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, 2008

(With Independent Auditor's Reports Thereon)

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

Ellen Buchanan .... Director

Board of Commissioners

Hal Fraser .... Chair

Nancy Moe .... Vice-Chair

Rosalie Cates .... Member

Karl Englund .... Member

Daniel Kemmis .... Member

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Missoula Redevelopment Agency
Missoula, Montana

We have audited the accompanying financial statements of the governmental activities and each major fund of Missoula Redevelopment Agency, a component unit of the City of Missoula, Montana, as of and for the year ended June 30, 2008, 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, 2008, 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 11, 2008, on our consideration of the Missoula Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4-13 and the budgetary comparison information on pages 32-34 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 ZurMuehlen & Co., P.C.

Missoula, Montana
December 11, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2008

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, 2008. Please read it in conjunction with the MRA's financial statements and accompanying notes, which begin on page 14.

Financial Highlights

Condensed Financial Information

The following tables summarize financial condition and operating results for 2008 compared to 2007:

	2008	2007	Increase (Decrease)
Current Assets	**$ 3,927,551**	$ 3,248,564	$ 678,987
Noncurrent Assets	**250,500**	250,000	500
Total assets	**4,178,051**	3,498,564	679,487
Current Liabilities	**489,954**	148,147	341,807
Long-Term Liabilities	**5,967,725**	4,427,827	1,539,898
Total liabilities	**6,457,679**	4,575,974	1,881,705
Net Assets			
Restricted for debt service	**250,500**	250,000	500
Unrestricted	**(2,530,128)**	(1,327,410)	(1,202,718)
Total net assets	**$(2,279,628)**	$(1,077,410)	$ (1,202,218)

	2008 Actual	2007 Actual	Increase (Decrease) Over 2007
Revenues			
General revenues	**$ 1,814,199**	$ 1,754,549	$ 59,650
Total revenues	**1,814,199**	1,754,549	59,650
Expenses			
Housing and community development	**2,885,250**	5,089,071	(2,203,821)
Interest	**182,791**	155,859	26,932
Total expenses	**3,068,041**	5,244,930	(2,176,889)
Change in net assets	**(1,253,842)**	(3,490,381)	2,236,539
Net Assets			
Beginning of year	**(1,076,910)**	2,413,471	(3,490,381)
Cumulative effect of a change in accounting principle	**51,124**	-	51,124
Beginning of year, restated	**(1,025,786)**	2,413,471	(3,439,257)
End of year	**$(2,279,628)**	$(1,076,910)	$ (1,202,718)

- During the year MRA had revenues of $1,814,199 and expenses totaling $3,068,041, which resulted in a decrease of net assets of $1,253,842.

- 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 2008 revenues were slightly higher than in fiscal year 2007.

- Expenditures for fiscal year 2008 were related to redevelopment projects such as Safeway / St. Pats, Silver Park, Equinox, Greater Downtown Missoula Master Plan, Missoula Federal Credit Union, Dearborn Condos and the Old Sawmill District clean up. MRA also paid out $182,791 in interest and processing fees on the 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 three urban renewal districts (URD) in fiscal year 2008 and each has its own fund. URD II and URD III derived a majority of their revenue from tax increment provisions allowed by State law. In October 2007, the City formed Front Street URD, which also has a tax increment provision but the first tax increment revenue from this district is anticipated in November 2008 (FY09). Tax increment is collected by the County, transferred to the City, and then is deposited into the urban renewal districts' development funds, which in turn provide money for MRA's redevelopment programs: Tax Increment Financing (TIF), Commercial Rehabilitation Loan Program (CRLP), and the Code Compliance Assistance Program (CCP). The TIF program is provided for by

State law. The other two programs, CRLP and CCP, were redevelopment programs approved by the Missoula City Council as allowed by State law.

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

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

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

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

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

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

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

MRA anticipates issuing additional tax increment bonds related to the following projects in fiscal year 2009: First Interstate Bank project and related downtown parking facility and a large Old Sawmill District project bond.

Revenues
In fiscal year 2008, MRA received only general revenues and did not generate any program revenue. Of MRA's $1,814,199 total revenue reported in the Statement of Activities, 74% 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 State entitlement funds authorized under House Bill 124. State of Montana funds account for 16% of MRA's total revenue received. The remaining revenue received is from investment earnings and miscellaneous sources (10%).

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

Special Items, Contributions, Transfers, Other
MRA financially contributes its proportionate share towards City of Missoula activities that affect the Agency, such as purchase of new computer servers and software. These administrative activities are reflected as "transfers to other governments" in the financial statements. MRA contributions to City projects undertaken by other departments are also reflected under the "transfers to other governments" category. The MRA's transfers to other governments was $5,490 in fiscal year 2008.

In addition the MRA contracts with the City of Missoula to provide administrative support as well as assistance from Engineering, Public Works, Finance, Parks and Recreation, and Attorney's Office on various projects. The amount paid to the City also includes MRA's pro rata share of the City's liability coverage for errors and omissions. The amount paid in fiscal year 2008 was $29,770 and was recorded as an administrative expense in the financials.

Administrative transfers between districts are done annually to reimburse the district that has paid the administrative expenses of the Agency. At this time, URD II pays the administrative expenses of the Agency. The amount of money transferred in fiscal year 2008 from URD III to URD II for administrative expenses was $29,172 and is based on the proportionate share of staff time spent working on projects in that district. Staff time spent working on Front Street URD projects is tracked so a reimbursement to URD II can be made when tax increment revenues from this new district are sufficient.

Balances and Transactions of Individual Government Funds

Unreserved fund balance

	URD I	URD II	URD III
Beginning Balance 7/1/07	$ -	$ 1,755,091	$ 1,055,152
Cumulative effect of a change in accounting principle	-	-	8,018
Beginning of year, 7/1/07 restated	-	1,755,091	1,063,170
Ending Balance 6/30/08	1,501	2,003,286	1,413,447
$ Change	$ 1,501	$ 248,195	$ 350,277
% Change	100%	14%	33%

Reserved fund balance

	DEBT SERVICE
Beginning Balance 7/1/07	$ 536,813
Cumulative effect of a change in accounting principle	43,106
Beginning of year, 7/1/07 restated	579,919
Ending Balance 6/30/08	263,839
$ Change	$ (316,080)
% Change	-55%

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

URD II saw a 14% increase in fund balance in fiscal year 2008. The total paid out in fiscal year 2008 for projects was $2,694,758, which includes Safeway/St. Pats, Silver Park, Equinox, Greater Downtown Missoula Master Plan, West Broadway Corridor and the Old Sawmill District clean up. Total Agency administrative expenses were $445,941, plus the administrative transfer to the City of $5,490.

URD III saw a 33% increase in fund balance in fiscal year 2008. Although several projects were completed and developers reimbursed for their expenses, the total amount didn't exceed revenue received. Projects completed include City Life Community Center, Dearborn Condos, Jefferson School Traffic Calming, Missoula Federal Credit Union, and South Ave Sidewalk and Tree improvements.

Overall Financial Position

Changes in MRA's overall financial position from 2007 to 2008 include a $59,650 increase in overall revenue and substantial decrease in Agency expenditures ($2,236,539) because fewer bonds were sold. Net assets decreased from 2007 primarily due to additional debt issued.

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.

One exciting project that was still primarily in the planning phase during fiscal year 2008 is the Old Sawmill District project in URD II. Although the developers received assistance from MRA to buy the lease on the land and to facilitate site remediation, this complex project was still undergoing planning and design and waiting for Department of Environmental Quality approval of the Voluntary Cleanup Plan. Construction of infrastructure will trigger the next significant expenditure of tax increment funds on the project.

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 projects in fiscal year 2008 were Silver Park and the Old Sawmill District project. The City pledged tax increment towards the development of a 14.5 acre park along the Clark Fork River as part of the Old Sawmill District project. Design of the park was divided into two phases to allow a Phase I Trail along the river to be initiated in late fiscal year 2008. Although progress on the Old Sawmill District project has been delayed for several reasons, MRA is still interested in assisting the developers to complete this large housing and commercial development through the issuance of tax increment revenue bonds.

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

MRA had several committed projects during fiscal year 2008. URD II projects included: 222-224 Inez Street, 1275 S 1st Street W, 805 N. Russell Street, Dakota Greens, Equinox, Downtown Missoula Master Plan, Safeway/St. Pats, Silver Park Design, and West Broadway Corridor. URD III projects included: City Life Community Center, Missoula Federal Credit Union, Prudential Real

Estate, Dearborn Condos, Jefferson School Traffic Calming, and South Avenue sidewalk and tree improvements.

Taxing Policies

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

Often the Legislature will provide reimbursement or other mechanisms to offset the financial impact their policy changes have on local taxing jurisdictions. MRA's revenues are tied to revenues collected by the local taxing jurisdictions. State reimbursements or entitlements are intended to "make whole" on the losses experienced as a result of tax policy changes. 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 only URD II receives State Personal Property Reimbursements and State Entitlement Funds.

Budget to Actual Variances

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

Currently Known Facts

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

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

Project on the Intermountain Lumber property should be another economic development catalyst project with the assistance of tax increment financing.

West Broadway is the spine of a major portion of URD II. It is the only east-west arterial north of the Clark Fork River and presents major redevelopment opportunities as downtown redevelopment patterns migrate west. In 2007, MRA partnered with the City to fund the creation of a corridor vision plan for West Broadway from Orange Street to Mullan Road. In 2008, the MRA partnered with the Downtown Business Improvement District, the Missoula Parking Commission and private investors to create the Greater Downtown Master Plan. The Master Plan encompasses much of the corridor studied in the West Broadway Plan and it is anticipated that both will be adopted as part of the City's Growth Policy. These plans will serve as a guide as MRA makes decisions about the investment of tax increment funds in private projects and infrastructure improvements in the Front Street URD, Riverfront Triangle URD and URD II.

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

MRA's primary effort in the newly formed Front Street URD is focused on the construction of a new parking structure. This project is a joint venture with the Parking Commission and will be funded through the issuance of tax increment and parking revenue bonds. The East Front Street Parking Structure is a cornerstone project in the implementation of the Downtown Master Plan and in the retention and recruitment of the retail vital to the success of downtown. It will also provide parking for a new six-story office building that will house First Interstate Bank and other professional offices as well as provide parking for other private developments under consideration in the immediate vicinity.

In the Riverfront Triangle URD, the MRA currently has a Request For Proposals out for the development of approximately three acres owned by the City. The completion of the new Safeway grocery store will allow St. Patrick Hospital to begin consolidation of their functions north of Broadway, freeing up the balance of the Riverfront Triangle for redevelopment. Tax increment financing will be a critical part of the success of that redevelopment.

Summary

Over the past year, MRA has continued to put a great deal of effort into the Old Sawmill District development on the former Champion Millsite. Those efforts have been impaired as environmental clearances continue to be elusive and the economy has shifted dramatically. Infrastructure construction, lot sales and construction of new residential and commercial buildings could begin in 2009 if the environmental issues can be brought to closure with the Montana Department of Environmental Quality. The riverfront trail in Silver Park was constructed in 2008 and major portions of the park may be completed in 2009 regardless of progress on the Old Sawmill District project.

MRA will work with its partner organizations to facilitate the City's adoption of the Downtown Master Plan and implementation efforts, including the development of the new parking structure and redevelopment of the Riverfront Triangle. The Agency continues to seek out redevelopment opportunities in URD III that will support mixed use development and add diversity to the housing supply. The MRA's efforts continue to be targeted at the creation of more pedestrian friendly, sustainable development patterns and economic development projects. Major undertakings in the coming year will focus on development in the Front Street URD, redevelopment of the Riverfront Triangle property, implementation of the Downtown Master Plan, development of the Old Sawmill District including Silver Park and the creation of affordable housing opportunities.

Missoula Redevelopment Agency
Ellen Buchanan
Director

FINANCIAL STATEMENTS

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
STATEMENT OF NET ASSETS
June 30, 2008

	PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES
ASSETS	
CURRENT ASSETS	
Cash and investments	$ 3,656,769
Taxes/assessments receivable, net	131,344
Other receivables	261
Prepaid health insurance	4,020
Due from other governments	135,157
Total assets	3,927,551
NONCURRENT ASSETS	
Restricted cash	250,500
Total assets	4,178,051
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	348,448
Accrued wages	7,748
Accrued interest	8,438
Compensated absences	40,320
Current portion of tax increment revenue bonds payable	85,000
Total current liabilities	489,954
NONCURRENT LIABILITIES	
Long-term portion of compensated absences	12,725
Loan payable	1,125,000
Tax increment revenue bonds payable, less current portion	4,830,000
Total noncurrent liabilities	5,967,725
Total liabilities	6,457,679
NET ASSETS	
Restricted for debt service	250,500
Unrestricted	(2,530,128)
Total net assets	$ (2,279,628)

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, 2008

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS: GOVERNMENTAL ACTIVITIES
Governmental Activities					
Housing and community development	$ 2,885,250	$ -	$ -	$ -	$ (2,885,250)
Interest expense	182,791	-	-	-	(182,791)
Total governmental activities	3,068,041	-	-	-	(3,068,041)
Total primary government	$ 3,068,041	$ -	$ -	$ -	(3,068,041)
General Revenues					
Property taxes for general purposes					1,351,472
Reimbursement for personal property					653
State contribution - PERS					293
HB 124 revenue					283,622
Grant revenue					-
Investment earnings					178,071
Miscellaneous					88
Total general revenues					1,814,199
Change in net assets					(1,253,842)
Net Assets					
Beginning of year					(1,076,910)
Cumulative effect of a change in accounting principle					51,124
Beginning of year, restated					(1,025,786)
End of year					$ (2,279,628)

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, 2008

	URBAN RENEWAL DISTRICT I	URBAN RENEWAL DISTRICT II	URBAN RENEWAL DISTRICT III	MAJOR DEBT SERVICE	TOTAL
ASSETS					
Current Assets					
Cash and investments	$ 1,501	$ 2,147,775	$ 1,485,977	$ 21,516	$ 3,656,769
Taxes/assessments receivable, net	20,472	-	35,526	75,346	131,344
Other current assets	-	4,020	-	261	4,281
Due from other governments	-	-	31,639	103,518	135,157
Interfund receivable	-	103,518	-	-	103,518
	21,973	2,255,313	1,553,142	200,641	4,031,069
Noncurrent Assets					
Restricted cash	-	-	-	250,500	250,500
Total assets	$ 21,973	$ 2,255,313	$ 1,553,142	$ 451,141	$ 4,281,569
LIABILITIES					
Current Liabilities					
Accounts payable	$ -	$ 244,279	$ 104,169	$ -	$ 348,448
Interfund payable	-	-	-	103,518	103,518
Accrued wages	-	7,748	-	-	7,748
Accrued interest payable	-	-	-	8,438	8,438
Deferred revenue	20,472	-	35,526	75,346	131,344
Total liabilities	20,472	252,027	139,695	187,302	599,496
FUND BALANCES					
Reserved for Debt Service	-	-	-	250,500	250,500
Unreserved Fund Balance	1,501	2,003,286	1,413,447	13,339	3,431,573
Total fund balance	1,501	2,003,286	1,413,447	263,839	3,682,073
Total liabilities and fund balances	$ 21,973	$ 2,255,313	$ 1,553,142	$ 451,141	$ 4,281,569

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, 2008

Total fund balances - governmental funds	$ 3,682,073
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	131,344
Long-term liabilities, both current and noncurrent portions are not due and payable in the current period and therefore are not reported as liabilities in the funds	(6,093,045)
Total net assets - governmental activities	$ (2,279,628)

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

MISSOULA REDEVELOPMENT AGENCY

(A Component Unit of the City of Missoula)

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

For the Year Ended June 30, 2008

	URBAN RENEWAL DISTRICT I	URBAN RENEWAL DISTRICT II	URBAN RENEWAL DISTRICT III	MAJOR DEBT SERVICE	TOTAL
REVENUES					
Tax Increment Property Tax	$ 1,479	$ -	$ 507,699	$ 845,855	$ 1,355,033
State Contribution PERS	-	293	-	-	293
State Personal Property Tax Reimbursement	-	653	-	-	653
State Entitlement/CMAQ Funds	-	283,622	-	-	283,622
Grant	-	-	-	-	-
Investment Earnings	22	107,861	56,541	13,647	178,071
Miscellaneous	-	88	-	-	88
Total revenues	1,501	392,517	564,240	859,502	1,817,760
EXPENDITURES					
Current:					
Housing and Community Development	-	921,700	155,843	-	1,077,543
Capital Outlay	-	1,773,058	28,948	-	1,802,006
Debt Service Expense - Interest	-	-	-	188,828	188,828
Debt Service Expense - Principal	-	-	-	85,000	85,000
Total expenditures	-	2,694,758	184,791	273,828	3,153,377
Excess (deficiency) of revenues over expenditures	1,501	(2,302,241)	379,449	585,674	(1,335,617)
OTHER FINANCING SOURCES (USES)					
Transfers In	-	930,926	-	23,028	953,954
Transfers Out	-	-	(29,172)	(924,782)	(953,954)
Transfers to Other Governments	-	(5,490)	-	-	(5,490)
Issuance of Long-Term Debt	-	1,625,000	-	-	1,625,000
Total other financing sources (uses)	-	2,550,436	(29,172)	(901,754)	1,619,510
Net change in fund balance	1,501	248,195	350,277	(316,080)	283,893
FUND BALANCES					
Beginning of year	-	1,755,091	1,055,152	536,813	3,347,056
Cumulative effect of a change in accounting principle	-	-	8,018	43,106	51,124
Beginning of year, restated	-	1,755,091	1,063,170	579,919	3,398,180
End of year	$ 1,501	$ 2,003,286	$ 1,413,447	$ 263,839	$ 3,682,073

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, 2008

Amounts reported for *governmental activities* in the statement of activities are different because:	
Net change in fund balances - total governmental funds	$ 283,893
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	(3,561)
The change in compensated absence payable is reported in the statement of activities as an expense	(211)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	6,037
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(1,625,000)
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.	85,000
Change in net assets - statement of activities	$ (1,253,842)

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

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 five urban renewal districts: URD I in 1978, URD II in 1991, URD III in 2000, Front Street district in 2007, and Riverfront Triangle district in 2008. The five-member governing board is appointed by the Mayor and approved by City Council. Due to the control exercised by the City, MRA is considered a component unit of the City.

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

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

Basis of Presentation and Basis of Accounting:

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Basis of Accounting: (Continued)

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

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

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

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

Fund Financial Statements:
These statements provide information about the Agency's funds. The emphasis of fund financial statements is on major governmental funds. Each major fund is displayed in a separate column in the governmental funds statements. 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.

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

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.

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

Special Revenue Funds

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Basis of Accounting: (Continued)

Budgets and Budgetary Accounting:
An annual appropriated operating budget is adopted each fiscal year for the governmental funds on the modified accrual basis of accounting. Revenues are budgeted in the year they are measurable and available. Expenditures are budgeted in the year they are expected to be incurred. As required by Montana law, the full amount of increment derived from property taxes levied for the fiscal year is included in the Agency's budget.

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Taxable valuations for each Urban Renewal District and the corresponding tax increment amounts for November 2007 property tax billing are as follows:

	Taxable Value	Increment Value
Urban Renewal District II	$ 3,061,304	$ 1,201,481
Urban Renewal District III	$ 7,712,803	$ 708,457

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	$ 233,539
Repurchase Investment Account	311,059
Government Securities	3,264,210
Certificates of Deposit	98,461
	3,907,269
Less restricted cash held for debt service reserve	(250,500)
	$ 3,656,769

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.

NOTE 3. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2008, were as follows:

	Beginning Balance	Additions	Debt Retired	Ending Balance	Current Portion
Compensated Absences	$ 52,834	$ 211	$ -	$ 53,045	$ 40,320
MAEDC Note Payable	1,000,000	125,000	-	1,125,000	-
Bonds Payable	3,500,000	1,500,000	(85,000)	4,915,000	85,000
Total	$ 4,552,834	$ 1,625,211	$ (85,000)	$ 6,093,045	$ 125,320

NOTE 3. LONG-TERM DEBT (CONTINUED)

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

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

Debt service requirements to maturity on the tax increment bonds at June 30, 2008, are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	$ 85,000	$ 161,675	$ 246,675
2010	90,000	405,733	495,733
2011	125,000	257,529	382,529
2012	135,000	251,169	386,169
2013	145,000	244,062	389,062
2014-2018	825,000	1,101,307	1,926,307
2019-2023	1,065,000	859,618	1,924,618
2024-2028	1,400,000	524,938	1,924,938
2028-2032	1,045,000	112,336	1,157,336
Total	$4,915,000	$3,918,367	$8,833,367

NOTE 3. LONG-TERM DEBT (CONTINUED)

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

Debt service requirements to maturity on the loan payable based on amendments made subsequent to June 30, 2008, follow:

Year Ending June 30,	Principal	Interest	Total
2009	$ -	$ 16,875	$ 16,875
2010	-	16,875	16,875
2011	-	16,875	16,875
2012	-	16,875	16,875
2013	-	16,875	16,875
2014-2018	-	84,375	84,375
2019-2023	211,755	82,008	293,763
2024-2028	557,923	23,824	581,747
2029-2032	355,322	9,385	364,707
Total	$1,125,000	$ 283,967	$1,408,967

NOTE 4. COMMITMENTS AND DESIGNATED FUND BALANCES

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

Urban Renewal District II:	
Public:	
Silver Park	$ 72,147
Private:	
1275 South 1st Street West	55,097
Equinox	250,000
	$ 377,244

Urban Renewal District III:	
Public:	
South Avenue Improvements	$ 15,176
Private:	
Missoula Federal Credit Union	6,000
2200 Dixon Avenue	37,984
	$ 59,160

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:

Year Ended June 30,	Employee	Agency	State
2008	6.900%	6.935%	0.100%
2007	6.900%	6.800%	0.100%
2006	6.900%	6.800%	0.100%

NOTE 5. RETIREMENT PLAN (CONTINUED)

The amounts contributed during the years ended June 30, 2008, 2007, and 2006, were equal to the required contribution for each year. The amounts contributed by the Authority and the State of Montana were as follows:

Year Ended June 30,	Agency	State
2008	$ 19,545	$ 287
2007	18,255	268
2006	17,843	262

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

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

NOTE 6. LEASES

In December 2006, the City provided MRA with office space through a development agreement. The office space is provided rent-free through November 2011.

NOTE 7. INTERFUND TRANSACTIONS

Urban Renewal District III transferred $29,172 to Urban Renewal District II for its share of administrative costs. Urban Renewal District II transferred $5,490 to the city for MRA's share of various City-wide projects.

Front Street District and Riverfront Triangle Districts did not earn tax increment revenues in 2008. These districts will reimburse Urban Renewal District II for their share of administrative costs when increment revenues allow.

NOTE 8. RISK MANAGEMENT

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

NOTE 9. SUBSEQUENT EVENTS

Subsequent to June 30, 2008, the City Council established the Riverfront Triangle urban renewal district for potential redevelopment projects in that area.

Subsequent to June 30, 2008, the MAEDC note payable was amended to defer principal payments to 2023 and later years. The remainder of the terms of the note remained unchanged.

REQUIRED SUPPLEMENTARY INFORMATION

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2008

	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, 2007	$ 2,058,464	$ 1,755,091	$ 1,755,091	$ -	$ 1,024,341	$ 1,063,170	$ 1,063,170	$ -
Resources (Inflows):								
Miscellaneous	100	100	88	(12)	-	-	-	-
Investment earnings	40,000	112,510	107,861	(4,649)	10,000	40,000	56,541	16,541
Long-term debt proceeds	1,331,500	3,011,500	1,625,000	(1,386,500)	-	-	-	-
Tax increment property tax	-	-	-	-	506,114	516,876	507,699	(9,177)
State contribution PERS	250	250	293	43	-	-	-	-
State personal property tax reimbursement	653	653	653	-	-	-	-	-
State entitlement	283,622	283,622	283,622	-	-	-	-	-
Intergovernmental (CTEP)	500,000	500,000	-	(500,000)	-	-	-	-
Transfers in	633,602	908,943	930,926	21,983	-	-	-	-
Amounts available for appropriation	$ 4,848,191	$ 6,572,669	4,703,534	$ (1,869,135)	$ 1,540,455	$ 1,620,046	1,627,410	$ 7,364
Charges to Appropriations (Outflows):								
Housing and community development	$ 2,599,839	$ 6,533,497	921,700	$ 5,611,797	$ 1,411,455	$ 1,411,455	155,843	$ 1,255,612
Capital outlay	2,253,700	2,465,510	1,773,058	692,452	54,000	54,000	28,948	25,052
Debt service expenditures	-	-	-	-	-	-	-	-
Transfers to other governments	4,411	5,490	5,490	-	-	-	-	-
Transfers out	-	-	-	-	75,000	75,000	29,172	45,828
Total charges to appropriations	$ 4,857,950	$ 9,004,497	2,700,248	$ 6,304,249	$ 1,540,455	$ 1,540,455	213,963	$ 1,326,492
Excess of resources (inflows) over charges to appropriations (outflows)			2,003,286				1,413,447	
Budgetary Fund Balance, June 30, 2008			$ 2,003,286				$ 1,413,447	

	MAJOR DEBT SERVICE			
	BUDGETED AMOUNTS			VARIANCE WITH
	ORIGINAL	FINAL	ACTUAL	FINAL BUDGET
Budgetary Fund Balance, July 1, 2007	$ 501,000	$ 501,000	$ 579,919	$ 78,919
Resources (Inflows):				
Investment earnings	-	-	13,647	13,647
Long-term debt proceeds	-	-	-	-
State personal property tax reimbursement	-	-	-	-
Tax increment property tax	769,930	871,182	845,855	(25,327)
Transfers in	250,500	76,411	23,028	(53,383)
Amounts available for appropriation	$ 1,521,430	$ 1,448,593	1,462,449	$ (65,063)
Charges to Appropriations (Outflows):				
Debt service expenditures	$ 250,500	$ 273,527	273,828	$ (301)
Transfers out	809,102	794,771	924,782	(130,011)
Total charges to appropriations	$ 1,059,602	$ 1,068,298	1,198,610	$ (130,312)
Excess of resources (inflows) over charges to appropriations (outflows)			263,839	
Budgetary Fund Balance, June 30, 2008			$ 263,839	

MISSOULA REDEVELOPMENT AGENCY

(A Component Unit of the City of Missoula)

BUDGETARY COMPARISON SCHEDULE – BUDGET-TO-GAAP RECONCILIATION

June 30, 2008

NOTE 1

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

	URBAN RENEWAL DISTRICT #2	URBAN RENEWAL DISTRICT #3	DEBT SERVICE
Sources/Inflows of Resources			
Actual available for appropriation from the budgetary comparison schedule	4,703,534	$ 1,627,410	$ 1,462,449
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(1,755,091)	(1,063,170)	(579,919)
Transfers from other funds are inflows of budgetary resource but are not revenues for financial reporting purposes	(930,926)	-	(23,028)
Proceeds from long term debt are inflows of budgetary resource but are not revenues for financial reporting purposes	(1,625,000)	-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 392,517	$ 564,240	$ 859,502
Uses/Outflows of Resources			
Actual total charges to appropriations from the budgetary comparison schedule	$ 2,700,248	$ 213,963	$ 1,198,610
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(5,490)	(29,172)	(924,782)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 2,694,758	$ 184,791	$ 273,828

MISSOULA REDEVELOPMENT AGENCY
(A Component Unit of the City of Missoula)
BALANCE SHEET – COMBINING DEBT SERVICE
June 30, 2008

	MILLSITE $3.6 M BONDS	MAEDC BROWNFIELDS NOTE	TOTAL
ASSETS			
Current Assets			
Cash and investments	$ 12,948	$ 8,568	$ 21,516
Taxes/assessments receivable, net	75,346	-	75,346
Other current assets	-	261	261
Due from other governments	103,518	-	103,518
	191,812	8,829	200,641
Noncurrent Assets			
Restricted cash	250,500	-	250,500
Total assets	$ 442,312	$ 8,829	$ 451,141
LIABILITIES			
Current Liabilities			
Interfund payable	$ 103,518	$ -	$ 103,518
Accrued interest payable	-	8,438	8,438
Deferred revenue	75,346	-	75,346
Total liabilities	178,864	8,438	187,302
FUND BALANCES			
Unreserved Fund Balance	12,948	391	13,339
Reserved Fund Balance	250,500	-	250,500
Total fund balances	263,448	391	263,839
Total liabilities and fund balances	$ 442,312	$ 8,829	$ 451,141

MISSOULA REDEVELOPMENT AGENCY

(A Component Unit of the City of Missoula)

STATEMENT OF REVENUES, EXPENDITURES AND HCANGES IN FUND BALANCES – COMBINING DEBT SERVICE

June 30, 2008

	MILLSITE $3.6 M BONDS	MAEDC BROWNFIELDS NOTE	TOTAL
REVENUES			
Tax Increment Property Tax	$ 845,855	$ -	$ 845,855
Investment Earnings	13,256	391	13,647
Total revenues	859,111	391	859,502
EXPENDITURES			
Current:			
Interest Expense	165,800	23,028	188,828
Principal Expense	85,000	-	85,000
Total expenditures	250,800	23,028	273,828
Excess (deficiency) of revenues over expenditures	608,311	(22,637)	585,674
OTHER FINANCING SOURCES (USES)			
Transfers In	-	23,028	23,028
Transfers Out	(924,782)	-	(924,782)
Total other financing sources (uses)	(924,782)	23,028	(901,754)
Net change in fund balance	(316,471)	391	(316,080)
FUND BALANCES			
Beginning of year	536,813	-	536,813
Cumulative effect of a change in accounting principle	43,106	-	43,106
Fund balance	579,919	-	579,919
End of year	$ 263,448	$ 391	$ 263,839

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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 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, 2008, and have issued our report thereon dated December 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

Anderson ZurMuehlen & Co., P.C.

Missoula, Montana
December 11, 2008