



**CITY OF MONTROSE
GENESEE COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2025**

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Montrose, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Montrose, Michigan (the "City"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Implementation of New Accounting Standard

As discussed in Note 14 to the financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, during the year ended June 30, 2025. This change was made to conform with the requirements of the new standard. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for

the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the pension schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2025, on our consideration of the City'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 solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance

with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, Michigan
December 29, 2025

Management's Discussion and Analysis

City of Montrose
Management's Discussion and Analysis
June 30, 2025

As management of the City of Montrose, Michigan (The “City” or “government”) we offer readers of the City’s financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2025. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$9,248,716 (*net position*). The City had an *unrestricted net position* of \$2,428,613.
- The City’s revenues were \$2,918,068 and expenses were \$2,810,738 for an increase in net position of \$107,330.
- At the close of the current fiscal year, the City’s governmental funds reported combined fund balances of \$1,150,283, an increase of \$5,429 in comparison with the prior year. Approximately 72.4% of this amount, or \$832,887, is available for spending at the government’s discretion (*unassigned fund balance*).
- During the year, the City’s general fund balance increased by \$70,196 for an ending fund balance of \$891,539.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$832,887, or approximately 88.5% of total general fund expenditures and transfers out.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the City’s basic financial statements. The City’s basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the City’s assets, deferred outflows and inflows, and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., accrued but unpaid pension benefits and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, police and fire protection, streets, planning and zoning, and culture and recreation. The business-type activities of the City include water and sewer services.

The government-wide financial statements include not only the City of Montrose itself (known as the primary government), but also a legally separate Downtown Development Authority, for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, major streets, local streets, and neighborhood enhancement project funds, which are considered to be major funds. Data from the farmers market operating and debt funds are presented as a separate column as they are considered nonmajor funds.

The City adopts an annual appropriated budget for the general fund and each special revenue fund. A budgetary comparison schedule for the general fund and each major special revenue fund has been provided to demonstrate compliance with these budgets.

Proprietary Funds. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprises funds to account for its water and sewer operations.

The City uses an internal service fund to account for equipment costs by allocating the cost to the funds that are using the resources. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds of the City.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City reports one type of fiduciary fund, which is a custodial fund.

Custodial funds report resources held by the City in a custodial capacity for individuals, private organizations, and other governments.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's budgetary comparison schedules and the City's schedules of funding progress and employer contributions for the pension.

This report also presents other supplementary information which includes the combining and individual fund statements. The combining statements are presented immediately following the required supplementary information on pensions.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,248,716 at the close of the most recent fiscal year.

City of Montrose's Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2025	2024	2025	2024	2025	2024
ASSETS						
<i>Current Assets</i>						
Cash and Investments	\$ 1,444,759	\$ 1,713,975	\$ 1,078,729	\$ 1,714,600	\$ 2,523,488	\$ 3,428,575
Receivables	386,548	159,011	253,357	1,058,011	639,905	1,217,022
Prepaid Items	51,377	10,111	13,062	15,159	64,439	25,270
Total Current Assets	1,882,684	1,883,097	1,345,148	2,787,770	3,227,832	4,670,867
<i>Noncurrent Assets</i>						
Restricted Cash	-	-	36,355	33,050	36,355	33,050
Capital Assets, net	2,678,698	2,620,352	5,117,481	4,999,113	7,796,179	7,619,465
Total Assets	4,561,382	4,503,449	6,498,984	7,819,933	11,060,366	12,323,382
DEFERRED OUTFLOWS OF RESOURCES						
Pension and OPEB Related Deferred Outflows	58,761	60,663	45,156	53,042	103,917	113,705
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	209,023	59,852	112,538	1,696,214	321,561	1,756,066
Accrued Payroll and Related Liabilities	16,001	-	10,278	-	26,279	-
Due to Other Units of Government	-	-	27,042	-	27,042	-
Unearned Revenues	-	51,583	-	-	-	51,583
Accrued Interest Payable	-	-	3,485	-	3,485	-
Current Portion of Long-term Debt	-	-	58,000	54,250	58,000	54,250
Internal Balances	115,560	-	(115,560)	-	-	-
Total Current Liabilities	340,584	111,435	95,783	1,750,464	436,367	1,861,899
<i>Noncurrent Liabilities</i>						
Long-term Debt	-	-	1,237,103	1,192,413	1,237,103	1,192,413
Net Pension Liability	52,719	(25,185)	48,662	111,618	101,381	86,433
Net OPEB Liability	65,767	59,431	43,846	39,620	109,613	99,051
Internal Balances	367,889	600,000	(367,889)	(600,000)	-	-
Total Liabilities	826,959	745,681	1,057,505	2,494,115	1,884,464	3,239,796
DEFERRED INFLOWS OF RESOURCES						
OPEB Related Deferred Inflows	18,661	31,733	12,442	24,172	31,103	55,905
NET POSITION						
Net Investment in Capital Assets	2,678,698	2,620,352	3,822,378	3,752,450	6,501,076	6,372,802
Restricted	282,672	322,863	36,355	33,050	319,027	355,913
Unrestricted	813,153	843,483	1,615,460	1,569,188	2,428,613	2,412,671
Total Net Position	\$ 3,774,523	\$ 3,786,698	\$ 5,474,193	\$ 5,354,688	\$ 9,248,716	\$ 9,141,386

A large portion of the City's net position, \$6,501,076 (or 70.3%), reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net position, \$319,027, or 3.4%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,428,613, or 26.3%, is unrestricted.

Governmental Activities. Governmental activities decreased the City's net position by \$12,175 during the year, from \$3,786,698 to \$3,774,523. This compares to an increase of \$762,118 during the previous year.

Business-type Activities. Business-type activities increased the City's net position by \$119,505 during the year, from \$5,354,688 to \$5,474,193. This compares to an increase of \$1,759,889 during the previous year.

The following summarizes the more significant changes in assets, liabilities, and deferred outflows/inflows of resources of the City during the year:

The City's total assets and deferred outflows of resources decreased by \$1,272,804, declining from \$12,437,087 to \$11,164,283. The most significant change was a decrease of \$905,087 in cash and investments, which reflects the City's decrease in accounts payable of \$1,434,505 offset by the decrease in receivables of \$577,117.

The City's total liabilities and deferred inflows of resources decreased by \$1,380,134, declining from \$3,295,701 to \$1,915,567. The most significant change was the decrease in accounts payable, which fell by \$1,434,505 due to construction costs that were payable at the end of the last year.

City of Montrose's Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2025	2024	2025	2024	2025	2024
Revenues						
Program Revenues						
Charges for Services	\$ 161,780	\$ 235,372	\$ 1,100,132	\$ 1,093,067	\$ 1,261,912	\$ 1,328,439
Operating Grants and Contributions	674,364	319,802	-	76,617	674,364	396,419
Capital Grants and Contributions	-	484,261	21,103	1,683,750	21,103	2,168,011
Total Program Revenues	836,144	1,039,435	1,121,235	2,853,434	1,957,379	3,892,869
General Revenues						
Property Taxes	642,894	600,752	-	-	642,894	600,752
Unrestricted State Sources	255,059	258,098	-	-	255,059	258,098
Interest Income	29,132	20,349	33,604	31,258	62,736	51,607
Total General Revenues	927,085	879,199	33,604	31,258	960,689	910,457
Total Revenues	1,763,229	1,918,634	1,154,839	2,884,692	2,918,068	4,803,326
Expenses						
General Government	311,907	227,631	-	-	311,907	227,631
Public Safety	501,579	420,954	-	-	501,579	420,954
Public Works	525,679	338,798	1,035,334	1,124,803	1,561,013	1,463,601
Health and Welfare	34,837	80,674	-	-	34,837	80,674
Community and Economic Development	343,590	39,532	-	-	343,590	39,532
Recreation and Culture	44,300	48,927	-	-	44,300	48,927
Interest on Long-term Debt	13,512	-	-	-	13,512	-
Total Expenses	1,775,404	1,156,516	1,035,334	1,124,803	2,810,738	2,281,319
Change in Net Position	(12,175)	762,118	119,505	1,759,889	107,330	2,522,007
Net Position at Beginning of Period	3,786,698	3,024,580	5,354,688	3,594,799	9,141,386	6,619,379
Net Position at End of Period	\$ 3,774,523	\$ 3,786,698	\$ 5,474,193	\$ 5,354,688	\$ 9,248,716	\$ 9,141,386

The following summarizes the more significant changes in the City's revenues and expenses compared to the prior year:

The City's total revenues decreased by \$1,885,258, from \$4,803,326 in the prior year to \$2,918,068 in the current year. Charges for services decreased by \$66,527 due to a reduction in service-related activity during the year. Operating grants and contributions increased by \$277,945, driven mainly by higher state revenue sharing and increased Neighborhood Enhancement Project grant activity. Capital grants and contributions decreased by \$2,146,908 compared to the prior year, primarily due to higher water system improvement grant activity recognized in the prior year. Property taxes increased by \$42,142, driven by an increase in taxable values. These combined changes resulted in an overall decrease in revenues for the year.

The City's total expenses increased by \$529,419, rising from \$2,281,319 to \$2,810,738. The increase was driven primarily by a \$304,058 rise in community and economic development expenses related to Neighborhood Enhancement Project grant activity. Other functional expenses also increased, largely due to higher operating costs. Overall, the City's higher expense levels were attributable to the combined impact of increased grant-funded activity and rising costs across functions.

Financial Analysis of Governmental Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

At June 30, 2025, the City's governmental funds reported combined fund balances of \$1,150,283, an increase of \$5,429 in comparison with the prior year. \$51,377 (4.5%) of the total fund balance is in nonspendable form (prepaid expenditures). Approximately 72.4%, or \$832,887, of this amount constitutes *unassigned fund balance*, which is available for spending at the City's discretion. \$249,187, or 21.7%, is categorized as *restricted* to indicate that it restricted for City streets, garbage and rubbish collection, and mosquito control. The remaining balance of \$16,832, or 1.5%, is categorized as *committed* or *assigned*.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance was \$832,887, while total fund balance increased to \$891,539. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 88.5% of total general fund expenditures and transfers out, while total fund balance represents approximately 94.7% of that same amount. The fund balance of the City's general fund increased by \$70,196 during the current fiscal year. The most significant reason for the increase was greater property tax and intergovernmental revenues along with a significant decrease in general government expenditures.

The major streets fund, a major special revenue fund, increased by \$77,171 during the current fiscal year, ending with a fund balance of \$225,013. The most significant change was the absence of capital grants and contributions and related capital outlay in the current fiscal year.

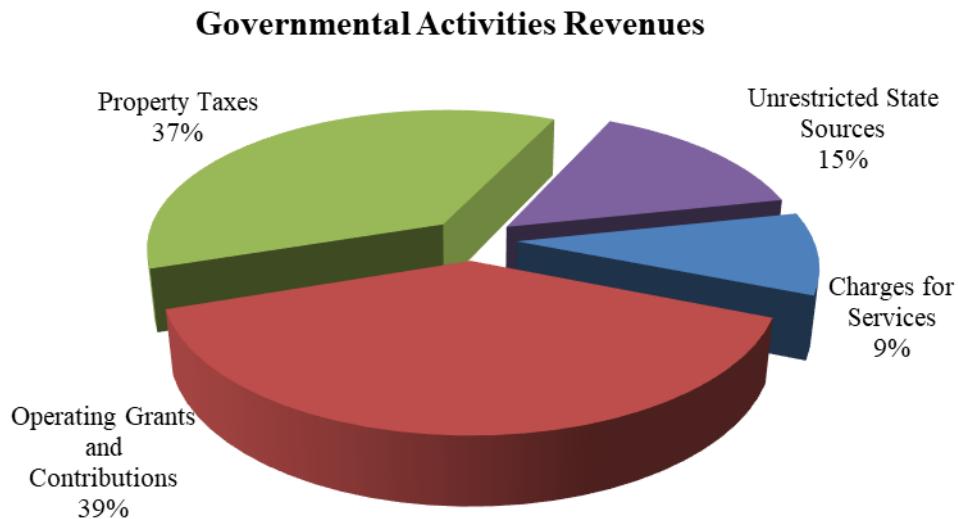
The local streets fund, a major special revenue fund, decreased by \$118,508 during the current fiscal year. The decrease was primarily due to increased public works expenditures related to chipseal and patching activities and the Howard Street Sidewalk Restoration project.

The neighborhood enhancement project fund, a major special revenue fund, decreased by \$21,330 during the current fiscal year. The decrease occurred despite a significant increase in operating grant revenues, as grant-funded expenditures related to neighborhood enhancement project activities exceeded revenues recognized during the year.

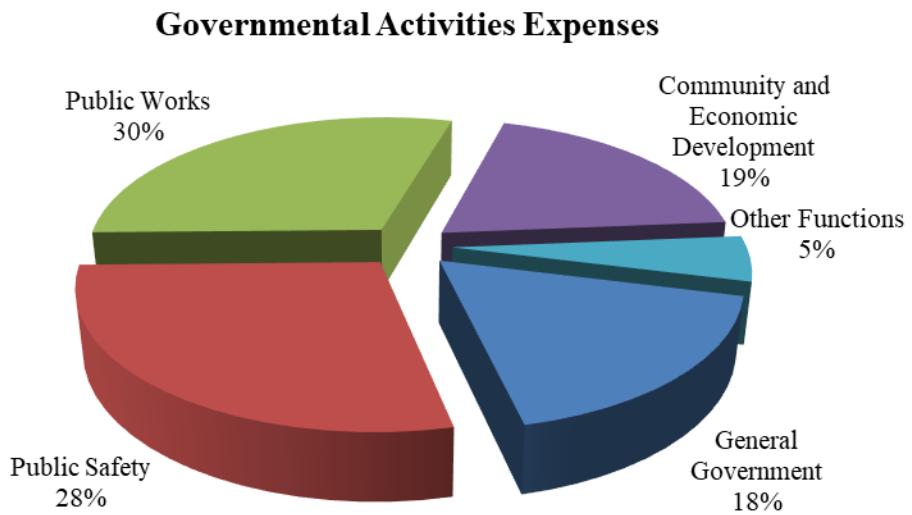
Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position at the end of the year was \$1,279,394 for the sewer fund and \$336,066 for the water fund. The change in net position was an increase of \$100,769 for the sewer fund and an increase of \$18,736 for the water fund. Changes for both the sewer and water funds were described in an earlier section of this report.

Governmental Activities

The following chart summarizes the revenue sources for the governmental activities of the City for the most recent fiscal year-end:



The following chart summarizes the expenses for the governmental activities of the City for the most recent fiscal year-end:



General Fund Budgetary Highlights

Original budget compared to final budget. The original and final budgets for the general fund were the same for the fiscal year, as no budget amendments were adopted. Revenue and expenditure appropriations remained unchanged throughout the year, reflecting stable budget assumptions at the time the budget was adopted.

Final budget compared to actual results. Actual revenues were \$287,089 below the final budget, reflecting unfavorable variances across several revenue categories. Actual expenditures and other financing uses were \$106,705 below final budgeted amounts, reflecting lower-than-anticipated spending across multiple departments.

The City had the following expenditures in excess of the appropriated amounts during the year ended June 30, 2025:

Function / Department	Final Budget	Actual Amount	Negative Variance
<i>General Government</i>			
Mayor and Council	27,625	45,441	(17,816)
Manager	33,030	47,787	(14,757)
Board of Review	1,705	2,288	(583)
Building and Ground	11,600	17,238	(5,638)
<i>Public Safety</i>			
Department of Public Safety	414,800	421,008	(6,208)
Police	13,010	27,635	(14,625)
<i>Public Works</i>			
Street Lights	19,000	27,516	(8,516)
<i>Community and Economic Development</i>			
Zoning	335	1,339	(1,004)

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2025 amounts to \$7,796,179 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, vehicles, machinery and equipment, and water and sewer systems.

More detailed information about the City's capital assets can be found in the notes to the financial statements.

Long-term Debt

The City had long-term debt of \$1,295,103 outstanding as of June 30, 2025. The City paid down \$54,250 of its outstanding debt during the year in accordance with scheduled maturities. The City remains well within its legal debt limits. More detailed information about the City's long-term debt can be found in the notes to the financial statements.

Economic Condition and Outlook

Management anticipates that approximately \$953,471 in general fund revenues will be available for appropriation in 2026, which is expected to be sufficient to support ongoing operations. Expenditures are projected to remain generally consistent with prior year levels, and the City will continue to monitor revenues and expenditures throughout the year to determine whether budget adjustments are necessary. Management remains focused on maintaining adequate financial reserves, controlling costs, and monitoring inflationary pressures to support the City's overall financial stability and continued delivery of essential services.

Contacting the City

This financial report is designed to provide a general overview of the City's finances to its citizens, customers, investors, and creditors and to demonstrate the City's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be directed to the City Manager.

Basic Financial Statements

City of Montrose
Statement of Net Position
June 30, 2025

	Primary Government			Component Unit - DDA	
	Governmental Activities	Business-type Activities	Total		
ASSETS					
<i>Current Assets</i>					
Cash and Investments	\$ 1,444,759	\$ 1,078,729	\$ 2,523,488	\$ 348,080	
Receivables	386,548	253,357	639,905	--	
Prepaid Items	51,377	13,062	64,439	161	
Total Current Assets	1,882,684	1,345,148	3,227,832	348,241	
<i>Noncurrent Assets</i>					
Restricted Cash	--	36,355	36,355	--	
Capital Assets not being Depreciated	77,533	2,441,683	2,519,216	46,768	
Capital Assets being Depreciated, net	2,601,165	2,675,798	5,276,963	2,154	
Total Assets	4,561,382	6,498,984	11,060,366	397,163	
DEFERRED OUTFLOWS OF RESOURCES					
Pension Related	23,323	21,530	44,853	--	
OPEB Related	35,438	23,626	59,064	--	
Total Deferred Outflows of Resources	58,761	45,156	103,917	--	
LIABILITIES					
<i>Current Liabilities</i>					
Accounts Payable	209,023	112,538	321,561	1,858	
Accrued Payroll and Related Liabilities	16,001	10,278	26,279	367	
Due to Other Units of Government	--	27,042	27,042	--	
Unearned Revenues	--	--	--	10,000	
Accrued Interest Payable	--	3,485	3,485	--	
Current Portion of Long-term Debt	--	58,000	58,000	--	
Internal Balances	115,560	(115,560)	--	--	
Total Current Liabilities	340,584	95,783	436,367	12,225	
<i>Noncurrent Liabilities</i>					
Long-term Debt	--	1,237,103	1,237,103	--	
Net Pension Liability	52,719	48,662	101,381	--	
Net OPEB Liability	65,767	43,846	109,613	--	
Internal Balances	367,889	(367,889)	--	--	
Total Liabilities	826,959	1,057,505	1,884,464	12,225	
DEFERRED INFLOWS OF RESOURCES					
OPEB Related	18,661	12,442	31,103	--	
Total Deferred Inflows of Resources	18,661	12,442	31,103	--	
NET POSITION					
Net Investment in Capital Assets	2,678,698	3,822,378	6,501,076	48,922	
Restricted	282,672	36,355	319,027	--	
Unrestricted	813,153	1,615,460	2,428,613	336,016	
Total Net Position	\$ 3,774,523	\$ 5,474,193	\$ 9,248,716	\$ 384,938	

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

City of Montrose
Statement of Activities
For the year Ended June 30, 2025

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Unit - DDA	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government			
						Business-type Activities	Total		
Primary Government									
Governmental Activities:									
General Government	\$ 311,907	\$ 41,528	\$ 52,083	\$ --	\$ (218,296)	\$ --	\$ (218,296)	\$ --	
Public Safety	501,579	--	--	--	(501,579)	--	(501,579)	--	
Public Works	525,679	120,062	267,094	--	(138,523)	--	(138,523)	--	
Health and Welfare	34,837	--	30,723	--	(4,114)	--	(4,114)	--	
Community and Economic Development	343,590	--	324,464	--	(19,126)	--	(19,126)	--	
Recreation and Culture	44,300	190	--	--	(44,110)	--	(44,110)	--	
Interest on Long-term Debt	13,512	--	--	--	(13,512)	--	(13,512)	--	
<i>Total Governmental Activities</i>	<i>1,775,404</i>	<i>161,780</i>	<i>674,364</i>	<i>--</i>	<i>(939,260)</i>	<i>--</i>	<i>(939,260)</i>	<i>--</i>	
Business-type Activities:									
Sewer	365,185	444,133	--	--	--	78,948	78,948	--	
Water	670,149	655,999	--	21,103	--	6,953	6,953	--	
<i>Total Business-type Activities</i>	<i>1,035,334</i>	<i>1,100,132</i>	<i>--</i>	<i>21,103</i>	<i>--</i>	<i>85,901</i>	<i>85,901</i>	<i>--</i>	
Total Primary Government	\$ 2,810,738	\$ 1,261,912	\$ 674,364	\$ 21,103	\$ (939,260)	\$ 85,901	\$ (853,359)	--	
Component Unit									
Downtown Development Authority	\$ 34,265	\$ --	\$ --	\$ --	--	--	--	(34,265)	
Total Component Unit	\$ 34,265	\$ --	\$ --	\$ --	--	--	--	(34,265)	

General Purpose Revenues:

Property Taxes	642,894	--	642,894	140,835
Unrestricted State Sources	255,059	--	255,059	--
Interest Income	29,132	33,604	62,736	919
<i>Total General Revenues</i>	<i>927,085</i>	<i>33,604</i>	<i>960,689</i>	<i>141,754</i>
Change in Net Position	(12,175)	119,505	107,330	107,489
Net Position at Beginning of Period	3,786,698	5,354,688	9,141,386	277,449
Net Position at End of Period	\$ 3,774,523	\$ 5,474,193	\$ 9,248,716	\$ 384,938

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

City of Montrose
Balance Sheet
Governmental Funds
June 30, 2025

	Special Revenue				Neighborhood Enhancement Project	Other Governmental Funds	Total Governmental Funds
	General	Major Streets	Local Streets	 			
ASSETS							
Cash and Investments	\$ 801,350	\$ 681,384	\$ 6,966	\$ --	\$ 9,021	\$ 1,498,721	
Receivables	92,474	56,293	10,509	227,272	--	386,548	
Prepaid Items	41,820	--	--	--	9,557	51,377	
Total Assets	\$ 935,644	\$ 737,677	\$ 17,475	\$ 227,272	\$ 18,578	\$ 1,936,646	
LIABILITIES							
Accounts Payable	\$ 32,105	\$ 2,145	\$ 1,463	\$ 173,310	\$ --	\$ 209,023	
Negative Equity in Pooled Cash	--	--	--	53,962	--	53,962	
Accrued Payroll and Related Liabilities	12,000	3,142	859	--	--	16,001	
Advances from Other Funds	--	483,449	--	--	--	483,449	
Total Liabilities	44,105	488,736	2,322	227,272	--	762,435	
DEFERRED INFLOWS OF RESOURCES							
Unavailable Revenue - Special Assessments	--	23,928	--	--	--	23,928	
Total Liabilities and Deferred Inflows of Resources	44,105	512,664	2,322	227,272	--	786,363	
FUND BALANCE							
Nonspendable	41,820	--	--	--	9,557	51,377	
Restricted	--	225,013	15,153	--	9,021	249,187	
Committed	109	--	--	--	--	109	
Assigned	16,723	--	--	--	--	16,723	
Unassigned	832,887	--	--	--	--	832,887	
Total Fund Balance	891,539	225,013	15,153	--	18,578	1,150,283	
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 935,644	\$ 737,677	\$ 17,475	\$ 227,272	\$ 18,578	\$ 1,936,646	

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

City of Montrose
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2025

Total Fund Balance - Governmental Funds	\$ 1,150,283
General government capital assets of \$4,783,887, net of accumulated depreciation of \$2,105,189, are not current financial resources and, therefore, are not reported in the fund financial statements.	2,678,698
Net pension liability and related deferred amounts are not due and payable in the current period or do not represent current financial resources and, therefore, are not reported in the fund financial statements.	(29,396)
Net OPEB liability and related deferred outflows and inflows of resources are not due and payable in the current period or do not represent current financial resources and, therefore, are not reported in the fund financial statements.	(48,990)
Certain long-term receivables are not considered current financial resources and are reported as unavailable revenue in the fund financial statements.	23,928
Total Net Position - Governmental Activities	\$ <u>3,774,523</u>

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

City of Montrose
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the year Ended June 30, 2025

	Special Revenue				Other Governmental Funds	Total Governmental Funds
	General	Major Streets	Local Streets	Neighborhood Enhancement Project		
Revenues						
Property Taxes	\$ 642,894	\$ --	\$ --	\$ --	\$ --	\$ 642,894
Special Assessments	--	5,735	--	--	146,118	151,853
Licenses and Permits	19,814	--	--	--	--	19,814
Intergovernmental	300,628	187,400	79,694	278,502	51,583	897,807
Charges for Services	1,561	--	--	--	--	1,561
Fines and Forfeits	1,702	--	--	--	--	1,702
Interest and Rental	27,102	2,308	2,687	--	258	32,355
Other Revenue	17,730	--	--	393	--	18,123
Total Revenues	1,011,431	195,443	82,381	278,895	197,959	1,766,109
Expenditures						
General Government	285,780	--	--	--	--	285,780
Public Safety	461,628	--	--	--	--	461,628
Public Works	118,852	107,239	250,889	--	112,743	589,723
Health and Welfare	--	--	--	--	34,837	34,837
Community and Economic Development	33,518	--	--	306,778	--	340,296
Recreation and Culture	34,904	--	--	--	--	34,904
Debt Service, Interest	--	13,512	--	--	--	13,512
Total Expenditures	934,682	120,751	250,889	306,778	147,580	1,760,680
Excess of Revenues Over (Under) Expenditures	76,749	74,692	(168,508)	(27,883)	50,379	5,429
Other Financing Sources (Uses)						
Transfers In	--	52,479	50,000	6,553	--	109,032
Transfers Out	(6,553)	(50,000)	--	--	(52,479)	(109,032)
Net Other Financing Sources (Uses)	(6,553)	2,479	50,000	6,553	(52,479)	--
Net Change in Fund Balance	70,196	77,171	(118,508)	(21,330)	(2,100)	5,429
<i>Fund Balance at Beginning of Period, as Previously Reported</i>	821,343	147,842	--	--	175,669	1,144,854
Change in Major Fund Presentation (Note 13)	--	--	133,661	21,330	(154,991)	--
<i>Fund Balance at Beginning of Period, as Restated</i>	821,343	147,842	133,661	21,330	20,678	1,144,854
Fund Balance at End of Period	\$ 891,539	\$ 225,013	\$ 15,153	\$ --	\$ 18,578	\$ 1,150,283

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

City of Montrose
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the year Ended June 30, 2025

Total Net Change in Fund Balances - Governmental Funds	\$ 5,429
Some receivables are long-term in nature and are collectible over several years. However, only amounts received during the current period are recognized as revenue in the fund financial statements. The full amount of the receivable is recognized as revenue in the government-wide financial statements.	(2,880)
The statement of activities reports changes in the net pension liability and related deferred outflows and inflows as pension expense. However, the expenditures reported in the governmental funds are limited to actual pension contributions made during the year.	(64,058)
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Capital outlay of \$217,130 exceeded current year depreciation expense of \$158,784, resulting in a net increase to net position.	58,346
The statement of activities reports changes in the net OPEB liability and related deferred outflows and inflows as OPEB expense. However, the expenditures reported in the governmental funds are limited to actual OPEB contributions made during the year.	(9,012)
Changes in Net Position - Governmental Activities	\$ <u>(12,175)</u>

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

City of Montrose
Statement of Net Position
Proprietary Funds
June 30, 2025

Business-type Activities - Enterprise Funds			
	Sewer	Water	Total Enterprise Funds
ASSETS			
<i>Current Assets</i>			
Cash and Investments	\$ 765,102	\$ 313,627	\$ 1,078,729
Receivables	51,559	201,798	253,357
Prepaid Items	6,246	6,816	13,062
Advances to Other Funds, Current Portion	129,208	--	129,208
Total Current Assets	952,115	522,241	1,474,356
<i>Noncurrent Assets</i>			
Restricted Cash	--	36,355	36,355
Capital Assets not being Depreciated	53,953	2,387,730	2,441,683
Capital Assets being Depreciated, net	377,753	2,298,045	2,675,798
Advances to Other Funds	395,183	--	395,183
Total Assets	1,779,004	5,244,371	7,023,375
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	10,765	10,765	21,530
OPEB Related	11,813	11,813	23,626
Total Deferred Outflows of Resources	22,578	22,578	45,156
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	33,857	78,681	112,538
Accrued Payroll and Related Liabilities	4,150	6,128	10,278
Due to Other Units of Government	--	27,042	27,042
Accrued Interest Payable	--	3,485	3,485
Current Portion of Long-term Debt	--	58,000	58,000
Due to Other Funds	--	13,648	13,648
Total Current Liabilities	38,007	186,984	224,991
<i>Noncurrent Liabilities</i>			
Long-term Debt	--	1,237,103	1,237,103
Net Pension Liability	24,331	24,331	48,662
Net OPEB Liability	21,923	21,923	43,846
Advances from Other Funds	--	27,294	27,294
Total Liabilities	84,261	1,497,635	1,581,896
DEFERRED INFLOWS OF RESOURCES			
OPEB Related	6,221	6,221	12,442
Total Deferred Inflows of Resources	6,221	6,221	12,442
NET POSITION			
Net Investment in Capital Assets	431,706	3,390,672	3,822,378
Restricted	--	36,355	36,355
Unrestricted	1,279,394	336,066	1,615,460
Total Net Position	\$ 1,711,100	\$ 3,763,093	\$ 5,474,193

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

City of Montrose
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the year Ended June 30, 2025

Business-type Activities - Enterprise Funds			
	Sewer	Water	Total Enterprise Funds
Operating Revenues			
Charges for Services	\$ 442,223	\$ 640,818	\$ 1,083,041
Total Operating Revenues	442,223	640,818	1,083,041
Operating Expenses			
Salaries and Benefits	75,538	119,157	194,695
General Operations and Maintenance	265,040	420,026	685,066
Depreciation	24,607	108,009	132,616
Total Operating Expenses	365,185	647,192	1,012,377
Operating Income (Loss)	77,038	(6,374)	70,664
Non-Operating Revenues (Expenses)			
Interest Income	21,821	11,783	33,604
Special Assessments	1,910	1,501	3,411
Hydrant Assessments	--	13,680	13,680
Intergovernmental	--	21,103	21,103
Interest Expense	--	(22,957)	(22,957)
Net Non-Operating Revenues (Expenses)	23,731	25,110	48,841
Change In Net Position	100,769	18,736	119,505
Net Position at Beginning of Period	1,610,331	3,744,357	5,354,688
Net Position at End of Period	\$ 1,711,100	\$ 3,763,093	\$ 5,474,193

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

City of Montrose
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2025

	Business-type Activities - Enterprise Funds			Total Enterprise Funds	
	Sewer	Water	Total Enterprise Funds		
	Sewer	Water			
Cash Flows from Operating Activities					
Cash Received from Charges for Service	\$ 443,214	\$ 642,678	\$ 1,085,892		
Cash Payments to Employees for Services and Fringe Benefits	(106,086)	(148,782)	(254,868)		
Cash Payments to Suppliers for Good and Services	(279,913)	(1,973,859)	(2,253,772)		
Net Cash Provided (Used) by Operating Activities	57,215	(1,479,963)	(1,422,748)		
Cash Flows from Non-capital Financing Activities					
Special Assessments	1,910	1,501	3,411		
Hydrant Assessments	--	13,680	13,680		
Intergovernmental Grants	--	849,598	849,598		
Interfund Loan Activity	130,199	(13,648)	116,551		
Net Cash Provided by Non-capital Financing Activities	132,109	851,131	983,240		
Cash Flows from Capital and Related Financing Activities					
Purchase of Capital Assets	--	(250,984)	(250,984)		
Interest Payments on Long-term Debt	--	(24,118)	(24,118)		
Draw of Long-term Debt	--	102,690	102,690		
Principal Payments on Long-term Debt	--	(54,250)	(54,250)		
Net Cash Used by Capital and Related Financing Activities	--	(226,662)	(226,662)		
Cash Flows from Investing Activities					
Interest and Investment Earnings	21,821	11,783	33,604		
Net Cash Provided by Investing Activities	21,821	11,783	33,604		
Net Increase (Decrease) in Cash, Restricted Cash and Investments	211,145	(843,711)	(632,566)		
<i>Cash, Restricted Cash, and Investments - Beginning of Year</i>	<i>553,957</i>	<i>1,193,693</i>	<i>1,747,650</i>		
Cash, Restricted Cash, and Investments - End of Year	\$ 765,102	\$ 349,982	\$ 1,115,084		

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

City of Montrose
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2025

	Business-type Activities - Enterprise Funds			Total Enterprise Funds	
	Sewer	Water	Total Enterprise Funds		
	Sewer	Water			
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating Income (Loss)	\$ 77,038	\$ (6,374)	\$ 70,664		
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Depreciation Expense	24,607	108,009	132,616		
Changes in Assets, Liabilities, and Deferred Items					
Receivables	991	1,860	2,851		
Prepaid Items	830	1,267	2,097		
Accounts Payable	(15,703)	(1,555,100)	(1,570,803)		
Accrued Payroll and Related Liabilities	739	1,662	2,401		
Net Pension Liability and Related Deferred Items	(34,293)	(34,293)	(68,586)		
Net OPEB Liability and Related Deferred Items	3,006	3,006	6,012		
Net Cash Provided (Used) by Operating Activities	\$ 57,215	\$ (1,479,963)	\$ (1,422,748)		

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

City of Montrose
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2025

Custodial Funds			
	General Custodial	Current Tax Collection	
ASSETS			
Cash and Investments	\$ 13,135	\$ 508,773	
Receivables	--	44,299	
Total Assets	13,135	553,072	
LIABILITIES			
Deposits Payable	13,135	--	
Undistributed Collections	--	553,072	
Total Liabilities	13,135	553,072	
NET POSITION			
Total Net Position	--	--	

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

City of Montrose
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the year Ended June 30, 2025

Custodial Funds		
	General Custodial	Current Tax Collection
ADDITIONS		
Property Taxes Collected for Other Governments	--	1,327,410
<i>Total Additions</i>	--	1,327,410
DEDUCTIONS		
Property Taxes Collected for Other Governments	--	1,327,410
<i>Total Deductions</i>	--	1,327,410
<i>Net Increase (Decrease) in Net Position</i>	--	--
Net Position at Beginning of Period	--	--
Net Position at End of Period	\$ --	\$ --

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

Notes to the Financial Statements

City of Montrose

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Montrose (the “City” or “government”) have been prepared in conformity with generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. The more significant of the City’s accounting policies are described below.

Reporting Entity

The City of Montrose is governed by an elected City Council. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accompanying financial statements present the City's primary government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the financial statements to emphasize that it is legally separate from the primary government.

Discretely Presented Component Unit

The following component unit is reported in a separate column to emphasize that, while legally separate, the City remains financially accountable for the entity or the nature and significant of the relationship between the entity and the City is such that exclusion of the entity would render the financial statements misleading or incomplete.

Downtown Development Authority (DDA) - The Downtown Development Authority is governed by a board of which members of the governing board of the Downtown Development Authority are appointed by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority. Additionally, the Downtown Development Authority’s budget is subject to approval by the City Council. The Downtown Development Authority is included in the City’s audited financial statements and separate financial statements have not been issued.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

City of Montrose

Notes to the Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

Property taxes, state revenue sharing, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The **general fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

City of Montrose

Notes to the Financial Statements

The **major streets fund** is used to account for the receipt and expenditures of state shared gas and weight taxes under Act 51, P.A. 1951 as amended which are for use on major streets within the City. Gas and weight taxes are distributed to cities and villages in Michigan on the basis of population and the number of miles of streets.

The **local streets fund** is used to account for the receipt and expenditures of state shared gas and weight taxes under Act 51, P.A. 1951 as amended which are for use on local streets within the City. Gas and weight taxes are distributed to cities and villages in Michigan on the basis of population and the number of miles of streets.

The **neighborhood enhancement project fund** is used to account for housing rehabilitation, energy-efficiency improvements, and related neighborhood improvement activities within the City that are financed primarily through state and federal grants.

The City reports the following proprietary funds:

The **sewer fund** accounts for the activities of the City's sewage collection system.

The **water fund** accounts for the activities of the City's water distribution system.

Additionally, the government reports the following fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

Custodial funds are custodial in nature and do not present results of operations or have a measurement focus. Custodial funds are accounted for using the accrual basis of accounting. These funds are used to account for asset that the government holds for others in a custodial capacity (such as taxes collected for other governments).

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

City of Montrose

Notes to the Financial Statements

Financial Statement Presentation – Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, all local government investment pools, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value at the balance sheet date.

State statutes and City policy authorize the City to invest in:

- Bonds, securities, other obligations, and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- In United States government or federal agency obligation repurchase agreements.
- Bankers' acceptances of United States banks.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through March, 1997.

Receivables and Payables

All trade receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

City of Montrose

Notes to the Financial Statements

Due from Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan or other governments for various payments and grants.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include land and land improvements, buildings and improvements, vehicles, machinery, and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their acquisition value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Capital assets are depreciated using the straight-line method over the following useful lives:

	Years
Buildings and Land Improvements	15 - 25
Equipment Furnishings	3 - 15
Infrastructure	10 - 40
Sewer System	5 - 40
Vehicles	5 - 25
Water System	30 - 50

Unearned Revenues

Unearned revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

City of Montrose

Notes to the Financial Statements

Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of net position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred inflows of resources, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

The City has several items that qualify for reporting in these categories and are reported in the government-wide statement of net position. These items relate to the City's net pension liability and net OPEB liability and give rise to deferred outflows and inflows of resources that are recognized in future periods in accordance with applicable GASB guidance.

Additionally, the City has a deferred inflow that arises only under a modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue related to special assessments that are not considered available to liquidate liabilities of the current period. These amounts are recognized as revenue in the period in which they become available.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pension

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to the pension, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For

City of Montrose

Notes to the Financial Statements

this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

OPEB

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the total OPEB liability has been determined on the same basis as it is reported by the City's actuary. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The City does not have assets accumulated in a trust that meets the criteria of GASB Statement No. 75 to pay OPEB benefits.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The government itself can

City of Montrose

Notes to the Financial Statements

establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The *committed fund balance* classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the *assigned fund balance* classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City Council, or its designee, is authorized to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the City Council. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, the unassigned classification is used only to report a deficit.

Property Tax Revenue Recognition

Property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31. The summer property taxes become a lien on July 1 and are due without penalty on or before September 15. The winter property taxes become a lien on December 1 and are due without penalty on or before the end of February. Taxes are considered delinquent on February 15 of the following year, at which time penalties and interest are assessed.

The City's 2024 taxes are levied and collectible on July 1, 2024, with the lien on the property established on that date. Property tax revenues are recognized in the year for which the taxes are levied when the proceeds are budgeted and available for the financing of operations.

For the year ended June 30, 2025, the City levied property taxes on a taxable value of \$33,952,334 for City operating and public safety purposes, consisting of 16.3233 mills for general operating services and 3.8010 mills for public safety. In addition, the Downtown Development Authority levied property taxes on a taxable value of \$8,189,059 at a rate of 1.8309 mills, which are derived by capturing the increase in taxable value of property located within the district.

City of Montrose

Notes to the Financial Statements

Interfund Transactions

During the course of normal operations, the City engages in transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. Interfund transfers are reported as transfers of resources in the accompanying financial statements. Transfers between governmental, enterprise, and component unit funds are eliminated in the reconciliation to the government-wide financial statements.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles using the modified accrual basis of accounting. Annual appropriated budgets are legally adopted for the General Fund and Special Revenue Funds. The City adopts its budget in accordance with City Charter and Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The City follows these procedures in establishing the budgetary data reflected in the financial statements.

Prior to May 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

- Public hearings are conducted at City Hall to obtain public comments.
- Prior to June 30, the budget and annual appropriations act are legally adopted by the City Council.
- Formal budget integration is employed as a management control device during the year for all budgetary funds.
- Budgetary control is exercised at the department level in the General Fund and at the total expenditure, or “fund,” level for the Special Revenue Funds. Similarly, the City’s appropriation centers are defined at the department level in the General Fund and at the total expenditure, or “fund,” level for the Special Revenue Funds. The City Manager is empowered to transfer line-item budget amounts within appropriation centers.

City of Montrose

Notes to the Financial Statements

- Budget transfers between appropriation centers or changes to appropriation center totals require formal amendment by the City Council. Expenditures in the Special Revenue Funds are classified by major functional category for informational purposes. Budgets for the current year are reviewed throughout the year for any revisions of estimates. The legislative body amends the general appropriation act as soon as it becomes apparent that this action is necessary. In the current year, the General Fund and Special Revenue Fund budgets were amended to reflect revised expenditure estimates.
- All budget appropriations lapse at the end of the year.

Public Act 621 of 1978 Disclosure

Excess of Expenditures over Appropriations in Budgetary Funds

Michigan law provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City were adopted on the activity level basis for the general fund and the functional basis for special revenue funds.

The City had the following expenditures in excess of the appropriated amounts during the year ended June 30, 2025:

Fund / Function / Department	Final Budget	Actual Amount	Negative Variance
General			
<i>General Government</i>			
Mayor and Council	27,625	45,441	(17,816)
Manager	33,030	47,787	(14,757)
Board of Review	1,705	2,288	(583)
Building and Ground	11,600	17,238	(5,638)
<i>Public Safety</i>			
Department of Public Safety	414,800	421,008	(6,208)
Police	13,010	27,635	(14,625)
<i>Public Works</i>			
Street Lights	19,000	27,516	(8,516)
<i>Community and Economic Development</i>			
Zoning	335	1,339	(1,004)
Neighborhood Enhancement Project			
Community and Economic Development	254,500	306,778	(52,278)

City of Montrose

Notes to the Financial Statements

State Construction Code Act

The City oversees building construction in accordance with the State Construction Code Act, including the inspection of building construction and renovation to ensure compliance with applicable building codes. The City charges fees for these services. State law requires that such fees be used only for the administration and enforcement of the construction code, including an allocation of estimated overhead costs. A summary of current-year activity and the cumulative surplus (deficit) generated since January 1, 2000, is as follows:

Cumulative surplus at July 1, 2024	\$ (570)
Current year building permit revenue	4,189
Related expenses – direct and allocated costs	(12,560)
Cumulative surplus (deficit) at June 30, 2025	\$ (8,941)

NOTE 3 - DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of June 30, 2025:

	Primary Government	Component Unit	Totals
Statement of Net Position			
Cash and Investments	\$ 2,523,488	\$ 348,080	\$ 2,871,568
Restricted Cash	36,355	-	36,355
Statement of Fiduciary Net Position			
Cash and Investments	521,908	-	521,908
Total Cash and Investments	\$ 3,081,751	\$ 348,080	\$ 3,429,831
Deposits and Investments			
Checking and Savings Accounts		\$ 2,022,603	
Insured Cash Sweep Account		1,209,735	
Certificates of Deposit		197,493	
Total Deposits and Investments		\$ 3,429,831	

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits might not be returned. State law does not require, and the City does not have a policy for deposit custodial credit risk. As of year-end, \$1,833,052 of the City's bank balance of \$3,569,071 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The City's investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it

City of Montrose

Notes to the Financial Statements

deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In order to minimize this risk, City policy limits the types of investments and pre-qualifies financial institutions. As of June 30, 2025, the City's investments consisted solely of certificates of deposit totaling \$197,493. The certificates of deposit were held in the City's name and, accordingly, the City was not exposed to custodial credit risk related to its investments.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City's investments consist solely of certificates of deposit, which are not subject to credit risk rating requirements. Accordingly, the City does not have investments with externally assigned credit ratings at year-end.

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All certificates of deposit held by the City at year-end, totaling \$197,493, mature within one year.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not limit investments in a single financial institution of a single security type (with the exception of U.S. treasuries and agencies and authorized pools) to a percentage of the total investment portfolio. All investments held at year end are reported above.

Fair Value Measurement. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

City of Montrose

Notes to the Financial Statements

As of June 30, 2025, the City did not have any investments measured at fair value on a recurring basis. The City's investments consist solely of certificates of deposit issued by financial institutions and held through a brokerage account. Certificates of deposit are reported at cost and are not subject to the fair value hierarchy.

Restricted Cash – Water Supply System Revenue Bonds, Series 2014A

Pursuant to the provisions of the ordinances and loan agreements authorizing the issuance of the Water Fund's *Water Supply System Revenue Bonds, Series 2014A*, the City is required to establish and maintain a Bond Reserve Account and a Repair, Replacement and Improvement Account (the "RRI Account"). Amounts deposited in these accounts are legally restricted and may be used only in accordance with the bond requirements.

Bond Reserve Account

The bond requirements provide for deposits to be made to the Bond Reserve Account in specified annual amounts. The City is required to deposit \$3,000 annually for the first ten years into the Bond Reserve Account. Monies in the Bond Reserve Account are restricted for the purpose of satisfying reserve requirements and, if necessary, for the payment of principal of and interest on the bonds. As of June 30, 2025, the balance of the Bond Reserve Account totaled \$30,000.

Repair, Replacement, and Improvement Account

The bond requirements also provide for deposits to be made to the RRI Account. The City is required to deposit \$305 annually for the first ten years, after which required annual deposits increase to \$3,305 annually. Monies in the RRI Account may be used solely for the cost of repairing damage to and performing emergency maintenance of the system, repairing or replacing obsolete, deteriorated, or worn portions of the system, acquiring and constructing extensions and improvements to the system, and, when necessary, for the payment of principal of and interest on the bonds. As of June 30, 2025, the balance of the RRI Account totaled \$6,355.

At June 30, 2025, the City's Water Fund reported restricted cash of \$36,355, representing amounts held in the Bond Reserve Account and the Repair, Replacement and Improvement Account in accordance with the requirements of the Water Supply System Revenue Bonds, Series 2014A.

City of Montrose

Notes to the Financial Statements

NOTE 4 - RECEIVABLES

The following is a reconciliation of receivable balances as of June 30, 2025:

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Funds
Receivables:				
Accounts	\$ 5,487	\$ -	\$ 5,487	\$ -
Utility Bills	- -	127,372	127,372	- -
Special Assessments	23,928	- -	23,928	- -
Intergovernmental	357,133	125,985	483,118	44,299
Total Receivables	\$ 386,548	\$ 253,357	\$ 639,905	\$ 44,299

NOTE 5 - CAPITAL ASSETS

Capital asset activity for governmental activities during the year was as follows:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 77,533	\$ -	\$ -	\$ 77,533
Capital Assets being Depreciated				
Buildings and Improvements	459,345	10,181	- -	469,526
Equipment and Furniture	328,421	5,126	- -	333,547
Infrastructure	3,355,178	201,823	- -	3,557,001
Vehicles	346,280	- -	- -	346,280
Subtotal	<u>4,489,224</u>	<u>217,130</u>	<u>- -</u>	<u>4,706,354</u>
Less Accumulated Depreciation				
Buildings and Improvements	(112,477)	(23,072)	- -	(135,549)
Equipment and Furniture	(176,130)	(15,715)	- -	(191,845)
Infrastructure	(1,331,655)	(113,775)	- -	(1,445,430)
Vehicles	(326,143)	(6,222)	- -	(332,365)
Subtotal	<u>(1,946,405)</u>	<u>(158,784)</u>	<u>- -</u>	<u>(2,105,189)</u>
Capital Assets being Depreciated, Net	2,542,819	58,346	- -	2,601,165
Governmental Activities Capital Assets, Net	\$ 2,620,352	\$ 58,346	\$ - -	\$ 2,678,698

City of Montrose

Notes to the Financial Statements

Capital asset activity for business-type activities during the year was as follows:

Business-type Activities	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 57,286	\$ -	\$ -	\$ 57,286
Construction in Progress	2,133,413	250,984	-	2,384,397
<i>Subtotal</i>	<u>2,190,699</u>	<u>250,984</u>	<u>-</u>	<u>2,441,683</u>
Capital Assets being Depreciated				
Buildings and Improvements	56,476	-	-	56,476
Equipment and Furniture	31,334	-	-	31,334
Vehicles	16,742	-	-	16,742
Sewer System	2,745,108	-	-	2,745,108
Water System	4,490,360	-	-	4,490,360
<i>Subtotal</i>	<u>7,340,020</u>	<u>-</u>	<u>-</u>	<u>7,340,020</u>
Less Accumulated Depreciation				
Buildings and Improvements	(13,307)	(2,424)	-	(15,731)
Equipment and Furniture	(31,334)	-	-	(31,334)
Vehicles	(11,998)	(3,348)	-	(15,346)
Sewer System	(2,360,320)	(22,133)	-	(2,382,453)
Water System	(2,114,647)	(104,711)	-	(2,219,358)
<i>Subtotal</i>	<u>(4,531,606)</u>	<u>(132,616)</u>	<u>-</u>	<u>(4,664,222)</u>
Capital Assets being Depreciated, Net	2,808,414	(132,616)	-	2,675,798
Business-type Activities Capital Assets, Net	<u>\$ 4,999,113</u>	<u>\$ 118,368</u>	<u>\$ -</u>	<u>\$ 5,117,481</u>

Depreciation expense was charged to the City as follows:

Governmental Activities

General Government	\$ 17,159
Public Works	133,222
Recreation and Culture	8,403
Total	<u>\$ 158,784</u>

Business-type Activities

Sewer	\$ 24,607
Water	108,009
Total	<u>\$ 132,616</u>

City of Montrose

Notes to the Financial Statements

Capital asset activity for the Downtown Development Authority during the year was as follows:

Downtown Development Authority	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 46,768	\$ -	\$ -	\$ 46,768
Capital Assets being Depreciated				
Infrastructure	142,126	-	-	142,126
Less Accumulated Depreciation				
Infrastructure	(137,623)	(2,349)	-	(139,972)
Capital Assets being Depreciated, Net	4,503	(2,349)	-	2,154
DDA Capital Assets, Net	\$ 51,271	\$ (2,349)	\$ -	\$ 48,922

Depreciation expense of \$2,349 was included in the community and economic development function.

NOTE 6 - INTERFUND BALANCES, ADVANCES, AND TRANSFERS

The following schedule summarizes the operating transfers during the year:

Transfer In	Transfer Out	Amount
Major Streets	Other Governmental Funds	\$ 52,479
Local Streets	Major Streets	50,000
Neighborhood Enhancement Project	General	6,553

Interfund transfers are used to: 1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; 2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and 3) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund Loans

At June 30, 2025, the Sewer Fund had outstanding interfund loans receivable from other governmental funds. These interfund loans consist of the following:

The Sewer Fund provided a long-term loan to the Water Fund for the purpose of retiring the Water Supply System Revenue Bonds, Series 2014B. The loan bears interest at 0.2% and requires annual principal and interest payments of \$13,648, with the final payment scheduled for July 1, 2027. The outstanding balance of this loan at June 30, 2025 was \$40,942.

The Sewer Fund also provided a long-term loan to the Major Streets Fund. The loan bears interest at 3.0% and requires annual principal and interest payments of \$130,063, with the final payment scheduled for July 1, 2028. The outstanding balance of this loan at June 30, 2025 was \$483,449.

City of Montrose

Notes to the Financial Statements

NOTE 7 - LONG-TERM DEBT

Installment Purchase Agreement, 2021 – The City entered into an installment purchase agreement in 2021 in the original amount of \$300,000 to finance capital improvements. The agreement calls for annual principal installments of \$30,000, with interest at a rate of 2.25%, through 2031.

Water Supply System Revenue Bonds, Series 2014A – The City issued the Water Supply System Revenue Bonds, Series 2014A in the original amount of \$699,000 to finance water system improvements. The bonds mature in annual principal installments ranging from \$13,000 to \$27,000, with interest at a rate of 2.75%, payable semiannually, through 2055.

Drinking Water Revolving Fund Revenue Bond, Series 2023 – The City issued the Drinking Water Revolving Fund Revenue Bond, Series 2023 in the original amount of \$561,250 to finance water system improvements. The bonds mature in annual principal installments ranging from \$15,000 to \$25,000, with interest at a rate of 1.875%, payable semiannually, through 2055.

The following is a summary of the long-term debt activity for the year:

Business-type Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Direct Placement Debt</i>					
Installment Purchase Agreement, 2021	\$ 210,000	\$ -	\$ (30,000)	\$ 180,000	\$ 30,000
Water Supply System Revenue Bonds, Series 2014A	587,000	-	(13,000)	574,000	13,000
Drinking Water Revolving Fund Revenue Bond, Series 2023	449,663	102,690	(11,250)	541,103	15,000
Total Business-type Activities	\$ 1,246,663	\$ 102,690	\$ (54,250)	\$ 1,295,103	\$ 58,000

Annual debt service requirement to maturity for long-term debt are as follows:

Year Ending	Business-type Activities			
	June 30	Principal	Interest	Total
2026	\$ 58,000	\$ 29,810	\$ 134,558	
2027	59,000	28,496	135,395	
2028	59,000	27,155	136,181	
2029	59,000	25,813	135,916	
2030	60,000	24,714	137,595	
2031 - 2035	185,000	106,825	276,471	
2036 - 2040	186,000	87,558	276,471	
2041 - 2045	205,000	65,021	276,471	
2046 - 2050	225,000	40,384	276,471	
2051 - 2054	208,000	12,168	276,471	
Totals	\$ 1,304,000	\$ 447,944	\$ 2,062,000	

City of Montrose

Notes to the Financial Statements

As of June 30, 2025, the Drinking Water Revolving Fund Revenue Bond, Series 2023 had not been fully drawn; therefore, the amounts shown above reflect scheduled debt service based on the authorized bond amount.

NOTE 8 - DEFINED BENEFIT PENSION PLAN

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided

Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 3- or 5-year period) and multipliers of 1.70%. Participants are considered to be fully vested in the plan after 6 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service or 55 with 15 years of service.

Employees Covered by Benefit Terms

At the December 31, 2024 valuation date, the following employees were covered by the benefit terms:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	6
Inactive Plan Members Entitled To But Not Yet Receiving Benefits	5
Active Plan Members	4
Total Employees Covered By MERS	15

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended June 30, 2025, employee and employer contribution rates vary by division. Closed divisions have employee contribution rates of 0.00%, with employer contributions of \$576

City of Montrose

Notes to the Financial Statements

per month. Open divisions have employee contribution rates of 8.00% and employer contribution rates of 2.82%.

Net Pension Liability

The net pension liability reported at June 30, 2025 was determined using a measure of the total pension liability and the pension net position as of December 31, 2024. The December 31, 2024 total pension liability was determined by an actuarial valuation performed as of December 31, 2024.

Actuarial Assumptions

The total pension liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.00% in the long-term
Investment rate of return	6.93%, net of investment and administrative expense, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.50% long-term wage inflation assumption would be consistent with a price inflation of 3.00%-4.00%.

Mortality rates used were based on a version of Pub-2010 and fully generational MP-2021. The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2014-2018.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target				
	Target Allocation	Gross Rate of Return	Long-term Expected Gross Rate of Return	Inflation Assumption	Long-term Expected Real Rate of Return
Global Equity	60.00%	7.00%	4.20%	2.50%	2.70%
Global Fixed Income	20.00%	4.66%	0.93%	2.50%	0.43%
Private Investments	20.00%	9.00%	1.80%	2.50%	1.30%
Totals	100.00%		6.93%		4.43%

City of Montrose

Notes to the Financial Statements

Discount Rate

The discount rate used to measure the total pension liability in the current year and prior year was 7.18%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2023	\$ 854,296	\$ 767,863	\$ 86,433
<i>Changes for the Year:</i>			
Service Cost	23,703	-	23,703
Interest on Total Pension Liability	60,568	-	60,568
Differences Between Expected and Actual Experience	18,313	-	18,313
Changes of Assumptions	900	-	900
Employer Contributions	-	14,268	(14,268)
Employee Contributions	-	18,638	(18,638)
Net Investment Income	-	57,337	(57,337)
Benefit Payments, Including Refunds	(45,178)	(45,178)	-
Administrative Expenses	-	(1,707)	1,707
<i>Net Changes</i>	<i>58,306</i>	<i>43,358</i>	<i>14,948</i>
Balance at December 31, 2024	\$ 912,602	\$ 811,221	\$ 101,381
Allocated to:			
	Governmental Activities	\$ 52,719	
	Business-type Activities	48,662	
	Total	\$ 101,381	

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.18%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.18%) or one percentage point higher (8.18%) than the current rate.

City of Montrose

Notes to the Financial Statements

	Current		
	1% Decrease	Discount Rate	1% Increase
	<u>(6.18%)</u>	<u>(7.18%)</u>	<u>(8.18%)</u>
Net Pension Liability of the City	\$ 216,739	<u>\$ 101,381</u>	<u>\$ 5,098</u>

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2025 the City recognized pension expense of \$9,250. The City reported deferred outflows/inflows of resources related to pensions from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$ 28,340	\$ -
Differences Between Expected and Actual Experience	9,156	-
Changes of Assumptions	450	-
Employer Contributions to the Plan Subsequent to the Measurement Date*	6,907	-
Total	\$ 44,853	\$ -
Allocated to:		
Governmental Activities	\$ 23,323	\$ -
Business-type Activities	21,530	-
Total	\$ 44,853	\$ -

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2026.

Amounts reported as deferred outflows/inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	June 30,	Amount
	June 30,	Amount
	2026	\$ 22,394
	2027	22,114
	2028	(6,020)
	2029	(542)

City of Montrose

Notes to the Financial Statements

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The City provides retiree healthcare benefits through the City of Montrose Other Post-Employment Benefits Plan (the “Plan”) to eligible employees and their spouses. The Plan is a single-employer defined benefit plan established and administered by the City and may be amended at the City’s discretion. Benefits are provided in accordance with collective bargaining agreements and personnel policies. The Plan is not prefunded, and the City finances benefit payments on a pay-as-you-go basis from general operating funds.

Eligibility

Eligibility for retiree healthcare benefits is limited to full-time union employees who have attained age 55 with 25 years of service. Eligible retirees receive medical insurance coverage for a period of seven years following retirement or until Medicare eligibility, if earlier. One non-union employee has grandfathered coverage.

Benefits Provided and Contributions

The City provides medical insurance benefits to eligible retirees and their eligible dependents in accordance with the City of Montrose Other Post-Employment Benefits Plan. Coverage is provided for a period of seven years following retirement or until Medicare eligibility, if earlier. Retirees are required to contribute 50 percent of the cost of dependent coverage, if applicable. The City funds the remaining cost of retiree healthcare benefits on a pay-as-you-go basis from general operating funds. The Plan is not prefunded, and there are no long-term contracts requiring contributions to the Plan.

Membership of the Plan consisted of the following at the date of the latest actuarial valuation (June 30, 2024 rolled forward to June 30, 2025):

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	0
Inactive Plan Members Entitled to but not yet Receiving Benefits	0
Active Plan Members	3
<i>Total Employees Covered by OPEB</i>	<u>3</u>

Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2024, rolled forward to a measurement date of June 30, 2025, using the following actuarial assumptions, applied to all periods included in the measurement:

City of Montrose

Notes to the Financial Statements

Inflation	None (the plan is not pre-funded)
Salary Increases	3.00% (for purpose of allocating liability)
Investment Rate of Return	None (the plan is not pre-funded)
Discount Rate	4.81% (20-year Aa Municipal Bond Rate)
Mortality	Public General 2016 Employee and Health Retiree, Headcount weighted
Improvement Scale	IRS 2024 Adjusted Scale MP-2021

Healthcare cost trend rates were based on medical trend rates beginning at 7.25%–7.50% and decreasing by 0.25% annually to an ultimate rate of 4.50%. Dental and vision trend rates were assumed at 3.00% annually.

Discount Rate

The discount rate used to measure the total June 30, 2025 OPEB liability was 4.81%. Because the plan does not have a dedicated OPEB trust, there are not assets projected to be sufficient to make projected future benefit payments of current plan members; therefore, benefit payments are discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. As of June 30, 2024, the discount rate used to value OPEB liabilities was 4.21%.

Changes in the net OPEB liability during the measurement year were as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
	<hr/>	<hr/>	<hr/>
Balance at June 30, 2024	<hr/> <u>\$ 99,051</u>	<hr/> <u>\$ -</u>	<hr/> <u>\$ 99,051</u>
<i>Changes for the Year:</i>			
Service Cost	6,509	-	6,509
Interest on Total OPEB Liability	4,444	-	4,444
Changes of Assumptions	(391)	-	(391)
<i>Net Changes</i>	<u>10,562</u>	<u>-</u>	<u>10,562</u>
Balance at June 30, 2025	<hr/> <u>\$ 109,613</u>	<hr/> <u>\$ -</u>	<hr/> <u>\$ 109,613</u>
Allocated to:			
Governmental Activities	\$ 65,767		
Business-type Activities	43,846		
Total	<hr/> <u>\$ 109,613</u>		

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the City, calculated using the discount rate of 4.81%, as well as what the City's net OPEB liability would be if it were calculated using a discount

City of Montrose

Notes to the Financial Statements

rate that is 1 percentage point lower (3.81%) or 1 percentage point higher (5.81%) than the current rate.

	1% Decrease (3.81%)	Current Rate (4.81%)	1% Increase (5.81%)
Net OPEB Liability	<u>\$ 116,231</u>	<u>\$ 109,613</u>	<u>\$ 103,396</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the City, calculated using the current healthcare cost trend rates, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current rates.

	1% Decrease \$ 100,210	Current Rate \$ 109,613	1% Increase \$ 120,334
Net OPEB Liability			

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB Plan

For the year ended June 30, 2025, the City recognized OPEB expense of \$15,024. At June 30, 2025, the City reported deferred outflows/inflows of resources related to OPEB from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
	Resources	Resources
Differences Between Expected and Actual Experience	\$ 52,804	\$ 14,473
Changes of Assumptions	6,260	16,630
Total	\$ 59,064	\$ 31,103
Allocated to:		
Governmental Activities	\$ 35,438	\$ 18,661
Business-type Activities	23,626	12,442
Totals	\$ 59,064	\$ 31,103

City of Montrose

Notes to the Financial Statements

Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Amount
2026	\$ 4,071
2027	4,071
2028	4,071
2029	4,071
2030	4,071
Thereafter	7,606

NOTE 10 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City participates in the Michigan Municipal League Workers' Compensation Fund, a public entity risk pool organized under Public Act 317 of 1969, as amended, to provide workers' compensation coverage to participating municipalities. In the event that the pool's claims and expenses for a given policy year exceed the premiums collected for that year, members may be subject to a special assessment. The City has not been notified of any such assessments.

The City also participates in the Michigan Municipal League Liability and Property Pool, organized under Public Act 138 of 1982, as amended, which provides coverage for property, liability, bonding, and casualty losses to participating municipalities. Similar to the workers' compensation pool, members may be subject to a special assessment if claims and expenses for a policy year exceed collected premiums. The City has not been informed of any special assessments being required.

In addition, the City purchases commercial insurance for certain other exposures, including underground storage tanks, airport liability, and employee medical benefit claims. Settled claims have not exceeded coverage limits during the past three fiscal years.

NOTE 11 – FUND BALANCES AND RESTRICTED NET POSITION

The City reports fund balance in governmental funds based on the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

City of Montrose

Notes to the Financial Statements

	<u>General Fund</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable for:					
Prepaid Items	\$ 41,820	\$ -	\$ -	\$ 9,557	\$ 51,377
Restricted for:					
Streets	- -	225,013	15,153	- -	240,166
Garbage and Rubbish Collection	- -	- -	- -	4,133	4,133
Mosquito Control	- -	- -	- -	4,888	4,888
Committed for:					
Equipment Replacement	109	- -	- -	- -	109
Assigned for:					
OPEB	16,723	- -	- -	- -	16,723
Unassigned	<u>832,887</u>	<u>- -</u>	<u>- -</u>	<u>- -</u>	<u>832,887</u>
Total Fund Balances	<u><u>\$ 891,539</u></u>	<u><u>\$ 225,013</u></u>	<u><u>\$ 15,153</u></u>	<u><u>\$ 18,578</u></u>	<u><u>\$ 1,150,283</u></u>

Restricted net position represents amounts reported in the government-wide financial statements that are constrained for specific purposes by external parties, constitutional provisions, or enabling legislation.

Detailed information on restricted net position is as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Restricted for:			
Streets	\$ 264,094	\$ - -	\$ 264,094
Garbage and Rubbish Collection	13,690	- -	13,690
Mosquito Control	4,888	- -	4,888
Debt Service	- -	36,355	36,355
Total Restricted Net Position	<u><u>\$ 282,672</u></u>	<u><u>\$ 36,355</u></u>	<u><u>\$ 319,027</u></u>

NOTE 12 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state and federal governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts if any, to be immaterial.

The City is a defendant in various lawsuits. Although, the outcome of these lawsuits are not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the City.

City of Montrose

Notes to the Financial Statements

NOTE 13 – CHANGE IN MAJOR FUND PRESENTATION (GASB STATEMENT NO.100)

The financial statements classify individual governmental funds as major funds when they meet the following criteria, in accordance with GASB Statement No. 34:

1. Total assets, liabilities, revenues, or expenditures/expenses are at least 10% of the corresponding total for all governmental funds, as applicable; and
2. The same element is at least 5% of the total for all governmental funds combined.

Additionally, the City may designate funds as major if management believes the fund is of significant importance to financial statement users.

For the year ended June 30, 2025, the Local Streets Special Revenue Fund and Neighborhood Enhancement Project Special Revenue Fund met the criteria for major fund reporting and are presented as major funds in the basic financial statements. These reclassifications affected presentation only and had no impact on the total net position or fund balance of the City's governmental activities or on the overall financial statements.

NOTE 14 – IMPLEMENTATION OF NEW ACCOUNTING STANDARD (GASB STATEMENT NO. 101, COMPENSATED ABSENCES)

Effective for the year ended June 30, 2025, the City implemented GASB Statement No. 101, *Compensated Absences*.

Under this guidance, a liability for compensated absences (e.g., vacation and sick leave) is recognized when the leave is 1) attributable to services already rendered, 2) accumulates or vests, and 3) is more-likely-than-not to be used for time off or paid to employees. The liability is measured using the amount of leave expected to be used or paid (including salary-related payments) and the pay rates in effect at period-end.

The City evaluated the impact of this standard and determined that its implementation did not result in a material change to the financial statements. The City's existing leave policies already require earned paid time off to be used by the end of the fiscal year, with any unused hours forfeited, such that the recognition and measurement requirements of the standard were effectively being met prior to adoption. As a result, no long-term liability was created, and no adjustment to beginning net position or fund balance was required.

NOTE 15 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 29, 2025, the date on which the financial statements were available to be issued, and has determined that no subsequent events requiring adjustment to, or disclosure in, the financial statements were identified.

Required Supplementary Information

City of Montrose
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the year Ended June 30, 2025

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$ 610,000	\$ 610,000	\$ 642,894	\$ 32,894
Special Assessments	500	500	--	(500)
Licenses and Permits	38,000	38,000	19,814	(18,186)
Intergovernmental	574,400	574,400	300,628	(273,772)
Charges for Services	3,270	3,270	1,561	(1,709)
Fines and Forfeits	1,300	1,300	1,702	402
Interest and Rental	4,800	4,800	27,102	22,302
Other Revenue	66,250	66,250	17,730	(48,520)
Total Revenues	1,298,520	1,298,520	1,011,431	(287,089)
Expenditures				
General Government				
Mayor and Council	27,625	27,625	45,441	(17,816)
Manager	33,030	33,030	47,787	(14,757)
Clerk	74,585	74,585	70,582	4,003
Audit	19,600	19,600	10,253	9,347
Board of Review	1,705	1,705	2,288	(583)
Treasurer	38,990	38,990	33,375	5,615
Assessor	16,100	16,100	14,547	1,553
Secretary	24,640	24,640	21,969	2,671
Elections	42,560	42,560	22,300	20,260
Building and Ground	11,600	11,600	17,238	(5,638)
Total General Government	290,435	290,435	285,780	4,655
Public Safety				
Department of Public Safety	414,800	414,800	421,008	(6,208)
Building Inspection	27,500	27,500	12,560	14,940
Police	13,010	13,010	27,635	(14,625)
Fire Department	550	550	425	125
Total Public Safety	455,860	455,860	461,628	(5,768)
Public Works				
Department of Public Works	106,975	106,975	91,336	15,639
Street Lights	19,000	19,000	27,516	(8,516)
Total Public Works	125,975	125,975	118,852	7,123
Community and Economic Development				
Planning	63,565	63,565	32,179	31,386
Zoning	335	335	1,339	(1,004)
Total Community and Economic Development	63,900	63,900	33,518	30,382
Recreation and Culture				
Parks and Recreation	46,925	46,925	32,716	14,209
Library	4,000	4,000	2,188	1,812
Recreation and Culture	50,925	50,925	34,904	16,021
Total Expenditures	987,095	987,095	934,682	52,413
Other Financing Uses				
Transfers Out	60,845	60,845	6,553	54,292
Total Expenditures and Other Financing Uses	1,047,940	1,047,940	941,235	106,705
Excess (Deficiency) of Revenues				
Over Expenditures and Other Uses	250,580	250,580	70,196	(180,384)
Net Change in Fund Balance	250,580	250,580	70,196	(180,384)
Fund Balance at Beginning of Period	821,343	821,343	821,343	--
Fund Balance at End of Period	\$ 1,071,923	\$ 1,071,923	\$ 891,539	\$ (180,384)

City of Montrose
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Streets
For the year Ended June 30, 2025

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual	
Revenues				
Special Assessments	\$ 2,895	\$ 2,895	\$ 5,735	\$ 2,840
Intergovernmental	180,000	180,000	187,400	7,400
Interest and Rental	750	750	2,308	1,558
Total Revenues	183,645	183,645	195,443	11,798
Other Financing Sources				
Transfers In	--	61,605	52,479	(9,126)
Total Revenues and Other Financing Sources	183,645	245,250	247,922	2,672
Expenditures				
Public Works	77,115	138,720	107,239	31,481
Debt Service	24,975	24,975	13,512	11,463
Total Expenditures	102,090	163,695	120,751	42,944
Other Financing Uses				
Transfers Out	457,158	457,158	50,000	407,158
Total Expenditures and Other Financing Uses	559,248	620,853	170,751	450,102
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(375,603)	(375,603)	77,171	452,774
Net Change in Fund Balance	(375,603)	(375,603)	77,171	452,774
Fund Balance at Beginning of Period	147,842	147,842	147,842	--
Fund Balance at End of Period	\$ (227,761)	\$ (227,761)	\$ 225,013	\$ 452,774

City of Montrose
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Local Streets
For the year Ended June 30, 2025

	Budgeted Amounts			Variance		
	Original		Final		Positive (Negative)	
	Actual	Final to Actual				
Revenues						
Intergovernmental	\$ 72,000	\$ 72,000	\$ 79,694	\$ 7,694		
Interest and Rental	100	100	2,687	2,587		
Total Revenues	72,100	72,100	82,381	10,281		
Other Financing Sources						
Transfers In	417,000	417,000	50,000	(367,000)		
Total Revenues and Other Financing Sources	489,100	489,100	132,381	(356,719)		
Expenditures						
Public Works	439,965	439,965	250,889	189,076		
Total Expenditures	439,965	439,965	250,889	189,076		
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	49,135	49,135	(118,508)	(167,643)		
Net Change in Fund Balance	49,135	49,135	(118,508)	(167,643)		
Fund Balance at Beginning of Period	133,661	133,661	133,661	--		
Fund Balance at End of Period	\$ 182,796	\$ 182,796	\$ 15,153	\$ (167,643)		

City of Montrose
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Neighborhood Enhancement Project
For the year Ended June 30, 2025

	Budgeted Amounts			Actual	Variance Positive (Negative)	Final to Actual
	Original	Final	Final			
	Original	Final	Final			
Revenues						
Intergovernmental	\$ 250,000	\$ 250,000	\$ 278,502	\$ 28,502		
Other Revenue	--	--	393	393		
Total Revenues	250,000	250,000	278,895	28,895		
Other Financing Sources						
Transfers In	--	--	6,553	6,553		
Total Revenues and Other Financing Sources	250,000	250,000	285,448	35,448		
Expenditures						
Community and Economic Development	254,500	254,500	306,778	(52,278)		
Total Expenditures	254,500	254,500	306,778	(52,278)		
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	(4,500)	(4,500)	(21,330)	(16,830)		
Net Change in Fund Balance	(4,500)	(4,500)	(21,330)	(16,830)		
Fund Balance at Beginning of Period	21,330	21,330	21,330	--		
Fund Balance at End of Period	\$ 16,830	\$ 16,830	\$ --	\$ (16,830)		

City of Montrose
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last 10 Calendar Years

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability										
Service Cost	\$ 23,703	\$ 20,691	\$ 19,395	\$ 17,677	\$ 16,027	\$ 15,182	\$ 14,882	\$ 13,083	\$ 11,937	\$ 11,300
Interest on Total Pension Liability	60,568	61,092	62,338	60,375	71,554	71,829	74,943	82,131	94,379	86,892
Changes in Benefit Terms	-	-	-	-	-	-	-	(3,287)	(3,995)	-
Differences Between Expected and Actual Experience	18,313	(45,327)	(51,163)	8,270	(191,254)	(250)	(58,482)	(111,816)	(180,206)	48,832
Changes of Assumptions*	900	6,929	-	32,762	19,776	30,410	-	-	-	52,687
Benefit Payments, Including Refunds	(45,178)	(42,772)	(54,039)	(54,984)	(73,077)	(74,823)	(66,011)	(75,718)	(75,855)	(71,201)
Net Change in Pension Liability	58,306	613	(23,469)	64,100	(156,974)	42,348	(34,668)	(95,607)	(153,740)	128,510
Total Pension Liability - Beginning	854,296	853,683	877,152	813,052	970,026	927,678	962,346	1,057,953	1,211,693	1,083,183
Total Pension Liability - Ending (a)	\$ 912,602	\$ 854,296	\$ 853,683	\$ 877,152	\$ 813,052	\$ 970,026	\$ 927,678	\$ 962,346	\$ 1,057,953	\$ 1,211,693
Plan Fiduciary Net Position										
Contributions - Employer	\$ 14,268	\$ 15,900	\$ 22,674	\$ 40,529	\$ 52,051	\$ 55,299	\$ 67,436	\$ 61,232	\$ 49,180	\$ 51,098
Contributions - Employee	18,638	18,666	16,095	15,267	14,548	13,961	13,669	11,577	5,883	4,118
Net Investment Income (Loss)	57,337	77,778	(83,274)	99,851	80,668	76,042	(23,237)	66,269	52,712	(7,274)
Benefit Payments, Including Refunds	(45,178)	(42,772)	(54,039)	(54,984)	(73,077)	(74,823)	(66,011)	(75,718)	(75,855)	(71,201)
Administrative Expenses	(1,707)	(1,648)	(1,475)	(1,146)	(1,267)	(1,311)	(1,117)	(1,049)	(1,042)	(1,075)
Net Change in Plan Fiduciary Net Position	43,358	67,924	(100,019)	99,517	72,923	69,168	(9,260)	62,311	30,878	(24,334)
Plan Fiduciary Net Position - Beginning	767,863	699,939	799,958	700,441	627,518	558,350	567,610	505,299	474,421	498,755
Plan Fiduciary Net Position - Ending (b)	\$ 811,221	\$ 767,863	\$ 699,939	\$ 799,958	\$ 700,441	\$ 627,518	\$ 558,350	\$ 567,610	\$ 505,299	\$ 474,421
Net Pension Liability - Ending (a) - (b)	\$ 101,381	\$ 86,433	\$ 153,744	\$ 77,194	\$ 112,611	\$ 342,508	\$ 369,328	\$ 394,736	\$ 552,654	\$ 737,272
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	88.89%	89.88%	81.99%	91.20%	86.15%	64.69%	60.19%	58.98%	47.76%	39.15%
Covered Payroll	\$ 237,029	\$ 214,641	\$ 201,190	\$ 194,677	\$ 182,121	\$ 174,506	\$ 170,865	\$ 158,581	\$ 159,165	\$ 149,870
Net Pension Liability as a Percentage of Covered Payroll	42.77%	40.27%	76.42%	39.65%	61.83%	196.27%	216.15%	248.92%	347.22%	491.94%

Notes to Schedule:

*The following were significant changes to economic and demographic assumptions:

2015 valuation - The investment rate of return assumption was reduced from 8.25% to 8.0%, the wage inflation assumption was reduced from 4.50% to 3.75%, inflation rates changed from 3.0-4.0% to 3.25%, and the mortality assumption was updated to be based on the RP-2014 tables.

2019 valuation - The investment rate of return assumption was reduced from 8.00% to 7.60%, the wage inflation assumption was reduced from 3.75% to 3.00%.

2020 valuation - Mortality rates were changed to the recently issued Pub-2010 mortality general rates as published by the Society of Actuaries along with a change to sex-distinct assumptions.

2021 valuation - The investment rate of return assumption was reduced from 7.60% to 7.25%.

2023 valuation - The investment rate of return assumption was reduced from 7.25% to 7.18%.

2024 valuation - The investment rate of return assumption was reduced from 7.18% to 6.93%.

City of Montrose
Required Supplementary Information
Schedule of Contributions - Pension
Last 10 Fiscal Years

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially Determined Contribution	\$ 13,779	\$ 15,205	\$ 15,834	\$ 29,242	\$ 52,444	\$ 51,798	\$ 59,232	\$ 74,986	\$ 48,859	\$ 51,114
Contributions in Relation to the Actuarially Determined Contribution	<u>17,952</u>	<u>15,205</u>	<u>15,834</u>	<u>29,242</u>	<u>52,444</u>	<u>51,798</u>	<u>59,232</u>	<u>74,986</u>	<u>48,859</u>	<u>51,114</u>
Contribution Deficiency (Excess)	<u>(4,173)</u>	<u>-</u>								
Covered Payroll	\$ 269,822	\$ 214,641	\$ 201,190	\$ 194,677	\$ 182,121	\$ 174,506	\$ 170,865	\$ 158,581	\$ 159,165	\$ 149,870
Contributions as a Percentage of Covered Payroll	6.65%	7.08%	7.87%	15.02%	28.80%	29.68%	34.67%	47.29%	30.70%	34.11%

Notes to Schedule:

Valuation Date

Actuarially determined contribution amounts are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry-age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	15 Years
Asset Valuation Method	5 Years; Smoothed
Inflation	2.50%
Salary Increases	3.00% in the Long-term
Investment Rate of Return	6.93%, Net of Investment Expense, including Inflation
Retirement Age	Experience-Based Tables of Rates that are Specific to the Type of Eligibility Condition
Mortality	Pub-2010 and fully generational MP-2021

City of Montrose
Required Supplementary Information
Schedule of Changes in Net OPEB Liability and Related Ratios
Last Eight Fiscal Years*

	2025	2024	2023	2022	2021	2020	2019	2018
Total OPEB Liability								
Service Cost	\$ 6,509	\$ 9,928	\$ 9,380	\$ 14,201	\$ 13,497	\$ 13,504	\$ 13,111	\$ 12,729
Interest on Total OPEB Liability	4,444	3,500	2,858	1,909	2,167	2,554	2,584	2,622
Changes in Benefit Terms	-	(55,303)	-	-	-	-	-	-
Differences Between Expected and Actual Experience	-	64,698	-	(8,087)	(4,337)	(8,771)	(224)	-
Changes of Assumptions**	(391)	1,405	2,099	(20,875)	1,106	4,634	-	-
Benefit Payments, Including Refunds	-	-	-	-	(14,168)	(16,990)	(16,679)	(17,328)
Net Change in OPEB Liability	10,562	24,228	14,337	(12,852)	(1,735)	(5,069)	(1,208)	(1,977)
Total OPEB Liability - Beginning	99,051	74,823	60,486	73,338	75,073	80,142	81,350	83,327
Total OPEB Liability - Ending (a)	\$ 109,613	\$ 99,051	\$ 74,823	\$ 60,486	\$ 73,338	\$ 75,073	\$ 80,142	\$ 81,350
Plan Fiduciary Net Position								
Contributions - Employer	\$ -	\$ -	\$ -	\$ -	\$ 14,168	\$ 16,990	\$ 16,679	\$ 17,328
Benefit Payments, Including Refunds	-	-	-	-	(14,168)	(16,990)	(16,679)	(17,328)
Net Change in Plan Fiduciary Net Position	-	-	-	-	-	-	-	-
Plan Fiduciary Net Position - Beginning	-	-	-	-	-	-	-	-
Plan Fiduciary Net Position - Ending (b)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net OPEB Liability - Ending (a) - (b)	\$ 109,613	\$ 99,051	\$ 74,823	\$ 60,486	\$ 73,338	\$ 75,073	\$ 80,142	\$ 81,350
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Covered Payroll	\$ 280,785	\$ 133,654	\$ 153,624	\$ 141,119	\$ 116,531	\$ 109,442	\$ 136,535	\$ 125,507
Net OPEB Liability as a Percentage of Covered Payroll	39.04%	74.11%	48.71%	42.86%	62.93%	68.60%	58.70%	64.82%

Notes to Schedule:

* Built prospectively upon implementation on GASB 75. Ultimately, 10 years of data will be provided.

**The following were significant changes to economic and demographic assumptions:

2024 valuation - The municipal bond and discount rates from 4.21% to 4.81%.

2024 valuation - Mortality changed from Public General 2010 Employee and Healthy Retiree, Headcount weighted to Public General 2016 Employee and Healthy Retiree, Headcount weighted.

2024 valuation - Trend rates updated such that second-year trend increases by 0.25% rather than decreasing by the anticipated 0.25%.

City of Montrose
Required Supplementary Information
Schedule of Contributions - OPEB
Last Eight Fiscal Years*

	2025	2024	2023	2022	2021	2020	2019	2018
Actuarially Determined Contribution	\$ 22,051	\$ 17,813	\$ 15,319	\$ 20,649	\$ 19,840	\$ 19,805	\$ 18,475	\$ 19,090
Contributions in Relation to the Actuarially Determined Contribution	-	-	-	-	14,168	16,990	16,679	17,328
Contribution Deficiency (Excess)	<u>\$ 22,051</u>	<u>\$ 17,813</u>	<u>\$ 15,319</u>	<u>\$ 20,649</u>	<u>\$ 5,672</u>	<u>\$ 2,815</u>	<u>\$ 1,796</u>	<u>\$ 1,762</u>
Covered Payroll	\$ 280,785	\$ 133,654	\$ 153,624	\$ 141,119	\$ 116,531	\$ 109,442	\$ 136,535	\$ 125,507
Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%	12.16%	15.52%	12.22%	13.81%

Notes:

Valuation/Measuring/Reporting Date:

June 30, 2024 valuation date and June 30, 2025 measurement/reporting date. Actuarially determined contribution amounts are calculated as of June 30 each year.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry-age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	7 Years
Salary Increases	3.00% (for purpose of allocating liability)
Healthcare Inflation Assumption, Next Year	7.50%
Healthcare Inflation Assumption, Long-term	4.50%
Municipal Bond Rate / Discount Rate	4.81%
Mortality	Public General 2016 Employee and Health Retiree, Headcount weighted

Notes to Schedule:

** Built prospectively upon implementation on GASB 75. Ultimately, 10 years of data will be provided.*

Combining and Individual Fund Statements and Schedules

City of Montrose
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2025

	Special Revenue			Total Nonmajor Governmental Funds
	Garbage and Rubbish Collection	Mosquito Control	ARPA Grant	
ASSETS				
Cash and Investments	\$ 4,133	\$ 4,888	\$ --	\$ 9,021
Prepaid Items	9,557	--	--	9,557
<i>Total Assets</i>	\$ 13,690	\$ 4,888	\$ --	\$ 18,578
LIABILITIES				
<i>Total Liabilities</i>	--	--	--	--
FUND BALANCE				
Nonspendable	9,557	--	--	9,557
Restricted (Note 11)	4,133	4,888	--	9,021
Unassigned	--	--	--	--
<i>Total Fund Balance</i>	13,690	4,888	--	18,578
<i>Total Liabilities and Fund Balance</i>	\$ 13,690	\$ 4,888	\$ --	\$ 18,578

City of Montrose
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the year Ended June 30, 2025

	Special Revenue					Formerly Nonmajor Fund Neighborhood Enhancement Project	Total Nonmajor Governmental Funds
	Garbage and Rubbish Collection	Mosquito Control	ARPA Grant	Formerly Nonmajor Fund Local Streets			
Revenues							
Special Assessments	\$ 115,395	\$ 30,723	\$ --	\$ --	\$ --	\$ --	\$ 146,118
Intergovernmental	--	--	51,583	--	--	--	51,583
Interest and Rental	6	4	248	--	--	--	258
Total Revenues	115,401	30,727	51,831	--	--	--	197,959
Expenditures							
Public Works	112,743	--	--	--	--	--	112,743
Health and Welfare	--	34,837	--	--	--	--	34,837
Total Expenditures	112,743	34,837	--	--	--	--	147,580
<i>Excess of Revenues Over (Under) Expenditures</i>	<i>2,658</i>	<i>(4,110)</i>	<i>51,831</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>50,379</i>
Other Financing Sources (Uses)							
Transfers Out	--	--	(52,479)	--	--	--	(52,479)
Net Other Financing Sources (Uses)	--	--	(52,479)	--	--	--	(52,479)
Net Change in Fund Balance	2,658	(4,110)	(648)	--	--	--	(2,100)
<i>Fund Balance at Beginning of Period, as Previously Reported</i>	<i>11,032</i>	<i>8,998</i>	<i>648</i>	<i>133,661</i>	<i>21,330</i>	<i>175,669</i>	
Change in Major Fund Presentation (Note 13)	--	--	--	(133,661)	(21,330)	(154,991)	
<i>Fund Balance at Beginning of Period, as Restated</i>	<i>11,032</i>	<i>8,998</i>	<i>648</i>	<i>-</i>	<i>-</i>	<i>20,678</i>	
Fund Balance at End of Period	\$ 13,690	\$ 4,888	\$ --	\$ --	\$ --	\$ --	\$ 18,578

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*

Honorable Mayor and Members of the City Council
City of Montrose, Michigan

We have audited, in accordance with the 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, the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Montrose, Michigan (the "City"), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 29, 2025.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2025-001, 2025-002, 2025-003, and 2025-004, that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Gabridge & Company". The signature is fluid and cursive, with "Gabridge" on the first line and "& Company" on the second line.

Gabridge & Company, PLC
Grand Rapids, Michigan
December 29, 2025

City of Montrose

Schedule of Findings and Responses

2025-001 - Preparation of Governmental Financial Statements and Material Audit Adjustments

Finding Type:	Material weakness in internal control over financial reporting.
Criteria:	All governmental units in Michigan are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both: 1) recording, processing, and summarizing accounting data (i.e. maintaining internal accounting records), and 2) reporting government-wide and fund financial statements, including the related notes to the financial statements (i.e. external financial reporting).
Finding:	The City did not have sufficient internal controls in place to prepare financial statements in accordance with generally accepted accounting principles without auditor assistance.
Condition:	Significant audit adjustments were necessary during the course of the audit to compile year-end financial statements from the City's general ledger balances.
Cause:	Just prior to the end of the fiscal year there was a vacancy in the City's Treasurer/Finance Manager position. During the financial closing process, certain year-end closing items were not able to be completed prior to providing the trial balance to the auditors. As a result, not all adjustments necessary to prepare the financial statements in accordance with generally accepted accounting principles were included in the trial balance provided.
Effect:	As a result, management was unable to prepare financial statements in accordance with generally accepted accounting principles without auditor assistance, resulting in a material weakness in internal control over financial reporting.
Recommendation:	The City's system of controls should be modified so that all adjustments necessary to prepare financial statements in accordance with generally accepted accounting principles are recorded in the general ledger.
Management Response:	The City has hired Kim Lynch as Interim Treasurer/Finance Manager, who will prepare the required adjustments prior to providing the trial balance to the auditors.

City of Montrose

Schedule of Findings and Responses

2025-002 - Inadequate Segregation of Duties Over Key Financial Processes

Finding Type:	Material weakness in internal control over financial reporting.
Criteria:	Management is responsible for establishing and maintaining internal controls to safeguard City assets and ensure the integrity of financial reporting. A fundamental element of effective internal control is the segregation of incompatible duties such that no single individual has control over all aspects of a transaction.
Finding:	Inadequate segregation of duties over key financial processes.
Condition:	The City does not maintain adequate segregation of duties over key financial processes. The same individual is responsible for preparing journal entries and performing bank reconciliations, without independent review or approval by another qualified individual. These tasks represent incompatible functions that, if not segregated or independently reviewed, increase the risk of undetected errors or irregularities in financial reporting.
Cause:	Formal compensating controls—such as documented independent review of journal entries and bank reconciliations—have not been implemented.
Effect:	As a result of this condition, the City is exposed to an increased risk that errors or misstatements—whether due to error or fraud—may occur and not be prevented or detected and corrected in a timely manner. The lack of review over reconciliations and journal entries reduces the effectiveness of the City's control environment.
Recommendation:	The City should implement formal compensating controls over journal entries and bank reconciliations, including documented independent review and approval by a qualified individual who does not prepare the entries or perform the reconciliations.
Management Response:	Management agrees with the finding and will implement documented independent review and approval of journal entries and bank reconciliations by a qualified individual not involved in their preparation.

City of Montrose

Schedule of Findings and Responses

2025-003 - Untimely Bank Reconciliations

Finding Type:	Material weakness in internal control over financial reporting.
Criteria:	Internal control standards require that bank reconciliations be performed on a monthly basis and reviewed by someone independent of the preparer. Timely and properly reviewed reconciliations are essential for detecting errors, omissions, or unauthorized activity, and are a foundational control in both governmental and proprietary fund environments.
Finding:	Bank reconciliations were not performed on a timely basis during the fiscal year.
Condition:	Several accounts were reconciled months after the close of the reporting period to which they related, and there was no documented evidence of secondary review. Timely reconciliation of cash is a critical control to ensure accurate reporting and safeguarding of assets.
Cause:	The delay in performing reconciliations was primarily due to competing priorities and resource limitations within the City's finance function. There were no formal procedures in place to ensure reconciliations were completed and reviewed promptly each month.
Effect:	Failure to perform timely bank reconciliations increases the risk that errors or irregularities in cash activity may not be identified or corrected in a timely manner. This deficiency also contributed to the need for material audit adjustments related to cash and other related accounts.
Recommendation:	The City should ensure that bank reconciliations are completed within 30 days of month-end and formally reviewed by a second individual who is independent of the reconciliation process. The City should also consider implementing a checklist or control log to track reconciliation completion and review status throughout the fiscal year.
Management Response:	Management agrees with the finding and will ensure that bank reconciliations are completed on a timely basis and reviewed by an individual independent of the reconciliation process. Management will implement procedures to monitor the timely completion and review of reconciliations throughout the fiscal year.

City of Montrose

Schedule of Findings and Responses

2025-004 - Untimely Distribution of Tax Collections

Finding Type:	Material weakness in internal control over financial reporting.
Criteria:	Management is responsible for establishing and maintaining internal controls to ensure that revenues are recorded accurately and in the proper accounting period. Internal control standards require that tax collections, including property taxes, special assessments, and payments in lieu of taxes (PILOT), be distributed to the appropriate funds in a timely manner to ensure proper revenue recognition and accurate financial reporting across governmental funds, business-type funds, and custodial funds.
Finding:	Tax collections were not distributed to the appropriate funds on a timely basis.
Condition:	Property tax collections, special assessments, and payments in lieu of taxes (PILOT) received by the City were not distributed to the appropriate governmental funds, business-type funds, and the custodial fund on a timely basis. Certain amounts remained undistributed at fiscal year-end, resulting in revenues and related receivables not being recorded in the proper accounting period.
Cause:	Procedures were not in place to ensure that tax collections were reviewed, allocated, and distributed to the appropriate funds in a timely and consistent manner, particularly at fiscal year-end.
Effect:	As a result of this condition, revenues and related receivables for governmental funds, business-type funds, and the custodial fund were misstated at year-end. Audit adjustments were required to properly recognize tax revenues, receivables, and related fund balances in the appropriate accounting period, resulting in a material weakness in internal control over financial reporting.
Recommendation:	The City should implement procedures to ensure that property taxes, special assessments, and payments in lieu of taxes are reviewed, allocated, and distributed to the appropriate funds in a timely manner, including procedures to ensure proper cutoff and reconciliation of undistributed collections at fiscal year-end.
Management Response:	Management agrees with the finding and will implement procedures to ensure that tax collections are timely reviewed, distributed to the appropriate governmental funds, business-type funds, and custodial fund, and properly recorded in the appropriate accounting period.

December 29, 2025

Honorable Mayor and Members of the City Council
City of Montrose, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Montrose, Michigan (the "City") for the year ended June 30, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 7, 2025. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. During the fiscal year ended June 30, 2025, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. As described in Note 14 to the financial statements, the adoption of this new accounting principle did not have a material impact on the City's financial statements, and a restatement of prior year balances was not required. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- The assumptions used in the actuarial valuation of the pension are based on historical trends and industry standards.

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

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 29, 2025.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison information, the schedules for the defined benefit pension plan, and the schedules for the OPEB plan, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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

Very truly yours,

A handwritten signature in black ink that reads "Gabridge & Company". The signature is fluid and cursive, with "Gabridge" on the first line and "& Company" on the second line.

Gabridge & Company, PLC
Grand Rapids, MI