ 4,140,491	$ 4,496,870	4,314,506	$ (182,364)	$ 4,993,188	$ 4,915,729	4,793,056	$ (122,673)
Charges to Appropriations (Outflows):								
Housing and community development	$ 1,618,603	$ 2,553,460	488,267	$ 2,065,193	$ 3,070,959	$ 2,855,298	1,830,479	$ 1,024,819
Capital outlay	1,868,043	1,693,410	1,166,672	526,738	2,095,293	2,060,117	992,950	1,067,167
Debt service expenditures	-	-	-	-	-	-	-	-
Transfers to other governments	-	-	-	-	-	-	-	-
Transfers out	250,000	250,000	211,176	38,824	-	-	-	-
Total charges to appropriations	$ 3,736,646	$ 4,496,870	1,866,115	$ 2,630,755	$ 5,166,252	$ 4,915,415	2,823,429	$ 2,091,986
Excess of resources (inflows) over charges to appropriations (outflows)			2,448,391				1,969,627	
Budgetary Fund Balance, June 30, 2011			$ 2,448,391				$ 1,969,627	

	FRONT STREET DISTRICT				RIVERFRONT TRIANGLE DISTRICT			
	BUDGETED AMOUNTS			VARIANCE WITH	BUDGETED AMOUNTS			VARIANCE WITH
	ORIGINAL	FINAL	ACTUAL	FINAL BUDGET	ORIGINAL	FINAL	ACTUAL	FINAL BUDGET
Budgetary Fund Balance, July 1, 2010	$ 120,809	$ 120,809	$ 120,809	$ -	$ -	$ -	$ -	$ -
Resources (Inflows):								
Miscellaneous	-	-	-	-	-	-	-	-
Investment earnings (expense)	-	-	541	541	-	-	(25)	(25)
Long-term debt proceeds	-	4,843,380	4,843,380	-	-	-	-	-
Tax increment property tax	156,570	-	682	682	-	23,783	21,669	(2,114)
State contribution PERS	-	-	-	-	-	-	-	-
Grant	-	-	-	-	-	-	-	-
State entitlement	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	-
Amounts available for appropriation	$ 277,379	$ 4,964,189	4,965,412	$ 1,223	$ -	$ 23,783	21,644	$ (2,139)
				-				-
Charges to Appropriations (Outflows):				-				-
Housing and community development	$ 263,587	$ 1,964,189	1,874,000	$ (90,189)	$ -	$ 23,783	1,000	$ (22,783)
Capital outlay	-	3,000,000	3,000,000	-	-	-	-	-
Debt service expenditures	-	-	25,000	25,000	-	-	-	-
Transfers to other governments	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-
Total charges to appropriations	$ 263,587	$ 4,964,189	4,899,000	$ (65,189)	$ -	$ 23,783	1,000	$ (22,783)
Excess of resources (inflows) over charges to appropriations (outflows)			66,412				20,644	
Budgetary Fund Balance, June 30, 2011			$ 66,412				$ 20,644	

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – BUDGET-TO-GAAP RECONCILIATION –
SPECIAL REVENUE FUNDS
June 30, 2011

Explanation of perspective differences between budgetary inflows and outflows and GAAP revenues and expenditures	URBAN RENEWAL DISTRICT II	URBAN RENEWAL DISTRICT III	FRONT STREET DISTRICT	RIVERFRONT TRIANGLE DISTRICT
Sources/Inflows of Resources				
Actual available for appropriation from the budgetary comparison schedule	$ 4,314,506	$ 4,793,056	$ 4,965,412	$ 21,644
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(2,360,082)	(2,794,449)	(120,809)	-
Issuance of long-term debt is a budgetary resource but is nt a current year revenue for financial reporting purposes	(293,560)	-	(4,843,380)	-
Transfers from other funds are inflows of budgetary resource but are not revenues for financial reporting purposes	(937,761)	(211,176)	-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 723,103	$ 1,787,431	$ 1,223	$ 21,644
Uses/Outflows of Resources				
Actual total charges to appropriations from the budgetary comparison schedule	$ 1,866,115	$ 2,823,429	$ 4,899,000	$ 1,000
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(211,176)	-	-	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 1,654,939	$ 2,823,429	$ 4,899,000	$ 1,000

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
SCHEDULE OF FUNDING PROGRESS FOR
RETIREE HEALTH INSURANCE BENEFIT PLAN
June 30, 2011

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%
2011	-	$ 80,682	$ 80,982	0%	276,145	29%

S U P P L E M E N T A R Y   I N F O R M A T I O N

MISSOULA REDEVELOPMENT AGENCY

(A Component Unit of the City of Missoula)

BUDGETARY COMPARISON SCHEDULE – DEBT SERVICE

For the Year Ended June 30, 2011

	MAJOR DEBT SERVICE			
	BUDGETED AMOUNTS			VARIANCE WITH
	ORIGINAL	FINAL	ACTUAL	FINAL BUDGET
Budgetary Fund Balance, July 1, 2010	$ 289,264	$ 289,264	$ 289,264	$ -
Resources (Inflows):				
Investment earnings	-	-	(482)	(482)
Long-term debt proceeds	-	-	-	-
Tax increment property tax	1,310,660	2,015,824	1,976,883	(38,941)
Transfers in	446,523	890,460	199,766	(690,694)
Amounts available for appropriation	$ 2,046,447	$ 3,195,548	2,465,431	$ (730,117)
Charges to Appropriations (Outflows):				
Debt service expenditures	$ 447,340	$ 355,054	474,680	$ (119,626)
Housing and community development	-	50,000	25,000	(25,000)
Other purchased services	-	268,422	-	(268,422)
Transfers out	1,310,660	1,972,227	1,137,527	834,700
Total charges to appropriations	$ 1,758,000	$ 2,645,703	1,637,207	$ 421,652
Excess of resources (inflows) over charges to appropriations (outflows)			828,224	
Budgetary Fund Balance, June 30, 2011			$ 828,224	

MISSOULA REDEVELOPMENT AGENCY

(A Component Unit of the City of Missoula)

BUDGETARY COMPARISON SCHEDULE – BUDGET-TO-GAAP RECONCILIATION – DEBT SERVICE

June 30, 2011

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	$ 2,465,431
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(289,264)
Transfers from other funds are inflows of budgetary resource but are not revenues for financial reporting purposes	(199,766)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 1,976,401
Uses/Outflows of Resources	
Actual total charges to appropriations from the budgetary comparison schedule	$ 1,637,207
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(1,137,527)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 499,680

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BALANCE SHEET – COMBINING DEBT SERVICE
June 30, 2011

	MILLSITE BONDS	MAEDC BROWNFIELDS NOTE	SAFEWAY ST. PATRICK HOSPITAL BONDS	FRONT STREET NOTES	TOTAL
ASSETS					
Current Assets					
Cash and investments	$ 1,435	$ 20,124	$ 80,306	$ 295,411	$ 397,276
Taxes/assessments receivable, net	210,828	-	-	94,900	305,728
Other current assets	428	4	-	134,253	134,685
Interfund receivable	-	-	-	66,300	66,300
Due from other governments	13,917	-	-	6,867	20,784
	226,608	20,128	80,306	597,731	924,773
Noncurrent Assets					
Restricted cash	250,400	-	-	-	250,400
Total assets	$ 477,008	$ 20,128	$ 80,306	$ 597,731	$ 1,175,173
LIABILITIES					
Current Liabilities					
Interfund payable	$ 147,646	$ -	$ -	$ 66,300	$ 213,946
Accrued interest payable	-	20,000	-	-	20,000
Deferred revenue	77,528	-	-	35,475	113,003
Total liabilities	225,174	20,000	-	101,775	346,949
FUND BALANCES					
Restricted	251,834	128	80,306	495,956	828,224
Total fund balances	251,834	128	80,306	495,956	828,224
Total liabilities and fund balances	$ 477,008	$ 20,128	$ 80,306	$ 597,731	$ 1,175,173

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, 2011

	MILLSITE $3.6 M BONDS	MAEDC BROWNFIELDS NOTE	SAFEWAY ST. PATRICK HOSPITAL BONDS	FRONT STREET NOTES	TOTAL
REVENUES					
Tax Increment Property Tax	$ 1,430,955	$ -	$ -	$ 545,928	$ 1,976,883
Investment Earnings (Expense)	(417)	(93)	-	28	(482)
Total revenues	1,430,538	(93)	-	545,956	1,976,401
EXPENDITURES					
Current:					
Interest Expense	154,900	19,467	104,979	3,169	282,515
Principal Expense	95,000	20,000	55,334	21,831	192,165
Caras Park Obligation	-	-	-	25,000	25,000
Total expenditures	249,900	39,467	160,313	50,000	499,680
Excess (deficiency) of revenues over expenditures	1,180,638	(39,560)	(160,313)	495,956	1,476,721
OTHER FINANCING SOURCES (USES)					
Transfers In	-	39,460	160,306	-	199,766
Transfers Out	(1,137,527)	-	-	-	(1,137,527)
Total other financing sources (uses)	(1,137,527)	39,460	160,306	-	(937,761)
Net change in fund balance	43,111	(100)	(7)	495,956	538,960
FUND BALANCES					
Beginning of year	208,723	228	80,313	-	289,264
End of year	$ 251,834	$ 128	$ 80,306	$ 495,956	$ 828,224

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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, 2011, and have issued our report thereon dated December 19, 2011. 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 19, 2011