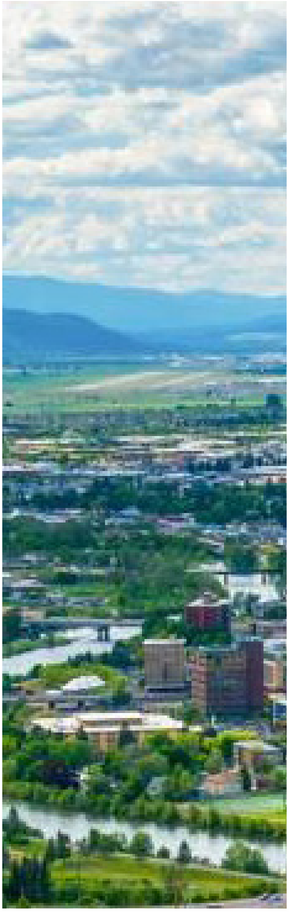
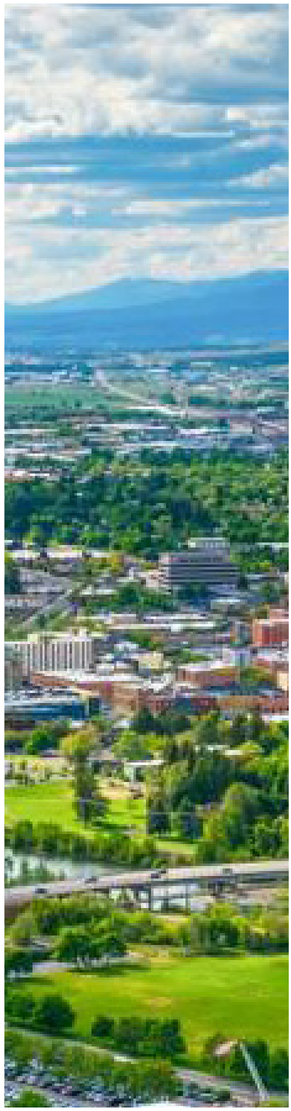
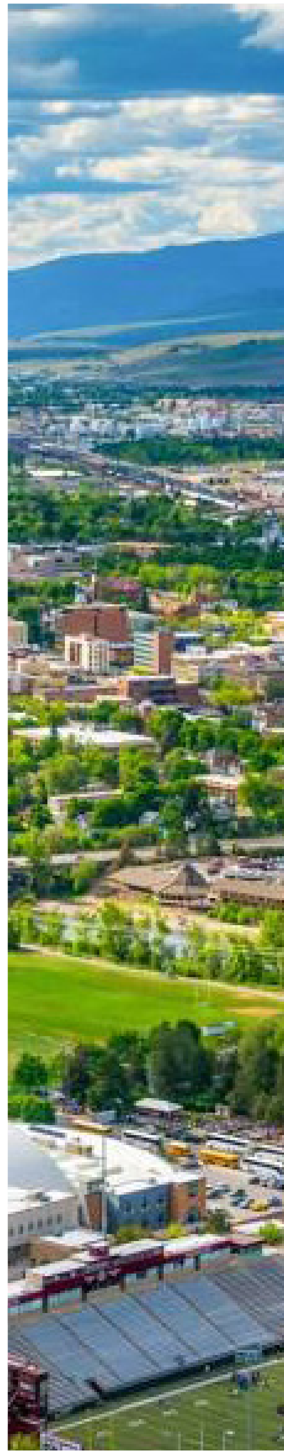

The Financial State of

The City of Missoula and Missoula County, Montana

Missoula & Missoula County, Montana

The City of Missoula is a jewel located between Glacier and Yellowstone National Parks. It is the home of the University of Montana and has a population of 74,822. It is breathtakingly beautiful and an outdoor enthusiast's playground. It is also the county seat of Missoula County, Montana, with a population of 117,922, making it the state's third most populous county.

Montana's natural beauty is a gift from the universe, but its financial conditions are manmade.

Truth in Accounting's financial analysis of Missoula City and County aims to inform Missoula taxpayers about the true cost of their government. By being well-informed, voters can make knowledgeable decisions on taxation and expenditure policies, ensuring transparency and accountability in governance.

As a nonpartisan, non-profit organization, we focus on how the government executes its accounting because lax standards lead to unsustainable debt for governments at all levels. People need good data before entering the voting booth.

If the government can't count, then we can't count on our government.

Daniels College of Business
UNIVERSITY OF DENVER
School of Accountancy

Truth in Accounting

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Truth in Accounting's Mission:
To educate and empower citizens with understandable, reliable, and transparent government financial information.

If you have questions about this report and the Truth in Accounting mission and methodology please contact Judi Willard at jwillard@truthinaccounting.org or 217-801-5821. If you find value in our work please consider making a contribution.

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UNIVERSITY OF DENVER
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Truth in Accounting

City of Missoula

The Truth

- Money Needed to Pay Bills
  $152 Million
- Taxpayer Burden™
  $5,300
- Financial Grade
  D

Truth in Accounting

Financial State of the City of Missoula

Despite its natural beauty, the City of Missoula, Montana, faces significant financial challenges. According to our analysis of the city's 2023 annual comprehensive financial report, the city needs $152 million to settle all its bills, resulting in a Taxpayer Burden™ of $5,300 and earning a "D" grade in fiscal responsibility. This assessment underscores the accounting maneuvers that obscure the actual costs of government operations.

Despite its financial woes, Missoula remains a vibrant community with attractions like the University of Montana. And the city's allure as an outdoor enthusiast's paradise and its strategic location make it a crucial economic and cultural hub in the region.

As with all our reports, Truth in Accounting advocates for improved transparency in government financial reporting, akin to standards the SEC applies to publicly traded companies. Current accounting practices often mask actual financial health, using tactics such as inflating revenue assumptions and deferring bill payments to subsequent fiscal years. These practices can create a misleading appearance of balanced budgets while a government accumulates unsustainable debt levels, ultimately passing the burden onto future taxpayers.

In response to these challenges, Truth in Accounting makes no tax and spending policy recommendations. On the contrary, we aim to empower citizens and elected officials by opening the books so they can engage in fiscally realistic debates and take responsibility for the city's financial future.

Truth in Accounting advocates for the city of Missoula to adopt FACT-based budgeting and accounting standards to illuminate fiscal reality and address it head-on. TIA's vision is one of hope and optimism, striving for long-term economic stability and growth of the city for the good of its citizens.

www.truthinaccounting.org | www.data-z.org | www.ci.missoula.mt.us

City of Missoula's Financial Breakdown

Fast Facts

- Money Needed to Pay Bills **$152 Million**
- Taxpayer Burden™ **$5,300**
- Financial Grade **D**

The City's Bills Exceeded Its Assets	
Total Assets	$609,170,000
Minus: Capital Assets	-$510,880,000
Restricted Assets	-$15,779,000
Assets Available to Pay Bills	$82,511,000
Minus: Total Bills*	$234,537,000
Money needed to pay bills	$152,026,000
Each taxpayer's share of this burden	$5,300

*Breakdown of Total Bills	
Bonds	$199,376,000
Other Liabilities	$50,425,000
Minus: Debt Related to Capital Assets	-$78,556,000
Unfunded Pension Benefits	$51,969,000
Unfunded Retiree Health Care Benefits	$11,323,000
Total Bills	$234,537,000

Grade:

D

Bottom line: The city of Missoula would need $5,300 from each of its taxpayers to pay all of its outstanding bills and received a "D" grade for its finances. According to Truth in Accounting's grading scale, any government with a Taxpayer Burden between $5,000 and $20,000 is given a "D" grade.

Truth in Accounting is a 501(c)(3) nonprofit committed to educating and empowering you with understandable, reliable, and transparent government financial information so you can be a knowledgeable participant in your government and its budget process.

Missoula County

The Truth

- Money Needed to Pay Bills
  $42.4 Million
- Taxpayer Burden™
  $900
- Financial Grade
  C

Truth in Accounting

Financial State of Missoula County

Missoula County, home to the scenic city of Missoula and a gateway to the natural splendor between Glacier and Yellowstone National Parks faces significant financial challenges. According to Truth in Accounting's analysis of the county's 2023 annual comprehensive financial report, the county needs $42.4 million to settle all its bills, resulting in a Taxpayer Burden™ of $900. This assessment has led to a "C" grade for financial health, indicative of ongoing accounting maneuvers that obscure the actual costs of government operations.

Despite its natural beauty and cultural attractions like the University of Montana, Missoula County has struggled with timely financial reporting for the past three years. High staff turnover and a lack of local independent auditing firms qualified in government financial auditing has hampered efforts to file reports promptly, complicating efforts to accurately assess and address its financial situation. These delays underscore the nationwide shortage of accountants in the private and public sectors.

Truth in Accounting advocates for improved transparency in government financial reporting, akin to standards the SEC applies to publicly traded companies. Current accounting practices often mask actual financial health, using tactics such as inflating revenue assumptions and deferring bill payments to subsequent fiscal years. These practices can create a misleading appearance of balanced budgets while a government accumulates unsustainable debt levels, ultimately passing the burden onto future taxpayers.

In response to these challenges, Truth in Accounting makes no tax and spending policy recommendations. On the contrary, we aim to empower citizens and elected officials by opening the books so they can engage in fiscally realistic debates and take responsibility for the county's financial future.

Truth in Accounting advocates for Missoula County to adopt FACT-based budgeting and accounting standards to illuminate fiscal reality and address it head-on. TIA's vision is one of hope and optimism, striving for the long-term economic stability and growth of Missoula County for the good of its citizens.

Missoula County's Financial Breakdown

Fast Facts

- Money Needed to Pay Bills **$42.4 Million**
- Taxpayer Burden™ **$900**
- Financial Grade **C**

The City's Bills Exceeded Its Assets	
Total Assets	$378,086,000
Minus: Capital Assets	-$225,076,000
Restricted Assets	-$46,426,000
Assets Available to Pay Bills	$106,584,000
Minus: Total Bills*	$148,988,000
Money needed to pay bills	$42,404,000
Each taxpayer's share of this burden	$900

*Breakdown of Total Bills	
Bonds	$91,813,000
Other Liabilities	$81,413,000
Minus: Debt Related to Capital Assets	-$109,160,000
Unfunded Pension Benefits	$78,294,000
Unfunded Retiree Health Care Benefits	$6,628,000
Total Bills	$148,988,000

Grade:	
C	Bottom line: The county of Missoula would need $900 from each of its taxpayers to pay all of its outstanding bills and received a "C" grade for its finances. According to Truth in Accounting's grading scale, any government with a Taxpayer Burden between $0 and $4,999 is given a "C" grade.

Truth in Accounting is a 501(c)(3) nonprofit committed to educating and empowering you with understandable, reliable, and transparent government financial information so you can be a knowledgeable participant in your government and its budget process.

Background

Truth in Accounting™ advocates for stricter government accounting practices. Our analyses show that government rules are less effective than the rules the Securities and Exchange Commission (SEC) places on publicly traded companies. The SEC sets standards for publicly traded companies to protect investors. Taxpayers are the government investors and deserve the same protection. With current accounting standards, the true cost of government is hidden behind accounting tricks.

Most state statutes require local governments to prepare and adopt balanced budgets, ensuring that expenditures do not exceed revenues. These rules are in place to avert future financial difficulties and enhance accountability. As the Governmental Accounting Standards Board (GASB) points out, these requirements are "to require financing and spending practices that enable governmental entities to avoid financial difficulty and to live within their means."

Another objective of balanced budget requirements is accountability; elected officials should be accountable for the tax dollars they spend. Former U.S. Treasury official Frank Cavanaugh said it best, "*Politicians should not have the pleasure of spending (getting votes) without the pain of taxing (losing votes).*"

By definition, if a city has a balanced budget requirement, then spending should not exceed earned revenue brought in during a specific year. Balanced budget requirements should prevent elected officials from shifting the burden of paying for current-year services onto future-year taxpayers and avoid accumulating unsustainable debt.

So, how can the city and county of Missoula claim their budgets are balanced while our report shows them in debt? The answer lies in the accounting tricks used to calculate budgets.

Municipalities balance budgets by using accounting tricks such as the following:

- Understating the true costs of government (Most Common)
- Inflating revenue assumptions
- Counting borrowed money as income
- Delaying the payment of current bills until the start of the next fiscal year so they aren't included in the budget calculations

Background

The most common accounting trick cities use to understate government costs is not including true compensation costs. The government provides employees salaries and benefits, such as healthcare, life insurance, and pensions. While pension and other post-employment costs will not be paid until the employees retire, they still represent current compensation costs earned and incurred throughout their tenure. To ensure that government is accountable for these costs, each budget should include contributions to the retirement funds in the amount of the portion of retirement benefits earned and incurred during the budget period.

Unfortunately, some elected officials have used portions of the money owed to pension and OPEB funds to keep taxes low and pay for politically popular programs. Instead of funding promised benefits now, politicians have shifted these payments to future taxpayers which makes the budget appear balanced while increasing debt.

Governments can also accumulate debt while claiming balanced budgets because most budgets are prepared on a cash basis. This antiquated accounting method includes cash inflows, including loan proceeds as revenue, and outflows—in other words, only checks written. We recommend FACT-based budgeting and accounting, which stands for full accrual calculations and techniques (FACT). FACT-based budgeting and accounting moves beyond cash-based accounting to provide more reliable and truthful budgeting and financial reporting documents. It calls for accuracy and accountability. We currently do not have this in the United States. It is Truth in Accounting's goal to make this a reality.

For more details on accounting problems, visit the How to Change Accounting Standards section under the Resource tab at www.truthinaccounting.org.

Our Methodology

Truth in Accounting™ (TIA™) employs a comprehensive methodology to assess the integrity of government finances. This methodology involves a meticulous comparison of all bills, including those associated with retirement systems, against the entirety of a government's assets that can be utilized to fulfill these obligations.

TIA™ begins its analysis by identifying all assets, including capital assets (e.g., buildings, roads, bridges, parks, etc.) and other assets (e.g., cash, investments, and money in fund accounts). Some of these assets are available to pay a government's bills or liabilities, while others are restricted by law or contract. The restricted and capital assets are removed from the total because they cannot be easily converted to cash. The result is a calculation of a government's Assets Available to Pay Bills.

TIA™ then identifies Total Bills, which include liabilities disclosed in the government's financial report, such as accounts payable, bonded indebtedness (bonds), and pension and Other Post-Employment Benefit (OPEB) obligations found in the retirement systems' Annual Comprehensive Financial Reports (ACFRs). Since we removed capital assets from our computation of Assets Available to Pay Bills, we also subtract from Total Bills the amount of debt related to financing the capital assets. Only liabilities incurred to date are included in Total Bills, and special care is taken to calculate the government's share of multiemployer and cost-sharing retirement plans. TIA™ calculates Money Needed (or Available) to Pay Bills by subtracting the Total Bills from the Assets Available to Pay Bills.

The bottom line is expressed as a Taxpayer Burden or Surplus™. This represents each taxpayer's share of the bills the government has already incurred, but has chosen to pay in the future.

TIA's analysis indicates that most governments have made promises that exceed their financial capacity. By concealing the incurred costs of government retiree benefits off-balance sheet, most governments are failing to comply with the principles of balanced budget requirements. The approach described above aligns more closely with Generally Accepted Accounting Principles (GAAP), which entail including the cost of long-term liabilities in financial reporting.

Former U.S. Comptroller General David Walker says, "While other organizations have compared the states' unfunded retirement liabilities, only [Truth in Accounting] has determined the overall financial condition of every state."

Pension & Market Volatility

A government's net pension liabilities are calculated by subtracting the market value of its pension plan investments from the estimated promised benefits. The net pension liability will fluctuate based on market conditions.

Net pension liability is a component of a government's net position (assets minus liabilities), and market value fluctuations result in net position volatility. To avoid such fluctuations, the Governmental Accounting Standards Board (GASB) allows governments to amortize the fluctuation in market values over time.

Truth in Accounting believes a government's net position should not be shielded from market fluctuations. Financial report users, especially taxpayers, must understand the reality of pension plan investments. Including the current market value in the pension liability is not the cause of great volatility in a government's net position: reality is. Taxpayers must understand this volatility and the risk governments take with our tax dollars.

Truth in Accounting calculates the money needed to pay bills using the market value of pension investments. We find that the value of pension investments increases and decreases due to either strong or weak markets. This highlights the volatility and risk surrounding pension plan investments and corresponding pension liabilities.

TIA believes that pension plans should be overfunded during market upturns so the plans can weather downturns in the market. Unfortunately, elected officials may see temporary, unrealized, overfunded status as an opportunity to reduce pension contributions and/or increase benefits.

Taxpayers can only hope that when pension plan investments need to be sold to pay for benefits, the market value of those investments will be high. If not, taxpayers must pay higher taxes to cover the benefits promised to past government employees.