



March 28, 2025

To the Honorable Mayor and Members of the City Council
City of Missoula, Montana

We have audited the financial statements of the City of Missoula as of and for the year ended June 30, 2024, and have issued our report thereon dated March 28, 2025. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards* and our Compliance Audit under the Uniform Guidance

As communicated in our letter dated January 15, 2025, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America and to express an opinion on whether the City of Missoula complied with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Missoula's major federal programs. Our audit of the financial statements and major program compliance does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City of Missoula solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our responsibility, as prescribed by professional standards as it relates to the audit of the City of Missoula's major federal program compliance, is to express an opinion on the compliance for each of the City of Missoula's major federal programs based on our audit of the types of compliance requirements referred to above. An audit of major program compliance includes consideration of internal control over compliance with the types of compliance requirements referred to above as a basis for designing audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, as a part of our major program compliance audit, we considered internal control over compliance for these purposes and not to provide any assurance on the effectiveness of the City of Missoula's internal control over compliance.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our Independent Auditor's 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* dated March 28, 2025. We have also provided our comments regarding compliance with the types of compliance requirements referred to above and internal controls over compliance during our audit in our Independent Auditor's Report on Compliance with Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance dated March 28, 2025.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

As stated in our auditor's report, professional standards require us to design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as "significant risks." We have identified the following as significant risks.

- **Management Override** - Professional standards require auditors to address the possibility of management overriding controls. Accordingly, we identified as a significant risk that management of the City may have the ability to override controls that the organization has implemented. Management may override the City's controls in order to modify the financial records with the intent of manipulating the financial statements to overstate the organization's financial performance or with the intent of concealing fraudulent transactions.
- **Revenue Recognition** - We identified revenue recognition as a significant risk in the areas of receivables and unavailable revenue received due to management judgment and financial and operational incentives for the City to overstate revenues.
- **Capitalization** – We identified capitalization as a significant risk based on our professional judgment that potential errors could be made in the capital asset reconciliation process and incorrectly classified as additions.
- **Infrastructure Assets** – We identified the calculation of infrastructure assets as a significant risk due to there being a significant estimate involved with these items.
- **Net Pension/OPEB Liability**– We identified NPL/NOL as a significant risk due to there being a significant estimate involved with these items.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City of Missoula is included in Note 1 to the financial statements. As described in Note 1, the City of Missoula changed accounting policies related to accounting for accounting changes and error corrections to adopt the provisions of GASB Statement No. 100, *Accounting Changes and Error Corrections*. Accordingly, the presentation and disclosure requirements have been applied to the financial statements for the year ended June 30, 2024. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are:

- Management's estimate of the valuations surrounding the net pension and OPEB liability are based on actuarial valuations.
- Management's estimate of the compensated absences is based on a calculation using years of service and payout limits in accordance with city policies and the employment contracts.
- Management's estimate of the valuation of infrastructure is based on a calculation using a discount rate and engineering cost per foot.

We evaluated the key factors and assumptions used to develop these estimates and determined that the estimates are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City of Missoula's financial statements relate to the disclosures of the employee benefit plans in Note F, Risk Management Note K, and Construction Commitments Note M.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit. The following misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

Government-wide

DR. Right-to-use leased asset	\$2,331,400	
DR. Right-to-use subscription asset	478,706	
DR. Amortization expense	139,498	
DR. Other financing sources	2,810,106	
CR. Accumulated amortization		\$139,498
CR. Lease liability		2,331,400
CR. Subscription liability		478,706
CR. Capital Outlay		2,810,106

To record lease and subscription AXON agreement.

General fund

DR. Capital Outlay	\$2,810,106	
CR. Other financing sources		\$2,810,106

To record lease and subscription AXON agreement.

The following summarizes corrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole, however was elected to be corrected by management:

Government-wide

DR. Capital Outlay	\$1,640,811	
CR. Capital Assets Being Depreciated		1,640,811
DR. Depreciation Expense	26,636	
CR. Accumulated Depreciation		26,636

To record correction to the index used for infrastructure valuation.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. We did not identify any circumstances that affect the form and content of the auditor's report.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated March 28, 2025.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City of Missoula, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City of Missoula's auditors.

Other Information Included in Annual Reports

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the City of Missoula's annual reports, does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

The consolidated financial statements include the financial statements of the discretely presented component units Missoula Redevelopment Agency, Missoula Parking Commission, Tourism Business Improvement District, and the Business Improvement District. For the purpose of our audit, we consider Missoula Redevelopment Agency, Missoula Parking Commission, and Tourism Business Improvement District to be significant components of the consolidated financial statements; however, we do not consider the Business Improvement District to be a significant component of the consolidated financial statements. Consistent with the audit of the consolidated financial statements as a whole, our audit included obtaining an understanding of these discretely present component units and their environment, including internal control, sufficient to assess the risks of material misstatement of the consolidated financial statements of those discretely presented component units and completion of further audit procedures.

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

Eide Bailly LLP

Billings, Montana