

The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.



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

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

June 30, 2006

(With Independent Auditors' Reports Thereon)

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MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
ORGANIZATION
Fiscal Year Ended June 30, 2006

Director

Ellen Buchanan Director

Board of Commissioners

Hal Fraser Chair

Nancy Moe Vice-Chair

Rosalie Cates Member

Karl Englund Member

Daniel Kemmis Member



& COMPANY

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Missoula Redevelopment Agency
Missoula, Montana

We have audited the accompanying financial statements of the governmental activities and each major fund of Missoula Redevelopment Agency, a component unit of the City of Missoula, Montana, as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Missoula Redevelopment Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Missoula Redevelopment Agency, as of June 30, 2006, 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 September 25, 2006, 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 conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4-11 and the budgetary comparison information on pages 27-29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Anderson Zemrich & Co., P.C.

Missoula, Montana
September 25, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2006

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

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

Our discussion and analysis of the MRA's financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the MRA's financial statements and accompanying notes.

Financial Highlights

Condensed Financial Information

The following tables summarize financial condition and operating results for 2006 compared to 2005:

	2006	2005	Increase (Decrease)
Current Assets	<u>\$ 2,616,923</u>	\$ 6,005,562	<u>\$(3,388,639)</u>
Noncurrent Assets	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>2,616,923</u>	<u>6,005,562</u>	<u>(3,388,639)</u>
Current Liabilities	<u>191,393</u>	507,540	<u>(316,147)</u>
Long-Term Liabilities	<u>12,059</u>	<u>10,503</u>	<u>1,556</u>
Total liabilities	<u>203,452</u>	<u>518,043</u>	<u>(314,591)</u>
Net Assets			
Unrestricted	<u>2,413,471</u>	<u>5,487,519</u>	<u>(3,074,048)</u>
Total net assets	<u>\$ 2,413,471</u>	<u>\$ 5,487,519</u>	<u>\$(3,074,048)</u>

	2006 Actual	2005 Actual	Increase (Decrease) Over 2005
Revenues			
General revenues	<u>\$ 1,752,396</u>	<u>\$ 4,216,258</u>	<u>\$(2,463,862)</u>
Total revenues	<u>1,752,396</u>	<u>4,216,258</u>	<u>(2,463,862)</u>
Expenses			
Housing and community development	<u>4,826,444</u>	<u>5,052,449</u>	<u>(226,005)</u>
Interest	<u>-</u>	<u>14,619</u>	<u>(14,619)</u>
Total expenses	<u>4,826,444</u>	<u>5,067,068</u>	<u>(240,624)</u>
Change in net assets	<u>(3,074,048)</u>	<u>(850,810)</u>	<u>(2,223,238)</u>
Net Assets			
Beginning of year	<u>5,487,519</u>	<u>6,338,329</u>	<u>(850,810)</u>
End of year	<u>\$ 2,413,471</u>	<u>\$ 5,487,519</u>	<u>\$(3,074,048)</u>

- During the year MRA had revenues of \$1,752,396 and expenses totaling \$4,826,444, which resulted in a decrease of net assets of \$3,074,048.
- MRA's revenues are derived primarily from tax increment property tax, State Personal Property Tax Reimbursements, State Entitlements, and Investment Earnings. Small amounts of revenue are received from other miscellaneous sources. MRA's fiscal year 2006 revenues decreased by 42% from fiscal year 2005 due to the sunset of the downtown urban renewal district (URDI) on June 30, 2005.
- Expenditures for fiscal year 2006 were all related to MRA's redevelopment program projects. MRA had no required debt service payments and did not remit any tax increment to the taxing jurisdictions in fiscal year 2006. MRA's fiscal year 2006 expenditures were down 5% from fiscal year 2005.

Using This Report

This audit report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the MRA as a whole and present a longer-term view of the MRA's finances. Fund financial statements tell how MRA's redevelopment activities were financed in the short term as well as what remains for future redevelopment. Fund financial statements report the MRA's operations in more detail than the government-wide statements by providing information about the MRA's most significant funds.

Two of the most important questions asked about the MRA 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.

The Statement of Net Assets and the Statement of Activities report the MRA’s net assets and changes in them. You can think of the MRA’s net assets—the difference between assets and liabilities—as one way to measure the MRA’s financial health, or financial position. Over time, increases or decreases in the MRA’s net assets are one indicator of whether MRA has been responding to redevelopment opportunities at a level equal to, above, or below its annual revenue. When reviewing MRA’s overall financial position, however, other non-financial factors should also be considered, such as changes in the property tax assessment formula, which is determined by the State legislature, and the total mills levied by the taxing jurisdictions within the urban renewal districts.

The fund financial statements provide detailed information about the most significant funds, not the MRA as a whole. MRA had three urban renewal districts (URDs) in fiscal year 2006. Two of the districts have their own tax increment provisions and development funds and one of the districts (URD I) had only a development fund in 2006 as the tax increment provision expired or sunset on June 30, 2005. The individual tax increment development funds provide money for MRA’s redevelopment programs: Tax Increment Financing (TIF), Commercial Rehabilitation Loan Program (CRLP), and the Code Compliance Assistance Program (CCP). The TIF program is provided for by State law. The other two programs, CRLP and CCP, are redevelopment programs approved by the Missoula City Council as provided for by State law.

The MRA’s redevelopment and debt service activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the MRA’s general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the MRA’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in the reconciliations included in the financial statements.

Retirement Plans

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

Fixed Assets

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

Current and Noncurrent Liabilities

MRA has both current and noncurrent liabilities. Current liabilities include accounts payable for project related expenditures and the current portion (vacation hours) of MRA's compensated absences. Noncurrent liabilities include the noncurrent portion (sick and compensatory hours) of MRA's compensated absences.

On August 6, 2006, the City of Missoula pursuant to Resolution 7120 approved the sale of \$3.6 million in tax increment bonds related to the Mill Site project in URD II. The bond terms are 25 years and therefore extend the life of URD II until 2031. The Series 2006 \$3.6 million tax increment bonds received a B rating from Standard & Poors; the first rating of a tax increment bond in the State of Montana. MRA also anticipates issuing additional tax increment bonds related to the Mill Site later in fiscal year 2007 for the purpose of financing the public infrastructure portion of the project.

Revenues

In fiscal year 2006, MRA received only general revenues and did not generate any program revenue. Of MRA's \$1,752,396 total revenue reported in the Statement of Activities, 61% was tax increment received from property taxes. The next largest revenue source for MRA is the State of Montana in the form of PERS contributions, personal property tax reimbursements and the State Entitlement grant authorized under House Bill 124. Total revenue from this source is 28% of MRA's total revenue received. The remaining revenue received is from investment earnings and miscellaneous sources.

Expenses

Under the Statement of Activities, all 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, equipment and rent.

Special Items, Contributions, Transfers, Other

MRA financially contributes its proportionate share towards City of Missoula activities that affect the Agency, such as purchase of new computer servers and software. These administrative activities are reflected as "transfers to other governments" in the financial statements. MRA contributions to City projects undertaken by other departments are also reflected under the "transfers to other governments" category. MRA's administrative transfers between districts are done annually to

reimburse the district that has paid the administrative expenses of the Agency. At the time of URD I's sunset, the administrative expenses of the Agency were transferred over to URD II. The amount of money transferred in fiscal year 2006 from URD I and URD III to URD II for administrative expenses was based on the proportionate share of staff time spent working on projects in those districts.

Balances and Transactions of Individual Government Funds

Unreserved fund balance

	<u>URD I</u>	<u>URD II</u>	<u>URD III</u>
Beginning Balance 7/1/05	\$ 3,705,391	\$ 1,320,549	\$ 256,350
Ending Balance 6/30/06	<u>17,705</u>	<u>1,689,797</u>	<u>629,518</u>
\$ Change	<u><u>\$ (3,687,686)</u></u>	<u><u>\$ 369,248</u></u>	<u><u>\$ 373,168</u></u>
% Change	(99%)	28%	146%

URD I saw a significant drop in fund balance in fiscal year 2006 as no new tax increment has been received since the district's sunset on June 30, 2005. In addition, nearly all of the projects approved by City Council resolution to be carried over to fiscal year 2006 were completed. The only ongoing project at the end of the fiscal year was the Skatepark project in McCormick Park. URD I also transferred \$200,000 to URD II for administrative costs.

URD II saw an increase in fund balance in fiscal year 2006 despite several projects being completed. The total paid out in fiscal year 2006 for URD II projects was \$414,538. Two prominent projects completed during the year were the Clark Fork Commons and the McKenzie project; both large housing developments along West Broadway.

URD III saw a \$373,168 increase in fund balance in fiscal year 2006. MRA contributed to four projects in this district including the Brooks/South/Russell street reconfiguration project, South Avenue Street improvements, Southgate Area Planning project and homeWORD's design competition for the area around Kmart. The total paid out for these four projects was \$25,712. URD III also transferred \$75,000 to URD II for administrative costs.

Overall Financial Position

The MRA's overall financial position has improved for URD II and URD III in the sense that revenue assets have increased. This allows the MRA to undertake more projects in its redevelopment efforts. Fiscal year 2006 was URD I's year to complete the remaining projects that had been carried over at its sunset. The fund balance in this district dropped significantly due to projects being completed and paid out during the fiscal year. Only the Skatepark project at McCormick Park remains active with an MRA amount remaining of \$26,636.

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. This often results in the condition where MRA revenues exceed expenditures. Over the years, this scenario resulted in a buildup of the URD I tax increment fund to several million dollars. The accumulation of money in the URD I tax increment fund allowed the MRA and the City of Missoula to undertake larger public capital improvement projects than would have been otherwise undertaken out of the City's general fund or capital improvements fund. The MRA tax increment funds, as they are accrued, are *planned, pledged or committed* to projects.

Planned Projects

Planned projects are projects that are under consideration and in the pre-development stage. During this stage, estimated budgets are created as "place holders." As project planning proceeds, the MRA Board may pledge or commit to the projects, or abandon them if costs or circumstances warrant it. Similarly, the MRA funds a number of redevelopment programs adopted by the Missoula City Council. These programs are made available to assist private property owners with smaller projects that fit the program objectives 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.

One exciting project that was in the planning phase during fiscal year 2006 was the Mill Site project. This is a 45-acre brownfield site that will be cleaned up and redeveloped. The new development, the Old Sawmill District, will consist of over 500 units of new housing, in excess of 100,000 square feet of retail office space and a 14.5 acre riverfront park known as Silver Park. Silver Park will give the City the opportunity to eliminate a major gap in the Ron McDonald Riverfront Trail System.

Other projects planned and given budget placeholders in fiscal year 2007 include the West Broadway Island Trail in URD II and Streetscape Improvements Phase III in URD III.

Pledged Projects

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

The most significant pledged project in fiscal year 2006 was the Skatepark project. In total, the MRA Board pledged \$350,000 to this project contingent on the remaining funds being secured through private donations. This project fits into both the Pledged and Committed categories as fundraising continued through phase one of project construction in order to design and build a more comprehensive phase two.

Committed Projects

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

MRA had several committed projects during fiscal year 2006. All of URD I's committed projects were completed during the year except for the Skatepark. Committed projects in the other districts that were carried over to fiscal year 2007 include The Bike Doctor at 1101 Toole Avenue, Joe Easton's project at 1101 South 3rd Street West, Rod Huff's project at 1275 South 1st Street West, South Avenue Street Tree project, and the Mill Site project's Silver Park.

Taxing Policies

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

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

Currently Known Facts

As of June 30, 2005, the tax increment provision of the URD I Urban Renewal Plan ended. In anticipation of that date, the MRA secured all funds pledged or committed to projects through development agreements and construction contracts. As of June 30, 2006, the only project remaining to be completed was the Skatepark project. MRA encumbered the final amount of \$26,660 due to the Skatepark project in fiscal year 2007. After all delinquent taxes are collected, approximately \$20,000 will remain in the URD I development fund and will be distributed to the seven taxing jurisdictions based on their proportionate share of the total mills levied in fiscal year 2005.

In URD II, expenditures of tax increment funds to date have been largely for projects that have not resulted in increases to that district's tax increment fund in a way that favorably compares with the experience in URD I. However, URD II has still been able to undertake tax generating redevelopment projects in the district. Due to the more residential nature of URD II, tax increment revenue will never match the more commercial area of URD I. The MRA staff was successful in extending this district through the issuance of tax increment bonds for the Mill Site project. The bonds were issued for 25 years effectively extending the life of URD II to 2031.

In URD III, the final tax increment funds were paid out for the Brooks/South/Russell Enhancement project, which complimented the larger State of Montana CMAQ project rerouting traffic in this congested area. MRA also contributed funds towards the South Avenue trees project. Two planning and design projects were given MRA assistance in fiscal year 2006, one was a design competition for the property occupied by Kmart and adjacent businesses and the other was for vacant property south of Southgate Mall.

With the sunset of the URD I tax increment provision, the MRA's largest funding source, the staff and Board looked for ways to increase increment in the remaining districts and reduce the operating costs of the Agency.

In fiscal year 2005, the MRA and the City entered into a joint venture to conduct a space needs assessment for the City. In addition, the City committed to provide a rent free home for the MRA in or near City Hall for five (5) years. During fiscal year 2006, the City undertook the redevelopment of the old Moose Lodge building at 140 West Pine Street. The building required mold and asbestos remediation and was remodeled to house the City Council Chambers, City Council office and conference room and the MRA offices. The building will be ready for occupancy in early November 2006.

Summary

Over the past year, the MRA has concentrated on the successful completion of URD I projects that were under contract at the end of the previous fiscal year. These projects emphasized the completion of the Ron MacDonald Riverfront Trail System, set the stage for major redevelopment to occur after the tax increment funds were no longer available, were large private projects with significant impact on the area, consisted of appropriations geared to assure the success of past investments, and infrastructure projects that would extend the vitality of the downtown. As the MRA moved out of URD I, much more emphasis has been placed on the other two Districts. There has been a major effort to facilitate the redevelopment of the Champion Mill Site, now known as the Old Sawmill District, with a strong emphasis on the sale of a tax increment bond issue that would secure the City's ability to own a new riverfront park and extend the life of URD II. The MRA Board also turned its attention to creating redevelopment opportunities in the City's newest District, URD III. MRA joined the major owners of undeveloped property south of Southgate Mall in the creation of a master development plan for that acreage. Major goals for the MRA in the coming years is the growth of downtown to the west into URD II and the creation of a new development pattern in URD III that will encourage reinvestment in both housing and commercial redevelopment.

Missoula Redevelopment Agency

Ellen Buchanan
Director

FINANCIAL STATEMENTS

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
STATEMENT OF NET ASSETS
June 30, 2006

	<u>PRIMARY GOVERNMENT</u>
	<u>GOVERNMENTAL</u>
	<u>ACTIVITIES</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash and investments	\$ 2,435,507
Taxes/assessments receivable, net	120,926
Prepaid health insurance	3,840
Due from other governments	<u>56,650</u>
Total assets	<u>2,616,923</u>
<u>LIABILITIES</u>	
CURRENT LIABILITIES	
Accounts payable	158,977
Compensated absences	<u>32,416</u>
Total current liabilities	<u>191,393</u>
NONCURRENT LIABILITIES	
Long-term portion of compensated absences	<u>12,059</u>
Total noncurrent liabilities	<u>12,059</u>
Total liabilities	<u>203,452</u>
<u>NET ASSETS</u>	
UNRESTRICTED	<u>2,413,471</u>
Total net assets	<u>\$ 2,413,471</u>

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS
	EXPENSES	OPERATING	CAPITAL	
		CHARGES FOR SERVICES	GRANTS AND CONTRIBUTIONS	
<u>Governmental Activities</u>				
Housing and community development	\$ 4,826,444	\$ -	\$ -	\$ (4,826,444)
Total governmental activities	<u>4,826,444</u>	<u>-</u>	<u>-</u>	<u>(4,826,444)</u>
Total primary government	<u>\$ 4,826,444</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(4,826,444)</u>
<u>General Revenues</u>				
Property taxes for general purposes				1,062,215
Reimbursement for personal property				1,959
State contribution - PERS				262
HB 124 revenue				283,622
Grant revenue				203,463
Investment earnings				129,956
Miscellaneous				70,919
Total general revenues				<u>1,752,396</u>
Change in net assets				(3,074,048)
Net Assets				
Beginning of year				<u>5,487,519</u>
End of year				<u>\$ 2,413,471</u>

The Notes to the Financial Statements are an integral part of these statements.

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
BALANCE SHEET – GOVERNMENTAL FUNDS
 June 30, 2006

	URBAN RENEWAL DISTRICT #1	URBAN RENEWAL DISTRICT #2	URBAN RENEWAL DISTRICT #3	<u>TOTAL</u>
<u>ASSETS</u>				
Current Assets				
Cash and investments	\$ 164,498	\$ 1,664,679	\$ 606,330	\$ 2,435,507
Taxes/assessments receivable, net	29,962	58,155	32,809	120,926
Other current assets	-	3,840	-	3,840
Due from other governments	341	27,014	29,295	56,650
Total assets	<u>\$ 194,801</u>	<u>\$ 1,753,688</u>	<u>\$ 668,434</u>	<u>\$ 2,616,923</u>
<u>LIABILITIES</u>				
Current Liabilities				
Accounts payable	\$ 147,134	\$ 5,736	\$ 6,107	\$ 158,977
Deferred revenue	29,962	58,155	32,809	120,926
Total liabilities	<u>177,096</u>	<u>63,891</u>	<u>38,916</u>	<u>279,903</u>
<u>FUND BALANCES</u>				
Unreserved Fund Balance	<u>17,705</u>	<u>1,689,797</u>	<u>629,518</u>	<u>2,337,020</u>
Total liabilities and fund balances	<u>\$ 194,801</u>	<u>\$ 1,753,688</u>	<u>\$ 668,434</u>	<u>\$ 2,616,923</u>

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, 2006

Total fund balances - governmental funds \$ 2,337,020

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 120,926

Long-term liabilities, both current and noncurrent portions
are not due payable in the current period and therefore
are not reported as liabilities in the funds (44,475)

Total net assets - governmental activities \$ 2,413,471

MISSOULA REDEVELOPMENT AGENCY

(A Component Unit of the City of Missoula)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENT FUNDS
For the Year Ended June 30, 2006

	URBAN RENEWAL DISTRICT #1	URBAN RENEWAL DISTRICT #2	URBAN RENEWAL DISTRICT #3	TOTAL
<u>REVENUES</u>				
Tax Increment Property Tax	\$ 152,699	\$ 576,959	\$ 457,624	\$ 1,187,282
State Contribution PERS	-	262	-	262
State Personal Property Tax Reimbursement	-	1,959	-	1,959
State Entitlement/CMAQ Funds	-	283,622	-	283,622
Grant	203,463	-	-	203,463
Investment Earnings	66,011	47,689	16,256	129,956
Miscellaneous	70,844	75	-	70,919
Total revenues	<u>493,017</u>	<u>910,566</u>	<u>473,880</u>	<u>1,877,463</u>
<u>EXPENDITURES</u>				
<u>Current:</u>				
Housing and Community Development	1,260,995	808,087	25,712	2,094,794
Capital Outlay	<u>2,716,958</u>	<u>4,497</u>	<u>-</u>	<u>2,721,455</u>
Total expenditures	<u>3,977,953</u>	<u>812,584</u>	<u>25,712</u>	<u>4,816,249</u>
Excess (deficiency) of revenues over expenditures	<u>(3,484,936)</u>	<u>97,982</u>	<u>448,168</u>	<u>(2,938,786)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	-	275,000	-	275,000
Transfers Out	(200,000)	-	(75,000)	(275,000)
Transfers to Other Governments	<u>(2,750)</u>	<u>(3,734)</u>	<u>-</u>	<u>(6,484)</u>
Total other financing sources (uses)	<u>(202,750)</u>	<u>271,266</u>	<u>(75,000)</u>	<u>(6,484)</u>
Net change in fund balance	<u>(3,687,686)</u>	<u>369,248</u>	<u>373,168</u>	<u>(2,945,270)</u>
<u>FUND BALANCES</u>				
Beginning of year	<u>3,705,391</u>	<u>1,320,549</u>	<u>256,350</u>	<u>5,282,290</u>
End of year	<u>\$ 17,705</u>	<u>\$ 1,689,797</u>	<u>\$ 629,518</u>	<u>\$ 2,337,020</u>

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, 2006

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

Net change in fund balances - total governmental funds	\$ (2,945,270)
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	(125,067)
The change in compensated absence payable is reported in the statement of activities as an expense	<u>(3,711)</u>
Change in net assets - statement of activities	<u>\$ (3,074,048)</u>

MISSOULA REDEVELOPMENT AGENCY

(A Component Unit of the City of Missoula)

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity:

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

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

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Basis of Accounting:

Government-wide Statements:

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

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 property taxes and state entitlements. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. On the accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which eligibility requirements have been met.

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

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

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

Fund Financial Statements:

These statements provide information about the Agency's funds. The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as nonmajor funds. MRA reports all of their funds as major funds.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Basis of Accounting: (Continued)

Fund Financial Statements: (Continued)

Governmental fund financial statements use the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. MRA considers all revenues available if they are collected within 30 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.

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.

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

Special Revenue Funds

- Urban Renewal District I – used to account for all activities of District I
- Urban Renewal District II – used to account for all activities of District II
- Urban Renewal District III – used to account for all activities of District III

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2006

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 (except for property taxes) are budgeted in the year they are measurable and available. Expenditures are budgeted in the year they are expected to be incurred. As required by Montana law, the full amount of property taxes levied for the fiscal year is included in the 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 current fiscal year and the sources of revenue by which it is to be financed.
- c) On or before the fourth Monday in July, the City Council shall make any revisions 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.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting: (Continued)

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.

Cash and Cash Equivalents:

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

Receivables:

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

Taxable valuations for each Urban Renewal District and the corresponding tax increment amounts for November 2005 property tax billing are as follows:

	<u>Taxable Value</u>	<u>Increment Value</u>
Urban Renewal District II	\$ 2,641,707	\$ 781,884
Urban Renewal District III	\$ 7,669,421	\$ 665,075

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2006

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

NOTE 2. CASH AND INVESTMENTS

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

Demand Deposits	\$ 88,993
Repurchase Investment Account	7,450
Government Securities	1,512,028
Investment in State Short-Term Investment Pool	775,593
Certificates of Deposit	<u>51,443</u>
Total	<u>\$ 2,435,507</u>

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

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

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2006

NOTE 3. DUE FROM OTHER GOVERNMENTS

The amount due from other governments represents a portion of the tax increment which is received by Missoula County in June but not received by the City until July.

NOTE 4. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2006, were as follows:

	Beginning Balance	Additions	Debt Retired	Ending Balance	Current Portion
Compensated Absences	\$ 40,764	\$ 3,711	\$ -	\$ 44,475	\$ 32,416
Total	\$ 40,764	\$ 3,711	\$ -	\$ 44,475	\$ 32,416

NOTE 5. COMMITMENTS AND DESIGNATED FUND BALANCES

MRA has contractual commitments for the following projects and activities and, therefore, designates a portion of fund balance for these activities. The only remaining project for Urban Renewal District I is the Skatepark project. At June 30, 2006, the Board encumbered \$26,636 for this project. When that project is complete, any remaining funds will be remitted to the seven taxing jurisdictions within Urban Renewal District I.

Urban Renewal District II:

Public:	
Mill Site Riverfront Park	\$ 426,555
Private:	
1101 South 3 rd Street West	84,279
1275 South 1 st Street West	41,750
Bike Doctor	7,321
CCP/CRLP	17,725
	<hr/>
	\$ 577,630

Urban Renewal District III:

Public:	
South Avenue Improvements	\$ 11,375
South Avenue Tree Watering	18,120
	<hr/>
	\$ 29,495

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2006

NOTE 6. RETIREMENT PLAN

All full-time employees of MRA are covered under the Montana Public Employees' Retirement System (PERS). The plan is established by state law and administered by the State of Montana. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. Contribution rates are determined by state law. The contribution rate for employees was 6.8%, employers was 6.9%, and State of Montana was .1% in 2006, expressed as a percentage of covered payroll.

The amounts contributed during the years ended June 30, 2004, 2005, and 2006 were equal to the required contribution for each year. The amounts contributed by both the Agency and its employees were as follows:

2004	\$ 33,019
2005	\$ 36,555
2006	\$ 39,308

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

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

NOTE 7. LEASES

MRA leases office space for its operations on a yearly basis. In 2006, MRA leased its office space from an outside party under a triple net lease for \$24,700 for fiscal year 2006.

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2006

NOTE 8. INTERFUND TRANSACTIONS

Urban Renewal District I transferred \$200,000 and Urban Renewal District III transferred \$75,000 to Urban Renewal District II for their share of administrative costs. Urban Renewal District I transferred \$2,750 to the City Public Art fund for the Skatepark project in accordance with Ordinance 3221. Urban Renewal District II transferred \$3,734 to the City for MRA's share of various administrative projects.

NOTE 9. RISK MANAGEMENT

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

NOTE 10. SUBSEQUENT EVENT

Subsequent to June 30, 2006, MRA issued \$3.6 million in tax increment revenue bonds under URD II, extending the life of the district to July 2031 when the bonds mature. Interest rates on the bonds are 4.50% through 5.125%. Bond proceeds will be used for the Champion Millsite Revitalization Project.

REQUIRED SUPPLEMENTARY INFORMATION

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
 BUDGETARY COMPARISON SCHEDULE
 For the Year Ended June 30, 2006

	URBAN RENEWAL DISTRICT #1			URBAN RENEWAL DISTRICT #2		
	BUDGETED AMOUNTS		VARIANCE WITH FINAL BUDGET	BUDGETED AMOUNTS		VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		ORIGINAL	FINAL	
Budgetary Fund Balance, July 1, 2005	\$ 3,680,043	\$ 3,680,043	\$ 3,705,391	\$ 25,348	\$ 1,320,549	\$ 1,320,549
Resources (Inflows):						
Miscellaneous	250,000	250,000	70,844	(179,156)	200	75
Investment earnings	-	61,287	66,011	4,724	30,000	47,689
Tax increment property tax	166,925	166,925	152,699	(14,226)	553,445	576,959
State contribution PERS	-	-	-	-	-	262
State personal property tax reimbursement	-	-	-	-	1,959	1,959
State entitlement	-	-	-	-	33,343	33,343
Intergovernmental (CTEP)	203,463	203,463	203,463	-	-	-
Transfers in					275,000	275,000
Amounts available for appropriation	<u>\$ 4,300,431</u>	<u>\$ 4,361,718</u>	<u>4,198,408</u>	<u>\$ (163,310)</u>	<u>\$ 2,214,496</u>	<u>\$ 2,506,115</u>
Charges to Appropriations (Outflows):						
Housing and community development	\$ 2,405,962	\$ 1,465,605	1,260,995	\$ 204,610	\$ 1,991,584	\$ 2,241,544
Capital outlay	1,894,469	2,716,957	2,716,958	(1)	219,178	219,497
Transfers to other governments	-	2,750	2,750	-	3,474	3,474
Transfers out	200,000	200,000	200,000	-	-	3,734
Total charges to appropriations	<u>\$ 4,500,431</u>	<u>\$ 4,385,312</u>	<u>4,180,703</u>	<u>\$ 204,609</u>	<u>\$ 2,214,236</u>	<u>\$ 2,464,515</u>
Excess of resources (inflows) over charges to appropriations (outflows)					17,705	1,689,797
Budgetary Fund Balance, June 30, 2006					<u>\$ 17,705</u>	<u>\$ 1,689,797</u>

URBAN RENEWAL DISTRICT #3					
	BUDGETED AMOUNTS		VARIANCE WITH FINAL BUDGET		
	ORIGINAL	FINAL	ACTUAL		
Budgetary Fund Balance, July 1, 2005	\$ 256,350	\$ 256,350	\$ 256,350	\$ -	
Resources (Inflows):					
Investment earnings	5,000	5,000	16,256	11,256	
Tax increment property tax	474,997	474,997	457,624	(17,373)	
Amounts available for appropriation	<u>\$ 736,347</u>	<u>\$ 736,347</u>	<u>\$ 730,230</u>	<u>\$ (6,117)</u>	
Charges to Appropriations (Outflows):					
Housing and community development	647,443	641,347	25,712	615,635	
Capital outlay	13,904	20,000	-	20,000	
Transfers out	75,000	75,000	75,000	-	
Total charges to appropriations	<u>\$ 736,347</u>	<u>\$ 736,347</u>	<u>\$ 100,712</u>	<u>\$ 635,635</u>	
Excess of resources (inflows) over charges to appropriations (outflows)			<u>629,518</u>		
Budgetary Fund Balance, June 30, 2006			<u>\$ 629,518</u>		

MISSOULA REDEVELOPMENT AGENCY
 (A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE – BUDGET-TO-GAAP RECONCILIATION
 June 30, 2006

NOTE 1

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

	URBAN RENEWAL DISTRICT #1	URBAN RENEWAL DISTRICT #2	URBAN RENEWAL DISTRICT #3
Sources/Inflows of Resources			
Actual available for appropriation from the budgetary comparison schedule	\$ 4,198,408	\$ 2,506,115	\$ 730,230
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(3,705,391)	(1,320,549)	(256,350)
Transfers from other funds are inflows of budgetary resource but are not revenues for financial reporting purposes	-	<u>(275,000)</u>	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 493,017</u>	<u>\$ 910,566</u>	<u>\$ 473,880</u>
Uses/Outflows of Resources			
Actual total charges to appropriations from the budgetary comparison schedule	\$ 4,180,703	\$ 816,318	\$ 100,712
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(202,750)</u>	<u>(3,734)</u>	<u>(75,000)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 3,977,953</u>	<u>\$ 812,584</u>	<u>\$ 25,712</u>



& COMPANY

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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 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, 2006, which collectively comprise Missoula Redevelopment Agency's basic financial statements and have issued our report thereon dated September 25, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Commissioners, management, and the City of Missoula and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Zorach Mueller & Co., P.C.

Missoula, Montana
September 25, 2006