



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2017



Comprehensive Annual Financial Report

Michael C. Taylor
Mayor

Liz Sierawski
Mayor Pro Tem

Deanna Koski
Councilwoman

Maria G. Schmidt
Councilwoman

Michael V. Radtke Jr.
Councilman

Barbara A. Ziarko
Councilwoman

Nate Shannon
Councilman

Mark D. Vanderpool
City Manager

Jeff Bahorski
Assistant City Manager

Jennifer Varney
Finance and Budget Director

Nick Makie, CPA
Controller

For the Fiscal Year Ended June 30, 2017

Prepared by the Office of Financial Services, City of Sterling Heights, Michigan

City of Sterling Heights, Michigan

Contents

Introductory Section

Letter of Transmittal	i-ix
GFOA Certificate of Achievement	x
City Organization Chart	xi
List of Principal Officials	xii
Fund Organization Chart	xiii

Financial Section

Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-21
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	22
Statement of Activities	23-24
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	25-26
Reconciliation of the Balance Sheet to the Statement of Net Position	27
Statement of Revenue, Expenditures, and Changes in Fund Balances	28-29
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	30
Proprietary Funds:	
Statement of Net Position	31
Statement of Revenue, Expenses, and Changes in Net Position	32
Statement of Cash Flows	33-34
Fiduciary Funds:	
Statement of Fiduciary Net Position	35
Statement of Changes in Fiduciary Net Position	36

City of Sterling Heights, Michigan

Contents (Continued)

Financial Section (Continued)

Component Units:	
Statement of Net Position	37
Statement of Activities	38
Notes to Financial Statements	39-95

Supplemental Information

Required Supplemental Information	96
Budgetary Comparison Schedule - General Fund	97
Budgetary Comparison Schedule - Major Roads Fund	98
Budgetary Comparison Schedule - Community Development Block Grant Fund	99
Budgetary Comparison Schedule - Parks and Recreation Fund	100
Note to Required Supplemental Information	101-102
Pension Systems Schedules	103-112
Other Financial and Supplemental Information	113
Nonmajor Governmental Funds:	114
Combining Balance Sheet	115-116
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	117-118
Budgetary Comparison Schedules	119-123
Major Funds - Budgetary Comparison Schedule - Major Debt Service and Capital Projects Funds	124-127
Fiduciary and Agency Funds:	128
Combining Statement of Fiduciary Net Position - Trust Funds	129
Combining Statement of Changes in Fiduciary Net Position - Trust Funds	130
Combining Statement of Fiduciary Assets and Liabilities - Agency Funds	131
Combining Statement of Changes in Assets and Liabilities - Agency Funds	132

City of Sterling Heights, Michigan

Contents (Continued)

Statistical and Continuing Disclosure Section

Statistical Information and Continuing Disclosure Contents	133-134
<u>Statistical Information</u>	135
Financial Trends	
Net Position by Component	136
Changes in Net Position	137-138
Fund Balances of Governmental Funds	139
Changes in Fund Balances of Governmental Funds	140-141
General Governmental Tax Revenue by Source	142
Revenue Capacity	
Property Tax Levies and Collections	143
Property Tax Rates - Direct and Overlapping Governments	144-145
Assessed Taxable Values (History of Property Values)	146-147
Principal Property Taxpayers (Major Taxpayers)	148
Debt Capacity	
Ratios of General Bonded Debt Outstanding	149
Ratios of Outstanding Debt by Type	150
Direct and Overlapping Governmental Activities Debt	151
Legal Debt Margin	152
Legal Debt Margin Information	153
Pledged Revenue Coverage	154
Demographic and Economic Information	
Demographic and Economic Statistics	155
Miscellaneous Demographics	156
Principal Employers (Major Employers)	157
Operating Information	
Operating Indicators by Function	158-159
Capital Asset Statistics by Function	160
Building Permits at Market Value	161
Full-time Equivalent City Government Employees by Function	162
<u>Continuing Disclosure</u>	163
State-shared Revenue	164
Gas and Weight Taxes	164
Labor Agreements	165



Richard J. Notte Sterling Heights City Center
City Hall
40555 Utica Rd. | P.O. Box 8009
Sterling Heights, MI | 48311-8009

TEL 586.446.CITY (2489) FAX 586.276.4077
cityhall@sterling-heights.net | www.sterling-heights.net
facebook.com/cityofsterlingheights | twitter.com/sterlingheights

City Council	
<i>Mayor</i>	Michael C. Taylor
<i>Mayor Pro Tem</i>	Liz Sierawski
<i>Councilwoman</i>	Deanna Koski
<i>Councilman</i>	Michael V. Radtke Jr.
<i>Councilwoman</i>	Maria G. Schmidt
<i>Councilman</i>	Nate Shannon
<i>Councilwoman</i>	Barbara A. Ziarko

City Manager Mark D. Vanderpool

November 20, 2017

Honorable Mayor, City Council, and Citizens
of the City of Sterling Heights
40555 Utica Road
P.O. Box 8009
Sterling Heights, MI 48311-8009

The Comprehensive Annual Financial Report (CAFR) of the City of Sterling Heights, Michigan (the "City") as of and for the year ended June 30, 2017 is hereby submitted. As required by City Charter and state laws, the basic financial statements as defined in the table of contents were audited by Plante & Moran, PLLC, certified public accountants. Their unmodified opinion follows this letter of transmittal. An unmodified opinion is the best opinion that an organization can receive on its financial statements. It indicates that the auditor's examination has disclosed no conditions that cause them to believe that the financial statements are not fairly stated in all material respects.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with City management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that fairly presents the financial position and results of operations of the governmental activities, business-type activities, the various funds and component units of the City of Sterling Heights. All disclosures necessary to enable the reader to gain an understanding of the City activities have been included.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Sterling Heights' MD&A can be found immediately following the report of the independent auditor.

Two additional audits were performed during the current year. An audit was performed in accordance with the requirements of the Single Audit Act Amendments of 1996 (P.L. 104-156) and, as required by the Michigan Department of Transportation, a performance audit of the City's compliance with Public Act 51 of 1951, as amended, was performed for the year ended December 31, 2016. The auditor's reports related specifically to these two additional audits are issued under separate covers.

The Reporting Entity and Services Provided

The City of Sterling Heights has defined its financial reporting entity in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). The City includes all the funds, boards, commissions, and authorities that are controlled by or dependent upon the mayor and City Council. Based upon these criteria, the Brownfield Redevelopment Authority, Corridor Improvement Authority, Economic Development Corporation, and Local Development Finance Authority have been included in this report.

The City provides a full range of municipal services including police and fire protection; refuse services; construction and maintenance of highways, streets and infrastructure; planning and zoning; library services; and recreational and cultural events. Additionally, water and sewer services are provided under an Enterprise Fund, with user charges set by the City Council to ensure adequate coverage of operating expenses.

Governmental Structure and Local Economy

Sterling Heights is a vibrant community with a strong sense of civic pride and determination by its community leaders. Located in the northwest quadrant of Macomb County, at 36.8 square miles, there are 395 miles of roadway in Sterling Heights, of which 349 miles are maintained by the City. City services are provided to 49,576 households and 4,297 commercial and industrial businesses. The 2017 estimated population for the City stands at 129,699, making Sterling Heights the fourth largest populated city in Michigan. At the end of the fiscal year, the City had a 3.4 percent unemployment rate as compared to a Macomb County rate of 3.6 percent, a statewide rate of 4.0 percent, and a national average of 4.5 percent.

Incorporated July 1, 1968, the City operates under a Council-Manager form of government. Voters elect a mayor and a six-member City Council, who individually serve two-year terms. The mayor and City Council are the legislative body of the City, responsible for adoption and implementation of ordinances, policies, budget guidelines, and upholding the Charter. The city manager is appointed by the City Council as the chief administrative officer, who is responsible for daily operations and makes recommendations to the City Council.

The City has grown over the years to the point where less than 5 percent of its total land area is vacant. Opportunities for residential growth do continue however, including the much anticipated Moceri Veranda development at Maple Lane golf course – consisting of over 800 housing units surrounding a state of the art golf course facility. The M-53 highway running through the City and the M-59 highway bordering the City continue to provide a corridor of opportunity for redevelopment and enhancement of existing development.

Long-term Financial Planning

The City has successfully followed its long-term financial plan of providing excellent services with a low tax rate and by continually monitoring revenue trends. Due to revenue losses, and despite continual expenditure cuts, General Fund reserves fell from \$14.0 million in 2005 to \$5.2 million in 2014. In addition, the City used Internal Service Fund reserves to help offset General Fund losses. As a result, a six-year 2.5 mill Safe Streets tax was approved by City residents in November 2013 and was first levied in 2015. The millage has allowed the City to partially recover a portion of lost tax revenues. The millage provides \$3.2 million in new funding for neighborhood street repairs and \$6.8 million to prevent further reductions in the number of sworn police and firefighters.

Because of the approved millage, the City is now able to maintain quality core services. However, the City will continue to look for ways to achieve expenditure savings where possible. The City has also adopted prudent and conservative financial policies that will help guide us through the upcoming years.

In November 2016, the voters passed the Recreating Recreation millage. This 0.97 millage will provide \$45 million in dedicated funds for park improvements and repairs, as well as funds to operate and maintain the new facilities.

Although the passage of these two millages has allowed the City to maintain core services and invest in road and recreation improvements, the growth of the City's existing tax base remains limited to inflation under State law (Proposal A) such that past tax losses are permanent. Furthermore, the State has reduced commercial personal property taxes and eliminated manufacturing personal property taxes that together account for 15 percent of tax revenues. While the State has promised full reimbursement of personal property tax losses, concern remains about the State's ability to preserve this commitment over the long run.

Despite labor contract savings and lower full-time staffing, funding for long-term retirement liabilities is expected to continue to rise primarily due to the lower assumed rates of return compounded by the temporary impact of closing plans to new employees. However, with the approval of the 2.5 mills, the City is able to restore funding for replacement capital equipment and infrastructure, which had been dramatically reduced.

Since 2008, the City lost a cumulative \$119.5 million in property taxes compared to a normal inflationary housing market. The City has also lost \$91.6 million in revenue sharing since 2002.

Relevant Financial Policies

The City continues to rely on its five-year financial plan to make financial adjustments as needed. The plan enables administration to project fund balance given various assumptions based on changes in major revenue and expenditures. This plan has resulted in a full-time workforce reduction of 178 positions since 2002 and labor contract savings totaling 15 percent, as well as a reduction in future long-term legacy costs. Going forward, the plan allows the City to maintain low operational costs, while offering modest wage adjustments, and provides the resources to make the necessary long-term investments in the community as part of the City's Visioning process. This strategy benefits the City by helping to eliminate the past structural imbalance caused by declining revenues and allows the City to continue to provide excellent services, and maintain adequate reserves and strong bond ratings.

Major Initiatives

The following were among the many activities and accomplishments to which both the elected officials and staff devoted their energies in fiscal year 2016-2017:

1. Residents passed the Recreating Recreation millage in November, marking the first time in the City's history that a Recreation initiative was placed on the ballot and approved. City Administration immediately began plans for implementing and financing the new facilities and improvements that were detailed in the initiative. All improvements will be completed over the next three years.
2. The City continued work on a large scale initiative to revitalize the Clinton River. This project, funded through a \$4.5 million EPA grant, will clear log jams, stop erosion and restore natural habitat. In addition, canoe and kayak launches/landings will be installed, opening the Clinton River to recreation use for the first time in decades.
3. The City developed a 2018 budget that continued to fund road improvements and needed facility repairs, while also restoring reserves. The budget funded City place-making efforts resulting from the Visioning process and the Recreating Recreation initiative, needed technology improvements identified through the City's Technology Plan and restored some critical full-time positions, including three in Public Works.
4. For the fourth consecutive year, the City increased funding for neighborhood road repairs, and continued the replacement of much needed capital equipment and vehicles which had been delayed during the economic downturn. The budget also funded needed capital infrastructure repairs including the resurfacing of portions of Schoenherr Road, Clinton River Road, Canal Road and 15 Mile Road; improvements to the M-59 medians, and the continuation of the Neighborhood Sidewalk Repair and Sidewalk Gap programs.
5. The City continued its focus on Economic Development through facilitating ongoing development on Sterling Enterprise Park – the City's largest concentration of new high tech manufacturing in recent history. The City also began reinvesting in the entire manufacturing corridor to improve roadways, signage and rebranding to create the Sterling Innovation Corridor. This effort included embarking on an ambitious Innovate Mound initiative which is a collaborative effort between Sterling Heights, Warren, and Macomb County to raise over \$217 million to improve Mound Road from I-696 to M-59.

6. The Police Department and the Community Relations Department implemented the City's first ever Community Outreach and Engagement (CORE) program. With a goal of building stronger police-community relations, each of six patrol area districts are assigned its own Sterling Heights Police Officer to serve as a resource to residents of the region.

Major Initiatives for July 1, 2017 and Thereafter

1. After successfully weathering the financial storm and achieving a path toward financial stability, the City is now able to focus on the future. The City's Visioning 2030 plan will continue to help guide future growth and redevelopment of the City.
2. The City will continue to advance its Economic Development strategies including improving the North Van Dyke River District, and refocusing attention on retail nodes, as well as the City's most important commercial asset – Lakeside Mall.
3. The City will begin, for the first time, Fire EMS transport service thanks to required labor reform measures that will make the program entirely self-sustaining. Highly trained City paramedics will not only be the first on the scene to provide advised life support services, but will also provide continuity of care while in transport to the hospital. This service results in a more efficient deployment of personnel and apparatus under a new structure of priority dispatching.
4. As identified in the Visioning 2030 plan, the City will continue to create focal points and invest in quality of life services. Many of the Recreating Recreation park improvements will be completed in the upcoming fiscal year, including the installation of new play structures in most neighborhood parks, the opening of the Skate Park and construction on the reimagining of the City's most visited park – Dodge Park. Other quality of life initiatives for the coming year include the first steps in the implementation of the Public Art Plan, the adoption of a Reforestation Plan to increase the tree canopy throughout the City, the implementation of a new curbside recycling program that will improve service at a reduced cost, and preparations to celebrate the City's 50th Anniversary in 2018.

Budgeting and Internal Controls

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Therefore, the City's accounting system is organized and operated on a "funds basis." Each fund is a distinct, self-balancing accounting entity. The *Fund Organization Chart* on page xiii provides a list of funds used by the City.

An annual budget is adopted in accordance with the legal requirements set forth in the Uniform Budgeting Act, State of Michigan P.A. 621 of 1978. The City's budget is prepared on the modified accrual basis for governmental-type funds, and its accounting records are also maintained on that basis. Under modified accrual accounting, revenue is recorded when it is both measurable and available. Expenditures are recorded when a liability is incurred, except for interest on long-term debt and accrued leave time. The City's governmental fund types, such as the General Fund, special revenue funds, debt service funds, and capital project funds, are reported on the modified accrual basis. The City's enterprise funds, internal service fund, and pension and other retirement benefits trust funds are reported on the full accrual basis, under which revenue is recorded when earned and expenses are recorded when incurred.

Also required under the Uniform Budgeting Act are budgetary controls. The objective of the budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level for the General Fund, special revenue funds, and certain debt service funds. However, budgetary control is maintained by object class (line account) for all funds for internal accounting purposes. The City maintains this control through the use of an encumbrance system. As purchase orders are issued, corresponding amounts of appropriations are reserved by the use of encumbrances so that appropriations are not overspent. Budget transfers may be made within a budgetary center with approval of the Office of City Management. The City Council approves necessary transfers between budgetary centers or from fund balance periodically. In addition, the Office of City Management monitors department budgets on a monthly basis. Department directors and office managers must justify all variances.

The City relies on a sound system of internal controls over financial reporting and federal program compliance. A system of internal control has been established for the purpose of preventing or detecting errors, misappropriations of assets, and fraudulent financial reporting. The system of internal controls relies on the integrity of the people who work for the City. Since the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatement.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Sterling Heights, Michigan for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Sterling Heights, Michigan has received a Certificate of Achievement for the last 29 consecutive years (fiscal years 1988-2016). We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this Comprehensive Annual Financial Report was made possible by the efficient and dedicated service of the entire staff of the Office of Financial Services. We wish to express our sincere appreciation to each of them and to various employees from other offices for their cooperation and assistance. Appreciation is also expressed to the City Council for their consistent support throughout the year in matters pertaining to the financial affairs of the City.

Respectfully submitted,



Mark D. Vanderpool
City Manager



Jennifer L. Varney
Finance and Budget Director



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

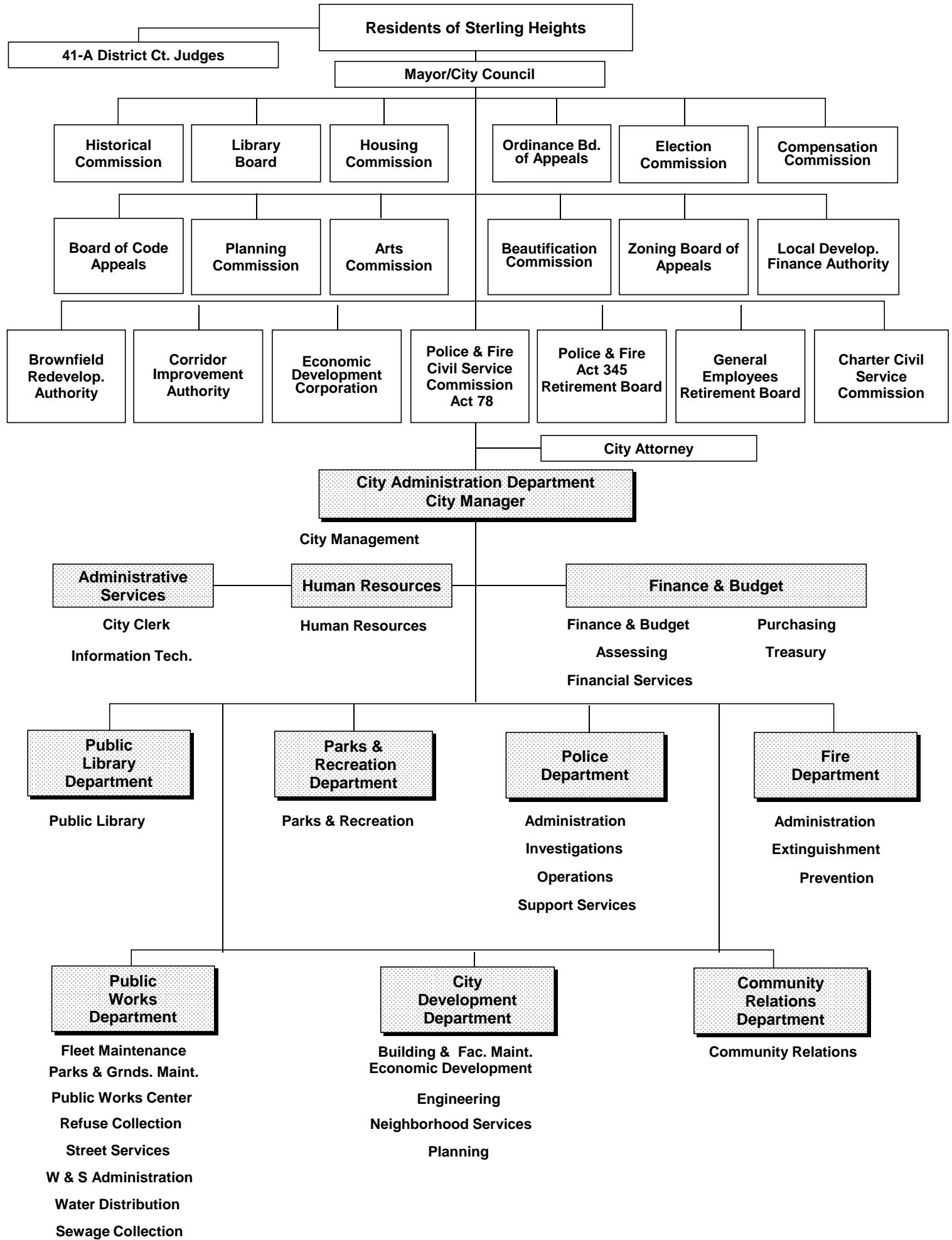
**City of Sterling Heights
Michigan**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

A handwritten signature in black ink that reads "Jeffrey R. Einer". The signature is fluid and cursive, with "Jeffrey" on the top line and "R. Einer" on the bottom line.

Executive Director/CEO



Title	Name
City Manager	Mark D. Vanderpool
Assistant City Manager/HR Director	Jeffery Bahorski
Building Official	Michael Viazanko
City Assessor	Dwayne McLachlan
City Attorney	Marc Kaszubski
City Clerk	Melanie Ryksa
Interim City Development Director	Jason Castor
City Engineer	Brent S. Bashaw
City Planner	Christopher McLeod
City Treasurer	Mary Jaganjac
Community Relations Director	Bridget Kozlowski
Controller	Nick Makie
Finance and Budget Director	Jennifer L. Varney
Fire Chief	Christopher Martin
Human Resources and Benefits Manager	Kate Baldwin
Information Technology Director	Steve Deon
Parks and Recreation Director	Kyle Langlois
Police Chief	Dale Dwojakowski
Public Library Director	Tammy L. Turgeon
Public Works Director	Michael Moore
Purchasing Manager	James P. Buhlinger

Governmental Funds

General *	Special Revenue
	Major Roads *
	Local Roads
	Parks and Recreation*
	Public Safety Forfeiture
	Community Development Block Grant (CDBG)*
	Neighborhood Stabilization
Debt Service	Capital Projects
General Drain	General Improvements *
Voted Tax General Obligation	Road Bond Construction *
Road Bond Debt Retirement*	Land and Water Conservation
Limited Tax General Obligation	Clinton River Restoration
Proprietary Funds	
Enterprise	Internal Service
Water and Sewer *	Self-insurance
Fiduciary Funds	
Trust	Agency
General Employees' Retirement System	Tax Collections
Police and Fire Retirement System	General Agency
Retiree Medical Benefits	
Component Units	
Economic Development Corporation	
Brownfield Redevelopment Authority	
Corridor Improvement Authority	
Local Development Finance Authority	

* Major funds under GASB No. 34

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sterling Heights, Michigan, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Sterling Heights, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in accordance with the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

Opinions

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sterling Heights, Michigan as of June 30, 2017, and the respective changes in its financial position, and, where applicable, cash flows, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion & Analysis, schedules of changes in the City net pension liability and related ratios, OPEB plan funding status and related ratios, schedule of City contributions for pension and OPEB, schedule of investment returns for the pension and OPEB plans, other postemployment benefits schedule of funding progress, and the budgetary comparison schedules, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sterling Heights, Michigan's basic financial statements. The other supplementary information, as identified in the table of contents and statistical and continuing disclosure sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, 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. Such 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 other supplementary information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

The statistical and continuing disclosure sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2017 on our consideration of the City of Sterling Heights, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Sterling Heights, Michigan's internal control over financial reporting and compliance.

Plante & Moran, PLLC

November 20, 2017

City of Sterling Heights, Michigan

Management's Discussion and Analysis

Overview of the Financial Statements

Our discussion and analysis of the City of Sterling Heights' (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2017. This narrative should be considered in conjunction with the additional information presented in the letter of transmittal found on pages i-ix and is intended to serve as an introduction to the City of Sterling Heights' basic financial statements which begin on page 22.

Financial Highlights

- As a result of this year's operations, the City's overall net position increased by \$4.4 million or 2.1 percent. The net position of our governmental activities increased by \$8.3 million or 11.8 percent and the net position of our business-type activities decreased by \$3.9 million or 2.9 percent. The increase in overall net position related to an increase in both governmental and business-type capital assets offset by an increase in business-type long-term liabilities.
- Net position for governmental activities increased as total assets and deferred outflows exceeded total liabilities and deferred inflows. Assets increased by \$56.8 million due largely to proceeds from the capital improvement bond for parks and recreation and increased capital asset activity. This was offset by a decrease in deferred pension outflows of \$17.3 million and an increase in total liabilities of \$41.7 million primarily due to the capital improvement bond issuance and a decrease in deferred pension inflows of \$10.5 million.
- The General Fund reported a \$1.6 million or 1.7 percent increase in revenue. Property tax revenue decreased by \$2.8 million or 4.6 percent due to a 4.1 percent decrease in City taxable property values. A 2 percent increase in real property values was offset by a 45.4 percent decrease in personal property due to the phased-in State exemption on eligible manufacturing personal property. This revenue loss was offset by an increase in the personal property tax reimbursement from the State of \$5.3 million. State revenue sharing was also up \$0.5 million from the prior year due to higher than projected State sales tax collections. Building revenue increased \$0.4 million or 19.5 percent due to increased building permits. Transfers from the Self-insurance Fund decreased by \$1.3 million due to the planned equity drawdown in the prior year to stabilize General Fund reserves. 41-A District Court revenue decreased \$0.1 million or 3.7 percent and Public Works cross-charge revenue fell \$0.2 million or 8.7 percent due to less snow-plowing needs.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

- General Fund expenditures decreased by \$0.4 million or 0.5 percent. Refuse costs decreased by \$0.3 million or 6.9 percent due to a new refuse contract at a lower cost. Transfers to the Capital Projects Fund decreased by \$0.4 million due to the funding of the City Hall parking lot repairs in the prior year, partially offset by the advance purchase of vehicles and equipment necessary to implement ALS transport in the 2017 fiscal year. Transfers to the Land & Water Conservation Fund also decreased by \$0.5 million due to the replacement Dodge Park trail bridge in the prior year. Transfers to the Major and Local Road Funds increased by \$0.9 million to fund additional road projects.
- Due to lower expenditures and higher revenue, the General Fund increased its contribution to reserves by \$2.0 million over the prior year as \$5.9 million was added to reserves. The stabilization of City finances due to the passage of the Safe Streets initiative has allowed the City to avoid further reductions in police and fire staffing, has funded needed capital replacements and repairs, and has allowed the City to partially restore depleted General Fund reserves.
- Despite an increase in State gas tax revenue starting in 2017, long-term funding remains inadequate to repair all major roads in the City. The respective portion of the 2.5 mills approved by the voters in 2013 has generated \$3.2 million in its third year and will allow the City to invest \$20 million in neighborhood road repairs over six years. The City is actively working with the Michigan Municipal League to ensure that local communities receive their fair share of State road funds so that monies go toward the roads most in need of repair and funding continues to be allocated based on population requirements.
- The City continues to fully fund its retirement systems and has done so even through the economic downturn. Due to a reduction in retirement benefits and by eliminating retiree health insurance benefits for all new hires, the growth in retiree liabilities is anticipated to be moderate. In addition, the City has reviewed and modified its actuarial assumptions to ensure realistic assumed investment returns. By fully funding long-term obligations, maintaining low debt levels and having a diversified tax base, the City is able to maintain very low tax and water and sewer rates, while continuing to provide core services to residents and business customers.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the City's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how it has changed. Net position is the difference between the City's assets and liabilities, which is one way to measure the City's financial health.

The City's government-wide financial statements are divided into three categories:

- **Governmental Activities** - Most of the City's basic services are included here such as general government, 41A District Court, public safety, public works, and recreation and culture. Property taxes, state-shared revenue, charges for services, and grants provide most of the funding.
- **Business-type Activities** - The City charges fees to customers to cover costs of providing water and sewer services.
- **Component Units** - The City includes four other separate entities in its report: the Economic Development Corporation, the Brownfield Redevelopment Authority, the Corridor Improvement Authority, and the Local Development Finance Authority. Although legally separate, these "component units" are important because the City is considered financially accountable. The Sterling Heights Building Authority is also legally separate; however, it functions as a department of the City, and therefore has been included as an integral part of the primary government.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The City's overall net position increased 2.1 percent from one year ago, increasing from \$205.5 million to \$209.9 million. A review of the governmental activities, separate from the business-type activities, shows an increase of \$8.3 million in net position, or 11.8 percent, during fiscal year 2017. This marks an improvement over the \$1.7 million increase in net position in 2016. The improvement is a result of a \$7.3 million increase in revenue compared to a \$0.7 million increase in expenditures. Going forward, we anticipate a further increase in net position due to positive General Fund performance.

As of June 30, 2017, unrestricted net position for governmental activities, which is the part of total net position available to finance day-to-day operations and future growth, was a negative \$114.6 million. This represents a \$4.2 million decrease as compared to June 30, 2016. The major factor contributing to the negative amount was the increase in long-term liabilities related to the issuance of capital improvement bonds to fund Recreating Recreation. This liability will be funded through a dedicated millage passed by the voters in November 2016.

The business-type activities experienced a reduction in net position of \$3.9 million, a decrease compared to the \$3.6 million net reduction the previous year. The decrease is primarily due to increased sewer line repair costs related to the 15 Mile Road sinkhole, which were partially offset by higher water usage as a result of a historically dry summer combined with a rate increase. Although revenue and consumption is up from the prior year, consumption continues to decrease from historical averages, resulting in a net operating loss for the system. This loss, combined with depreciation expense, which the city does not fund through water and sewer rates, resulted in the \$3.9 million decrease in net position. The overall decrease in net position flowed through the balance sheet of the business-type activities as a decrease in capital assets net of debt of \$11.2 million and a decrease in unrestricted net position of \$1.6 million, which was offset by an increase of \$8.9 million in restricted net position.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

In a condensed format, the table below shows net position (in millions of dollars) as of June 30, 2017 and 2016:

	Governmental		Business-type			
	Activities		Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current assets	\$ 93.9	\$ 50.5	\$ 22.9	\$ 23.1	\$ 116.8	\$ 73.6
Noncurrent assets:						
Restricted assets and other assets	6.6	8.0	10.2	1.3	16.8	9.3
Capital assets	<u>205.2</u>	<u>190.4</u>	<u>187.2</u>	<u>175.8</u>	<u>392.4</u>	<u>366.2</u>
Total assets	305.7	248.9	220.3	200.2	526.0	449.1
Deferred Outflows						
	28.0	45.3	1.8	2.3	29.8	47.6
Liabilities						
Current liabilities	10.4	13.2	5.4	5.2	15.8	18.4
Long-term liabilities	<u>207.3</u>	<u>162.8</u>	<u>85.5</u>	<u>62.3</u>	<u>292.8</u>	<u>225.1</u>
Total liabilities	217.7	176.0	90.9	67.5	308.6	243.5
Deferred Inflows						
	<u>37.2</u>	<u>47.7</u>	<u>0.1</u>	<u>-</u>	<u>37.3</u>	<u>47.7</u>
Net Position						
Net investment in capital assets	183.1	172.6	107.9	119.1	291.0	291.7
Restricted	10.3	8.3	10.2	1.3	20.5	9.6
Unrestricted	<u>(114.6)</u>	<u>(110.4)</u>	<u>13.0</u>	<u>14.6</u>	<u>(101.6)</u>	<u>(95.8)</u>
Total net position	<u>\$ 78.8</u>	<u>\$ 70.5</u>	<u>\$ 131.1</u>	<u>\$ 135.0</u>	<u>\$ 209.9</u>	<u>\$ 205.5</u>

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

In a condensed format, the table below shows the change in net position (in millions of dollars) as of June 30, 2017 and 2016:

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenue						
Charges for services	\$ 12.1	\$ 11.5	\$ 45.9	\$ 40.0	\$ 58.0	\$ 51.5
Operating grants and contributions	6.6	4.1	-	-	6.6	4.1
Capital grants and contributions	16.1	8.6	3.9	5.0	20.0	13.6
Property taxes	60.9	64.0	-	-	60.9	64.0
State-shared revenue	11.3	10.7	-	-	11.3	10.7
Investment earnings	0.1	0.9	-	0.7	0.1	1.6
Other nonprogram revenue	2.6	2.6	-	-	2.6	2.6
Total revenue	109.7	102.4	49.8	45.7	159.5	148.1
Program Expenses						
General government	8.1	7.5	-	-	8.1	7.5
41A District Court	4.1	3.9	-	-	4.1	3.9
Public safety	55.6	55.1	-	-	55.6	55.1
Public works	26.3	28.0	-	-	26.3	28.0
Recreation and culture	6.6	5.7	-	-	6.6	5.7
Interest on long-term debt	0.7	0.5	-	-	0.7	0.5
Water and sewer	-	-	53.7	49.3	53.7	49.3
Total program expenses	101.4	100.7	53.7	49.3	155.1	150.0
Change in Net Position						
	8.3	1.7	(3.9)	(3.6)	4.4	(1.9)
Net Position - Beginning of year	70.5	68.8	135.0	138.6	205.5	207.4
Net Position - End of year	\$ 78.8	\$ 70.5	\$ 131.1	\$ 135.0	\$ 209.9	\$ 205.5

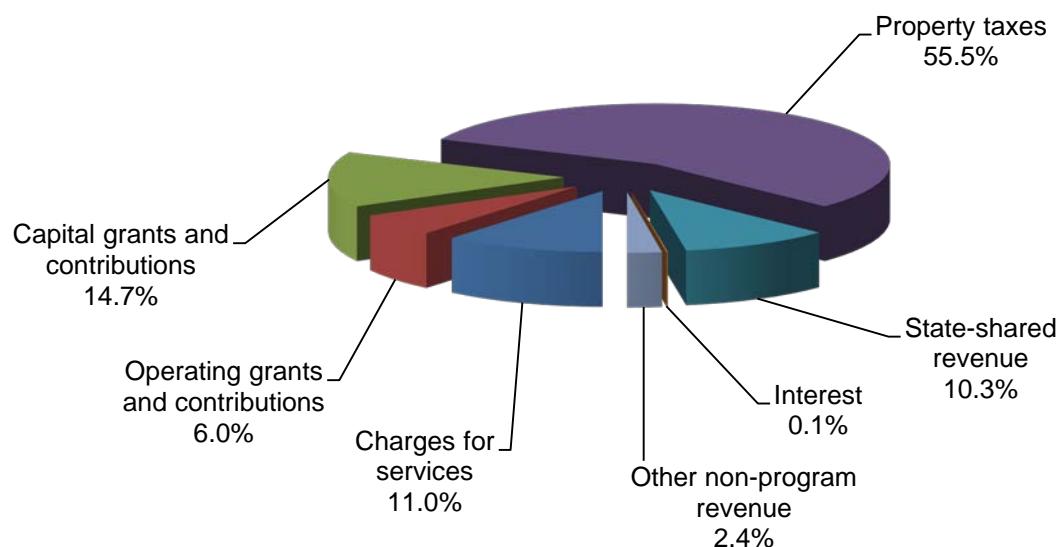
City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

During fiscal year 2017, the City's total governmental revenue increased by \$7.3 million or 7.1 percent. Lower property taxes were offset by the State reimbursement of personal property tax losses, higher grant revenue, primarily related to the Dodge Park Road reconstruction and Clinton River restoration project, and increased State revenue sharing and gas tax revenue.

Revenue by Source - Governmental Activities



Expenses increased by \$0.7 million or 0.7 percent over the previous fiscal year. Governmental expenses rose due to higher debt service costs and the fluctuations in pension expense recognized due to GASB 68. The increases were offset by savings in refuse collection, the timing of the hiring of new police officers, and savings from employee turnover due to retirements.

During the year, the City continued to meet the actuarial required contributions for both defined benefit pension systems and the retiree medical benefits trust fund. Contributions today are important for the City since future taxpayers should not be required to fund benefit payments that are currently earned. Meanwhile, the City has achieved success by lowering future retirement pension and healthcare liabilities through changes to labor contracts.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water, which is purchased from the Great Lakes Water Authority (GLWA), to nearly all residents. Water rates and fixed charges from the GLWA for fiscal year 2017 increased by 6.7 percent, while the City passed on a 9.9 percent water rate adjustment to its retail customers, due primarily to the continual decline in sales volumes. The City provides sewage treatment to 99.0 percent of its residents through the Macomb County Sewage District. The City passed on a 14.9 percent sewage rate adjustment to its customers primarily due to higher fixed sewer charges and higher debt payments from the City's share of the District's sewer rehabilitation projects. During fiscal year 2017, primarily due to the historically dry summer, the water and sewer system experienced a 6.6 percent increase in water sold to our residents and commercial customers. However, water consumption continues to decline from historical levels; this year's consumption is down 24 percent from 2008 and 8.5 percent from the 10-year average.

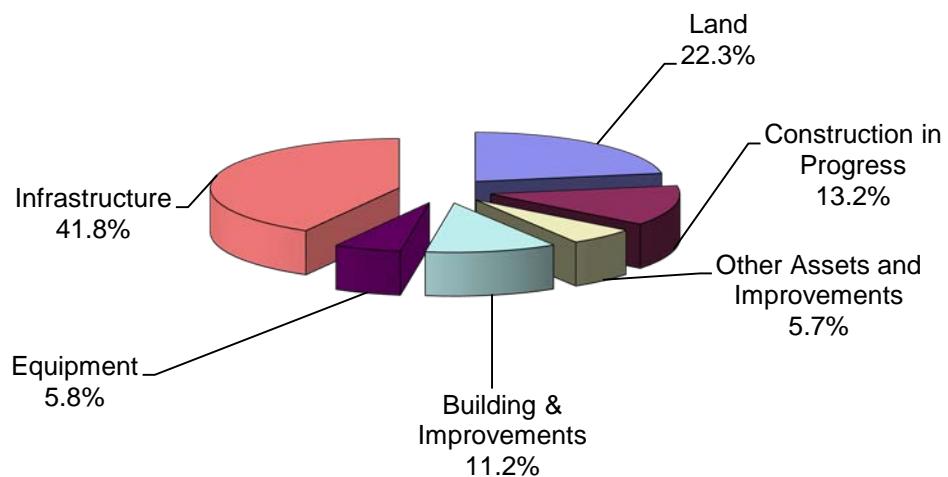
Capital Assets and Debt Administration

At the end of fiscal year 2017, the City had \$291.0 million invested (net of related debt) in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, infrastructure assets (roads, bridges, sidewalks, and storm drains), and water and sewer lines. The value of the infrastructure assets contained in this report (including water and sewer lines), net of depreciation, is \$241.1 million and \$240.8 million for fiscal years 2017 and 2016, respectively (see Note 6 of the notes to the basic financial statements for additional information).

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Capital Assets (Net of Depreciation) - Governmental



As part of the City's May 2017 bond sale, Standard & Poor's affirmed the City's excellent AA credit rating and stable outlook. Moody's and Fitch, as part of a normal periodic review, both downgraded the City's bond rating one notch to Aa2 and AA, respectively. The City credit rating across all three agencies is still excellent and allows the City to obtain low rates on debt issuances. Debt service for all outstanding direct debt during fiscal year 2017 consisted of \$2.3 million in principal and \$0.7 million in interest after adjustments for recognition of amortized premiums. Significant bond activity includes the issuance of a \$45 million Capital Improvement Bond to finance the voter approved Recreating Recreation initiative and the refunding of the outstanding principal of \$3.1 million on the 2008 Fire Station Improvement Bond at a lower interest rate. (See Note 10 of the notes to the basic financial statements for additional information).

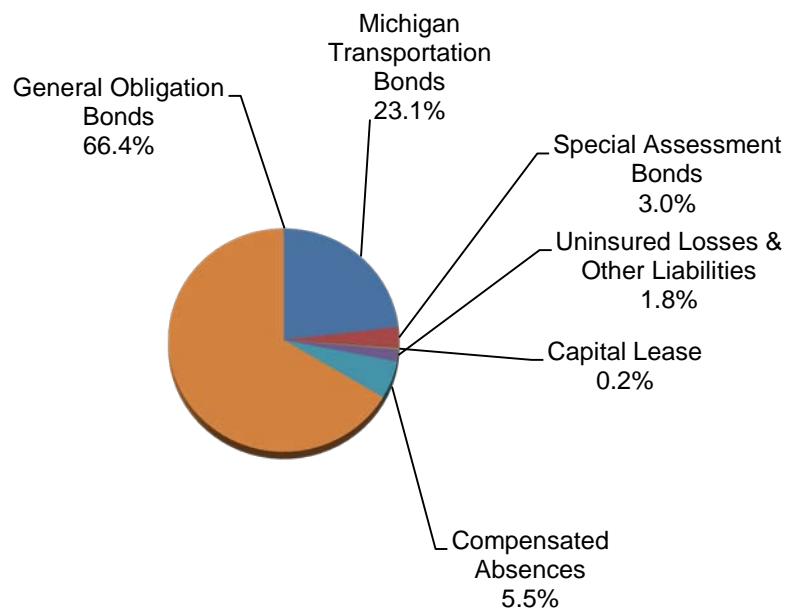
City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The ratio of net general bonded debt to assessed valuation and the amount of net bonded debt per capita are as follows:

	2017	2016
Net debt outstanding (direct and indirect)	\$ 102,435,264	\$ 36,655,264
Ratio of net debt outstanding to total taxable value	2.0431%	0.7451%
Net debt outstanding per capita	\$ 789.79	\$ 282.62

Long-term Obligations - Governmental



Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting tools the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law or bond covenants. The City Council also established other funds to control and manage money for particular purposes. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

- **Governmental Funds** - Most of the City's basic services are included in governmental funds, which focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower, it is useful to compare this information with similar information presented for governmental activities in the government-wide financial statements. This comparison may allow the reader to better understand the long-term impact of the City's short-term financing decisions. Both the balance sheet and the statement of revenue, expenditures, and changes in fund balances for the governmental funds provide a reconciliation to facilitate this comparison between governmental funds and government activities.
- **Proprietary Funds** - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund reporting, like government-wide statements, provides both short-term and long-term financial information.
- **Fiduciary Funds** - The City is responsible for ensuring the assets in these funds are used for their intended purposes. Therefore, we exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fund financial statements begin on pages 25-26 and provide detailed information on the most significant funds. The City's major funds for 2017 include the General Fund, Major Roads Fund, Community Development Block Grant Fund, Parks and Recreation Fund, Road Bond Debt Retirement Fund, General Improvements Fund, and Road Bond Construction Fund.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The major components of revenue for all funds are property taxes and state sources. The major components of expenditures of governmental funds are public safety (police and fire), public works, and capital outlay. Revenue was higher than expenditures (including transfers) in these funds by \$48.0 million. In the General Fund, revenue exceeded expenditures by \$5.9 million as revenue rose 1.7 percent compared to a 0.5 percent decline in expenditures. For the third time in 10 years, the City was able to contribute to General Fund reserves. Total government fund expenditures rose primarily due to increased investments in capital replacements, facility repairs, parks and recreation improvements, and road construction. The Major Roads Fund net decrease of \$0.2 million in fund balance was due to an increase in the transfer to the Road Bond Retirement Fund to cover new debt issued in Spring 2016, offset by a transfer from the General Fund to increase investment in road construction. The Community Development Block Grant Fund is a reimbursement-based grant fund. Revenue exceeded expenses by \$41.9 million in the newly created Parks and Recreation Fund due to the issuance of a \$45 million bond to finance new amenities and improvements funded through the Recreating Recreation millage that was approved by voters in November 2016. Road Bond Construction Fund expenses exceeded revenues by \$1.8 million due to the timing of road construction costs related to the prior year issuance of a \$9.6 million bond. This was partially offset by the issuance of a \$2.1 million bond in Spring 2017. Other nonmajor governmental funds showed a \$2.4 million net increase primarily due to the timing of neighborhood road projects.

General Fund Budgetary Highlights

Over the course of the year, City administration and the City Council monitor and amend the budget to take into account unanticipated events that occur during the year. The budget was amended twice during fiscal 2017. Final budgeted expenditures were \$1.5 million or 1.7 percent lower than the original budget primarily due to the timing of new police hires, partially offset by the advance purchase of vehicles and equipment for the fiscal year 2018 implementation of ALS transport services. Final budgeted revenue was \$2.2 million, or 2.4 percent, higher than the original budget due to the receipt of an increased property tax reimbursement from the State of Michigan and higher State revenue sharing due to higher State sales tax collections.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

At year end, actual General Fund expenditures were 98.8 percent of the budget or \$1.1 million under budget primarily due to the timing of new police hires and lower wages and overtime in the fire department. General Fund revenue was 100.3 percent or \$0.25 million higher than budgeted due to higher building permit revenue, court fines and interest on investments, partially offset by lower public works labor and equipment rental charges.

Current Economic Conditions

The City's finances have stabilized due to the passage of the Safe Streets millage by voters in November 2013 and the improvement in the housing market. As a result, the City now has the ability to stabilize operations and reinvest in the community. While the City will never recover the lost property tax revenue that occurred between 2008 and 2014, the City was able to take corrective action that will continue to financially benefit the community going forward. The City's cost structure has been reduced, and legacy benefit reforms have been achieved including the closing of the general employees' pension system to new members and eliminating retiree medical benefits for all new hires.

While the City continues to carry out its long-term financial plan, there still remains a structural funding problem facing communities in Michigan. Unfortunately, the City's future revenue growth is limited. The City will only see an inflationary adjustment from property tax revenue going forward as most of the City is developed. Of long-term concern is the State's ability to fully fund the reimbursement of lost personal property tax for major manufacturers which has been eliminated. State revenue sharing, the City's second largest revenue, is tied to sales tax receipts and is always at risk of further cuts. In fact, there is talk that the State may have to cut revenue sharing in order to make up for the promised increase in road funding to communities.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Assessments Caused Lower Property Tax Bills and Related Revenue

The City's overall property tax assessments decreased 4.1 percent in fiscal year 2017, primarily due to the elimination of manufacturing personal property taxes. Taxable values have now fallen by 23.8 percent since 2008. The passage of the Recreating Recreation millage resulted in an increase in property tax revenue that will bring 2018 revenue to just \$400,000 below 2008 revenue; however, the City has lost a cumulative \$119.5 million in tax revenue growth during that same period. Even as property values grow, Proposal A will limit increases to the rate of inflation, such that the City has permanently lost property tax dollars. As a result, taxable values are not projected to return to 2008 levels until 2026 at the earliest. In addition, the inflationary adjustment for 2017 was only 0.9 percent, which was well below the average 2.3 percent adjustment over the past 23 years. As a result of these revenue losses and despite the new Safe Streets millage, the City will not be able to restore all of the millions in operational cuts made to date. Even with the recently approved Recreating Recreation millage, which can only be used to fund Parks and Recreation improvements, the average property tax bill remains \$88, or 3.3 percent, less than it was 10 years ago. The City's tax rate remains lower than 60 percent of all cities in the state and one of the lowest of any city in Macomb County. The City's tax rate is 4.5 mills below the average of all cities in the County.

State Revenue-sharing Cuts

The City's second largest revenue source is state revenue sharing, which is distributed to communities from sales tax receipts collected by the State of Michigan. Revenue sharing previously represented 20.0 percent of the City's budget, while it currently represents just over 10 percent. The State has cut revenue-sharing payments, resulting in a cumulative \$43.4 million loss since 2002, despite a growing City population. When inflation is factored in, the City has now cumulatively lost \$91.6 million.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Road Funding

The City receives gas tax revenue from the State to pay for road maintenance and construction. Due to the use of more efficient vehicles, the State's flat gas tax has brought in less tax revenue to the City over the past 10 years. While road funding is projected to increase due to the higher gas tax and registration fees passed by the State in January 2017, when adjusted for inflation, the City has still lost \$18.5 million in revenue since 2002. Unfortunately, half of the promised increase in State road funding will come from existing State revenue, so there is a concern that cuts to existing local funds may result. While the Safe Streets millage will provide \$3.2 million annually for neighborhood road repairs, the ability of the City to fund major road construction remains a concern.

Expenditure Savings

As a result of the declining revenue, the City developed a proactive multi-faceted financial strategy to successfully navigate the financial challenges. The City implemented numerous budgeted savings and limited revenue enhancement measures over the past several years. During this time, the City also achieved 15.0 percent wage and benefit concessions from all 12 labor groups. The City has eliminated 178 full-time budgeted positions or 27 percent of its full-time workforce since 2002 while relying more on part-time staff, saving \$13.9 million annually.

The City has also achieved significant reform of employee retirement benefits which has begun to reduce the growth in long-term retirement liabilities. The City no longer offers fixed pensions for general employees, has reduced pensions for future retirees who are still entitled to fixed pensions, eliminated retiree medical for all new employees, and reduced future retiree healthcare benefits. The City has contracted out the police detention facility, the cleaning of City buildings and certain park maintenance functions, as well as transferred dispatch operations to the County. The City continues to pursue service-sharing agreements with surrounding communities, and outsources services where feasible. Today, nearly 68.0 percent of the budget is directed toward the City's largest departments which are police, fire, and public works.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

With the rebound in housing and the passage of the Safe Streets millage, the City is now able to avoid further staffing reductions, grant modest wage adjustments, and restore funding for needed capital replacements and facility repairs that had been delayed. The City has also increased road funding, developed succession plans, and funded more place-making initiatives as part of the City's new Visioning plan.

City Staffing

Due to past revenue losses, the City had to eliminate numerous positions over the past 10 years given that over 74 percent of the City budget is comprised of personnel costs. For fiscal year 2018, the City has 471 budgeted full-time employees – an increase of 22 positions over fiscal year 2017. In addition to the 22 full-time positions that were funded in the 2018 budget, two part-time positions were converted to full-time in 2017. Fifteen of these positions are firefighters necessary to implement ALS transport and three additional positions are funded for Public Works. Part-time staffing has increased by 62 percent since 2004. Our ratio of full-time employees per 1,000 residents is below any comparable city in Michigan. Over the years, staffing reductions have primarily occurred at City Hall and public works, as fewer cuts have been made to public safety. Going forward, no further staffing reductions are planned.

Use of Fund Balance

Despite the expenditure savings, the City needed to use its fund balance reserves in both the General Fund and Self-insurance Fund during the economic slowdown. Between 2007 and 2014, the City used \$10.5 million of General Fund reserves. The City used \$9.8 million of Self-insurance Fund reserves between 2012 and 2016. With the passage of the Safe Streets millage, the City was able to contribute \$3.9 million to General Fund reserves in 2016 and \$5.9 million in 2017. General Fund reserves now total \$17.3 million. Furthermore, the 2018 budget also contributes to General Fund reserves and keeps the City on its path to restore reserves to acceptable levels. By following the City's long-term financial plan, the City has avoided compromising its superior AA bond rating, which saves hundreds of thousands of dollars in annual interest costs.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Future Actions Needed for 2018 and Beyond

Because the City has successfully approached challenging financial times in a comprehensive, long-term manner, we have weathered the financial storm and achieved financial stability. As such, we are now able to continue to focus on the future by implementing the City's new Visioning plan. This process will further guide our master land use, parks and recreation, and succession and technology plans, allowing the City to better plan for its long-term success.

Due to the City's cost-cutting efforts, the City is better positioned than most communities. Regularly updating the City's financial forecast allowed the City to take corrective action early on. The City has low debt levels, high bond ratings, and excellent services funded by very low property taxes and water and sewer rates. The City's tax rate continues to be one of the lowest of any city in the county and is lower than 60 percent of cities throughout the state. The City also continues to have one of the lowest residential water and sewer rates of cities in the state with more than 25,000 residents. While we are not able to return to prior staffing levels due to property tax losses, with the Safe Streets millage we are able to invest in replacing needed capital, make repairs to local neighborhood streets, and avoid further police and fire staffing reductions. In addition, the newly approved Recreating Recreation millage is funding new amenities like the Skate Park and community center and exciting improvements to existing City parks.

While further revenue growth is limited due to State policies, the City will continue to balance service delivery needs, the need for capital investments, and the continued need to set funds aside for promised long-term retirement liabilities based on realistic actuarial investment assumptions.

The City Council and City administration will further develop the City's financial strategy and continue fiscal responsibility while maintaining as many core services as possible. In the meantime, the City will keep residents informed and ensure they continue to receive maximum value for their tax dollars.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the resources it receives. If you have any questions about this report or need additional information, we invite you to contact the administration offices at City Hall.

City of Sterling Heights, Michigan

Statement of Net Position June 30, 2017

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents (Note 3)	\$ 12,077,701	\$ 2,750,757	\$ 14,828,458	\$ 1,616,713
Investments - At fair value (Note 3)	25,608,921	7,326,622	32,935,543	549,251
Receivables:				
Customers	-	12,028,612	12,028,612	3,238
Special assessments - Current	146,625	-	146,625	-
Accrued interest	274,057	64,251	338,308	-
Other	958,234	-	958,234	-
Internal balances	(214,395)	214,395	-	-
Due from fiduciary funds	32,642	-	32,642	-
Due from other governmental units	4,900,796	185,847	5,086,643	472,836
Prepaid costs and other assets	3,033,778	-	3,033,778	257,561
Inventories	760,527	291,236	1,051,763	-
OPEB asset (Note 13)	949,881	51,698	1,001,579	-
Special assessments	1,634,884	-	1,634,884	-
Restricted assets (Note 4)	48,717,978	10,193,185	58,911,163	-
Loans receivable (Note 5)	1,606,995	-	1,606,995	-
Capital assets:				
Nondepreciable (Note 6)	73,223,685	29,490,739	102,714,424	1,464,494
Depreciable - Net (Note 6)	132,008,985	157,678,282	289,687,267	2,134,491
Total assets	305,721,294	220,275,624	525,996,918	6,498,584
Deferred Outflows of Resources -				
Deferred outflows related to pension and debt (Notes 7 and 12)	27,952,931	1,764,951	29,717,882	-
Liabilities				
Accounts payable	4,395,113	4,709,068	9,104,181	634,359
Accrued and other liabilities	1,628,539	658,218	2,286,757	562,374
Due to other governmental units	505,906	-	505,906	309,265
Unearned revenue (Note 8)	3,841,059	196,861	4,037,920	-
Noncurrent liabilities:				
Due within one year (Notes 9, 10, and 11)	5,223,117	2,832,991	8,056,108	-
Net pension liability (Note 12)	133,489,641	5,848,487	139,338,128	-
Due in more than one year (Notes 9, 10, and 11)	68,604,247	76,665,267	145,269,514	160,000
Total liabilities	217,687,622	90,910,892	308,598,514	1,665,998
Deferred Inflows of Resources -				
Deferred inflows related to pension (Notes 7 and 12)	37,198,303	72,649	37,270,952	-
Net Position				
Net investment in capital assets	183,110,205	107,889,832	291,000,037	3,598,985
Restricted:				
Roads	7,351,921	-	7,351,921	-
Public safety	500,152	-	500,152	-
Debt service	2,449,838	-	2,449,838	-
County drains (Note 4)	-	10,193,185	10,193,185	-
Unrestricted	(114,623,816)	12,974,017	(101,649,799)	1,233,601
Total net position	<u>\$ 78,788,300</u>	<u>\$ 131,057,034</u>	<u>\$ 209,845,334</u>	<u>\$ 4,832,586</u>

City of Sterling Heights, Michigan

Functions/Programs

Primary government:

Governmental activities:

	Expenses	Charges for Services	and Contributions	Program Revenue
				Operating Grants and Capital Grants
General government	\$ 8,060,125	\$ 3,441,658	\$ 606,783	\$ -
41A District Court	4,126,599	2,604,583	146,398	-
Public safety	55,632,437	1,656,530	179,850	411,454
Public works	26,282,058	3,596,813	5,291,776	15,724,451
Recreation and culture	6,632,299	752,884	393,995	-
Interest on long-term debt	675,198	-	-	-
Total governmental activities	101,408,716	12,052,468	6,618,802	16,135,905
Business-type activities - Water and sewer	53,744,214	45,917,303	-	3,906,683
Total primary government	\$ 155,152,930	\$ 57,969,771	\$ 6,618,802	\$ 20,042,588

Component units:

Economic Development Corporation	\$ 900,000	\$ -	\$ 300,000	\$ -
Brownfield Redevelopment Authority	536,828	-	87,094	-
Corridor Improvement Authority	948	-	22,102	-
Local Development Finance Authority	1,044,274	136,317	1,777,177	-
Total component units	\$ 2,482,050	\$ 136,317	\$ 2,186,373	\$ -

General revenue:

- Property taxes
- Unrestricted state revenue-sharing program
- Investment income
- Other nonprogram generated revenue

Total general revenue

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

Statement of Activities

Net (Expenses) Revenue and Changes in Net Position

City of Sterling Heights, Michigan

	General Fund	Major Roads	Community Development Block Grant
Assets			
Cash and cash equivalents (Note 3)	\$ 6,790,205	\$ 750,991	\$ -
Investments - At fair value (Note 3)	12,237,535	1,495,053	-
Receivables:			
Special assessments:			
Current	-	-	-
Unavailable	-	-	-
Accrued interest	80,110	-	-
Other	837,553	336	-
Prepaid costs and other assets	140,098	388,881	-
Due from other funds (Note 14)	283,912	-	-
Due from fiduciary funds	32,642	-	-
Due from other governmental units	2,616,523	1,361,317	103,271
Inventories	689,031	-	-
Restricted assets (Note 4)	-	-	-
Rehabilitation loans (Note 5)	-	-	1,606,995
Total assets	<u>\$ 23,707,609</u>	<u>\$ 3,996,578</u>	<u>\$ 1,710,266</u>
Liabilities			
Accounts payable	\$ 1,986,684	\$ 392,807	\$ 24,176
Accrued and other liabilities	1,189,282	32,389	-
Due to other funds (Note 14)	637,306	25,714	79,095
Due to fiduciary funds	-	-	-
Due to other governmental units	505,906	-	-
Unearned revenue (Note 8)	114,614	336	1,606,995
Total liabilities	4,433,792	451,246	1,710,266
Deferred Inflows of Resources -			
Unavailable revenue (Note 7)	2,007,208	-	-
Fund Balances			
Nonspendable:			
Inventory	689,031	-	-
Prepaid costs	140,098	388,881	-
Restricted for:			
Road improvements	-	3,156,451	-
Public safety	-	-	-
Parks and Recreation	-	-	-
Debt service	-	-	-
Committed - Park acquisitions and improvements	-	-	-
Assigned to:			
Debt service	337,480	-	-
Other capital projects	4,588,090	-	-
Unassigned	11,511,910	-	-
Total fund balances	<u>17,266,609</u>	<u>3,545,332</u>	<u>-</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 23,707,609</u>	<u>\$ 3,996,578</u>	<u>\$ 1,710,266</u>

Governmental Funds
Balance Sheet
June 30, 2017

Parks and Recreation	Road Bond Debt Retirement	General Improvements	Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 590,105	\$ 1,304,520	\$ -	\$ 2,560,153	\$ 11,995,974
-	-	498,050	603,104	1,868,591	16,702,333
-	142,384	1,115	-	3,126	146,625
-	1,566,223	3,009	-	65,652	1,634,884
15,356	87,788	247	-	2,923	186,424
-	-	-	-	-	837,889
-	-	-	150,000	-	678,979
331,169	-	17,927	-	73,815	706,823
-	-	-	-	-	32,642
-	-	-	-	819,685	4,900,796
-	-	-	-	71,496	760,527
42,142,934	-	2,117,814	4,457,230	-	48,717,978
-	-	-	-	-	1,606,995
\$ 42,489,459	\$ 2,386,500	\$ 3,942,682	\$ 5,210,334	\$ 5,465,441	\$ 88,908,869
\$ 570,788	\$ -	\$ 224,127	\$ 467,273	\$ 625,911	\$ 4,291,766
-	-	98,674	6,995	301,199	1,628,539
-	-	-	56	5,313	747,484
-	-	-	-	-	-
-	-	-	-	-	505,906
1,300	-	2,117,814	-	-	3,841,059
572,088	-	2,440,615	474,324	932,423	11,014,754
-	1,566,223	3,009	-	65,652	3,642,092
-	-	-	-	71,496	760,527
-	-	-	150,000	-	678,979
-	-	-	4,586,010	3,462,157	11,204,618
-	-	-	-	495,955	495,955
41,917,371	-	-	-	-	41,917,371
-	820,277	-	-	63,338	883,615
-	-	-	-	374,420	374,420
-	-	-	-	-	337,480
-	-	1,499,058	-	-	6,087,148
-	-	-	-	-	11,511,910
41,917,371	820,277	1,499,058	4,736,010	4,467,366	74,252,023
\$ 42,489,459	\$ 2,386,500	\$ 3,942,682	\$ 5,210,334	\$ 5,465,441	\$ 88,908,869

City of Sterling Heights, Michigan

Governmental Funds **Reconciliation of the Balance Sheet to the Statement of Net Position** **June 30, 2017**

Total Fund Balances of Governmental Funds	\$ 74,252,023
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
Certain receivables are expected to be collected over several years in the General Fund, special revenue funds, and debt service funds	3,642,092
Capital assets used in governmental activities are not financial resources and are not reported in the funds	205,232,670
Certain changes in pension plan net position and bond refunding costs are reported as deferred outflows of resources in the statement of net position, which are not reported in the General Fund	27,952,931
Certain changes in pension plan net position are reported as deferred inflows of resources in the statement of net position, which are not reported in the General Fund	(37,198,303)
Net pension liability is not due and payable in the current period and is not reported in the funds	(133,489,641)
OPEB asset is not reported in the funds	949,881
Long-term liabilities not due and payable in the current period are not reported in the funds	(65,091,622)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources and are not reported as fund liabilities	(4,036,202)
Bond premiums are amortized over the life of the bonds, while recognized as an other financing source in the funds when received	(3,405,444)
Internal service fund is included as part of governmental activities	9,979,915
Net Position of Governmental Activities	<u>\$ 78,788,300</u>

City of Sterling Heights, Michigan

	General Fund	Major Roads	Community Development Block Grant	Parks and Recreation
Revenue				
Property taxes	\$ 57,278,730	\$ -	\$ -	\$ -
Fees and permits	2,568,909	-	-	-
Federal sources	128,754	38,671	606,783	-
State and local sources	17,374,357	7,343,436	-	-
Fines and forfeitures	2,944,500	-	-	-
Charges for services	9,842,019	-	-	-
Investment income	24,052	13,935	-	-
Special assessments	-	-	-	-
Rental income	1,484,851	3,902	-	-
Cable revenue	2,579,599	-	-	-
Other	1,096,676	161,803	-	50,000
Total revenue	95,322,447	7,561,747	606,783	50,000
Expenditures				
Current:				
General government	8,300,238	-	-	-
41A District Court	3,242,874	-	-	-
Public safety	48,485,312	-	-	-
Public works	16,506,604	2,176,439	289,061	-
Recreation and culture	4,541,289	-	-	3,131,495
General expenditures	1,118,895	-	-	-
Capital outlay	-	3,146,376	317,722	-
Debt service	-	-	-	-
Total expenditures	82,195,212	5,322,815	606,783	3,131,495
Excess of Revenue Under (Over) Expenditures	13,127,235	2,238,932	-	(3,081,495)
Other Financing Sources (Uses)				
Issuance of debt	-	-	-	42,135,000
Bond premium	-	-	-	2,863,866
Proceeds from sale of assets	-	-	-	-
Payments to refunded bond escrow agents	-	-	-	-
Interfund transfers in (Note 14)	-	500,000	-	-
Interfund transfers out (Note 14)	(7,255,495)	(2,925,240)	-	-
Total other financing (uses) sources	(7,255,495)	(2,425,240)	-	44,998,866
Net Change in Fund Balances	5,871,740	(186,308)	-	41,917,371
Fund Balances - Beginning of year	11,394,869	3,731,640	-	-
Fund Balances - End of year	\$ 17,266,609	\$ 3,545,332	\$ -	\$ 41,917,371

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2017

Road Bond Debt Retirement	General Improvements	Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 3,668,199	\$ 60,946,929
-	-	-	-	2,568,909
-	3,423	3,070,808	2,452,259	6,300,698
-	-	-	2,866,971	27,584,764
-	-	-	-	2,944,500
-	-	-	-	9,842,019
5,561	13,026	30,882	32,890	120,346
179,647	1,840	-	17,605	199,092
-	-	-	-	1,488,753
-	-	-	-	2,579,599
119,480	93,975	-	46,585	1,568,519
304,688	112,264	3,101,690	9,084,509	116,144,128
-	-	-	-	8,300,238
-	-	-	-	3,242,874
-	-	-	161,255	48,646,567
-	-	-	1,896,999	20,869,103
-	-	-	-	7,672,784
2,100	-	-	43,661	1,164,656
-	6,104,957	7,066,176	5,878,765	22,513,996
2,140,996	-	-	839,975	2,980,971
2,143,096	6,104,957	7,066,176	8,820,655	115,391,189
(1,838,408)	(5,992,693)	(3,964,486)	263,854	752,939
-	-	2,075,000	3,105,000	47,315,000
-	-	38,711	-	2,902,577
-	-	-	80,363	80,363
-	-	-	(3,073,865)	(3,073,865)
1,925,240	5,759,420	-	1,996,075	10,180,735
-	-	-	-	(10,180,735)
1,925,240	5,759,420	2,113,711	2,107,573	47,224,075
86,832	(233,273)	(1,850,775)	2,371,427	47,977,014
733,445	1,732,331	6,586,785	2,095,939	26,275,009
\$ 820,277	\$ 1,499,058	\$ 4,736,010	\$ 4,467,366	\$ 74,252,023

City of Sterling Heights, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ 47,977,014
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation (net of prior year's construction in progress placed in service):	
Capital outlay	25,336,898
Depreciation expense	(10,465,769)
Net book value of assets disposed of	(527)
Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection	32,161
Special assessment revenue is recorded in the statement of activities when the assessment is earned (i.e., work is substantially complete); it is not reported in the funds until collected or collectible within 60 days of year end. In the current year, more was collected than earned	(199,092)
Repayment of bond and lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	5,368,442
Debt issuance and financing is not reported as an other financing source in the statement of activities	(47,315,000)
Premiums received on bond issuance are recognized in the year of issuance in the governmental funds, but are amortized over the life of the bonds on the statement of activities	(2,852,939)
Changes in accumulated employee sick and vacation pay do not require the use of current resources, and therefore are not reported in the funds statements until they come due for payment	(12,103)
Governmental funds report expenditures for pension and other postemployment benefits as they make contributions; in the statement of activities, the OPEB cost is recognized as contributions are required and the change in net pension liability does not require the use of current financial resources	(6,826,951)
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the Internal Service Fund is reported with governmental activities	<u>(2,777,386)</u>
Change in Net Position of Governmental Activities	<u>\$ 8,264,748</u>

City of Sterling Heights, Michigan

Proprietary Funds Statement of Net Position June 30, 2017

	Business-type Activities	Governmental Activity
	Enterprise	Internal Service
	Fund -	Fund - Self- insurance
	Water and Sewer	
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 2,750,757	\$ 81,727
Investments - At fair value (Note 3)	7,326,622	8,906,588
Receivables:		
Customers	12,028,612	-
Accrued interest	64,251	87,633
Other	-	120,345
Prepaid costs and other assets	-	2,354,799
Due from other funds (Note 14)	214,395	-
Due from other governmental units	185,847	-
Inventories	291,236	-
Total current assets	22,861,720	11,551,092
Noncurrent assets:		
Restricted assets (Note 4)	10,193,185	-
OPEB asset (Note 13)	51,698	-
Capital assets - Net (Note 6)	187,169,021	-
Total noncurrent assets	197,413,904	-
Total assets	220,275,624	11,551,092
Deferred Outflows of Resources -		
Deferrred outflows related to pension (Notes 7 and 12)	1,764,951	-
Liabilities		
Current liabilities:		
Accounts payable	4,709,068	103,347
Accrued and other liabilities	658,218	-
Compensated absences (Note 10)	29,493	-
Due to other funds (Note 14)	-	173,735
Current portion of long-term debt (Notes 9 and 10)	2,803,498	-
Provision for uninsured losses and liabilities (Note 11)	-	709,894
Unearned revenue (Note 8)	196,861	-
Total current liabilities	8,397,138	986,976
Noncurrent liabilities:		
Compensated absences (Note 10)	189,575	-
Long-term debt (Notes 9 and 10)	76,475,692	-
Provision for uninsured losses and liabilities (Note 11)	-	584,201
Net pension liability (Note 12)	5,848,487	-
Total noncurrent liabilities	82,513,754	584,201
Total liabilities	90,910,892	1,571,177
Deferred Inflows of Resources -		
Deferrred inflows related to pension (Notes 7 and 12)	72,649	-
Net Position		
Net investment in capital assets	107,889,832	-
Restricted for county drains (Note 4)	10,193,185	-
Unrestricted (Note 15)	12,974,017	9,979,915
Total net position	\$ 131,057,034	\$ 9,979,915

City of Sterling Heights, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2017

	Business-type Activities		Governmental Activity	
	Enterprise Fund - Water and Sewer		Internal Service Fund - Self-insurance	
	-	-	-	-
Operating Revenue				
Water sales	\$ 16,666,299		\$ -	
Sewage treatment	26,338,819		- -	
Service charges	883,341		- -	
City contributions	- -		5,422,791	
Other	2,028,844		160,575	
Total operating revenue	45,917,303		5,583,366	
Operating Expenses				
Wages and fringe benefits	4,989,926		- -	
Contractual services	552,431		- -	
Water purchases	15,480,008		- -	
Sewage disposal charges	18,909,032		- -	
Materials and supplies	332,505		- -	
Repairs and maintenance	2,735,451		- -	
Building and equipment rental	128,185		- -	
Insurance	2,460		- -	
Depreciation	5,906,917		- -	
Administration expenses	2,117,520		359,063	
Reinsurance charges and claims	- -		7,825,091	
Other	345,402		136,066	
Total operating expenses	51,499,837		8,320,220	
Operating Loss			(5,582,534)	(2,736,854)
Nonoperating Expenses				
Investment loss	(64,475)		(40,532)	
Interest expense	(2,244,377)		- -	
Total nonoperating expenses	(2,308,852)		(40,532)	
Loss - Before contributions			(7,891,386)	(2,777,386)
Capital Contributions				
Contributions from developers	2,744,058		- -	
Other capital contributions	1,162,625		- -	
Total capital contributions	3,906,683		- -	
Change in Net Position			(3,984,703)	(2,777,386)
Net Position - Beginning of year	135,041,737		12,757,301	
Net Position - End of year	\$ 131,057,034		\$ 9,979,915	

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2017

	Business-type Activities	Governmental Activity
	Internal Service	
Enterprise Fund - Water and Sewer	Fund - Self- insurance	
Receipts from customers	\$ 45,739,026	\$ 5,870,848
Payments to suppliers for goods and services	(36,569,273)	-
Payments to employees for services	(3,799,442)	-
Payments connected with interfund services	(2,278,676)	503,427
Claims paid	-	(9,929,842)
Other receipts	-	1,033,780
Net cash provided by (used in) operating activities	3,091,635	(2,521,787)
Cash Flows from Capital and Related Financing Activities		
Collection of customer assessments (principal and interest)	1,162,625	-
Principal paid for long-term debt	(2,514,372)	-
Interest paid for long-term debt	(2,162,189)	-
Purchase of capital assets	(189,873)	-
Net cash used in capital and related financing activities	(3,703,809)	-
Cash Flows from Investing Activities		
Investment (expense) income	(16,081)	253,390
Purchase of investment securities	(13,698,611)	(9,490,146)
Proceeds from sales and maturities of investment securities	17,033,597	5,749,811
Net cash provided by (used in) investing activities	3,318,905	(3,486,945)
Net Increase (Decrease) in Cash and Cash Equivalents	2,706,731	(6,008,732)
Cash and Cash Equivalents - Beginning of year	44,026	6,090,459
Cash and Cash Equivalents - End of year (Note 3)	<u>\$ 2,750,757</u>	<u>\$ 81,727</u>

(This statement is continued on the following page.)

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2017

Business-type Activities	Governmental Activity
	Internal Service
Enterprise Fund - Water and Sewer	Fund - Self- insurance

Reconciliation of operating loss to net cash from operating activities:

Operating loss	\$ (5,582,534)	\$ (2,736,854)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	5,906,917	-
Change in net pension liability	1,196,713	-
Noncash sewer repairs	1,661,579	-
Changes in assets and liabilities:		
Receivables	(271,211)	(33,186)
Prepaid costs and other assets	-	481,243
Due to other funds	(161,156)	503,427
Inventory	(9,145)	-
Accounts payable	263,767	(582,724)
Provision for compensated absences	(6,229)	-
Provision for uninsured losses and liabilities	-	(153,693)
Unearned revenue	92,934	-
Net cash provided by (used in) operating activities	<u>\$ 3,091,635</u>	<u>\$ (2,521,787)</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2017, developer constructed water and sewer lines with an estimated value of \$1,781,116 were donated to the City's Water and sewer fund. The Oakland-Macomb Interceptor Drainage District (OMID) constructed and contributed Segment I drainage system improvements totaling \$1,060, which was funded through assigned debt; constructed and contributed Segment II drainage system improvements totaling \$72,736, which were funded through assigned debt; constructed and contributed Segment III drainage system improvements totaling \$300,794, which were funded through assigned debt; and constructed and contributed Segment IV drainage system improvements totaling \$1,370,406, which were funded through assigned debt. The Macomb Interceptor Drainage District (MIDD) constructed and contributed drainage system improvements totaling \$15,246,537, which were funded through assigned debt. A total of \$1,661,579 of this amount was recognized as expense in the current year. The MIDD also refunded all outstanding 2010A Drainage District Bonds, of which the City's share was \$22,455,034, and issued 2017 MID Drainage District Bonds and MID Drainage District Refunding Bonds, of which the City's share was \$21,918,074 and \$22,365,870, respectively, which includes \$3,385,826 and \$3,279,935 of issuance premiums, respectively.

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2017

	Trust Funds -		
	Pensions and Other		
	Retirement Benefits	Agency Funds	
Assets			
Cash and cash equivalents (Note 3)	\$ 14,232,155	\$ 1,177,811	
Investments - At fair value (Note 3):			
Government securities	44,598,999		-
Short-term investment fund	-	2,961,746	
Mutual funds	20,872,624		-
Corporate bonds	29,525,237		-
Common and preferred stocks	307,534,315		-
Private real estate	879,655		-
Receivables	<u>233,053</u>		-
 Total assets	 417,876,038	 <u>\$ 4,139,557</u>	
Liabilities			
Accounts payable	4,035,367	\$ -	
Accrued and other liabilities	27,851	1,089,775	
Due to other governmental units	14,242	126,406	
Provision for uninsured losses and liabilities (Note 11)	528,592		-
Cash bonds and deposits	<u>-</u>	<u>2,923,376</u>	
 Total liabilities	 <u>4,606,052</u>	 <u>\$ 4,139,557</u>	
 Net Position - Restricted for pensions	 <u>\$ 413,269,986</u>		

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Position Year Ended June 30, 2017

Trust Funds -
Pensions and Other
Retirement Benefits

Additions

Investment income (loss):	
Interest and dividends	\$ 9,360,196
Net adjustment to fair value of investments	38,455,483
Less investment expenses	<u>(2,626,679)</u>
Net investment gain	45,189,000

Contributions:

Employer	22,096,657
Employee	2,198,865
Purchase of prior year's service credits	58,790
Insurance recovery	<u>10,573</u>
Total additions	69,553,885

Deductions

Benefit payments	41,317,839
Withdrawals and refunds of contributions	<u>625,686</u>
Total deductions	41,943,525

Change in Net Position

Net Position - Beginning of year	<u>385,659,626</u>
Net Position - End of year	<u>\$ 413,269,986</u>

City of Sterling Heights, Michigan

Component Units Statement of Net Position June 30, 2017

	Economic Development Corporation	Brownfield Redevelopment Authority	Corridor Improvement Authority	Local Development Finance Authority	Total
Assets					
Cash and cash equivalents	\$ 17,886	\$ 536,209	\$ 1,791	\$ 1,060,827	\$ 1,616,713
Investments	300,000	-	-	249,251	549,251
Receivables	2,588	-	-	650	3,238
Due from other governmental units	-	619	-	472,217	472,836
Land held for resale	-	-	257,561	-	257,561
Capital assets:					
Nondepreciable (Note 6)	-	-	-	1,464,494	1,464,494
Depreciable - Net (Note 6)	-	-	-	2,134,491	2,134,491
 Total assets	 320,474	 536,828	 259,352	 5,381,930	 6,498,584
Liabilities					
Accounts payable	-	-	3,236	631,123	634,359
Accrued and other liabilities	-	536,828	-	25,546	562,374
Due to other governmental units	298,992	-	10,273	-	309,265
Long-term debt (Notes 9 and 10)	-	-	160,000	-	160,000
 Total liabilities	 298,992	 536,828	 173,509	 656,669	 1,665,998
Net Position					
Net investment in capital assets	-	-	-	3,598,985	3,598,985
Unrestricted	21,482	-	85,843	1,126,276	1,233,601
 Total net position	 \$ 21,482	 \$ -	 \$ 85,843	 \$ 4,725,261	 \$ 4,832,586

City of Sterling Heights, Michigan

Component Units Statement of Activities Year Ended June 30, 2017

	Program Revenue						Net (Expenses) Revenue and Changes in Net Position				
	Charges for Services Expenses	Operating Grants and Contributions	Economic Development Corporation	Brownfield Redevelopment Authority		Corridor Improvement Authority	Local Development Finance Authority	Total			
				Authority	Authority						
Economic Development											
Corporation - Public works	\$ 900,000	\$ -	\$ 300,000	\$ (600,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (600,000)
Brownfield Redevelopment											
Authority - Public works	536,828	-	87,094	-	(449,734)	-	-	-	-	-	(449,734)
Corridor Improvement											
Authority - Public works	948	-	22,102	-	-	21,154	-	-	-	-	21,154
Local Development Finance											
Authority - Public works	1,044,274	136,317	1,777,177	-	-	-	-	869,220	869,220		
Total component units	\$ 2,482,050	\$ 136,317	\$ 2,186,373	(600,000)	(449,734)	21,154	869,220	(159,360)			
General Revenue - Investment income				5,798	4,346	383	8,179	18,706			
Change in Net Position				(594,202)	(445,388)	21,537	877,399	(140,654)			
Net Position - Beginning of year				615,684	445,388	64,306	3,847,862	4,973,240			
Net Position - End of year				\$ 21,482	\$ -	\$ 85,843	\$ 4,725,261	\$ 4,832,586			

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2017

Note I - Summary of Significant Accounting Policies

Accounting and Reporting Principles

The City follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

The following is a summary of the significant accounting policies used by the City of Sterling Heights, Michigan (the “City”):

Reporting Entity

The City is governed by an elected seven-member council. The accompanying basic financial statements have been prepared in accordance with criteria established by Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, as amended by Governmental Accounting Standards Board Statement No. 61, for determining the various governmental organizations to be included in the reporting entity. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the City’s operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City, although the City has the ability to impose its will over the entities.

Blended Component Unit

The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City’s public buildings.

Discretely Presented Component Units - The following nonmajor component units are reported within the component units column in the government-wide financial statements. Component unit financial statements have also been presented to display the financial position and results of operations for each of the discretely presented component units. Complete financial statements for each of these component units are available at the administrative office at 40555 Utica Road, Sterling Heights, MI 48313.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note I - Summary of Significant Accounting Policies (Continued)

The Economic Development Corporation - The Economic Development Corporation (the "Corporation") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services to and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of five individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the Corporation.

The Brownfield Redevelopment Authority - The Brownfield Redevelopment Authority (the "BR Authority") was created to encourage and provide assistance in environmentally distressed areas in the City. The BR Authority's governing body, which consists of nine individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the BR Authority.

The Corridor Improvement Authority - The Corridor Improvement Authority (the "CI Authority") was created to encourage revitalization and redevelopment of commercial properties which have been developed along the City's major arterial roadways. The CI Authority's governing body, which consists of seven individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the CI Authority.

The Local Development Finance Authority - The Local Development Finance Authority (the "LDF Authority") was created to encourage development, prevent conditions of unemployment, and promote economic growth. The LDF Authority's governing body, which consists of seven individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the LDF Authority.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the City has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs, or sick and vacation pay) are not counted until they become due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note I - Summary of Significant Accounting Policies (Continued)

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the City considers amounts collected within 45 days of year end to be available for recognition. The following major revenue sources generally meet the availability criterion: property taxes, state-shared revenue, franchise fees, state gas and weight tax revenue, licenses, most grant revenue, and interest associated with the current fiscal period. Conversely, special assessments and some grant reimbursements collected after the period of availability have been recorded as receivables and related “deferred inflow of resources.”

Proprietary funds and fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the cash flows.

Fund Accounting

The City accounts for its various activities in several different funds in order to demonstrate accountability for how we have spent certain resources - separate funds allow the City to show the particular expenditures for which specific revenue was used. The various funds are aggregated into three broad fund types:

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, and capital projects funds. The City reports the following as “major” governmental funds:

- The General Fund is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Roads Fund (a special revenue fund type) accounts for the resources of state gas and weight tax revenue that is restricted for use on major streets.
- The Parks and Recreation Fund (a special revenue fund type) accounts for the resources for the operation, development, and improvements of the City’s park system.
- The Community Development Block Grant Fund (a special revenue fund type) accounts for federal grant funds received from the U.S. Department of Housing and Urban Development for purposes of developing a viable urban community by providing economic opportunities principally for persons of low and moderate income.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note I - Summary of Significant Accounting Policies (Continued)

- The Road Bond Debt Retirement Fund (a debt service fund type) accounts for revenue accumulated to pay principal and interest on outstanding debt associated with various road and infrastructure assets.
- The General Improvements Fund (a capital projects fund type) accounts for the proceeds of bond issues and all other resources used for the purpose of constructing all major capital improvement projects of the City other than special assessment, road, and enterprise projects.
- The Road Bond Construction Fund (a capital projects fund type) accounts for the proceeds of bond issues and all other resources used for the purpose of construction activity for roads and storm drains.

The City reports the following as “nonmajor” governmental funds:

- The Local Roads Fund (a special revenue fund type) accounts for the resources of state gas and weight tax revenue that is restricted for use on local streets.
- The Public Safety Forfeiture Fund (a special revenue fund type) accounts for the resources from seized monies and the proceeds from the sale of forfeited property.
- The Neighborhood Stabilization Fund (a special revenue fund type) accounts for federal grant funds received from the U.S. Department of Housing and Urban Development for purposes of assisting governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within the community.
- The General Drain Debt, Voted Tax GO Debt, and Limited Tax GO Debt funds (debt service fund types) account for the revenue accumulated to pay principal and interest on outstanding debt associated with various public improvements.
- The Land and Water Conservation Fund (a capital projects fund type) accounts for the resources for the construction, development, and acquisition of land for the City’s park system.
- The Clinton River Restoration Fund (a capital projects fund type) accounts for the resources for the rehabilitation and development of land surrounding the Clinton River as well as the City’s park system.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note I - Summary of Significant Accounting Policies (Continued)

Proprietary funds include enterprise funds, which provide goods and services to users in exchange for charges or fees, and internal service funds, which provide goods or services to other funds of the City on a cost reimbursement basis. The City reports the following as a “major” enterprise fund:

- The Water and Sewer Fund provides water to customers and disposes of sanitary sewage in exchange for user charges.

The City’s internal service fund is used to allocate insurance costs to the various funds on a full accrual basis, so that the full costs are recognized and allocated to the various funds in the year the costs are incurred.

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts are not available to operate city programs. Activities that are reported as fiduciary include:

- The General Employees’ Retirement System, the Police and Fire Retirement System pension trust funds and the Retiree Medical Benefits Trust Fund account for the activities of the trust funds, which accumulate resources for pension benefits and retiree medical benefits provided to qualified individuals.
- The Tax Collection and General Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, and other governments. Agency fund activity includes tax collections and general agency (District Court and escrow activity).

Interfund activity: During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise fund) are eliminated so that only the net amount is included in internal balances in the business-type activities column.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note I - Summary of Significant Accounting Policies (Continued)

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported as gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities columns.

Financial Statement Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. 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 and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue 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. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (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 allocable to program revenue are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the city water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2017

Note I - Summary of Significant Accounting Policies (Continued)

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 the major individual enterprise fund are reported as separate columns in the fund financial statements.

Specific Balances and Transactions

Cash, Cash Equivalents, and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - All trade and property tax receivables are shown net of an allowance for uncollectible amounts.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Restricted assets consist of amounts on deposit at the county being held for construction, maintenance, or debt service and unspent bond proceeds in the Parks and Recreation Fund (a special revenue fund) and Road Bond Construction Fund (a capital projects fund), which are required to be set aside for construction.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note I - Summary of Significant Accounting Policies (Continued)

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

Buildings	50 years
Building improvements	25 years
Other improvements	10-30 years
Equipment	5-20 years
Furnishings and fixtures	10-15 years
Infrastructure	20-40 years
Water and sewer mains	50 years

Long-term Obligations - In the government-wide financial statements and in the proprietary fund-type financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an “other financing source,” as well as bond premiums and discounts. The debt service funds and the Water and Sewer Fund are used to liquidate long-term debt.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position/use of fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. During 2017, the City had two items that qualified for reporting in this category. They are deferred costs of bond refundings and pension expense. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. See Note 7 and Note 12 for a description of deferred inflows and outflows related to pensions and Note 10 for more information related to bond refundings.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note I - Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position/fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. During 2017, the City had three items that qualified for reporting in this category. They are revenue collected outside of the designated period of availability, including state-shared revenue and deferred charges for fees billed, special assessments, and pension expense. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. See Note 7 and Note 12 for a description of deferred inflows and outflows related to pensions.

Net Position Flow Assumptions

The City will sometimes fund outlays for a particular purpose from both restricted 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 may be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumption

The City will sometimes 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 City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, 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. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note I - Summary of Significant Accounting Policies (Continued)

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

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may 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.

Property Taxes

Property taxes are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 of the following year. These taxes are due September 1, after which time the taxes are considered delinquent and penalties and interest are assessed. The final collection date is February 28 before taxes are returned delinquent to the county treasurer.

The 2017 taxable valuation of the City totaled approximately \$4,103,731,500, on which ad valorem taxes levied consisted of 10.592 mills for operating purposes, 1.979 mills for police and fire pension, 2.5000 mills for safe streets, and 0.1152 mills for debt service. The ad valorem taxes raised approximately \$42,578,000 for operating, \$7,914,400 for police and fire pension, \$9,988,200 for safe streets, and \$466,400 for debt service. These amounts are recognized in the respective General Fund, special revenue funds, and debt service funds financial statements as tax revenue.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note I - Summary of Significant Accounting Policies (Continued)

Pensions - The City offers a defined benefit pension plan to certain employees under two separate plans. The City's plans are the General Employees' Retirement System (GERS) and the Police and Fire Retirement System (PFRS). The City records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plans' fiduciary net position. For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the pension plans, and additions to/deductions from the pension plans' fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Other Postemployment Benefit (OPEB) Costs - The City offers retiree health-care benefits to certain retirees. The City received an actuarial valuation to compute the annual recommended contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year ARC, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Compensated Absences - The City allows employees to accumulate earned but unused sick and vacation pay benefits. The government-wide and proprietary statements accrue all vacation and personal pay as it is earned, and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or employees terminate). Compensated absences have generally been liquidated from the funds that the individual employee's wages are paid, which are generally the General and Water and Sewer Funds.

Proprietary Funds Operating Classification - Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue 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 revenue of the Water and Sewer Fund and the internal service fund is charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administration, expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions, such as provisions for uninsured losses, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

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

Shortfall at July 1, 2016	\$ (9,130,899)
Current year building permit revenue	2,847,675
Related expenses:	
Direct costs	\$ 1,314,568
Estimated indirect costs	<u>1,451,411</u>
Total construction code expenses	<u>(2,765,979)</u>
Net excess for the year ended June 30, 2017	<u>81,696</u>
Cumulative shortfall at June 30, 2017	<u>\$ (9,049,203)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 3 - Deposits and Investments (Continued)

The investment policy adopted by the City Council in accordance with Public Act 20 of 1948, as amended, authorizes investments in U.S. treasuries, U.S. agencies and instrumentalities (date specific maturities only), non-negotiable certificates of deposit, commercial paper (rated A2/P2 or above), bankers' acceptances, repurchase agreements, overnight deposits, or mutual funds. For overnight deposits, the treasurer may invest overnight or short-term liquid assets to cover cash flow requirements in the following types of pools: investment pools organized under the Surplus Funds Investment Pool Act of 1982, PA 367, 1 MCL 129.111 to MCL 129.118, or investment pools organized under the Urban Cooperation Act of 1967, PA 7, MCL 124.501 to 124.512.

For mutual funds, the treasurer may invest in no-load fixed-income mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan, either taxable or tax-exempt. This authorization is limited to mutual funds whose intent is to maintain a net asset value of \$1.00 per share.

The Pension Trust Funds and the Retiree Medical Benefits Trust Fund are also authorized to invest in certain reverse purchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (limited to 5.0 percent of the trust fund's assets if total assets are less than \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated one bank for the deposit of operating funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail as follows:

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2017

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy does not directly address a deposit policy for custodial credit risk. At year end, the City had \$14,084,311 in bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits 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 of Investments - 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. The City does not have a policy for custodial credit risk. At year end, none of the City's investments were subject to custodial credit risk due to one of the following:

- Investments were part of an insured pool.
- Investments were book-entry only in the name of the City and were fully insured.
- Investments were part of a mutual fund.
- Investments were held by an agent in the City's name.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy sets forth restrictions on the types of investment instruments and length of investment maturities the City may hold. The restrictions are indicated in the table below:

Instrument	Security Type	
	Maximum	Maturity Maximum
U.S. treasuries	100%	10 years
U.S. agencies and instrumentalities (date specific maturities only)	100%	10 years (subset of above)
CDs (non-negotiable)	50%	1 year
CDs (negotiable)	50%	3 years (subset of above)
Commercial paper (rated A1/A2 or equivalent)	15%	270 days
Bankers' acceptances	20%	184 days
Overnight deposits	25%	1 day
Mutual funds	25%	N/A

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 3 - Deposits and Investments (Continued)

At year end, the average maturities of fixed-income investments are as follows:

Investment	Fair Value	Average Maturity
Government-wide		
Commercial paper	\$ 20,906,958	0.33 years
U.S. government agencies	33,548,796	4.97 years
Municipal obligations	4,154,265	3.09 years
General Employees' Retirement System		
Corporate bonds	10,669,673	5.43 years
U.S. government agencies	6,542,122	4.82 years
U.S. government obligations	2,314,115	12.19 years
Foreign government obligations	278,112	3.28 years
Police and Fire Retirement System		
Corporate bonds	12,018,878	5.79 years
U.S. government agencies	14,834,233	4.67 years
Municipal obligations	289,358	14.53 years
U.S. government obligations	8,815,704	9.00 years
Foreign government obligations	575,257	3.28 years
Retiree Medical Benefits		
Corporate bonds	6,649,524	5.59 years
U.S. government agencies	4,339,348	4.74 years
U.S. government obligations	1,927,092	10.02 years
Foreign government obligations	187,170	3.28 years

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2017

Note 3 - Deposits and Investments (Continued)

Credit Risk - In compliance with state law, the City's investment policy limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Organization
Government-wide			
Pooled funds	\$ 11,489,888	N/R	
Pooled funds	12,001,284	AAA	S&P
Commercial paper	20,906,958	A2	S&P
Municipal obligations	4,154,265	AA-	S&P
U.S. government agencies	33,548,796	AA+	S&P
General Employees' Retirement System			
Money market	70,317	N/R	
U.S. government agencies	6,542,120	AA+	S&P
U.S. government obligations	2,314,115	AA+	S&P
Foreign government obligations	278,112	BBB+	S&P
Corporate bonds	295,791	AAA	S&P
Corporate bonds	329,576	AA-	S&P
Corporate bonds	2,215,947	A+ to A-	S&P
Corporate bonds	523,820	Aaa	Moody's
Corporate bonds	5,180,224	BBB+ to BBB-	S&P
Corporate bonds	1,776,402	BB+ - BB-	S&P
Corporate bonds	347,914	B+	S&P
Police and Fire Retirement System			
Money market	2,343,447	N/R	
Municipal obligations	126,021	AAA	S&P
Municipal obligations	163,337	AA+ - AA	S&P
U.S. government agencies	14,834,233	AA+ - AA-	S&P
U.S. government obligations	8,815,704	AA+	S&P
Foreign government obligations	575,257	BBB+	S&P
Corporate bonds	632,101	AAA	S&P
Corporate bonds	1,501,020	AA+ - AA-	S&P
Corporate bonds	4,117,108	A+ to A-	S&P
Corporate bonds	578,576	Aaa	Moody's
Corporate bonds	4,447,091	BBB+ to BBB-	S&P/Fitch
Corporate bonds	483,715	BB+ to BB-	S&P
Corporate bonds	144,809	B+ to B-	S&P
Corporate bonds	114,458	CCC	S&P

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 3 - Deposits and Investments (Continued)

Investment	Fair Value	Rating	Organization
Retiree Medical Benefits			
Pooled funds	\$ 344,837	N/R	
U.S. government agencies	4,339,348	AA+	S&P
U.S. government obligations	1,927,092	AAA	S&P
Foreign government obligations	187,170	BBB+	S&P
Corporate bonds	242,465	AAA	S&P
Corporate bonds	217,840	AA+ to AA-	S&P
Corporate bonds	1,447,843	A+ - A-	S&P
Corporate bonds	354,819	B+	Moody's
Corporate bonds	3,309,798	BBB+ to BBB-	S&P
Corporate bonds	1,076,760	BB+ to BB-	S&P

Concentration of Credit Risk

Through its investment policy, the City places a 15.0 percent limit on the amount the City may invest in any one issuer. No issuer held greater than 15.0 percent of investments as of June 30, 2017.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system restricts the amount of investments in foreign currency denominated investments to 5.0 percent of total pension system investments. No investments exceed 5.0 percent of total pension system investments as of June 30, 2017.

Both pension systems include exposure to the international asset class in order to increase diversification and reduce risk. The investments held by the General Employees' and Police and Fire Pension International managers are protected from foreign currency risk through the use of ADRs (American Depository Receipts).

Fair Value

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; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2017

Note 3 - Deposits and Investments (Continued)

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The City has the following recurring fair value measurements as of June 30, 2017:

Assets Measured at Fair Value on a Recurring Basis - Pension and Non-Pension Funds

	Balance at June 30, 2017	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments by Fair Value Level					
Debt securities:					
U.S. Treasury securities	\$ 13,056,911	\$ -	\$ 13,056,911	\$ -	
U.S. government agencies	59,264,499	-	59,264,499	-	
Foreign government obligations	1,040,539	-	1,040,539	-	
Municipal obligations	4,443,623	-	4,443,623	-	
Corporate bonds	50,245,033	-	50,245,033	-	
Total debt securities	128,050,605	-	128,050,605	-	
Equity securities:					
Consumer discretionary	44,131,202	44,131,202	-	-	
Consumer staples	21,570,121	21,570,121	-	-	
Energy	15,171,185	15,171,185	-	-	
Financials	53,795,907	53,795,907	-	-	
Health care	35,697,613	35,697,613	-	-	
Industrials	34,448,249	34,448,249	-	-	
Information technology	51,833,877	51,833,877	-	-	
Materials	16,254,798	16,254,798	-	-	
Telecommunications	6,312,580	6,312,580	-	-	
Utilities	3,808,504	3,808,504	-	-	
Other	24,593,193	24,593,193	-	-	
Total equity securities	307,617,229	307,617,229	-	-	
Total investments by fair value level	435,667,834	\$ 307,617,229	\$ 128,050,605	\$ -	
Investments Measured at Net Asset Value (NAV)					
Michigan CLASS Investment Pool	12,001,284				
Mutual funds - Western Asset Management	25,473,363				
Intercontinental Real Estate Investment Fund III	139,151				
U.S. Real Estate Investment Fund	740,504				
Total investments measured at NAV	38,354,302				
Total investments measured at fair value	\$ 474,022,136				

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 3 - Deposits and Investments (Continued)

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of corporate bonds at June 30, 2017 was determined primarily based on Level 2 inputs. The City estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Investments in Entities that Calculate Net Asset Value per Share

The City holds shares in investment pools and investment funds whereby the fair value of the investments is measured on a recurring basis using net asset value per share of the investment pool as a practical expedient.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the following table. At the year ended June 30, 2017, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Michigan CLASS Investment Pool	\$ 12,001,284	\$ -	n/a	None
Mutual funds - Western Asset Management	25,473,363	-	n/a	None
Intercontinental Real Estate Investment Fund III	139,151	-	n/a	90-180 days
U.S. Real Estate Investment Fund	<u>740,504</u>	<u>-</u>		
 Total	 <u>\$ 38,354,302</u>	 <u>\$ -</u>		

The Michigan CLASS investment pool invests in U.S. Treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated “A-1” or better), collateralized bank deposits, repurchase agreements (collateralized at 102 percent by treasuries and agencies), and approved money market funds. The program is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities, and other public agencies.

The Western Asset SMASH series mutual funds are open-ended funds whose objective is total return consisting of capital appreciation and income, consistent with prudent investment management. The funds invest primarily in a combination of U.S.-dollar denominated and non-U.S. dollar investment grade debt obligations of both U.S. and non-U.S. issuers.

Mutual funds are also held by multiple equity managers as a temporary investment vehicle for cash prior to entrance into the equity market.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 3 - Deposits and Investments (Continued)

The Intercontinental Real Estate Investment Fund III is a closed-end, commingled real estate investment fund. The fund is driven by an enhanced core investment strategy and targets properties which are generating a current return and also have the potential for capital appreciation.

The investments in the Intercontinental Real Estate Investment Fund III above can never be redeemed. Distributions from each fund will be received only as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next three to six months.

The U.S. Real Estate Investment Fund is a balanced portfolio of yield-driven real estate and real estate-related assets that are broadly diversified by geography and product type. The objectives of the fund are to preserve and protect investors' capital, provide potential for capital appreciation, produce income on invested capital of 6-8 percent per annum, and target total annual average returns of 10 percent per annum.

There are no limitations or restrictions on participant withdrawals for the investment pools that are recorded at net asset value.

Note 4 - Restricted Assets

Specific assets of the Water and Sewer Fund and the General Improvements Fund are restricted as the result of external governments issuing bonds for which state law requires the proceeds of the issue to be used exclusively for the purpose for which the bonds were issued or the repayment of the bonds. Also, unspent bond proceeds are restricted for specific construction projects. The following is the detail of restricted assets at June 30, 2017:

Water and Sewer Fund - Due from Oakland County*	\$ 10,193,185
Road Bond Construction Fund - Unspent Bond Proceeds	4,457,230
Parks and Recreation Fund - Unspent Bond Proceeds	42,142,934
General Improvements Fund - Due from Macomb County**	2,117,814
 Total restricted assets	 <u>\$ 58,911,163</u>

* This amount is held by Oakland County in a construction fund maintained on behalf of the City for improvements to the Oakland-Macomb Interceptor Drainage District.

** This amount is held by Macomb County in Construction and Debt Retirement Funds maintained on behalf of the City by the Macomb County Department of Public Works for drain construction projects of the City.

There were no unrecorded liabilities payable from the county restricted assets.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2017

Note 5 - Loans Receivable

The City utilizes Community Development Block Grant funds to provide housing rehabilitation loans to eligible applicants. Such loans are made to low- and moderate-income persons to improve or rehabilitate residences. The City accounts for this program in the Community Development Block Grant special revenue fund. Loans receivable of \$1,606,995 at June 30, 2017 have been reflected in the accompanying fund financial statements as rehabilitation loans receivable with an offsetting unearned revenue for the recording of related grant funding.

Note 6 - Capital Assets

Primary Government

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance June 30, 2016	Additions	Disposals, Adjustments, and Reclassifications	Balance June 30, 2017
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 45,414,228	\$ 355,593	\$ -	\$ 45,769,821
Construction in progress	20,100,739	15,903,001	(8,886,027)	27,117,713
Works of art	336,151	-	-	336,151
Net capital assets - Nondepreciable	65,851,118	16,258,594	(8,886,027)	73,223,685
Capital assets being depreciated:				
Building and building improvements	40,388,510	435,191	-	40,823,701
Improvements other than buildings	13,488,764	2,297,842	(2,205)	15,784,401
Equipment	37,765,969	4,318,500	(463,114)	41,621,355
Furnishings and fixtures	1,117,613	5,425	-	1,123,038
Infrastructure	254,897,331	10,907,373	2,205	265,806,909
Subtotal	347,658,187	17,964,331	(463,114)	365,159,404
Accumulated depreciation:				
Building and building improvements	16,825,803	920,885	-	17,746,688
Improvements other than buildings	4,002,701	448,189	-	4,450,890
Equipment	28,242,573	2,148,972	(462,587)	29,928,958
Furnishings and fixtures	982,986	20,774	-	1,003,760
Infrastructure	173,093,174	6,926,949	-	180,020,123
Subtotal	223,147,237	10,465,769	(462,587)	233,150,419
Net capital assets being depreciated	124,510,950	7,498,562	(527)	132,008,985
Net governmental capital assets	\$ 190,362,068	\$ 23,757,156	\$ (8,886,554)	\$ 205,232,670

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2017

Note 6 - Capital Assets (Continued)

	Balance June 30, 2016	Additions	Disposals, Adjustments, and Reclassifications	Balance June 30, 2017
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 64,871	\$ -	\$ -	\$ 64,871
Construction in progress	14,016,457	15,409,411	-	29,425,868
Net capital assets - Nondepreciable	14,081,328	15,409,411	-	29,490,739
Capital assets being depreciated:				
Building and building improvements	524,660	-	-	524,660
Equipment	5,414,817	76,003	-	5,490,820
Furnishings and fixtures	21,075	-	-	21,075
Water and sewer mains	288,439,337	1,854,912	-	290,294,249
Subtotal	294,399,889	1,930,915	-	296,330,804
Accumulated depreciation:				
Building and building improvements	144,465	15,918	-	160,383
Equipment	3,143,644	319,460	-	3,463,104
Furnishings and fixtures	20,588	80	-	20,668
Water and sewer mains	129,436,908	5,571,459	-	135,008,367
Subtotal	132,745,605	5,906,917	-	138,652,522
Net capital assets being depreciated	161,654,284	(3,976,002)	-	157,678,282
Net business-type capital assets	\$ 175,735,612	\$ 11,433,409	\$ -	\$ 187,169,021

Construction in progress includes \$30,914,918 (of which the current year amount is \$16,917,738) of drain improvements constructed by the Oakland-Macomb Interceptor Drainage District (OMID), which represents the City's portion of total OMID improvements in the amount of \$223,727,224. These improvements will be completed by OMID using state revolving loan funds; state stormwater, asset management, and wastewater loan (SAW); and bonded debt. See Note 10 for additional information.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2017

Note 6 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government		\$ 157,319
41A District Court		32,677
Public safety		1,650,345
Public works		7,895,741
Recreation and culture		<u>729,687</u>
 Total governmental activities		<u>\$ 10,465,769</u>
 Business-type activities - Water and sewer		<u>\$ 5,906,917</u>

Discretely Presented Component Units

Capital asset activity of the discretely presented component units was as follows:

	Balance June 30, 2016	Additions	Disposals, Adjustments, and Reclassifications	Balance June 30, 2017
Local Development Finance Authority				
Capital assets not being depreciated:				
Land	\$ 1,209,203	\$ -	\$ -	\$ 1,209,203
Construction in progress	<u>-</u>	<u>255,291</u>	<u>-</u>	<u>255,291</u>
Net capital assets - Nondepreciable	1,209,203	255,291	-	1,464,494
Capital assets being depreciated:				
Building and building improvements	2,450,501	-	-	2,450,501
Equipment	51,447	-	-	51,447
Subtotal	2,501,948	-	-	2,501,948
Accumulated depreciation:				
Building and building improvements	295,346	63,735	-	359,081
Equipment	2,330	6,046	-	8,376
Subtotal	297,676	69,781	-	367,457
Net capital assets being depreciated	2,204,272	(69,781)	-	2,134,491
Net component units capital assets	\$ 3,413,475	\$ 185,510	\$ -	\$ 3,598,985

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 6 - Capital Assets (Continued)

Construction Commitments - The City has active construction projects at year end. The projects are related to road repair, replacement and construction programs, and other capital improvements. At year end, the City's commitments with contractors are as follows:

	Remaining	
	<u>Spent to Date</u>	<u>Commitment</u>
Construction and other contracts	\$ 10,902,918	\$ 8,258,107

Note 7 - Deferred Inflows/Outflows of Resources

At the end of the current fiscal year, the various components of deferred inflows of resources are as follows:

	Governmental Funds
Special assessments - Unavailable	\$ 1,634,884
Other revenue - Unavailable	<u>2,007,208</u>
Total deferred inflows	<u><u>\$ 3,642,092</u></u>

	Primary Government
Pension expense - GERS (Note 12)	\$ 394,100
Pension expense - PFRS (Note 12)	<u>36,876,852</u>
Total deferred inflows	<u><u>\$ 37,270,952</u></u>

At the end of the current fiscal year, the various components of deferred outflows of resources are as follows:

	Primary Government
Pension expense - GERS (Note 12)	\$ 7,884,977
Pension expense - PFRS (Note 12)	21,521,064
Deferred cost of bond refunding (Note 10)	<u>311,841</u>
Total deferred outflows	<u><u>\$ 29,717,882</u></u>

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 8 - Unearned Revenue

Unearned revenue in the governmental activities represents various rents and fees paid to the City in 2017 that are applicable to future periods. Unearned revenue in the Water and Sewer Fund represents payments made by system users to be applied as payment for future capital charges. Unearned revenue in the General Improvements Fund represents funds on deposits with Macomb County for future drain repairs.

Note 9 - Capital Leases

In 2015, the City entered into a lease agreement as lessees for financing the acquisition of multi-functional devices (MFDs - copiers) for departments throughout the city buildings. The total amount of the financing is \$233,353, which is shared in the amounts of \$198,633 and \$9,348 by the General Government and Water and Sewer Funds, respectively. This lease agreement qualifies as a capital lease for accounting purposes and therefore has been recorded at the present value of the future minimum lease payments as of the inception date.

The asset acquired through the capital lease is as follows:

Asset	General		Water and Sewer Fund		Total
	Government	Sewer Fund			
Machinery and equipment	\$ 198,633	\$ 9,348			\$ 207,981
Less accumulated depreciation	<u>89,389</u>	<u>4,207</u>			<u>93,596</u>
Total	\$ 109,244	\$ 5,141			\$ 114,385

The future minimum lease obligations and the net present value of the minimum lease payments are as follows:

Years	General	Water and	
	Government	Sewer Fund	Total
2018	44,573	2,098	46,671
2019	44,573	2,098	46,671
2020	<u>29,714</u>	<u>1,398</u>	<u>31,112</u>
Total minimum lease payments	118,860	5,594	124,454
Less amount representing interest	<u>7,239</u>	<u>341</u>	<u>7,580</u>
Present value	<u>\$ 111,621</u>	<u>\$ 5,253</u>	<u>\$ 116,874</u>

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2017

Note 10 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City. Special assessment bonds provide for capital improvements that benefit specific properties and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2017

Note 10 - Long-term Debt (Continued)

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds:					
2005 Limited Tax Refunding Bonds:					
Amount of Issue - \$2,820,000					
Maturing through 2019					
Interest Rate Ranges 4.00% - 5.00%					
Principal Maturity Range \$295,000 - \$600,000	\$ 1,200,000	\$ -	\$ (305,000)	\$ 895,000	\$ 300,000
Unamortized Premium on refunding	51,643	-	4,685	56,328	-
2008 Unlimited Tax Fire Station Improvements:					
Amount of Issue - \$5,000,000					
Maturing through 2023					
Interest Rate Ranges 3.25% - 4.00%					
Principal Maturity Range \$250,000 - \$600,000	3,400,000	-	(3,400,000)	-	-
Unamortized Premium on refunding	15,471	-	(15,471)	-	-
2010 Michigan Transportation Recovery Zone Bonds:					
Amount of Issue - \$1,570,000					
Maturing through 2025					
Interest Rate Ranges 2.35% - 6.05%					
Principal Maturity \$50,000 - \$200,000	1,375,000	-	(50,000)	1,325,000	50,000
2012 Michigan Transportation Fund Refunding Bonds:					
Amount of Issue - \$3,780,000					
Maturing through 2020					
Interest Rate Ranges 2.00% - 4.00%					
Principal Maturity Range \$400,000 - \$585,000	2,120,000	-	(475,000)	1,645,000	495,000
Unamortized Premium on refunding	222,678	-	(32,742)	189,936	-
2013 Michigan Transportation Fund Refunding Bonds:					
Amount of Issue - \$3,275,000					
Maturing through 2022					
Interest Rate 2.05%					
Principal Maturity Range \$30,000 - \$515,000	2,870,000	-	(430,000)	2,440,000	430,000
Unamortized Premium on refunding	8,160	-	(1,222)	6,938	-
2016 Michigan Transportation Fund Bonds:					
Amount of Issue - \$9,630,000					
Maturing through 2031					
Interest Rate Ranges 2.00% - 3.00%					
Principal Maturity Range \$520,000 - \$785,000	9,630,000	-	(520,000)	9,110,000	535,000
Unamortized Premium	254,555	-	(4,888)	249,667	-
2017 Capital Improvement Bonds Limited Tax General Obligation Bonds:					
Amount of Issue - \$42,135,000					
Maturing through 2037					
Interest Rate Ranges 3.00% - 5.00%					
Principal Maturity Range \$1,460,000 - \$2,905,000	-	42,135,000	-	42,135,000	1,590,000
Unamortized Premium	-	2,863,866	-	2,863,866	-
2017 Michigan Transportation Fund Bonds:					
Amount of Issue - \$2,075,000					
Maturing through 2032					
Interest Rate Ranges 2.00% - 3.00%					
Principal Maturity Range \$110,000 - \$175,000	-	2,075,000	-	2,075,000	110,000
Unamortized Premium	-	38,711	-	38,711	-

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2017

Note 10 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
2017 Unlimited Tax General Obligation Refunding Bonds:					
Amount of Issue - \$3,105,000					
Maturing through 2023					
Interest Rate Ranges 1.00% - 2.00%					
Principal Maturity Range \$445,000 - \$575,000	\$	-	\$ 3,105,000	\$ -	\$ 445,000
Special Assessment Bonds:					
2008 Special Assessment Limited Tax Bonds:					
Amount of Issue - \$3,260,000					
Maturing through 2028					
Interest Rate Ranges 3.25% - 4.50%					
Principal Maturity Range \$150,000 - \$400,000	\$ 2,400,000	-	\$ (150,000)	\$ 2,250,000	\$ 150,000
Total bond obligations	23,547,507	50,217,577	(5,379,638)	68,385,446	4,105,000
Other long-term obligations:					
Capital lease (Note 9)	150,062	-	(38,441)	111,621	40,257
Provision for uninsured losses and other liabilities	1,447,788	7,567,289	(7,720,982)	1,294,095	709,894
Compensated absences - General Fund obligations	4,024,099	483,828	(471,725)	4,036,202	367,966
Total other long-term obligations	5,621,949	8,051,117	(8,231,148)	5,441,918	1,118,117
Total governmental activities	\$ 29,169,456	\$ 58,268,694	\$ (13,610,786)	\$ 73,827,364	\$ 5,223,117
Business-type Activities - Water and Sewer					
County Drain Contract Obligations:					
General obligation bonds:					
2010A MID Drainage District:					
Amount of Issue - \$26,725,795					
Maturing through 2035					
Interest Rate Ranges 1.25% - 5.50%					
Principal Maturity Range \$834,308 - \$1,573,586	\$ 22,455,034	\$ -	\$ (22,455,034)	\$ -	\$ -
2010B OMID Drainage District:					
Amount of Issue - \$1,104,832					
Maturing through 2030					
Interest Rate Ranges 1.15% - 5.90%					
Principal Maturity Range \$31,331 - \$85,748	874,800	-	(44,523)	830,277	46,172
2011 Clintondale Pump Station Improvements					
Drainage District:					
Amount of Issue - \$9,862,021					
Maturing through 2032					
Interest Rate 5.00%					
Principal Maturity Range \$224,137 - \$800,489	8,501,191	-	(352,216)	8,148,975	384,235
2017A MID Drainage District:					
Amount of Issue - \$19,085,935					
Maturing through 2042					
Interest Rate Ranges 3.00% - 5.00%					
Principal Maturity Range \$353,972 - \$1,261,919	-	19,085,935	-	19,085,935	353,972
Unamortized Premium on refunding	-	3,279,935	-	3,279,935	-
2017A MID Drainage District Refunding:					
Amount of Issue - \$18,532,248					
Maturing through 2035					
Interest Rate Ranges 3.00% - 5.00%					
Principal Maturity Range \$687,570 - \$1,492,530	-	18,532,248	-	18,532,248	783,998
Unamortized Premium on refunding	-	3,385,826	-	3,385,826	-
Special Assessment Bonds:					
2010 North Gratiot Interceptor Drainage District:					
Amount of Issue - \$252,751					
Maturing through 2035					
Interest Rate Ranges 1.00% - 6.35%					
Principal Maturity Range \$4,842 - \$14,526	208,428	-	(8,269)	200,159	8,492

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2017

Note 10 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Business-type Activities - Water and Sewer (Continued)					
2014A Sewer Lining Repairs					
Amount of Issue - \$1,649,117					
Maturing through 2034					
Interest Rate Ranges 2.00% - 3.13%					
Principal Maturity Range \$411,073 - \$522,193	\$ 1,585,295	\$ -	\$ (64,962)	\$ 1,520,333	\$ 66,101
2015 North Gratiot Interceptor Drainage District					
Refunding Bonds:					
Amount of Issue - \$2,067,205					
Maturing through 2033					
Interest Rate Ranges 3.75% - 5.00%					
Principal Maturity Range \$85,170 - \$136,881	2,067,205	-	(85,170)	1,982,035	85,779
Unamortized Premium on refunding	193,184	-	(11,364)	181,820	-
Total bond obligations	35,885,137	44,283,944	(23,021,538)	57,147,543	1,728,749
State Revolving Loan Funds (Michigan Municipal Finance Authority)					
Special Assessment Roll No. I Series 2010A					
(Segment I - ARRA funding)					
Maximum Loan Amount - \$4,299,957					
Balance Drawn - \$3,783,653					
Maturing through 2031					
Interest Rate - 2.50%					
Principal Maturity Range \$86,616 - \$263,017	3,417,573	-	(190,462)	3,227,111	194,583
Special Assessment Roll No. I Series 2011A (Segment 2)					
Maximum Loan Amount - \$5,168,777					
Balance Drawn - \$4,966,319					
Maturing through 2031					
Interest Rate - 2.50%					
Principal Maturity Range \$99,360 - \$265,221	4,758,798	-	(212,582)	4,546,216	217,643
Special Assessment Roll No. I Series 2013A (Segment 3)					
Maximum Loan Amount - \$11,278,994					
Balance Drawn - \$10,960,196					
Maturing through 2023					
Interest Rate - 2.50%					
Principal Maturity Range \$63,822 - \$108,270	10,496,155	316,938	(473,565)	10,339,528	483,088
2015 Oakland-Macomb Interceptor Drainage District					
SAW Loan					
Maximum Loan Amount - \$3,298,735					
Balance Drawn - \$1,955,637					
Maturing through 2036					
Interest Rate - 2.50%					
Principal Maturity Range \$128,219 - \$172,902	1,955,637	1,343,098	(128,219)	3,170,516	132,105
Special Assessment Roll No. I Series 2015A					
(MIDD Project #5624-01))					
Maximum Loan Amount - \$3,675,000					
Balance Drawn - \$97,767					
Maturing through 2035					
Interest Rate - 2.50%					
Principal Maturity Range \$6,897 - \$45,435	97,784	790,674	(45,435)	843,023	45,435
Total state revolving loan funds	20,725,947	2,450,710	(1,050,263)	22,126,394	1,072,854
Total county drain obligations	56,611,084	46,734,654	(24,071,801)	79,273,937	2,801,603
Other long-term obligations - Compensated					
Capital lease (Note 9)	7,063	-	(1,810)	5,253	1,895
Compensated absences - Water and Sewer Fund	225,297	32,779	(39,008)	219,068	29,493
Total other long-term obligations	232,360	32,779	(40,818)	224,321	31,388
Total business-type activities	56,843,444	46,767,433	(24,112,619)	79,498,258	2,832,991
Total	\$ 86,012,900	\$ 105,036,127	\$ (37,723,405)	\$ 153,325,622	\$ 8,056,108

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 10 - Long-term Debt (Continued)

Annual debt service requirements to maturity excluding unamortized premiums for the above governmental bond and note obligations are as follows:

Years	Governmental Activities		
	Principal	Interest	Total
2018	\$ 4,100,000	\$ 2,024,697	\$ 6,124,697
2019	4,130,000	2,170,989	6,300,989
2020	4,295,000	2,023,959	6,318,959
2021	3,610,000	1,876,251	5,486,251
2022	3,740,000	1,751,406	5,491,406
2023-2027	15,670,000	6,825,662	22,495,662
2028-2032	15,815,000	3,720,538	19,535,538
2033-2037	13,620,000	1,388,919	15,008,919
Total	<u>\$ 64,980,000</u>	<u>\$ 21,782,421</u>	<u>\$ 86,762,421</u>

Annual debt service requirements to maturity excluding unamortized premiums for the above business-type activity bonds and note obligations are as follows:

Years	Business-type Activities		
	Principal	Interest	Total
2018	\$ 1,728,749	\$ 2,122,356	\$ 3,851,105
2019	1,773,361	2,284,945	4,058,306
2020	1,867,593	2,198,463	4,066,056
2021	1,963,755	2,107,170	4,070,925
2022	2,061,228	2,011,018	4,072,246
2023-2027	11,833,493	8,439,163	20,272,656
2028-2032	13,945,668	5,337,050	19,282,718
2033-2037	9,389,543	2,370,786	11,760,329
2038-2042	5,736,571	888,423	6,624,994
Total	<u>\$ 50,299,961</u>	<u>\$ 27,759,374</u>	<u>\$ 78,059,335</u>

Annual debt service requirements to maturity for the above business-type activity state revolving loan fund obligations are as follows:

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 10 - Long-term Debt (Continued)

Years	State Revolving Loan Funds		
	Principal	Interest	Total
2018	\$ 1,072,854	\$ 486,163	\$ 1,559,017
2019	1,098,851	461,186	1,560,037
2020	1,124,660	435,822	1,560,482
2021	1,149,578	409,837	1,559,415
2022	1,174,874	383,312	1,558,186
2023-2027	6,293,993	1,496,537	7,790,530
2028-2032	6,771,655	803,287	7,574,942
2033-2037	3,439,930	149,462	3,589,392
Total	<u>\$ 22,126,395</u>	<u>\$ 4,625,606</u>	<u>\$ 26,752,001</u>

The Oakland-Macomb Interceptor Drainage District (OMID) is a construction and rehabilitation project that began in 2010 and is projected to continue through 2017. The OMID Series 2010B bonds were issued as Federally Taxable Recovery Zone Economic Development Bonds and are eligible to recover tax credit payments from the United States Treasury equal to 45 percent of the interest payable on the bonds.

OMID was also approved for \$42 million of loans, of which \$16 million of the debt was federally forgiven and \$119 million will be loans from the Michigan State Revolving Fund (SRF) (OMID Series 2010A \$26 million, OMID Series 2011 \$25 million, OMID Series 2013 \$65 million, OMID Series 2014 \$20 million, and State of Michigan SAW \$9 million). During the year, the City's portion of SRF draws was \$2,450,710.

During 2016, the Macomb Interceptor Drainage District (MIDD) was approved for \$3,675,000 of loans through the Michigan State Revolving Loan Fund Program (SRF), of which approximately \$1,151,500 was anticipated as the City's share. The City's share of SRF funds drawn and payable at June 30, 2016 is \$843,023. In addition, a portion of construction costs was paid from advance funding received from other communities. The City has recognized its portion of those construction costs, in the amount of \$37,941, as funds due to other governmental units.

During the current year, the Corridor Improvement Authority entered into a land contract in the amount of \$160,000 to purchase a parcel of land. The contract provides for monthly principal and interest payments of \$3,081 through May 2022. The outstanding balance at June 30, 2017 was \$160,000.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 10 - Long-term Debt (Continued)

Refundings

In May 2017, the City issued Unlimited General Obligation Refunding Bonds, Series 2017, in the amount of \$3,150,000. The debt refunded amounted to \$3,050,000 of Unlimited Tax General Obligation Bonds, Series 2008, maturing in years 2018 through 2023. The refunding was undertaken to reduce the debt service payment over the next six years with net savings of \$147,048 and to obtain an economic (present value) gain of \$143,338.

In June 2017, the Macomb Interceptor Drainage District issued Drain Refunding Bonds, Series 2017, in the amount of \$66,305,000, of which \$18,532,248 was allocated to the City. The bonds were sold at a premium of \$12,113,867, of which \$3,385,826 was allocated to the City. The debt refunded amounted to \$77,135,000 of Macomb Interceptor Drainage District Drain Bonds, Series 2010A, maturing in years 2018 through 2035. The City's allocated share of the refunded bonds amounted to \$21,559,236. The refunding was undertaken to reduce the debt service payment over the next 18 years with net savings of \$5,924,012 and to obtain an economic (present value) gain of \$4,727,646. The City's allocated net savings is \$1,655,761 and the City's economic gain resulting from the refunding is \$1,321,377.

Note 11 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation and short-term disability), as well as medical benefits provided to employees.

The City participates in the Michigan Municipal Risk Management Authority (MMRMA) risk pool program for claims relating to liability, auto, and property loss. The program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although funds are paid annually to the MMRMA that are used to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

The City is self-funded for medical benefits and workers' compensation up to a retention amount, at which time the City's reinsurance coverage begins.

Property and Liability

Prior to participating in the MMRMA, the City purchased reinsurance through Arthur J. Gallagher and Company, an international insurance brokerage firm.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 11 - Risk Management (Continued)

It is estimated, based on past experience, that \$170,290 will be paid for all claims reported to date and \$214,758 will be paid for claims incurred but not reported. The estimated liability for reported and incurred but not reported claims has been recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2017	2016
Estimated liability - Beginning of year	\$ 744,599	\$ 914,155
Estimated claims incurred, including changes in estimates	1,748,694	97,078
Claim payments	<u>(2,108,245)</u>	<u>(266,634)</u>
Estimated liability - End of year	<u><u>\$ 385,048</u></u>	<u><u>\$ 744,599</u></u>

Medical Claims and Short-term Disability

As of April 1, 1989, the City became self-insured for Blue Cross/Blue Shield equivalent healthcare coverage. Under the program, the City was liable for claims up to a retention amount of \$250,000 per active and retired employee (including dependents) for the contract year ended June 30, 2017. At January 1, 1990, the City became self-insured for short-term disability.

It is estimated, based on past experience, that \$22,048 will be paid for all claims reported to date and \$642,344 will be paid for claims incurred but not reported. This amount and all other transactions with respect to active employee medical and short-term disability claims are reflected in the Self-insurance Internal Service Fund. Retired employee medical claims are reflected in the Retiree Medical Benefits Trust Fund. Changes in the estimated liability for the past two fiscal years are as follows:

	Self-insurance Internal Service Fund	
	2017	2016
Estimated liability - Beginning of year	\$ 501,704	\$ 412,614
Estimated claims incurred, including changes in estimates	5,592,013	4,998,898
Claim payments	<u>(5,429,325)</u>	<u>(4,909,808)</u>
Estimated liability - End of year	<u><u>\$ 664,392</u></u>	<u><u>\$ 501,704</u></u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2017

Note 11 - Risk Management (Continued)

	Retiree Medical Benefits Trust Fund	
	2017	2016
Estimated liability - Beginning of year	\$ 528,029	\$ 403,013
Estimated claims incurred, including changes in estimates	8,423,745	8,469,447
Claim payments	(8,423,182)	(8,344,431)
Estimated liability - End of year	<u>\$ 528,592</u>	<u>\$ 528,029</u>

Workers' Compensation

On July 1, 1992, the City became self-insured for workers' compensation claims. Under the program, the City was liable for the first \$400,000 of any occurrence for the contract year ended June 30, 2017. The City has purchased excess insurance to cover claims greater than \$400,000. At June 30, 2017, it was estimated, based on past experience, that \$244,655 will be paid in total for both claims reported to date and claims incurred but not reported. This estimated liability for claims reported to date has been recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2017	2016
Estimated liability - Beginning of year	\$ 201,485	\$ 161,646
Estimated claims incurred, including changes in estimates	226,583	302,525
Claim payments	(183,413)	(262,686)
Estimated liability - End of year	<u>\$ 244,655</u>	<u>\$ 201,485</u>

Note 12 - Defined Benefit Pension Plans

The City participates in two retirement plans, the General Employees' Retirement System and the Police and Fire Retirement System. The financial statements of the plans are included in these financial statements as Pensions and Other Retirement Benefits trust funds. Separate statements are not available for these plans.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 12 - Defined Benefit Pension Plans (Continued)

Accounting and Reporting Principles

The plans follow accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB).

Pension Plan Description

Plan Administration

General Employees' Retirement System (GERS) - The General Employees' Pension Board administers the General Employees' Retirement System plan, a single-employer plan that provides pensions for approximately 46.9 percent of all active permanent full-time general employees of the City. Benefit terms have been established by contractual agreements between the City and the various employee union representation; amendments are subject to the same process.

Management of the GERS is vested in the Pension Board, which consists of five members - two elected by plan members, one appointed by the City, the city treasurer, and the city finance director, who serve as ex-officio members.

Police and Fire Retirement System (PFRS) - The Police and Fire Pension Board administers the Police and Fire Retirement System plan, a single-employer pension plan that provides pensions for all permanent full-time public safety employees of the City. Benefit terms under Act 345 have been established by contractual agreements between the City and the various employee union representation and amendments are subject to the same process.

Management of the PFRS is vested in the Pension Board, which consists of five members - two elected by plan members, two appointed by the City, and the city treasurer, who serves as an ex-officio member.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 12 - Defined Benefit Pension Plans (Continued)

Plan Membership

Employees Covered by Benefit Terms - At the June 30, 2017 measurement date, the following employees were covered by the benefit terms:

	<u>GERS</u>	<u>PFRS</u>
Inactive plan members or beneficiaries currently receiving benefits	361	352
Inactive plan members entitled to but not yet receiving benefits	19	5
Active plan members	<u>99</u>	<u>220</u>
Total members	<u>479</u>	<u>577</u>

The General Employees' Retirement System remains closed to new members.

Benefits Provided

The pension plans provide retirement, disability, and death benefits. Benefit terms are established by contractual agreements between the City and the various employee union representations and may be amended by the same process.

General Employees' Retirement System Benefits - Retirement benefits for general plan members are calculated in a range of 2.0 to 2.3 percent of the member's final best three of the last 10 years' average salary times the member's years of service. Under the point system (age plus years of service), members are eligible under 70, 75, or 80 points. Some members with 10 years of service are eligible to retire at age 60. Members may retire at any age after 30 years of service or at age 55 with 25 years of service.

All plan members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Workers' compensation claims offset benefits. Duty death before benefit eligibility for normal retirement provides 75.0 percent of the member's regular retirement benefit to the spouse with service credited from the date of death to age 60. Non-duty death provides the same as regular retirement but is actuarially reduced with 100.0 percent joint and survivor election. A member who leaves city service may withdraw their employee required contributions, plus any accumulated interest. General plan members are not eligible for annual cost-of-living increases subsequent to their retirement.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 12 - Defined Benefit Pension Plans (Continued)

Police and Fire Retirement System Benefits - Retirement benefits for police and fire plan members are calculated in a range of 2.0 to 2.8 percent of the member's final best three of the last 10 years' average salary times the member's first 25 years of service plus 1.0 percent of average salary times the years of service exceeding 25. The maximum benefit is 75.0 percent of annual final compensation for police members and 70 points for fire members. Eligibility for normal retirement is 25 years of service regardless of age.

All plan members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire or after 10 years of service for fire members hired after July 1, 1985. Duty disability retirement benefits are determined at 50.0 percent of average salary until service retirement conversion occurs at the earlier of age 55 or the date the member would have had at least 25 years of service. Workers' compensation claims offset benefits with the exception of lump-sum settlements. Non-duty disability prior to age 55 is 1.5 percent of annual final compensation times years of service until attaining age 55. Duty death before benefit eligibility for normal retirement provides a pension which is the greater of the amount paid by workers' compensation or the member's regular retirement benefit actuarially reduced with a 100.0 percent joint and survivor pension. Non-duty death provides the same as regular retirement but is actuarially reduced with 100.0 percent joint and survivor election. A member who leaves city service may withdraw their employee required contributions, plus any accumulated interest. Certain members hired prior to 1994 are eligible to receive annual cost-of-living increases subsequent to their retirement, which is payable annually on January 1 in the range of \$500 - \$800 per applicable member.

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Pension Boards retain an independent actuary to determine the annual contributions. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions. For the plan year ended June 30, 2017, the average active member contribution was 8.0 percent of annual pay. The City's average contribution rate was 44.1 percent and 37.6 percent of annual payroll for the General Employees' Retirement System and the Police and Fire Retirement System, respectively.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 12 - Defined Benefit Pension Plans (Continued)

Deferred Retirement Option Program (DROP) and Early Retirement Option Program (EROP)

The City offered certain police and fire employees the ability to continue services and be paid a salary after they were fully vested; this program credits the employee for benefit payments that would have been paid, and pays them out with interest at 4.0 percent after the employee has fully retired (discontinued providing employee services to the City). At plan year end June 30, 2017, the Police and Fire Retirement System has accumulated \$25,395,307 in DROP and EROP account reserves.

Pension Plan Investments - Policy and Rate of Return

Investment Policy

The pension plans' policies, in regard to the allocation of invested assets, are established and may be amended by the Pension Boards by a majority vote of their members. It is the policy of the Pension Boards to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plans' investment policies discourage the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following were the boards' adopted asset allocation policies as of fiscal year end June 30, 2017:

Asset Class	Target Allocation %	
	GERS	PFRS
Large capitalization growth equities	9.0	14.7
Large capitalization value equities	9.0	14.7
Large capitalization core equities	9.0	14.6
Small/Middle capitalization equities	15.0	6.0
International equities	17.0	17.0
Fixed income	32.0	25.0
Other - MLPs	5.0	5.0
Real estate	4.0	3.0
Total allocation percentages	100.0	100.0

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 12 - Defined Benefit Pension Plans (Continued)

Rate of Return

For the fiscal year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 11.10 percent and 12.70 percent for the General Employees' and Police and Fire Retirement Systems, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Plan Reserves

In accordance with the City Charter and Code of Ordinances, the following reserves are required to be set aside within the pension plans:

The retiree reserves are to be computed annually by the actuary as the present value of estimated benefit payments for all current retirees. The amounts reserved may be used solely to pay monthly retiree benefit payments.

The employee reserves are credited as employee contributions are received throughout the year; the plan maintains a record of the amount contributed by each employee, and credits interest annually at a rate of 2.0 percent. For any employee who terminates before vesting in their pension plan, their balance is returned to them; for those who stay until retirement, the balance is transferred into the retiree reserve.

The employer reserve accounts are used to account for the residual net position balance in the pension plan after funding the above two reserves.

The balances of the reserve accounts at June 30, 2017 are as follows:

	GERS		PFRS	
	<u>Required Reserve</u>	<u>Amount Funded</u>	<u>Required Reserve</u>	<u>Amount Funded</u>
Retiree reserve	\$ 114,025,827	\$ 103,660,550	\$ 208,533,935	\$ 184,491,029
Employee reserve	6,577,373	6,577,373	17,291,167	17,291,167
Employer reserve	N/A	-	N/A	-

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2017

Note 12 - Defined Benefit Pension Plans (Continued)

Net Pension Liability of the City

Effective July 1, 2014, the City adopted GASB Statement No. 68, which requires the measurement of pension expense as it is incurred, rather than as it is funded. The June 30, 2017 total pension liability was determined by an actuarial valuation performed as of that date. The components of the net pension liability of the City at June 30, 2017 were as follows:

	GERS	PFRS
Total pension liability	\$ 141,973,242	\$ 309,385,005
Plan fiduciary net position	<u>110,237,923</u>	<u>201,782,196</u>
City's net pension liability	<u>\$ 31,735,319</u>	<u>\$ 107,602,809</u>
Plan fiduciary net position, as a percentage of the total pension liability	77.7%	65.2%

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

	GERS	PFRS
Total Pension Liability		
Service cost	\$ 1,033,145	\$ 3,118,370
Interest	10,194,909	23,330,680
Difference between expected and actual experience of the total pension liability	(790,128)	(2,688,374)
Changes of benefits	21,314	-
Changes of assumptions	6,023,738	6,757,450
Benefit payments, including refunds of member contributions	<u>(11,080,749)</u>	<u>(22,414,879)</u>
Net change in total pension liability	5,402,229	8,103,247
Total pension liability - Beginning of year	<u>136,571,013</u>	<u>301,281,758</u>
Total pension liability - End of year	<u>\$ 141,973,242</u>	<u>\$ 309,385,005</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 2,648,960	\$ 7,994,747
Contributions - Members	583,975	1,660,858
Net investment income	11,402,709	22,479,683
Benefit payments, including refunds of member contributions	(11,080,749)	(22,414,879)
Other	-	(53,973)
Net change in plan fiduciary net position	3,554,895	9,666,436
Plan fiduciary net position - Beginning of year	<u>106,683,028</u>	<u>192,115,760</u>
Plan fiduciary net position - End of year	<u>\$ 110,237,923</u>	<u>\$ 201,782,196</u>
City's net pension liability - End of year	<u>\$ 31,735,319</u>	<u>\$ 107,602,809</u>
Plan fiduciary net position as a percentage of total pension liability	77.7%	65.2%
Covered employee payroll	\$ 7,420,404	\$ 19,788,423
City's net pension liability as a percentage of covered employee payroll	427.7%	543.8%

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 12 - Defined Benefit Pension Plans (Continued)

Actuarial Assumptions

Total pension liabilities were determined by an actuarial valuation as of June 30, 2017. The valuation used the following actuarial assumptions, applied to all periods included in the measurement:

	GERS	PFRS
Inflation	2.6%	2.0%
Salary increases (average, including inflation)	3.50 - 11.25 %	3.00 - 20.10 %
Investment rate of return (net of pension plan investment expense, including inflation)	7.50%	7.75%

Mortality rates were based on the *RP-2014 Mortality Tables* and the *RP-2014 Health Annuitant Mortality Table* for the General Employees' Retirement System and the Police and Fire Retirement System, respectively.

Actuarial assumptions used in valuations are generally based on the results of periodic actuarial experience studies that encompass a five-year look-back window.

Changes of Assumptions

For the General Employees' Retirement System actuarial valuation dated June 30, 2017, a discount rate of 7.50 percent was used, which is lower than the discount rate used in the actuarial report dated June 30, 2016 (7.75 percent). This change in actuarial assumptions resulted in an increase in the total pension liability of \$6,023,738 and more accurately reflects future expected rates of return.

For the Police and Fire Retirement System actuarial valuation dated June 30, 2017, a discount rate of 7.75 percent was used, which is lower than the discount rate used in the actuarial report dated June 30, 2016 (8.0 percent). This change in actuarial assumption resulted in an increase in the total pension liability of \$6,757,450 and more accurately reflects future expected rates of return.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 12 - Defined Benefit Pension Plans (Continued)

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

For the year ended June 30, 2017, the City recognized pension expense of \$9,112,857 for the General Employees' Retirement System and \$9,538,796 for Police and Fire Retirement System and reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	GERS		PFRS	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	-	\$ (394,100)	\$ 3,578,656	\$ (2,128,296)
Changes of assumptions	3,032,760	-	10,715,142	(34,748,556)
Net difference between projected and actual earnings on pension plan investments	4,852,217	-	7,227,266	-
Total	\$ 7,884,977	\$ (394,100)	\$ 21,521,064	\$ (36,876,852)

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

Year Ending	June 30	GERS		PFRS		Total
2018		\$ 4,836,690	\$ (1,180,326)	\$ 3,656,364		
2019		2,198,030	(7,783,510)	(5,585,480)		
2020		1,143,933	(5,545,542)	(4,401,609)		
2021		(687,776)	(846,410)	(1,534,186)		

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent and 7.75 percent for the General Employees' Retirement System and the Police and Fire Retirement System, respectively. The projection of cash flows used to determine this discount rate assumed that employee contributions will be made at the current contribution rate and that city contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 12 - Defined Benefit Pension Plans (Continued)

Projected Cash Flows

Based on those assumptions with regard to the General Employees' Retirement System and the Police and Fire Retirement System, the pension plans' fiduciary net position was projected to be available to make 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.

The long-term expected rate of return for both pension plans' investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense 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 allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of the plans' year end, June 30, 2017, for each major asset class included in the pension plans' target allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return (%)	
	GERS	PFRS
Large capitalization growth equities	7.8	7.8
Large capitalization value equities	7.5	7.5
Large capitalization core equities	7.7	7.7
Small/Middle capitalization equities	8.9	8.9
International equities	7.6	7.6
Fixed income	2.5	2.5
Other - MLPs	6.7	6.7

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

For the General Employees' Retirement System, the following presents the net pension liability of the City calculated using the discount rate of 7.50 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2017

Note 12 - Defined Benefit Pension Plans (Continued)

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability of the City	\$ 46,304,974	\$ 31,735,319	\$ 19,381,047

For the Police and Fire Retirement System, the following presents the net pension liability of the City calculated using the discount rate of 7.75 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75 percent) or 1 percentage point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net pension liability of the City	\$ 137,699,736	\$ 107,602,809	\$ 82,158,391

	General Employees' Retirement System	Police and Fire Retirement System
Statement of Net Position		
Assets		
Cash and cash equivalents	\$ 2,382,375	\$ 8,829,220
Investments - At fair value:		
Government securities	9,134,348	24,514,559
Mutual funds	6,954,650	13,917,974
Corporate bonds	10,669,671	12,018,872
Common and preferred stocks	81,396,698	144,431,132
Private real estate	-	879,655
Receivables	<u>21,331</u>	<u>180,515</u>
Total assets	110,559,073	204,771,927
Liabilities - Accounts payable	<u>321,148</u>	<u>2,989,732</u>
Net Position - Held in trust for pensions	<u>\$ 110,237,925</u>	<u>\$ 201,782,195</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2017

Note 12 - Defined Benefit Pension Plans (Continued)

	General Employees' Retirement System	Police and Fire Retirement System
Statement of Changes in Net Position		
Additions		
Investment income (loss):		
Interest and dividends	\$ 2,692,906	\$ 4,507,731
Net adjustment to fair value of investments	9,351,635	19,297,876
Less investment expenses	(641,830)	(1,379,899)
Net investment income	11,402,711	22,425,708
Contributions:		
Employer	2,648,960	7,994,747
Employee	583,975	1,602,068
Purchase of prior year's service credits	-	58,790
Total additions - Net	14,635,646	32,081,313
Deductions		
Benefit payments	10,782,673	22,087,269
Refunds of contributions	298,076	327,610
Total deductions	11,080,749	22,414,879
Change in Net Position	3,554,897	9,666,434
Net Position - Beginning of year	106,683,028	192,115,761
Net Position - End of year	<u>\$ 110,237,925</u>	<u>\$ 201,782,195</u>

Note 13 - OPEB Plan

Plan Administration - The City Investment Committee administers the Public Employee Health Care Fund (the "Plan") a single employer defined benefit OPEB plan under Public Act 149 of 1999, which is used to provide postemployment benefits other than pensions (OPEB)

Management of the Plan is vested with the Investment Committee, which consists of the city treasurer, city finance director, and the city clerk.

Plan Membership - At June 30, 2017, plan membership consisted of the following:

Retirees and beneficiaries	605
Inactive, nonretired members	-
Active and DROP members	436
Total members	<u>1,041</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2017

Note 13 - OPEB Plan (Continued)

Benefits Provided - The Plan provides healthcare for retirees and their dependents. Benefits are provided through a third-party insurer, and the partial cost of benefits is covered by the Plan.

Contributions - A July 2000 City Council Resolution grants the authority to establish and amend the contribution requirements of the City and plan members to the Investment Committee. The Investment Committee establishes contribution rates based on an actuarially determined rate per a funding valuation. For the year ended June 30, 2017, the City's contribution was \$11,452,950. DROP and EROP plan members are required to contribute at 5 percent of gross wages.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB asset:

Annual required contribution (recommended)	\$ 11,452,950
Interest on net OPEB asset	(80,976)
Adjustment to annual required contribution	<u>91,592</u>
Annual OPEB cost (expense)	11,463,566
Payments of current premiums	9,362,950
Contributions	<u>2,090,000</u>
Decrease in net OPEB asset	(10,616)
OPEB asset - Beginning of year	<u>1,012,195</u>
OPEB asset - End of year	<u>\$ 1,001,579</u>

The OPEB costs, the percentage contributed to the Plan, and the net OPEB obligation (asset) for the three most recent years have been presented as follows:

	Fiscal Year Ended		
	2017	2016	2015
Annual OPEB costs (AOC)	\$ 11,452,950	\$ 11,572,635	\$ 12,334,370
Percentage of AOC contributed	100.0%	108.7%	100.0%
Net OPEB obligation (asset)	\$ (1,001,578)	\$ (1,012,195)	\$ -

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2017

Note 13 - OPEB Plan (Continued)

OPEB Plan Investments

Investment Policy - The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Investment Committee by a majority vote of its members. It is the policy of the Investment Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the board's adopted asset allocation policy as of June 30, 2017:

Asset Class	Target Allocation %
	OPEB
Large capitalization growth equities	13.3
Large capitalization value equities	13.3
Large capitalization core equities	13.4
Small/Middle capitalization equities	20.0
International equities	15.0
Fixed income	20.0
Other - MLPs	5.0
Real estate	-
Total allocation percentages	100.0

Concentrations - At June 30, 2017, the Plan held no significant concentrations of assets.

Rate of Return - For the year ended June 30, 2017, the annual money weighted rate of return on plan investments, net of investment expense, was 12.86 percent. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2017

Note 13 - OPEB Plan (Continued)

OPEB Plan Reserves

In accordance with the policy under which reserves are set aside, the following reserves are required to be set aside within the Plan:

	Retiree Medical
Required Reserve	Amount Funded
Retiree reserve	\$ 100,249,866
Employer reserve	N/A

Net OPEB Liability

The City reports OPEB expense based on funding requirements, as directed by GASB Statement No. 45. Beginning next year, the City will adopt GASB Statement No. 75, which will require the measurement of OPEB expense as it is earned, rather than as it is funded. The net OPEB liability of the City has been measured as of June 30, 2017 and is composed of the following:

	Retiree Medical
Total OPEB liability	\$ 199,105,195
Plan fiduciary net position	<u>101,249,866</u>
City's net OPEB liability	<u>\$ 97,855,329</u>
Plan fiduciary net position, as a percentage of the total OPEB liability	50.9%

The components of the net OPEB liability at June 30, 2017 were as follows:

Total OPEB Liability	
Service cost	\$ 2,001,128
Interest	14,177,069
Difference between expected and actual experience of the total pension liability	(380,735)
Changes of benefits	-
Changes of assumptions	5,411,956
Benefit payments, including refunds of member contributions	<u>(8,447,897)</u>
Net change in total OPEB liability	12,761,521
Total OPEB liability - Beginning of year	<u>186,343,674</u>
Total OPEB liability - End of year	<u>\$ 199,105,195</u>

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 13 - OPEB Plan (Continued)

Plan Fiduciary Net Position	
Contributions - Employer	\$ 11,452,950
Contributions - Members	12,822
Net investment income	11,360,581
Benefit payments, including refunds of member contributions	(8,447,897)
Administrative expense	-
Other	<u>10,572</u>
Net change in plan fiduciary net position	14,389,028
Plan fiduciary net position - Beginning of year	<u>86,860,838</u>
Plan fiduciary net position - End of year	<u>\$ 101,249,866</u>
City's net OPEB liability - End of year	<u>\$ 97,855,329</u>
Plan fiduciary net position as a percent of total OPEB liability	50.9%
Covered employee payroll	\$ 28,386,397
City's net OPEB liability as a percent of covered employee payroll	344.7%

Actuarial Assumptions - The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, which used updated procedures to roll forward the estimated liability to June 30, 2017. The valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.60%
Healthcare cost trend rate	3.25% - 9.00%
Salary increases	3.25% average, including inflation
Investment rate of return	7.50% net of OPEB plan investment expense, including inflation

Mortality rates were based on the RP - 2014 Employee Generational Mortality Tables.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 13 - OPEB Plan (Continued)

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of investment expense, 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. Best estimates of arithmetic real rates of return as of June 30, 2017 for each major asset class included in the target asset allocation are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return (%)
	OPEB
Large capitalization growth equities	7.8
Large capitalization value equities	7.5
Large capitalization core equities	7.7
Small/Middle capitalization equities	8.9
International equities	7.6
Fixed income	2.5
Other - MLPs	6.7

Discount Rate - The discount rate used to measure the total OPEB liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rates and assumes the current level of inactive members cost sharing at 10.00 percent.

Projected Cash Flows

Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 13 - OPEB Plan (Continued)

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

The following presents the net OPEB liability, calculated using the discount rate of 7.50 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

	I% Decrease (6.50%)	Current Discount Rate (7.50%)	I% Increase (8.50%)
Net OPEB liability of the City	\$ 121,585,863	\$ 97,855,329	\$ 78,152,328

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

The following presents the net OPEB liability, calculated using a declining healthcare cost trend rate starting at 9.00 percent and decreasing to 3.50 percent over time, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (9.00 percent, decreasing to 8.00%) or 1 percentage point higher (9.00 percent, increasing to 10.00%) than the current rate:

	I% Decrease (8.00%)	Current Trend Rate (9.00%)	I% Increase (10.00%)
Net OPEB liability of the City	\$ 76,751,208	\$ 97,855,329	\$ 123,234,448

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 14 - Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables Reported in the Fund Statements

The composition of interfund balances in the fund-level financial statements is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Major Roads Fund	\$ 25,714
	CDBG Fund	79,095
	Road Bond Construction Fund	56
	Self-insurance Fund	173,735
	Nonmajor governmental funds	<u>5,313</u>
	Total General Fund	283,913
Parks and Recreation	General Fund	331,169
General Improvements Fund	General Fund	17,927
Nonmajor governmental funds	General Fund	<u>73,815</u>
	Total governmental funds	706,824
Proprietary Fund	General Fund	<u>214,395</u>
	Total	<u>\$ 921,219</u>

Interfund balances represent routine and temporary cash flow assistance and deposits from and to the General Fund until amounts are transferred to fund investment accounts.

Interfund Transfers Reported in the Fund Statements

Fund Transferred From	Fund Transferred To	Amount
General Fund	Major Roads Fund	\$ 500,000
	General Improvements Fund	5,759,420
	Nonmajor governmental funds	<u>996,075</u>
	Total General Fund	7,255,495
Major Roads Fund	Road Bond Debt Retirement Fund	1,925,240
	Nonmajor governmental funds	<u>1,000,000</u>
	Total Major Roads Fund	2,925,240
	Total	<u>\$ 10,180,735</u>

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 14 - Interfund Receivables, Payables, and Transfers (Continued)

The transfer from the General Fund to the General Improvements Fund represents the transfer of unrestricted resources for sidewalk repair and replacement, equipment purchases, and repairs and improvements to various city buildings; the transfers from the General Fund to the Major Roads Fund represents the transfer of unrestricted resources for major road repair; the transfers from the General Fund to the nonmajor governmental funds represent restricted resources for debt service payments and various park improvements.

The transfer from the Major Roads Fund to the Road Bond Debt Retirement Fund represents restricted resources for debt service payments; the transfer from the Major Roads Fund to the nonmajor governmental funds represents restricted resources for current road repair and replacement programs.

Note 15 - Unrestricted Net Position

The following is a summary of the unrestricted net position of the proprietary fund with management's designation:

Designated for	Enterprise Fund - Water and Sewer
Capital improvement	\$ 2,540,000
Undesignated	<u>10,434,017</u>
Total	<u>\$ 12,974,017</u>

Note 16 - Defined Contribution Pension Plan

The City provides pension benefits to all new general employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council resolution, the City contributes 4.0 percent of employees' base wages, while the employees contribute a minimum of 5.0 percent of gross wages to the employees' individual accounts. The City's contributions to the employees' accounts, including investment earnings, are fully vested after five years of service. In accordance with these requirements, the City contributed \$232,985 during the current year and employees contributed \$335,090.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 17 - Contingent Liabilities

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

Note 18 - Changes in Accounting

Effective July 1, 2016, the City implemented the provisions of the following Governmental Accounting Standards Board (GASB) statements:

No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* - This new accounting standard addresses reporting by postemployment benefit plans other than pensions (OPEB) that administer defined benefit OPEB benefits on behalf of governments. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statements more extensive footnote disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. As a result of implementing this statement, additional disclosures regarding the City's OPEB plan were added to Note 13 and the required supplemental information section of the report.

No. 77, *Tax Abatement Disclosures* - This statement requires governments to disclose in their financial statements information related to tax abatement agreements. As a result of implementing this statement, additional disclosures regarding tax abatements were added to Note 20.

No. 80, *Blending Requirements for Certain Component Units* - The requirements of this statement enhance the comparability of financial statements among governments by clarifying the financial statement presentation requirements for certain component units. This statement did not have a significant impact on the financial statements.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 19 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the City to recognize on the face of the financial statements its net OPEB liability related to its participation in the Public Employer Health Care Plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2018.

In March 2016, the Governmental Accounting Standards Board issued GASB Statement No. 81, *Irrevocable Split Interest Agreements*, which addresses the recognition and measurement of irrevocable split-interest agreements where the government is a beneficiary of the agreement. This standard will require the City to recognize on the face of the financial statements any assets, liabilities, and deferred inflows of resources at the inception of the agreement. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2018.

In November 2016, the Governmental Accounting Standards Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2019 fiscal year.

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2020 fiscal year.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2017**

Note 19 - Upcoming Accounting Pronouncements (Continued)

In March 2017, the Governmental Accounting Standards Board issued GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits (OPEB)). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2018 fiscal year.

In May 2017, the Governmental Accounting Standards Board issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2018 fiscal year.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the 2020 fiscal year.

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2017

Note 20 - Tax Abatements

The City uses the Industrial Facilities Tax exemption (PA 198 of 1974) to enter into agreements with local businesses to construct new industrial facilities or rehabilitate historical facilities. Under the program, the City grants reductions of 50 percent of the property tax bill for new property for up to 12 years.

For the fiscal year ended June 30, 2017, the City abated \$975,719 of taxes under this program. There are no provisions to recapture taxes; however, the abatement may be eliminated if taxes are not paid timely.

The Brownfield Redevelopment Authority, a discretely presented component unit, uses Brownfield Redevelopment Agreements under PA 381 of 1996 to reimburse taxpayers that remediate environmental contamination on their properties. As a result of these agreements, the Brownfield's tax revenue is reduced. For the fiscal year ended June 30, 2017, the Authority abated \$84,250 of taxes under this program. There are no provisions to recapture taxes.

Additionally, the Local Development Finance Authority (the "LDFA"), a discretely presented component unit, uses Development Agreements under PA 281 of 1986, as amended, to reimburse taxpayers that invest in manufacturing facilities to spur economic development. As a result of these agreements, the LDFA's tax revenue is reduced. For the fiscal year ended June 30, 2017, the Authority abated \$461,813 of taxes under this program. There are no provisions to recapture taxes.

There are no significant abatements made by other governments that reduce the City's tax revenue.

Required Supplemental Information

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 11,394,869	\$ 11,394,869	\$ 11,394,869	\$ -
Resources (Inflows)				
Property taxes	38,313,350	38,141,350	38,159,793	18,443
Refuse taxes	4,469,150	4,420,150	4,418,198	(1,952)
Police and fire pension taxes	7,994,750	7,914,750	7,914,369	(381)
Safe streets taxes	6,868,270	6,788,270	6,786,371	(1,899)
Licenses and permits	2,095,000	2,405,000	2,568,907	163,907
Federal, state, and local returns	14,937,250	17,563,300	17,503,110	(60,190)
Charges for services	10,011,620	9,901,560	9,842,018	(59,542)
Fines and forfeitures	2,690,000	2,821,340	2,944,499	123,159
Cable revenue	2,625,000	2,600,000	2,579,599	(20,401)
Other revenue	2,853,840	2,506,470	2,605,578	99,108
Total resources (inflows)	92,858,230	95,062,190	95,322,442	260,252
Charges to Appropriations (Outflows)				
41A District Court	3,271,140	3,255,370	3,242,872	12,498
City administration	7,086,610	7,324,810	7,204,706	120,104
Community relations	1,091,080	1,130,330	1,095,327	35,003
Police department	34,775,200	32,132,200	31,614,922	517,278
Fire department	17,326,250	17,073,730	16,870,385	203,345
City development department	5,625,560	5,795,280	5,687,714	107,566
Public works department	6,578,470	6,420,040	6,381,363	38,677
Refuse collection	4,494,150	4,478,560	4,437,525	41,035
Parks and recreation	1,957,950	2,000,560	2,016,838	(16,278)
Public library	2,631,170	2,562,940	2,524,655	38,285
General expenditures	1,238,270	1,119,970	1,118,900	1,070
Transfers to other funds	5,995,500	7,255,500	7,255,495	5
Total charges to appropriations (outflows)	92,071,350	90,549,290	89,450,702	1,098,588
Fund Balance - End of year	\$ 12,181,749	\$ 15,907,769	\$ 17,266,609	\$ 1,358,840

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Roads Fund Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 3,731,640	\$ 3,731,640	\$ 3,731,640	\$ -
Resources (Inflows)				
Federal sources	-	38,670	38,671	1
State sources	7,131,000	7,242,750	7,343,436	100,686
Other	168,000	151,900	179,640	27,740
Transfers from other funds	500,000	500,000	500,000	-
Total resources (inflows)	7,799,000	7,933,320	8,061,747	128,427
Charges to Appropriations (Outflows)				
Public works:				
Administration	131,070	116,070	107,725	8,345
Routine maintenance	2,637,000	2,131,580	2,068,714	62,866
Improvements	3,138,000	3,021,220	3,146,376	(125,156)
Transfers to other funds	2,925,240	2,925,240	2,925,240	-
Total charges to appropriations (outflows)	8,831,310	8,194,110	8,248,055	(53,945)
Fund Balance - End of year	\$ 2,699,330	\$ 3,470,850	\$ 3,545,332	\$ 74,482

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Community Development Block Grant Fund Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal sources	1,182,840	731,160	606,783	(124,377)
Charges to Appropriations (Outflows)				
Administrative expenses	179,370	170,410	128,470	41,940
Books	6,030	6,030	6,000	30
Senior citizens home chore	20,000	20,000	20,000	-
Single parent education program	13,000	13,000	13,000	-
Minor home repair	26,000	26,000	27,890	(1,890)
Handicapped recreation program	19,000	19,000	19,000	-
Macomb homeless coalition				-
Housing rehabilitation program	210,000	74,000	33,930	40,070
Awards to nonprofit organizations	55,500	55,500	46,771	8,729
Capital improvements	653,940	347,220	311,722	35,498
Total charges to appropriations (outflows)	1,182,840	731,160	606,783	124,377
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Parks and Recreation Fund Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)				
Capital improvements	-	-	42,104	42,104
Bond proceeds	-	45,000,000	44,998,866	(1,134)
Total resources (inflows)	-	45,000,000	45,040,970	(40,970)
Charges to Appropriations (Outflows)				
Capital improvements	-	5,522,820	3,123,599	2,399,221
Fund Balance - End of year	\$ -	\$ 39,477,180	\$ 41,917,371	\$ 2,440,191

City of Sterling Heights, Michigan

Note to Required Supplemental Information

June 30, 2017

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds.

The City adopts its budget by budgetary center for the General Fund, special revenue funds, debt service funds, and capital projects funds, which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to April 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.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to May 10, the budget is legally adopted by the City Council through adoption of the appropriation ordinance.
- The city manager is authorized to transfer budgeted amounts within budgetary centers (activity); however, any revisions that alter the total expenditure of any budgetary center (activity) must be approved by the City Council.

Budgeted amounts of the revenue and expenditures presented for the General Fund, special revenue, debt service, and capital projects funds are a summarization of the budgeted amounts as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original appropriations that were adopted. Budget appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenue and expenditures, including budget variances, for the General Fund and major special revenue funds are presented as required supplemental information. The budget presented as required supplemental information reflects greater detail than the amended budget adopted.

City of Sterling Heights, Michigan

Note to Required Supplemental Information

June 30, 2017

Note - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund - Parks and recreation	<u>\$ 2,000,560</u>	<u>\$ 2,016,838</u>
Major Roads Fund - Improvements	<u>\$ 3,021,220</u>	<u>\$ 3,146,376</u>
Community Development Block Grant - Minor home repair	<u>\$ 26,000</u>	<u>\$ 27,890</u>
Special Revenue Fund - Local Roads Fund	<u>\$ 4,898,300</u>	<u>\$ 4,946,871</u>
Special Revenue Fund - Neighborhood Stabilization Fund	<u>\$ 9,670</u>	<u>\$ 11,261</u>
Capital Projects Fund - Land and Water Conservation Fund	<u>\$ 561,890</u>	<u>\$ 574,251</u>
Debt Service Fund - Road Bond Debt Retirement Fund	<u>\$ 2,142,600</u>	<u>\$ 2,143,096</u>
Capital Projects Fund - Road Bond Construction	<u>\$ 6,940,580</u>	<u>\$ 7,066,169</u>
Capital Projects Fund - Clinton River Restoration Land Fund	<u>\$ 2,175,000</u>	<u>\$ 2,223,629</u>

The General Fund had an unfavorable variance in the activity of the following:

- Parks and recreation as a result of higher than anticipated personnel costs associated with increased parks and recreation activity.

The Major Roads Fund had an unfavorable variance in the activity of the following:

- Improvements as a result of incurring construction costs sooner than expected.

The Community Development Block Grant an unfavorable variance in the activity of the following:

- Minor home repair as a result of higher than anticipated activity in the current year.

City of Sterling Heights, Michigan

Required Supplemental Information General Employees' Retirement System Schedule of Changes in the City's Net Pension Liability and Related Ratios Last Three Fiscal Years

	Fiscal Year		
	2017	2016	2015
Total Pension Liability			
Service cost	\$ 1,033,145	\$ 999,822	\$ 1,059,741
Interest	10,194,909	10,251,133	10,094,749
Changes in benefits	21,314	468,337.00	-
Difference between expected and actual experience of the total pension liability	(790,128)	(220,359)	1,896,980
Changes in actuarial assumptions	6,023,738	3,043,452.00	-
Benefit payments, including refunds of member contributions	(11,080,749)	(11,221,254)	(10,912,153)
Net Change in Total Pension Liability	5,402,229	3,321,131	2,139,317
Total Pension Liability - Beginning of year	<u>136,571,013</u>	<u>133,249,881</u>	<u>131,110,564</u>
Total Pension Liability - End of year	<u>\$ 141,973,242</u>	<u>\$ 136,571,012</u>	<u>\$ 133,249,881</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 2,648,960	\$ 2,768,790	\$ 2,610,080
Contributions - Members	583,975	619,418	712,397
Net investment (loss) income	11,402,709	(288,329)	3,903,536
Benefit payments, including refunds of member contributions	(11,080,749)	(11,221,254)	(10,912,153)
Other	-	20,440	-
Net Change in Plan Fiduciary Net Position	3,554,895	(8,100,935)	(3,686,140)
Plan Fiduciary Net Position - Beginning of year	<u>106,683,028</u>	<u>114,783,962</u>	<u>118,470,102</u>
Plan Fiduciary Net Position - End of year	<u>\$ 110,237,923</u>	<u>\$ 106,683,027</u>	<u>\$ 114,783,962</u>
City's Net Pension Liability - End of year	<u>\$ 31,735,319</u>	<u>\$ 29,887,985</u>	<u>\$ 18,465,919</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	77.6%	78.1%	86.1%
Covered Employee Payroll	\$ 7,420,404	\$ 7,491,549	\$ 8,903,144
City's Net Pension Liability as a Percentage of Covered Employee Payroll	427.7%	399.0%	207.4%

City of Sterling Heights, Michigan

Required Supplemental Information General Employees' Retirement System Schedule of Investment Returns Last Four Fiscal Years

	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	11.08%	-0.24%	3.40%	17.90%

City of Sterling Heights, Michigan

Required Supplemental Information General Employees' Retirement System Schedule of City Contributions Last Ten Fiscal Years

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Actuarially determined contribution Contributions in relation to the actuarially determined contribution	\$ -	\$ -	\$ 204,054	\$ 486,906	\$ 1,089,481	\$ 1,790,556	\$ 2,735,453	\$ 2,610,074	\$ 2,768,786	\$ 2,648,960
Contribution deficiency (excess)	\$ -	\$ -	\$ 204,054	\$ 486,906	\$ 1,089,481	\$ 1,790,556	\$ 2,735,453	\$ 2,610,074	\$ 2,768,786	\$ 2,648,960
Covered employee payroll	\$ 15,382,785	\$ 15,406,591	\$ 14,794,008	\$ 15,000,778	\$ 13,709,541	\$ 12,375,670	\$ 10,007,272	\$ 8,527,956	\$ 8,610,706	\$ 7,615,955
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	1.38%	3.25%	7.95%	14.47%	27.33%	30.61%	32.16%	34.78%

Note to Schedule of City Contributions

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions - The actuarially determined contribution rates in the schedule of the City's contributions are calculated as of the June 30, 2015 actuarial valuation. The following actuarial methods and assumptions were used to determine contribution rates reported in the schedules:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Amortization period (perpetual)	14 years
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases**	3.75% - 11.5%
**Includes inflation at	3.5%
Cost-of-living adjustments	None
Retirement age	Experienced-based table rates that are specific to type of eligibility
Mortality	RP2000 Male and Female Healthy Life Mortality (unadjusted) tables, adjusted for mortality improvements to 2015 using projection scale AA
Other	Benefit multiplier changed for certain members

City of Sterling Heights, Michigan

Required Supplemental Information Police and Fire Retirement System Schedule of Changes in the City's Net Pension Liability and Related Ratios Last Three Fiscal Years

	Fiscal Year		
	2017	2016	2015
Total Pension Liability			
Service cost	\$ 3,118,370	\$ 4,566,392	\$ 3,745,877
Interest	23,330,680	21,627,043	20,597,428
Difference between expected and actual experience of the total pension liability	(2,688,374)	4,075,015	5,363,325
Changes of assumptions	6,757,450	(60,488,228)	23,250,473
Benefit payments, including refunds of member contributions	(22,414,879)	(19,003,317)	(18,772,663)
Net Change in Total Pension Liability	8,103,247	(49,223,095)	34,184,440
Total Pension Liability - Beginning of year	350,504,853	350,504,853	316,320,413
Total Pension Liability - End of year	\$ 358,608,100	\$ 301,281,758	\$ 350,504,853
Plan Fiduciary Net Position			
Contributions - Employer	\$ 7,994,747	\$ 7,986,312	\$ 7,953,970
Contributions - Members	1,660,858	1,538,401	1,297,931
Net investment income	22,479,683	(1,776,431)	9,106,541
Benefit payments, including refunds of member contributions	(22,414,879)	(19,003,316)	(18,772,663)
Administrative expense	(53,973)	(64,145)	(51,574)
Other	-	76,413	53,294
Net Change in Plan Fiduciary Net Position	9,666,436	(11,242,766)	(412,501)
Plan Fiduciary Net Position - Beginning of year	192,115,760	203,358,526	203,771,027
Plan Fiduciary Net Position - End of year	\$ 201,782,196	\$ 192,115,760	\$ 203,358,526
City's Net Pension Liability - End of year	\$ 156,825,904	\$ 109,165,998	\$ 147,146,327
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	56.3%	63.8%	58.0%
Covered Employee Payroll	\$ 19,788,423	\$ 19,321,315	\$ 16,589,288
City's Net Pension Liability as a Percentage of Covered Employee Payroll	792.5%	565.0%	887.0%

City of Sterling Heights, Michigan

Required Supplemental Information Police and Fire Retirement System Schedule of Investment Returns Last Four Fiscal Years

	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	12.70%	-0.40%	4.90%	19.06%

City of Sterling Heights, Michigan

Required Supplemental Information Police and Fire Retirement System Schedule of City Contributions Last Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Actuarially determined contribution	\$ 1,707,910	\$ 2,594,194	\$ 4,925,570	\$ 6,135,053	\$ 7,368,876	\$ 8,815,031	\$ 8,095,472	\$ 7,953,970	\$ 7,986,312	\$ 7,994,747
Contributions in relation to the actuarially determined contribution	1,707,910	2,594,194	4,925,570	6,135,053	7,368,876	8,815,031	8,095,472	7,953,970	7,986,312	7,994,747
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 19,837,496	\$ 20,979,120	\$ 22,064,557	\$ 22,510,638	\$ 22,432,921	\$ 19,213,007	\$ 14,671,724	\$ 14,300,045	\$ 15,378,745	\$ 16,589,288
Contributions as a percentage of covered-employee payroll	8.61%	12.37%	22.32%	27.25%	32.85%	45.88%	55.18%	55.62%	51.93%	48.19%

Note to Schedule of City Contributions

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions - The actuarially determined contribution rates in the schedule of the City's contributions are calculated as of the June 30, 2015 actuarial valuation. The following actuarial methods and assumptions were used to determine contribution rates reported in the schedules:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll, open
Amortization period (perpetual)	25 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases**	17.0% - 4.0%
**Includes inflation at	3.0%
Cost-of-living adjustments	None
Retirement age	Experienced-based table rates that are specific to type of eligibility
Mortality	RP2014 Health Annuitant Mortality Table
Other	Benefit multiplier changed for certain members

City of Sterling Heights, Michigan

Required Supplemental Information Retiree Medical Benefits Trust Schedule of Investment Returns

2017

Annual money-weighted rate of return, net of investment expense

12.86%

City of Sterling Heights, Michigan

Required Supplemental Information Retiree Medical Benefits Trust Schedule of Changes in the City's Net OPEB Liability and Related Ratios

	<u>Fiscal Year</u>
	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 2,001,128
Interest	14,177,069
Difference between expected and actual experience of the total pension liability	(380,735)
Changes of assumptions	5,411,956
Benefit payments, including refunds of member contributions	<u>(8,447,897)</u>
Net Change in Total OPEB Liability	12,761,521
Total OPEB Liability - Beginning of year	<u>186,343,674</u>
Total OPEB Liability - End of year	<u>\$ 199,105,195</u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 11,452,950
Contributions - Members	12,822
Net investment income	11,360,581
Benefit payments, including refunds of member contributions	(8,447,897)
Administrative expense	-
Other	<u>10,572</u>
Net Change in Plan Fiduciary Net Position	14,389,028
Plan Fiduciary Net Position - Beginning of year	<u>86,860,838</u>
Plan Fiduciary Net Position - End of year	<u>\$ 101,249,866</u>
City's Net OPEB Liability - End of year	<u>\$ 97,855,329</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	50.9%
Covered Employee Payroll	\$ 28,386,397
City's Net OPEB Liability as a Percentage of Covered Employee Payroll	344.7%

City of Sterling Heights, Michigan

Required Supplemental Information Retiree Medical Benefits Trust Schedule of City Contributions Last Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Actuarially determined contribution	\$ 10,061,380	\$ 11,265,740	\$ 11,604,200	\$ 12,070,700	\$ 11,523,820	\$ 11,984,780	\$ 12,195,350	\$ 12,334,370	\$ 11,572,635	\$ 11,452,950
Contributions in relation to the actuarially determined contribution	<u>10,061,380</u>	<u>11,265,740</u>	<u>11,604,200</u>	<u>12,070,700</u>	<u>11,523,820</u>	<u>11,984,780</u>	<u>12,195,350</u>	<u>12,334,370</u>	<u>12,584,830</u>	<u>11,452,950</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,012,195)	\$ -
Covered employee payroll	\$ 43,561,711	\$ 46,814,550	\$ 46,814,550	\$ 43,400,000	\$ 43,400,000	\$ 40,887,900	\$ 40,887,900	\$ 35,567,006	\$ 35,568,006	\$ 28,386,397
Contributions as a percentage of covered-employee payroll	23.10%	24.06%	24.79%	27.81%	26.55%	29.31%	29.83%	34.68%	35.38%	40.35%

Note to Schedule of City Contributions

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions - The actuarially determined contribution rates in the schedule of the City's contributions are calculated as of the December 31, 2014 actuarial valuation. The following actuarial methods and assumptions were used to determine contribution rates reported in the schedules:

Actuarial cost method	Entry age
Amortization method	Level dollar
Amortization period (declining)	26 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	3.5%
Cost-of-living adjustments	None

City of Sterling Heights, Michigan

Required Supplemental Information Retiree Medical Benefits Trust Schedule of Funding Progress and Employee Contributions June 30, 2017

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial		Actuarial			Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (b-a)/(c)
	Value of Plan Assets	(a)	Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio (Percent)		
		(b)	(b-a)	(a/b)	(c)		
12/31/08	\$ 17,328,970	\$ 160,689,774	\$ 143,360,804	10.8	\$ 46,814,550		306.2
12/31/10	38,675,481	178,487,654	139,812,173	21.7	43,400,000		322.1
12/31/12	52,663,559	181,013,043	128,349,484	29.1	40,887,900		313.9
12/31/14	78,902,067	183,380,675	104,478,608	43.0	35,568,006		293.7

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*		Percentage Contributed
6/30/12	12/31/10	\$ 11,523,820		100.0
6/30/13	12/31/10	11,984,780		100.0
6/30/14	12/31/12	12,195,350		100.0
6/30/15	12/31/12	12,334,370		100.0
6/30/16	12/31/14	11,572,635		108.7
6/30/17	12/31/14	11,452,950		100.0

Additional information as of December 31, 2014, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level dollar
Amortization period (declining)	26 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	3.5%
Cost-of-living adjustments	None

Other Financial and Supplemental Information

Nonmajor Governmental Funds

City of Sterling Heights, Michigan

Nonmajor Special Revenue Funds					
	Local Roads	Public Safety Forfeiture	Neighborhood Stabilization Fund	Total	Nonmajor Special Revenue Funds
Assets					
Cash and cash equivalents	\$ 1,540,026	\$ 567,534	\$ -	\$ 2,107,560	
Investments	1,619,566	-	-	-	1,619,566
Receivables:					
Special assessments:					
Current	3,126	-	-	-	3,126
Unavailable	65,652	-	-	-	65,652
Accrued interest	2,923	-	-	-	2,923
Due from other funds	55,774	16,948	-	-	72,722
Due from other governmental units	484,466	-	1,591	-	486,057
Inventories	-	71,496	-	-	71,496
Total assets	<u>\$ 3,771,533</u>	<u>\$ 655,978</u>	<u>\$ 1,591</u>	<u>\$ 4,429,102</u>	
Liabilities					
Accounts payable	\$ 108,600	\$ 88,527	\$ -	\$ 197,127	
Accrued and other liabilities	135,124	-	-	-	135,124
Due to other funds	-	-	1,591	-	1,591
Total liabilities	243,724	88,527	1,591	-	333,842
Deferred Inflows of Resources -					
Unavailable revenue	65,652	-	-	-	65,652
Fund Balances					
Nonspendable - Inventory	-	71,496	-	-	71,496
Restricted for:					
Road improvements	3,462,157	-	-	-	3,462,157
Public safety	-	495,955	-	-	495,955
Debt service	-	-	-	-	-
Committed - Park acquisitions and improvements	-	-	-	-	-
Total fund balances	<u>3,462,157</u>	<u>567,451</u>	<u>-</u>	<u>-</u>	<u>4,029,608</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,771,533</u>	<u>\$ 655,978</u>	<u>\$ 1,591</u>	<u>\$ 4,429,102</u>	

Other Financial and Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017

Nonmajor Debt Service Funds				Nonmajor Capital Projects Funds				
General Drain	Voted Tax General Obligation	Limited Tax General Obligation	Total Nonmajor Debt Service Funds	Clinton River Restoration	Land and Water Conservation	Total Nonmajor Capital Projects Funds	Total Nonmajor Governmental Funds	
\$ 39,183	\$ 22,992	\$ 343	\$ 62,518	\$ -	\$ 390,075	\$ 390,075	\$ 2,560,153	
-	-	-	-	-	249,025	249,025	1,868,591	
-	-	-	-	-	-	-	3,126	
-	-	-	-	-	-	-	65,652	
-	-	-	-	-	-	-	2,923	
506	587	-	1,093	-	-	-	73,815	
-	-	-	-	333,628	-	333,628	819,685	
-	-	-	-	-	-	-	71,496	
\$ 39,689	\$ 23,579	\$ 343	\$ 63,611	\$ 333,628	\$ 639,100	\$ 972,728	\$ 5,465,441	
\$ 1 21	\$ 12 239	\$ -	\$ 13 260	\$ 168,628 165,000	\$ 260,143 815	\$ 428,771 165,815	\$ 625,911 301,199	
-	-	-	-	-	3,722	3,722	5,313	
22	251	-	273	333,628	264,680	598,308	932,423	
-	-	-	-	-	-	-	65,652	
-	-	-	-	-	-	-	71,496	
-	-	-	-	-	-	-	3,462,157	
-	-	-	-	-	-	-	495,955	
39,667	23,328	343	63,338	-	-	-	63,338	
-	-	-	-	-	374,420	374,420	374,420	
39,667	23,328	343	63,338	-	374,420	374,420	4,467,366	
\$ 39,689	\$ 23,579	\$ 343	\$ 63,611	\$ 333,628	\$ 639,100	\$ 972,728	\$ 5,465,441	

City of Sterling Heights, Michigan

	Nonmajor Special Revenue Funds			
	Local Roads	Public Safety Forfeiture	Neighborhood Stabilization Fund	Total Nonmajor Special Revenue Funds
Revenue				
Property taxes	\$ 3,201,818	\$ -	\$ -	\$ 3,201,818
Federal sources	-	217,369	11,261	228,630
State sources	2,610,287	194,076	-	2,804,363
Investment income	21,591	3,914	-	25,505
Special assessments	17,605	-	-	17,605
Other	46,585	-	-	46,585
Total revenue	5,897,886	415,359	11,261	6,324,506
Expenditures				
Current:				
Public safety	-	161,255	-	161,255
Public works	1,885,738	-	11,261	1,896,999
Other	-	-	-	-
Capital outlay	3,061,133	19,752	-	3,080,885
Debt service	-	-	-	-
Total expenditures	4,946,871	181,007	11,261	5,139,139
Excess of Revenue Expenditures Over (Under)	951,015	234,352	-	1,185,367
Other Financing Sources				
Proceeds from the sale of fixed assets	-	-	-	-
Issuance of debt	-	-	-	-
Payments to escrow agents	-	-	-	-
Interfund transfers in	1,400,000	-	-	1,400,000
Total other financing sources	1,400,000	-	-	1,400,000
Change in Fund Balances	2,351,015	234,352	-	2,585,367
Fund Balances - Beginning of year	1,111,142	333,099	-	1,444,241
Fund Balances - End of year	\$ 3,462,157	\$ 567,451	\$ -	\$ 4,029,608

**Other Financial and Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2017**

General Drain	Nonmajor Debt Service Funds			Nonmajor Capital Projects Funds				Total Nonmajor Governmental Funds
	Voted Tax General Obligation	Limited Tax General Obligation	Total Nonmajor Debt Service Funds	Clinton River Restoration	Land and Water Conservation	Total Capital Projects Funds		
\$ 2,297	\$ 464,084	\$ -	\$ 466,381	\$ -	\$ -	\$ -	\$ 3,668,199	
-	-	-	-	2,223,629	-	2,223,629	2,452,259	
18,440	44,168	-	62,608	-	-	-	-	2,866,971
239	2,270	3	2,512	-	4,873	4,873	-	32,890
-	-	-	-	-	-	-	-	17,605
-	-	-	-	-	-	-	-	46,585
20,976	510,522	3	531,501	2,223,629	4,873	2,228,502	9,084,509	
-	-	-	-	-	-	-	-	161,255
-	-	-	-	-	-	-	-	1,896,999
-	43,436	225	43,661	-	-	-	-	43,661
-	-	-	-	2,223,629	574,251	2,797,880	5,878,765	
-	484,125	355,850	839,975	-	-	-	-	839,975
-	527,561	356,075	883,636	2,223,629	574,251	2,797,880	8,820,655	
20,976	(17,039)	(356,072)	(352,135)	-	(569,378)	(569,378)	-	263,854
-	-	-	-	-	80,363	80,363	80,363	
-	3,105,000	-	3,105,000	-	-	-	-	3,105,000
-	(3,073,865)	-	(3,073,865)	-	-	-	-	(3,073,865)
-	-	356,075	356,075	-	240,000	240,000	-	1,996,075
-	31,135	356,075	387,210	-	320,363	320,363	-	2,107,573
20,976	14,096	3	35,075	-	(249,015)	(249,015)	-	2,371,427
18,691	9,232	340	28,263	-	623,435	623,435	-	2,095,939
\$ 39,667	\$ 23,328	\$ 343	\$ 63,338	\$ -	\$ 374,420	\$ 374,420	\$ 4,467,366	

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds Year Ended June 30, 2017

Special Revenue Fund - Local Roads

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 1,111,142	\$ 1,111,142	\$ 1,111,142	\$ -
Resources (Inflows)				
Safe streets taxes	3,233,330	3,200,580	3,201,818	1,238
State sources	2,640,000	2,575,000	2,610,287	35,287
Charges for services	36,000	45,500	43,147	(2,353)
Other	10,470	32,890	42,634	9,744
Transfers from other funds	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,400,000</u>	<u>-</u>
Total resources (inflows)	7,319,800	7,253,970	7,297,886	43,916
Charges to Appropriations (Outflows)				
Administration	155,070	140,070	131,128	8,942
Local street maintenance	1,848,000	1,708,600	1,754,610	(46,010)
Local street improvements	<u>4,794,000</u>	<u>3,049,630</u>	<u>3,061,133</u>	<u>(11,503)</u>
Total charges to appropriations (outflows)	<u>6,797,070</u>	<u>4,898,300</u>	<u>4,946,871</u>	<u>(48,571)</u>
Fund Balance - End of year	\$ 1,633,872	\$ 3,466,812	\$ 3,462,157	\$ (4,655)

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2017

Special Revenue Fund - Public Safety Forfeiture Fund

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 333,099	\$ 333,099	\$ 333,099	\$ -
Resources (Inflows)				
Federal forfeitures	-	217,360	217,369	9
State forfeitures	1,000	133,310	150,667	17,357
Gambling forfeitures	-	920	919	(1)
OWI forfeitures	-	14,660	14,657	(3)
Act 302 training funds	30,800	15,240	27,833	12,593
Interest income	410	2,950	3,914	964
Total resources (inflows)	32,210	384,440	415,359	30,919
Charges to Appropriations (Outflows)				
Federal forfeiture expenditures	117,320	157,910	124,918	32,992
State forfeiture expenditures	21,240	24,900	19,332	5,568
Gambling forfeiture expenditures	7,000	4,000	2,835	1,165
OWI forfeiture expenditures	10,500	13,630	6,320	7,310
Act 302 training expenditures	30,800	30,800	27,602	3,198
Total charges to appropriations (outflows)	<u>186,860</u>	<u>231,240</u>	<u>181,007</u>	<u>50,233</u>
Fund Balance - End of year	<u>\$ 178,449</u>	<u>\$ 486,299</u>	<u>\$ 567,451</u>	<u>\$ 81,152</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2017

Special Revenue Fund - Neighborhood Stabilization Fund

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal sources	-	9,670	11,261	1,591
Charges to Appropriations (Outflows) -				
Administration costs	-	9,670	11,261	(1,591)
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Debt Service Fund - General Drain

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 18,691	\$ 18,691	\$ 18,691	\$ -
Resources (Inflows)				
Property taxes	(900)	1,610	1,919	309
Delinquents and penalties	800	420	378	(42)
Other revenue	100	18,670	18,679	9
Total resources (inflows)	-	20,700	20,976	276
Fund Balance - End of year	<u>\$ 18,691</u>	<u>\$ 39,391</u>	<u>\$ 39,667</u>	<u>\$ 276</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2017

Debt Service Fund - Voted Tax General Obligation

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget
	Positive (Negative)			
Fund Balance - Beginning of year	\$ 9,232	\$ 9,232	\$ 9,232	\$ -
Resources (Inflows)				
Property taxes	464,130	462,470	463,381	911
Delinquents and penalties	800	660	703	43
Other revenue	25,220	3,151,510	3,151,438	(72)
Total resources (inflows)	490,150	3,614,640	3,615,522	882
Charges to Appropriations (Outflows)				
Proposal F - Principal	350,000	3,423,860	3,423,865	(5)
Proposal F - Interest	134,130	134,130	134,125	5
Other fees	-	43,440	43,436	4
Fund Balance - End of year	<u>\$ 15,252</u>	<u>\$ 22,442</u>	<u>\$ 23,328</u>	<u>\$ 886</u>

Debt Service Fund - Limited Tax General Obligation

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget
	Positive (Negative)			
Fund Balance - Beginning of year	\$ 340	\$ 340	\$ 340	\$ -
Resources (Inflows)				
Transfer from other funds	356,080	356,080	356,075	(5)
Other revenue	-	-	3	3
Total resources	356,080	356,080	356,078	(2)
Charges to Appropriations (Outflows)				
Other charges	230	230	225	5
Principal	305,000	305,000	305,000	-
Interest	50,850	50,850	50,850	-
Total charges to appropriations (outflows)	356,080	356,080	356,075	5
Fund Balance - End of year	<u>\$ 340</u>	<u>\$ 340</u>	<u>\$ 343</u>	<u>\$ 3</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2017

Capital Projects Fund - Land and Water Conservation Fund

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget
				Positive (Negative)
Fund Balance - Beginning of year	\$ 623,435	\$ 623,435	\$ 623,435	\$ -
Resources (Inflows)				
Other	2,600	85,160	85,236	76
Transfers from other funds	<u>240,000</u>	<u>240,000</u>	<u>240,000</u>	<u>-</u>
Total resources (inflows)	242,600	325,160	325,236	76
Charges to Appropriations (Outflows) -				
Land improvements	<u>730,000</u>	<u>561,890</u>	<u>574,251</u>	<u>(12,361)</u>
Fund Balance - End of year	<u>\$ 136,035</u>	<u>\$ 386,705</u>	<u>\$ 374,420</u>	<u>\$ (12,285)</u>

Capital Projects Fund - Clinton River Restoration Land Fund

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget
				Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal and state sources	-	2,175,000	2,223,629	48,629
Charges to Appropriations (Outflows) -				
Land improvements	<u>-</u>	<u>2,175,000</u>	<u>2,223,629</u>	<u>(48,629)</u>
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Major Funds

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Major Debt Service and Capital Projects Funds Year Ended June 30, 2017

Debt Service Fund - Road Bond Debt Retirement

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget
	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Positive (Negative)
Fund Balance - Beginning of year	\$ 733,445	\$ 733,445	\$ 733,445	\$ -
Resources (Inflows)				
Federal interest rebates	31,340	31,340	31,323	(17)
Special assessments	145,450	179,650	179,647	(3)
Interest income	91,340	92,830	93,718	888
Transfers in	<u>1,925,240</u>	<u>1,925,240</u>	<u>1,925,240</u>	<u>-</u>
Total resources (inflows)	2,193,370	2,229,060	2,229,928	868
Charges to Appropriations (Outflows)				
Other	1,350	1,600	2,100	(500)
Principal	<u>1,625,000</u>	<u>1,625,000</u>	<u>1,625,000</u>	<u>-</u>
Interest	<u>516,000</u>	<u>516,000</u>	<u>515,996</u>	<u>4</u>
Total charges to appropriations (outflows)	<u>2,142,350</u>	<u>2,142,600</u>	<u>2,143,096</u>	<u>(496)</u>
Fund Balance - End of year	<u>\$ 784,465</u>	<u>\$ 819,905</u>	<u>\$ 820,277</u>	<u>\$ 372</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Major Debt Service and Capital Projects Funds (Continued) Year Ended June 30, 2017

Capital Projects Fund - General Improvements

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 1,732,331	\$ 1,732,331	\$ 1,732,331	\$ -
Resources (Inflows)				
Federal, state, and local sources	-	24,920	3,423	(21,497)
Other revenue	326,120	79,870	108,841	28,971
Transfer from other funds	<u>4,499,420</u>	<u>5,759,420</u>	<u>5,759,420</u>	-
Total resources (inflows)	4,825,540	5,864,210	5,871,684	7,474
Charges to Appropriations (Outflows)				
Capital equipment	823,420	1,421,370	1,349,912	71,458
Capital vehicles	1,724,700	2,498,080	2,498,013	67
Capital projects	<u>1,709,300</u>	<u>2,251,000</u>	<u>2,257,032</u>	(6,032)
Total charges to appropriations (outflows)	<u>4,257,420</u>	<u>6,170,450</u>	<u>6,104,957</u>	<u>65,493</u>
Fund Balance - End of year	<u>\$ 2,300,451</u>	<u>\$ 1,426,091</u>	<u>\$ 1,499,058</u>	<u>\$ 72,967</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Major Debt Service and Capital Projects Funds (Continued) Year Ended June 30, 2017

Capital Projects Fund - Road Bond Construction

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 6,586,785	\$ 6,586,785	\$ 6,586,785	\$ -
Resources (Inflows)				
Federal, state, and local sources	3,080,000	3,070,810	3,070,808	(2)
Other revenue	5,000	25,000	30,875	5,875
Sale of capital assets	-	-	-	-
Bond proceeds	<u>1,795,000</u>	<u>2,113,710</u>	<u>2,113,711</u>	<u>1</u>
Total resources (inflows)	<u>4,880,000</u>	<u>5,209,520</u>	<u>5,215,394</u>	<u>5,874</u>
Charges to Appropriations (Outflows)				
Capital outlay	<u>4,880,000</u>	<u>6,940,580</u>	<u>7,066,169</u>	<u>(125,589)</u>
Fund Balance - End of year	<u>\$ 6,586,785</u>	<u>\$ 4,855,725</u>	<u>\$ 4,736,010</u>	<u>\$ (119,715)</u>

Fiduciary and Agency Funds

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Fiduciary Net Position Trust Funds June 30, 2017

		Trust Funds			
		Pension and Other Retirement Benefits Funds			
		General	Police and Fire	Retiree Medical	Total
		Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	
Assets					
Cash and cash equivalents	\$ 2,382,375	\$ 8,829,220	\$ 3,020,560	\$ 14,232,155	
Investments - At fair value:					
Government securities	9,134,348	24,514,559	10,950,092	44,598,999	
Mutual funds	6,954,650	13,917,974	-	20,872,624	
Corporate bonds	10,669,671	12,018,872	6,836,694	29,525,237	
Common and preferred stocks	81,396,698	144,431,132	81,706,485	307,534,315	
Private real estate	-	879,655	-	879,655	
Receivables	21,331	180,515	31,207	233,053	
Total assets	110,559,073	204,771,927	102,545,038	417,876,038	
Liabilities					
Accounts payable	321,148	2,989,732	724,487	4,035,367	
Accrued and other liabilities	-	-	27,851	27,851	
Due to other governmental units	-	-	14,242	14,242	
Provision for uninsured losses and liabilities	-	-	528,592	528,592	
Total liabilities	321,148	2,989,732	1,295,172	4,606,052	
Net Position - Held in trust for pension and other retiree benefits	\$ 110,237,925	\$ 201,782,195	\$ 101,249,866	\$ 413,269,986	

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Fiduciary Net Position Trust Funds Year Ended June 30, 2017

	General				
	Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Total	
Additions					
Investment income:					
Interest and dividends	\$ 2,692,906	\$ 4,507,731	\$ 2,159,559	\$ 9,360,196	
Net adjustment to fair value of investments	9,351,635	19,297,876	9,805,972	38,455,483	
Less investment expenses	<u>(641,830)</u>	<u>(1,379,899)</u>	<u>(604,950)</u>	<u>(2,626,679)</u>	
Net investment income	11,402,711	22,425,708	11,360,581	45,189,000	
Contributions:					
Employer	2,648,960	7,994,747	11,452,950	22,096,657	
Employee	583,975	1,602,068	12,822	2,198,865	
Purchase of prior year's service credits	-	58,790	-	58,790	
Insurance recovery	-	-	10,573	10,573	
Total additions - Net	14,635,646	32,081,313	22,836,926	69,553,885	
Deductions					
Benefit payments	10,782,673	22,087,269	8,447,897	41,317,839	
Withdrawals and refunds of contributions	<u>298,076</u>	<u>327,610</u>	<u>-</u>	<u>625,686</u>	
Total deductions	11,080,749	22,414,879	8,447,897	41,943,525	
Net Change in Net Position	3,554,897	9,666,434	14,389,029	27,610,360	
Net Position - Beginning of year	106,683,028	192,115,761	86,860,837	385,659,626	
Net Position - End of year	\$ 110,237,925	\$ 201,782,195	\$ 101,249,866	\$ 413,269,986	

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Fiduciary Assets and Liabilities Agency Funds June 30, 2017

	Agency Funds		
	Tax	General Agency	Total
Assets			
Cash and cash equivalents	\$ 47,465	\$ 1,130,346	\$ 1,177,811
Investments - At fair value -			
Short-term investment funds	<u>-</u>	<u>2,961,746</u>	<u>2,961,746</u>
Total assets	\$ 47,465	\$ 4,092,092	\$ 4,139,557
Liabilities			
Accrued and other liabilities	\$ -	\$ 1,693,179	\$ 1,693,179
Due to other governmental units	47,465	78,942	126,407
Cash bonds and deposits	<u>-</u>	<u>2,319,971</u>	<u>2,319,971</u>
Total liabilities	\$ 47,465	\$ 4,092,092	\$ 4,139,557

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Assets and Liabilities Agency Funds Year Ended June 30, 2017

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
<u>Tax Collection</u>				
Assets - Cash and cash equivalents	\$ 12,994	\$ 130,165,852	\$ 130,131,381	\$ 47,465
Liabilities				
Accrued and other liabilities	\$ 45	\$ 587,427	\$ 587,472	\$ -
Due to other governmental units	12,949	191,042,601	191,008,085	47,465
Total liabilities	\$ 12,994	\$ 191,630,028	\$ 191,595,557	\$ 47,465
<u>General Agency</u>				
Assets				
Cash and cash equivalents	\$ 2,077,496	\$ 9,404,701	\$ 10,351,851	\$ 1,130,346
Investments - At fair value	1,856,783	8,117,779	7,012,816	2,961,746
Total assets	\$ 3,934,279	\$ 17,522,480	\$ 17,364,667	\$ 4,092,092
Liabilities				
Accrued and other liabilities	\$ 1,508,308	\$ 1,222,362	\$ 1,037,491	\$ 1,693,179
Due to other governmental units	6,981	16,091,474	16,019,513	78,942
Cash and bond deposits	2,418,990	1,655,114	1,754,133	2,319,971
Total liabilities	\$ 3,934,279	\$ 18,968,950	\$ 18,811,137	\$ 4,092,092
<u>Totals - All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 2,090,490	\$ 139,570,553	\$ 140,483,232	\$ 1,177,811
Investments - At fair value	1,856,783	8,117,779	7,012,816	2,961,746
Total assets	\$ 3,947,273	\$ 147,688,332	\$ 147,496,048	\$ 4,139,557
Liabilities				
Accrued and other liabilities	\$ 896,359	\$ 1,809,789	\$ 1,624,963	\$ 1,693,179
Due to other governmental units	19,930	207,134,075	207,027,598	126,407
Cash and bond deposits	3,030,984	1,655,114	1,754,133	2,319,971
Total liabilities	\$ 3,947,273	\$ 210,598,978	\$ 210,406,694	\$ 4,139,557

City of Sterling Heights, Michigan

Statistical Information and Continuing Disclosure Contents

STATISTICAL INFORMATION

Statistical information contained herein relates to the physical, economic, social, and political characteristics of the City. It is designed to provide a broader and more complete understanding of the City and its financial affairs than is possible from the financial statements, notes, and supporting schedules presented in the financial section.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Net Position by Component	136
Changes in Net Position	137-138
Fund Balances of Governmental Funds	139
Changes in Fund Balances of Governmental Funds	140-141*
General Governmental Tax Revenue by Source	142

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

Property Tax Levies and Collections	143*
Property Tax Rates - Direct and Overlapping Governments	144-145*
Assessed Taxable Values (History of Property Values)	146-147*
Principal Property Taxpayers (Major Taxpayers)	148*

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Ratios of General Bonded Debt Outstanding	149
Ratios of Outstanding Debt by Type	150
Direct and Overlapping Governmental Activities Debt	151*
Legal Debt Margin	152*
Legal Debt Margin Information	153
Pledged Revenue Coverage	154

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Demographic and Economic Statistics	155
Miscellaneous Demographics	156
Principal Employers (Major Employers)	157*

* Indicates schedules included in statistical information that fulfill continuing disclosure requirements.

City of Sterling Heights, Michigan

Statistical Information and Continuing Disclosure Contents (Continued)

STATISTICAL INFORMATION (CONTINUED)

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Operating Indicators by Function	158-159
Capital Asset Statistics by Function	160
Building Permits at Market Value	161
Full-time Equivalent City Government Employees by Function	162

CONTINUING DISCLOSURE 163

Continuing disclosure information contained herein complies with Rule 15c2-12, a federal regulation promulgated by the Securities and Exchange Commission, designed to improve disclosure practices in the municipal bond market. Municipal bonds issued after July 3, 1995 are subject to this mandatory requirement.

Continuing disclosure requires certain annual financial information and operating data, including audited financial statements for the preceding fiscal year. This information is generally consistent with the information contained or cross-referenced in the official statement relating to the bonds.

State-shared Revenue	164
Gas and Weight Taxes	164
Labor Agreements	165

Statistical Information

City of Sterling Heights, Michigan

Net Position by Component Last Ten Fiscal Years (Accrual Basis of Accounting)

	2008	2009	2010	2011	2012	2013	2014	2015 (1)	2016	2017
Governmental activities:										
Invested in capital assets -										
Net of related debt	\$ 175,084,518	\$ 173,670,878	\$ 169,230,936	\$ 166,882,162	\$ 163,744,453	\$ 159,678,093	\$ 159,604,551	\$ 166,305,991	\$ 172,609,179	\$ 141,192,833
Restricted	12,015,678	10,040,331	9,733,081	9,413,052	10,876,504	11,385,681	9,040,309	9,687,600	8,325,564	52,219,283
Unrestricted	19,437,952	19,880,753	34,565,371	31,667,843	27,712,790	26,650,520	24,290,676	(107,150,997)	(110,411,191)	(114,623,816)
Total governmental activities										
net position	<u>\$ 206,538,148</u>	<u>\$ 203,591,962</u>	<u>\$ 213,529,388</u>	<u>\$ 207,963,057</u>	<u>\$ 202,333,747</u>	<u>\$ 197,714,294</u>	<u>\$ 192,935,536</u>	<u>\$ 68,842,594</u>	<u>\$ 70,523,552</u>	<u>\$ 78,788,300</u>
Business-type activities:										
Net investment in capital assets	\$ 135,723,619	\$ 133,050,974	\$ 130,990,910	\$ 128,950,328	\$ 127,122,039	\$ 125,395,977	\$ 122,324,204	\$ 118,109,220	\$ 119,117,466	\$ 107,889,832
Restricted	7,522,330	7,605,803	8,308,749	8,369,375	9,424,998	9,596,925	9,368,833	10,521,601	1,307,099	10,193,185
Unrestricted	29,337,877	26,385,878	25,732,829	24,334,830	22,170,126	20,362,360	14,888,421	9,948,067	14,617,172	12,974,017
Total business-type activities										
net position	<u>\$ 172,583,826</u>	<u>\$ 167,042,655</u>	<u>\$ 165,032,488</u>	<u>\$ 161,654,533</u>	<u>\$ 158,717,163</u>	<u>\$ 155,355,262</u>	<u>\$ 146,581,458</u>	<u>\$ 138,578,888</u>	<u>\$ 135,041,737</u>	<u>\$ 131,057,034</u>
Primary government:										
Net investment in capital assets	\$ 310,808,137	\$ 306,721,852	\$ 300,221,846	\$ 295,832,490	\$ 290,866,492	\$ 285,074,070	\$ 281,928,755	\$ 284,415,211	\$ 291,726,645	\$ 249,082,665
Restricted	19,538,008	17,646,134	18,041,830	17,782,427	20,301,502	20,982,606	18,409,142	20,209,201	9,632,663	62,412,468
Unrestricted	48,775,829	46,266,631	60,298,200	56,002,673	49,902,461	47,012,880	39,179,097	(97,202,930)	(95,794,019)	(101,649,799)
Total primary government										
net position	<u>\$ 379,121,974</u>	<u>\$ 370,634,617</u>	<u>\$ 378,561,876</u>	<u>\$ 369,617,590</u>	<u>\$ 361,070,455</u>	<u>\$ 353,069,556</u>	<u>\$ 339,516,994</u>	<u>\$ 207,421,482</u>	<u>\$ 205,565,289</u>	<u>\$ 209,845,334</u>

(1) - GASB No. 68 was implemented with the fiscal year ended June 30, 2015

City of Sterling Heights, Michigan

	Fiscal Year			
	2008	2009	2010	2011
Expenses				
Governmental activities:				
General government	\$ 11,017,399	\$ 8,877,803	\$ 8,804,497	\$ 8,011,940
41A District Court	3,164,448	3,251,224	3,470,065	3,523,447
Public safety	48,044,223	49,201,944	52,695,852	53,740,479
Public works	24,083,515	24,904,207	25,269,096	26,062,500
Recreation and culture	6,322,163	6,112,129	5,695,827	5,617,090
Interest on long-term debt	1,921,428	1,956,286	1,086,571	1,192,797
Total governmental activities expenses	94,553,176	94,303,593	97,021,908	98,148,253
Business-type activities - Water and sewer	<u>32,784,120</u>	<u>32,292,608</u>	<u>30,901,624</u>	<u>33,562,610</u>
Total primary government expenses	<u>\$ 127,337,296</u>	<u>\$ 126,596,201</u>	<u>\$ 127,923,532</u>	<u>\$ 131,710,863</u>
Program Revenue				
Governmental activities:				
Charges for services:				
General government	\$ 2,216,008	\$ 2,229,296	\$ 3,020,737	\$ 2,906,715
41A District Court	2,351,225	2,426,813	2,985,409	2,888,076
Public safety	1,984,318	1,571,100	1,629,846	1,695,612
Public works	6,363,346	2,869,634	2,545,211	2,295,345
Recreation and culture	629,818	733,598	948,463	982,981
Operating grants and contributions	8,525,230	8,957,951	9,676,314	9,091,234
Capital grants and contributions	3,173,757	478,767	1,090,732	1,809,917
Total governmental activities program revenue	25,243,702	19,267,159	21,896,712	21,669,880
Business-type activities - Water and sewer:				
Charges for services	27,456,965	24,495,066	25,057,683	28,222,756
Operating grants and contributions	-	-	-	-
Capital grants and contributions	<u>2,461,289</u>	<u>867,991</u>	<u>2,912,917</u>	<u>1,459,851</u>
Total business-type activities program revenue	<u>29,918,254</u>	<u>25,363,057</u>	<u>27,970,600</u>	<u>29,682,607</u>
Total primary government program revenue	<u>\$ 55,161,956</u>	<u>\$ 44,630,216</u>	<u>\$ 49,867,312</u>	<u>\$ 51,352,487</u>
Net Expense				
Governmental activities	\$ (69,309,474)	\$ (75,036,434)	\$ (75,125,196)	\$ (76,478,373)
Business-type activities	<u>(2,865,866)</u>	<u>(6,929,551)</u>	<u>(2,931,024)</u>	<u>(3,880,003)</u>
Total primary government net expense	<u>\$ (72,175,340)</u>	<u>\$ (81,965,985)</u>	<u>\$ (78,056,220)</u>	<u>\$ (80,358,376)</u>
General Revenue and Other Changes in Net Position				
Governmental activities:				
Property taxes	\$ 58,331,682	\$ 57,875,942	\$ 56,801,307	\$ 59,196,747
State-shared revenue	10,675,667	10,183,758	9,057,434	9,057,434
Investment income	3,075,919	2,278,601	1,098,458	707,426
Gain on disposal of capital assets	-	-	-	-
Insurance proceeds	-	-	16,318,640	-
Other nonprogram revenue	1,093,203	1,751,947	1,786,782	1,950,435
Total governmental activities expenses	73,176,471	72,090,248	85,062,621	70,912,042
Business-type activities - Investment income	<u>1,455,323</u>	<u>1,388,380</u>	<u>920,857</u>	<u>502,048</u>
Total primary government	<u>\$ 74,631,794</u>	<u>\$ 73,478,628</u>	<u>\$ 85,983,478</u>	<u>\$ 71,414,090</u>
Change in Net Position				
Governmental activities	\$ 3,866,997	\$ (2,946,186)	\$ 9,937,425	\$ (5,566,331)
Business-type activities	<u>(1,410,543)</u>	<u>(5,541,171)</u>	<u>(2,010,167)</u>	<u>(3,377,955)</u>
Total primary government	<u>\$ 2,456,454</u>	<u>\$ (8,487,357)</u>	<u>\$ 7,927,258</u>	<u>\$ (8,944,286)</u>

**Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)**

Fiscal Year								
	2012		2013		2014		2015	
\$	6,543,937	\$	5,918,474	\$	5,467,242	\$	6,200,880	\$
	3,379,925		3,334,854		3,288,275		3,351,422	
	54,994,001		51,345,058		52,851,304		61,063,426	
	23,959,824		22,852,033		24,439,731		24,385,159	
	5,291,332		4,891,039		4,640,609		4,892,593	
	1,081,347		1,099,714		718,646		603,500	
							514,247	
								675,198
	95,250,366		89,441,172		91,405,807		100,496,980	
	37,438,961		38,788,850		41,790,235		44,886,232	
	\$ 132,689,327		\$ 128,230,022		\$ 133,196,042		\$ 145,383,212	
							\$ 149,961,738	
								\$ 155,145,033
\$	3,513,053	\$	3,634,419	\$	3,272,341	\$	3,760,720	\$
	2,570,621		2,336,662		2,227,523		2,368,667	
	1,519,175		1,558,701		1,445,007		1,562,339	
	3,563,445		2,533,213		2,768,235		2,936,122	
	807,387		677,068		724,114		760,007	
	8,565,267		5,136,968		2,747,213		3,566,906	
	2,546,378		4,547,019		8,552,754		8,129,304	
							8,553,786	
								16,135,905
	23,085,326		20,424,050		21,737,187		23,084,065	
	31,028,424		35,282,896		32,097,323		36,020,248	
	-		-		-		602,738	
	2,721,482		601,903		338,004		1,954,700	
							5,014,380	
	33,749,906		35,884,799		32,435,327		38,577,686	
	\$ 56,835,232		\$ 56,308,849		\$ 54,172,514		\$ 61,661,751	
							\$ 69,216,442	
								\$ 84,631,160
\$	(72,165,040)	\$	(69,017,122)	\$	(69,668,620)	\$	(77,412,915)	\$
	(3,689,055)		(2,904,051)		(9,354,908)		(6,308,546)	
							(76,531,983)	
							(4,213,313)	
	\$ (75,854,095)		\$ (71,921,173)		\$ (79,023,528)		\$ (83,721,461)	
							\$ (80,745,296)	
								\$ (70,513,873)
\$	53,247,883	\$	51,643,869	\$	51,344,025	\$	62,231,352	\$
	10,094,387		10,342,983		10,606,230		10,785,806	
	1,159,709		118,280		596,654		630,068	
	-		-		-		886,403	
	-		-		-		-	
	2,033,751		2,292,537		2,342,953		2,533,069	
							2,595,396	
								2,579,599
	66,535,730		64,397,669		64,889,862		76,180,295	
	751,685		(457,850)		581,104		635,502	
							676,162	
								(64,475)
	\$ 67,287,415		\$ 63,939,819		\$ 65,470,966		\$ 76,815,797	
							\$ 78,889,103	
								\$ 74,793,918
\$	(5,629,310)	\$	(4,619,453)	\$	(4,778,758)	\$	(1,232,620)	\$
	(2,937,370)		(3,361,901)		(8,773,804)		(5,673,044)	
							(3,537,151)	
								(3,984,703)
	\$ (8,566,680)		\$ (7,981,354)		\$ (13,552,562)		\$ (6,905,664)	
							\$ (1,856,193)	
								\$ 4,280,045

City of Sterling Heights, Michigan

Fund Balances of Governmental Funds Last Ten Fiscal Years (Modified Accrual Basis of Accounting)

	2008	2009	2010	2011 (I)	2012	2013	2014	2015	2016	2017
General Fund:										
Reserved	\$ 643,564	\$ 767,986	\$ 1,005,948	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	14,649,346	14,439,075	11,522,975	-	861,449	823,640	821,876	538,644	580,872	735,358
Nonspendable	-	-	-	5,500,280	973,137	691,319	3,668,787	4,457,140	5,095,500	5,076,900
Assigned	-	-	-	4,629,487	3,451,703	3,735,285	1,021,961	2,501,722	5,564,011	11,360,580
Total General Fund	\$ 15,292,910	\$ 15,207,061	\$ 12,528,923	\$ 10,991,216	\$ 5,248,480	\$ 5,248,480	\$ 5,229,392	\$ 7,539,734	\$ 11,394,869	\$ 17,266,609
All other governmental funds:										
Reserved	\$ 5,321,181	\$ 468,719	\$ 596,419	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	6,950,614	4,665,274	5,168,942	-	-	-	-	-	-	-
Debt service funds	92,441	488,981	379,377	-	-	-	-	-	-	-
Capital projects funds	2,011,345	2,720,603	3,021,463	-	-	-	-	-	-	-
Nonspendable	-	-	-	463,096	219,826	175,383	24,079	222,835	2,009,754	610,377
Restricted	-	-	-	4,730,650	6,366,964	7,014,780	4,739,133	5,391,767	10,514,620	54,501,559
Committed	-	-	-	733,573	623,578	605,390	528,412	85,588	623,435	374,420
Assigned	-	-	-	2,113,709	1,181,275	1,012,786	657,869	1,630,427	1,732,331	1,499,058
Total all other governmental funds	\$ 14,375,581	\$ 8,343,577	\$ 9,166,201	\$ 8,041,028	\$ 8,391,643	\$ 8,808,339	\$ 5,949,493	\$ 7,330,617	\$ 14,880,140	\$ 56,985,414

(I) GASB No. 54 was implemented with the fiscal year ended June 30, 2011.

City of Sterling Heights, Michigan

	2008	2009	2010	2011
Revenue				
Property taxes	\$ 58,331,682	\$ 57,875,942	\$ 56,801,306	\$ 59,045,208
Fees and permits	1,352,594	960,683	1,194,707	1,438,197
Federal sources	1,001,641	1,419,052	2,789,569	3,085,016
State and local sources	18,939,977	18,505,491	17,114,177	17,184,734
Fines and forfeitures	2,755,701	2,836,556	3,618,574	3,353,875
Charges for services	7,988,183	7,896,549	8,598,054	8,583,882
Investment income	2,316,653	1,580,754	582,435	308,422
Special assessments	92,745	243,123	215,118	203,298
Rental income	1,727,929	1,798,484	1,429,222	1,685,041
Cable revenue	1,671,094	1,771,978	1,799,495	1,950,435
Reimbursement of advance road construction	2,440,414	-	-	-
Other	1,755,645	2,007,807	1,898,739	1,526,205
 Total revenue	 100,374,258	 96,896,419	 96,041,396	 98,364,313
Expenditures				
Current:				
General government	11,244,018	9,534,712	9,000,797	8,613,941
41A District Court	2,974,001	3,150,155	3,221,815	3,246,811
Public safety	44,435,670	46,327,145	49,130,527	50,929,421
Public works	20,134,496	21,273,705	20,321,669	21,034,821
Recreation and culture	5,358,825	5,321,281	4,747,596	4,603,108
General expenditures	2,945,761	2,793,240	2,814,058	2,540,873
Capital outlay	7,402,019	13,212,947	4,694,663	4,867,162
Debt service:				
Principal	5,685,000	5,730,000	15,235,000	3,970,000
Interest	1,938,403	1,987,533	1,628,030	1,221,055
 Total expenditures	 102,118,193	 109,330,718	 110,794,155	 101,027,192
Excess of Revenue (Under) Over Expenditures	(1,743,935)	(12,434,299)	(14,752,759)	(2,662,879)
Other Financing Sources (Uses)				
Long-term financing	5,000,000	3,260,000	3,810,000	-
Proceeds from sale of fixed assets	-	149,466	115,724	-
Bond premium	50,143	-	33,935	-
Net payments to refunded bond escrow				
agent and bond issuance costs	-	-	(2,200,000)	-
Transfers in	9,716,170	11,319,369	16,194,395	3,953,940
Transfers out	(8,197,830)	(8,412,389)	(5,056,810)	(3,953,940)
 Total other financing sources	 6,568,483	 6,316,446	 12,897,244	 -
Net Change in Fund Balances	\$ 4,824,548	\$ (6,117,853)	\$ (1,855,515)	\$ (2,662,879)
Debt Service as a Percentage of Noncapital Expenditures	8.06%	8.05%	15.91%	5.41%

**Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)**

2012	2013	2014	2015	2016	2017
\$ 53,149,713	\$ 51,665,928	\$ 51,344,025	\$ 62,231,352	\$ 64,036,721	\$ 60,946,929
2,271,967	1,789,803	1,735,413	1,800,968	2,149,069	2,568,909
2,661,338	1,126,423	1,921,050	1,456,596	1,990,255	6,300,698
18,065,838	18,825,672	19,920,337	21,054,148	21,279,925	27,584,764
2,770,160	2,489,252	2,326,870	2,567,229	3,057,417	2,944,500
8,443,205	8,306,458	9,048,012	10,085,731	9,719,467	9,842,019
672,239	58,534	257,632	247,437	426,998	120,346
254,977	206,501	314,871	212,828	201,579	199,092
1,508,954	1,536,939	1,951,540	1,829,381	1,578,977	1,488,753
2,033,751	2,292,537	2,342,953	2,533,069	2,595,396	2,579,599
<u>2,044,415</u>	<u>1,700,076</u>	<u>1,619,427</u>	<u>1,414,282</u>	<u>1,960,041</u>	<u>1,568,519</u>
93,876,557	89,998,123	92,782,130	105,433,021	108,995,845	116,144,128
8,571,928	7,700,466	7,175,604	7,803,567	8,154,052	8,300,238
3,252,852	3,258,362	3,078,766	3,087,262	3,223,740	3,242,874
52,297,573	48,644,125	48,807,450	49,752,772	49,704,157	48,646,567
18,680,870	18,062,177	20,790,973	21,450,688	20,929,934	20,869,103
4,489,169	4,339,952	4,002,476	4,189,468	4,393,760	7,672,784
2,766,125	2,294,184	2,171,473	1,119,452	1,027,555	1,164,656
4,275,883	3,115,621	7,026,982	14,388,416	19,122,277	22,513,996
<u>3,940,000</u>	<u>3,895,000</u>	<u>3,235,000</u>	<u>2,620,000</u>	<u>1,725,000</u>	<u>2,280,000</u>
<u>1,098,474</u>	<u>1,114,056</u>	<u>744,170</u>	<u>628,563</u>	<u>545,331</u>	<u>700,971</u>
<u>99,372,874</u>	<u>92,423,943</u>	<u>97,032,894</u>	<u>105,040,188</u>	<u>108,825,806</u>	<u>115,391,189</u>
<u>(5,496,317)</u>	<u>(2,425,820)</u>	<u>(4,250,764)</u>	<u>392,833</u>	<u>170,039</u>	<u>752,939</u>
3,780,000	3,275,000	-	198,633	9,630,000	47,315,000
-	-	-	-	-	80,363
274,196	9,311	-	-	254,555	2,902,577
<u>(3,950,000)</u>	<u>(3,100,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,073,865)</u>
3,526,740	6,158,405	5,639,290	13,594,435	10,797,379	10,180,735
<u>(3,526,740)</u>	<u>(3,500,200)</u>	<u>(4,266,460)</u>	<u>(10,494,435)</u>	<u>(9,447,315)</u>	<u>(10,180,735)</u>
<u>104,196</u>	<u>2,842,516</u>	<u>1,372,830</u>	<u>3,298,633</u>	<u>11,234,619</u>	<u>47,224,075</u>
<u>\$ (5,392,121)</u>	<u>\$ 416,696</u>	<u>\$ (2,877,934)</u>	<u>\$ 3,691,466</u>	<u>\$ 11,404,658</u>	<u>\$ 47,977,014</u>
5.31%	5.63%	4.44%	3.60%	3.62%	3.21%

City of Sterling Heights, Michigan

General Governmental Tax Revenue by Source Last Ten Fiscal Years

Fiscal Year Ended June 30	General Fund Property Taxes					Local Roads Property Taxes		Debt Service Funds Property Taxes			Total All Property Taxes	
	Police and Fire Retirement System		Safe Streets			Safe Streets	General Drain	Voted Tax General Obligation		Total		
	Operating	Refuse			Total							
2008	\$ 50,198,476	\$ 4,359,680	\$ 1,707,910	\$	- \$ 56,266,066	\$	- \$ 1,089,261	\$ 976,355	\$ 2,065,616	\$ 58,331,682		
2009	49,275,429	4,476,793	2,594,194		- 56,346,416		- 1,169,602	359,924	1,529,526	57,875,942		
2010	45,954,154	4,561,110	4,925,570		- 55,440,834		- 1,178,018	182,454	1,360,472	56,801,306		
2011	47,431,652	4,377,125	5,753,668		- 57,562,445		- 1,164,592	318,171	1,482,763	59,045,208		
2012	40,120,585	4,376,626	7,157,201		- 51,654,412		- 1,150,140	345,161	1,495,301	53,149,713		
2013	37,142,292	4,403,288	8,529,892		- 50,075,472		- 1,224,522	365,934	1,590,456	51,665,928		
2014	38,262,436	4,400,850	7,444,408		- 50,107,694		- 823,757	412,574	1,236,331	51,344,025		
2015	38,380,857	4,615,657	7,905,424	6,969,239	57,871,177	3,271,161	658,448	430,566	1,089,014	62,231,352		
2016	40,154,336	4,786,968	7,992,154	7,121,201	60,054,659	3,344,947	164,288	472,828	637,116	64,036,722		
2017	38,159,793	4,418,198	7,914,369	6,786,371	57,278,731	3,201,818	2,297	464,084	466,381	60,946,930		

City of Sterling Heights, Michigan

Property Tax Levies and Collections Last Ten Fiscal Years

Tax Year	Fiscal Year Ended June 30	Total Tax Levy (1)	Collected Within the Fiscal Year of the Levy		Subsequent Collection of Delinquent Taxes	Total Collections	
			Amount	Percentage of Levy		to Date Amount	Percentage of Levy
2008	2009	\$ 57,729,407	\$ 56,018,807	97.04	\$ 1,666,768	\$ 57,685,575	99.92
2009	2010	56,676,434	54,863,230	96.80	1,746,957	56,610,187	99.88
2010	2011	59,971,190	57,008,661	95.06	1,609,784	58,618,445	97.74
2011	2012	55,243,869	53,881,497	97.53	1,250,043	55,131,540	99.80
2012	2013	51,798,243	50,578,919	97.65	1,099,333	51,678,252	99.77
2013	2014	51,490,018	50,356,033	97.80	1,049,632	51,405,665	99.84
2014	2015	62,603,722	61,350,710	98.00	1,157,471	62,508,181	99.85
2015	2016	63,842,382	62,694,645	98.20	1,046,438	63,741,083	99.84
2016	2017	61,003,077	59,820,159	98.06	1,065,670	60,885,829	99.81
2017	2018	66,499,661 (2)					

(1) Includes operational, refuse, public improvement, safe streets, general drain taxes, and recreating recreation, but does not include penalty and interest on late payment of taxes.

(2) The estimated tax levy is based on the summer tax receivable schedule. This levy will only change due to STC, MTT, and/or Board of Review adjustments and is included to facilitate continuing disclosure requirements.

Source: City Treasurer's Office

City of Sterling Heights, Michigan

Fiscal Year (Tax Year)	City Direct Rates								Overlapping Rates								
	Operating (I)	Police and Fire Retirement System				Public Drain Debt Service Improvement Debt Service				Macomb Intermediate School District	Macomb Community College	Huron/ Clinton Metro Authority		S.M.A.R.T.	County Zoo Authority	County Veterans Operations	D.I.A.
		Refuse	Safe Streets	Total	Macomb Intermediate School District	Macomb Community College	Huron/ Clinton Metro Authority										
2008 (2007)																	
Homestead	9.2256	0.8057	0.3147	0.1998	0.1792	0.0000	10.7250	2.9430	1.4212	0.2146	0.5900	0.0000	0.0000	0.0000	0.0000		
Non-homestead	9.2256	0.8057	0.3147	0.1998	0.1792	0.0000	10.7250	2.9430	1.4212	0.2146	0.5900	0.0000	0.0000	0.0000	0.0000		
2009 (2008)																	
Homestead	9.1777	0.8381	0.4853	0.2180	0.0667	0.0000	10.7858	2.9430	1.4212	0.2146	0.5900	0.1000	0.0400	0.0000			
Non-homestead	9.1777	0.8381	0.4853	0.2180	0.0667	0.0000	10.7858	2.9430	1.4212	0.2146	0.5900	0.1000	0.0400	0.0000			
2010 (2009)																	
Homestead	8.7180	0.8717	0.9372	0.2243	0.0346	0.0000	10.7858	2.9430	1.4212	0.2146	0.5900	0.1000	0.0400	0.0000			
Non-homestead	8.7180	0.8717	0.9372	0.2243	0.0346	0.0000	10.7858	2.9430	1.4212	0.2146	0.5900	0.1000	0.0400	0.0000			
2011 (2010)																	
Homestead	10.1811	0.9474	1.2388	0.2501	0.0684	0.0000	12.6858	2.9430	1.5712	0.2146	0.5900	0.1000	0.0400	0.0000			
Non-homestead	10.1811	0.9474	1.2388	0.2501	0.0684	0.0000	12.6858	2.9430	1.5712	0.2146	0.5900	0.1000	0.0400	0.0000			
2012 (2011)																	
Homestead	9.6617	0.9999	1.6694	0.2735	0.0813	0.0000	12.6858	2.9430	1.5712	0.2146	0.5900	0.1000	0.0400	0.0000			
Non-homestead	9.6617	0.9999	1.6694	0.2735	0.0813	0.0000	12.6858	2.9430	1.5712	0.2146	0.5900	0.1000	0.0400	0.0000			
2013 (2012)																	
Homestead	9.1428	1.0838	2.0669	0.3020	0.0903	0.0000	12.6858	2.9430	1.5712	0.2146	0.5900	0.1000	0.0400	0.2000			
Non-homestead	9.1428	1.0838	2.0669	0.3020	0.0903	0.0000	12.6858	2.9430	1.5712	0.2146	0.5900	0.1000	0.0400	0.2000			
2014 (2013)																	
Homestead	9.4703	1.0879	1.8225	0.2033	0.1018	0.0000	12.6858	2.9430	1.5312	0.2146	0.5900	0.1000	0.0400	0.2000			
Non-homestead	9.4703	1.0879	1.8225	0.2033	0.1018	0.0000	12.6858	2.9430	1.5312	0.2146	0.5900	0.1000	0.0400	0.2000			
2015 (2014)																	
Homestead	9.3701	1.1267	1.9238	0.1605	0.1047	2.5000	15.1858	2.9430	1.5262	0.2146	1.0000	0.1000	0.0400	0.2000			
Non-homestead	9.3701	1.1267	1.9238	0.1605	0.1047	2.5000	15.1858	2.9430	1.5262	0.2146	1.0000	0.1000	0.0400	0.2000			
2016 (2015)																	
Homestead	9.4909	1.1424	1.9026	0.0377	0.1122	2.5000	15.1858	2.9430	1.5302	0.2146	1.0000	0.1000	0.0400	0.2000			
Non-homestead	9.4909	1.1424	1.9026	0.0377	0.1122	2.5000	15.1858	2.9430	1.5302	0.2146	1.0000	0.1000	0.0400	0.2000			
2017 (2016)																	
Homestead	9.4856	1.1062	1.9788	0.0000	0.1152	2.5000	15.1858	2.9355	1.4212	0.2146	0.9974	0.0997	0.0398	0.1994			
Non-homestead	9.4856	1.1062	1.9788	0.0000	0.1152	2.5000	15.1858	2.9355	1.4212	0.2146	0.9974	0.0997	0.0398	0.1994			

(1) City general operating tax rate charter limit equals 12.0 mills.

(2) Sterling Heights' taxable valuation is based on 62 percent for Utica Schools and 38 percent for Warren Consolidated Schools for the year ended June 30, 2016.

Source: Municipal Advisory Council of Michigan

**Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years**

Overlapping Rates												Total Direct and Overlapping Rates by Resident's School District			
Macomb County		Utica Community School District (2)				Warren Consolidated School District (2)									
Operating	Drain Debt Service	State Education Tax	Operating/ Local	Debt	State Education Tax	Operating/ Local	Supplemental	Sinking	Debt	Utica Community	Warren Consolidated				
4.2000	0.0055	6.0000	0.0000	3.5000	6.0000	0.0000	5.9594	0.9964	2.2800	29.5993	35.3351				
4.2000	0.0055	6.0000	17.9316	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.5309	47.3757				
4.2000	0.0055	6.0000	0.0000	3.5000	6.0000	0.0000	5.2688	0.9964	2.1500	29.8001	34.7153				
4.2000	0.0055	6.0000	17.9316	3.5000	6.0000	18.0000	0.0000	0.9964	2.1500	47.7317	47.4465				
4.5685	0.0050	6.0000	0.0000	3.5000	6.0000	0.0000	5.7814	0.9964	2.1500	30.1681	35.5959				
4.5685	0.0050	6.0000	17.9316	3.5000	6.0000	18.0000	0.0000	0.9964	2.1500	48.0997	47.8145				
4.5685	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	7.4057	0.9964	2.4400	32.5681	39.5602				
4.5685	0.0050	6.0000	17.9316	3.8500	6.0000	18.0000	0.0000	0.9964	2.4400	50.4997	50.1545				
4.5685	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	7.4057	0.9964	2.4400	32.5681	39.5602				
4.5685	0.0050	6.0000	17.9316	3.8500	6.0000	18.0000	0.0000	0.9964	2.4400	50.4997	50.1545				
4.5685	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	7.5024	0.0000	3.8600	32.7681	40.2805				
4.5685	0.0050	6.0000	17.9316	3.8500	6.0000	18.0000	0.0000	0.0000	3.8600	50.6997	50.7781				
4.5685	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	7.4629	0.0000	3.9200	32.7281	40.2610				
4.5685	0.0050	6.0000	17.9316	3.8500	6.0000	18.0000	0.0000	0.0000	3.9200	50.6597	50.7981				
4.5685	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	7.1603	0.0000	3.6000	35.6331	42.5434				
4.5685	0.0050	6.0000	17.9316	3.8500	6.0000	18.0000	0.0000	0.0000	3.6000	53.5647	53.3831				
4.5685	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	6.7766	0.0000	3.9200	35.6371	42.4837				
4.5685	0.0050	6.0000	17.9082	3.8500	6.0000	18.0000	0.0000	0.0000	3.9200	53.5453	53.7071				
4.5566	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	6.7914	0.0000	4.8700	35.5050	43.3164				
4.5566	0.0050	6.0000	17.6968	3.8500	6.0000	17.8182	0.0000	0.0000	4.8700	53.2018	54.3432				

City of Sterling Heights, Michigan

	2008	2009	2010	2011	2012
State Equalized Value					
SEV equivalent	\$ 6,380,752,375	\$ 5,940,796,525	\$ 5,555,163,580	\$ 4,879,206,305	\$ 4,488,430,900
IFT exemption	<u>290,426,725</u>	<u>255,549,975</u>	<u>239,402,825</u>	<u>223,651,575</u>	<u>204,669,200</u>
Total SEV	\$ 6,671,179,100	\$ 6,196,346,500	\$ 5,794,566,405	\$ 5,102,857,880	\$ 4,693,100,100
Taxable Value					
By Class:					
Real property	\$ 4,645,291,550	\$ 4,599,077,850	\$ 4,508,088,655	\$ 4,046,809,230	\$ 3,743,670,800
Personal property	<u>1,053,774,300</u>	<u>1,007,788,550</u>	<u>986,259,050</u>	<u>917,612,350</u>	<u>874,496,200</u>
Total value	\$ 5,699,065,850	\$ 5,606,866,400	\$ 5,494,347,705	\$ 4,964,421,580	\$ 4,618,167,000
By Type:					
Residential	\$ 3,480,892,950	\$ 3,451,602,900	\$ 3,328,660,655	\$ 2,920,197,630	\$ 2,714,198,550
Commercial	692,716,600	706,330,000	726,513,650	704,190,150	651,408,200
Industrial	430,477,050	405,605,650	416,847,650	388,756,200	348,879,800
Personal property	515,469,150	532,258,650	545,007,250	504,729,350	494,463,050
IFT real and personal property	<u>579,510,100</u>	<u>511,069,200</u>	<u>477,318,500</u>	<u>446,548,250</u>	<u>409,217,400</u>
Total	5,699,065,850	5,606,866,400	5,494,347,705	4,964,421,580	4,618,167,000
Less exempt property	<u>(289,755,050)</u>	<u>(255,534,600)</u>	<u>(238,659,250)</u>	<u>(223,274,125)</u>	<u>(204,608,700)</u>
Total taxable value	\$ 5,409,310,800	\$ 5,351,331,800	\$ 5,255,688,455	\$ 4,741,147,455	\$ 4,413,558,300
Total direct tax rate (I)	\$ 10.7250	\$ 10.7858	\$ 10.7858	\$ 12.6858	\$ 12.6858
Total taxable value as					
a percentage of SEV equivalent	81.08%	86.36%	90.70%	92.91%	94.04%
Total taxable value as					
a percentage of total value	94.92%	95.44%	95.66%	95.50%	95.57%

(I) This rate is applied 100 percent to the total taxable value.

Source: City of Sterling Heights, Assessor's Office

**Assessed Taxable Values
(History of Property Values)
Last Ten Fiscal Years**

2013	2014	2015	2016	2017
\$ 4,154,032,625	\$ 4,201,961,947	\$ 4,421,529,781	\$ 4,796,034,350	\$ 4,949,191,377
150,866,925	147,523,025	149,204,525	123,790,350	64,411,150
\$ 4,304,899,550	\$ 4,349,484,972	\$ 4,570,734,306	\$ 4,919,824,700	\$ 5,013,602,527
\$ 3,503,196,250	\$ 3,526,557,005	\$ 3,564,635,642	\$ 3,665,393,466	\$ 3,737,558,043
755,514,350	724,659,700	714,092,150	670,143,500	366,173,450
\$ 4,258,710,600	\$ 4,251,216,705	\$ 4,278,727,792	\$ 4,335,536,966	\$ 4,103,731,493
\$ 2,527,262,250	\$ 2,584,362,566	\$ 2,640,642,487	\$ 2,717,724,673	\$ 2,777,714,820
609,340,350	564,052,015	558,328,319	574,872,887	594,885,971
314,238,500	305,334,016	296,637,552	305,821,724	314,006,932
506,194,400	502,509,250	488,607,400	494,865,700	289,981,650
301,675,100	294,958,858	294,512,034	242,251,982	127,142,120
4,258,710,600	4,251,216,705	4,278,727,792	4,335,536,966	4,103,731,493
(150,837,550)	(147,479,429)	(147,256,017)	(121,125,991)	(63,571,060)
\$ 4,107,873,050	\$ 4,103,737,276	\$ 4,131,471,775	\$ 4,214,410,975	\$ 4,040,160,433
\$ 12.6858	\$ 12.6858	\$ 15.1858	\$ 15.1858	\$ 15.1858
95.42%	94.35%	90.39%	85.66%	80.58%
96.46%	96.53%	96.56%	97.21%	98.45%

City of Sterling Heights, Michigan

Principal Property Taxpayers (Major Taxpayers) Current Year and Ten Years Ago

Company Name	Product/Service	Year Ended June 30, 2017				Year Ended June 30, 2008			
		Taxable Value	Rank	Percent of Total City		Taxable Value	Rank	Percent of Total City	
				Taxable Value	Rank			Taxable Value	Rank
FCA US, LLC	Automotive assembly and stamping	\$ 122,098,342	1	3.02	\$ 269,479,425	1	4.98		
Ford Motor Company	Automotive manufacturing and drive shafts	103,190,753	2	2.55	215,584,000	2	3.99		
DTE Energy	Public electric utility	40,211,107	3	1.00	34,699,800	4	0.64		
GGP LP	Retail and rental properties	22,192,395	4	0.55	32,192,250	5	0.60		
General Dynamics	Administrative engineering and design	17,158,396	5	0.42	31,576,175	6	0.58		
Consumers Energy	Public utility for gas	15,583,462	6	0.39	-	-	-		
ITC Transmissions	Automotive supplier	10,063,026	7	0.25	-	-	-		
PC Sterling Heights, LLC	Theater complex	9,762,881	8	0.24	-	-	-		
Laguna Associates Ltd Partners	Office and apartment complex	9,573,156	9	0.24	-	-	-		
TV - Mich, LP	Senior living complex	9,544,700	10	0.24	-	-	-		
Detroit News Agency	Printing plant - Newspapers	-	-	-	37,493,125	3	0.69		
Laurel/Shoal Creek	Office and apartment complex	-	-	-	17,751,500	7	0.33		
Ledd's Development	Office and business complex	-	-	-	15,557,750	8	0.29		
Market Place Properties	Retail shopping center	-	-	-	13,753,300	9	0.25		
Comcast Cable	Cable communications	-	-	-	12,975,550	10	0.24		
	Ten largest taxpayers	359,378,218	<u>8.90</u>		681,062,875		<u>12.59</u>		
	Other taxpayers	<u>3,680,782,215</u>			<u>4,728,247,925</u>				
	Total taxable value	<u>\$ 4,040,160,433</u>			<u>\$ 5,409,310,800</u>				

City of Sterling Heights, Michigan

Ratios of General Bonded Debt Outstanding Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities				Business-type Activities			Percentage of Estimated Total Taxable Value of Property (1)			
	General Obligation Bonds	County Issued Bonds	Capital Leases	Amounts Available in Debt Service Funds	County Issued Bonds	Capital Leases	Total Primary Government	Population	Per Capita		
2008	\$ 23,635,000	\$ 6,495,000	\$ -	\$ (68,694)	\$ -	\$ -	\$ 30,061,306	128,500	\$ 233.94		
2009	20,985,000	5,590,000	-	(150,053)	-	-	26,424,947	128,500	205.64		
2010	11,060,000	4,635,000	-	(9,821)	3,702,531	-	19,387,710	128,500	150.88		
2011	9,595,000	3,655,000	-	(11,873)	27,799,300	-	41,037,427	129,699	316.41		
2012	8,455,000	2,630,000	-	(22,232)	36,565,773	-	47,628,541	129,699	367.22		
2013	7,690,000	1,525,000	-	(19,201)	35,428,997	-	44,624,796	129,699	344.06		
2014	5,777,683	775,000	-	(20,308)	34,264,780	-	40,797,155	129,699	314.55		
2015	5,253,950	150,000	186,769	(18,201)	33,071,724	8,789	38,653,031	129,699	298.02		
2016	4,667,114	-	150,062	(28,263)	35,885,137	7,063	40,681,113	129,699	313.66		
2017	49,055,194	-	111,621	(63,338)	57,147,543	5,253	106,256,273	129,699	819.25		

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See the schedule of assessed taxable value for property value data.

City of Sterling Heights, Michigan

Ratios of Outstanding Debt by Type Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities					Business-type Activities					Total Primary Government	Percentage of Personal Income (1)		
						County Issued						Population	Per Capita	
	General Obligation Bonds	Michigan Transportation Bonds	Special Assessment Bonds	County- issued Bonds	Capital Leases	General Obligation Bonds	Special Assessment Bonds	County State Revolving Loan Funds	Capital Leases					
2008	\$ 23,635,000	\$ 18,710,000	\$ -	\$ 6,495,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,840,000	1.30%	128,500	\$ 380.08	
2009	20,985,000	16,535,000	3,260,000	5,590,000	-	-	-	-	-	46,370,000	1.26%	128,500	360.86	
2010	8,820,000	16,130,000	3,160,000	4,635,000	-	3,702,531	-	-	-	36,447,531	0.96%	128,500	283.64	
2011	7,880,000	14,180,000	3,060,000	3,655,000	-	30,584,068	-	3,314,862	-	62,673,930	2.00%	129,699	483.23	
2012	6,905,000	12,170,000	2,960,000	2,630,000	-	36,565,773	2,716,185	4,931,838	-	68,878,796	2.19%	129,699	531.07	
2013	6,165,000	10,405,000	2,850,000	1,525,000	-	35,428,997	2,647,602	6,825,826	-	65,847,425	2.10%	129,699	507.69	
2014	5,777,683	8,811,416	2,700,000	775,000	-	34,264,780	2,548,452	11,703,389	-	66,580,720	2.12%	129,699	513.35	
2015	5,253,950	7,465,086	2,550,000	150,000	186,769	33,071,724	4,098,344	17,592,684	7,063	70,338,913	2.24%	129,699	542.32	
2016	4,667,114	16,480,393	2,400,000	-	150,062	31,831,025	4,054,112	20,725,947	7,063	80,315,716	2.56%	129,699	619.25	
2017	49,055,194	17,080,252	2,250,000	-	111,621	53,263,196	3,884,347	22,126,394	5,253	147,776,257	4.71%	129,699	1,139.38	

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See the schedule of demographic and economic statistics for personal income data.

City of Sterling Heights, Michigan

Direct and Overlapping Governmental Activities Debt June 30, 2017

Direct Debt

General Obligation Bonds

04/27/05	Limited Tax	\$ 951,328
04/21/17	GO Refunding Unlimited Tax	3,105,000
05/09/17	Limited Tax	<u>44,998,866</u> \$ 49,055,194

Michigan Transportation Fund Bonds

06/22/10	Recovery Zone Bonds, Series 2010	1,325,000
02/07/12	Refunding Bonds, Series 2012	1,834,936
02/14/13	Refunding Bonds, Series 2013	2,446,938
04/05/16	MTF Bonds, Series 2016	9,359,667
05/09/17	MTF Bonds, Series 2017	<u>2,113,711</u> 17,080,252

Special Assessment Bonds

08/03/08	Improvements	2,250,000
Capital Lease	Capital Lease - Office equipment	<u>116,874</u>

Total direct debt outstanding 68,502,320

Indirect Debt

Share of County-issued Drain Bonds

MID District - 2010 A Series	-
MID District SA - 2010 North Gratiot	200,159
MID District - 2011 Clintondale Pump	8,148,975
MID District SA - 2015 North Gratiot Refunding	2,163,855
MID District - 2017A Series	22,365,870
MID District - 2017A Refunding	21,918,074
OMID District - 2010 Series B	830,277
OMID District SA - 2014 Series A	<u>1,520,333</u> <u>57,147,543</u>

Total direct and indirect debt outstanding 125,649,863

Less:

MTF Bonds	17,080,252
Special Assessment Bonds	2,250,000
MID District Special Assessments	2,364,014
OMID District Special Assessments	<u>1,520,333</u> <u>23,214,599</u>

Net direct and indirect debt outstanding 102,435,264

Overlapping Debt

Municipality

Utica Community School District	\$ 158,610,000	37.47%	59,399,445
Warren Consolidated School District	176,780,000	43.90%	77,765,522
Macomb County at large	319,931,085	15.73%	<u>50,325,160</u>

Total overlapping debt 187,490,127

Net direct and indirect debt outstanding and overlapping debt \$ 289,925,391

Source: Assessed value data used to estimate applicable overlapping debt percentages is provided by the Municipal Advisory Council of Michigan, Detroit, Michigan. Debt outstanding data is provided by each governmental unit.

City of Sterling Heights, Michigan

Legal Debt Margin
June 30, 2017

Valuation for debt limit:

2016 state equalized value (2017 fiscal year)	\$ 4,884,780,227
Addback of assessed value equivalent - 2015 SEV of Act 198 exemptions	<u>128,822,300</u>

Total valuation for debt limit	<u>\$ 5,013,602,527</u>
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Debt limit (10 percent of state equalized valuation and equivalent) (1)	\$ 501,360,253
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Debt applicable to limit:

Amount of total direct outstanding debt	\$ 125,649,863
Less: Michigan Transportation Fund Bonds	17,080,252
Special Assessment Bonds	2,250,000
MID District Special Assessments	2,364,014
OMID District Special Assessments	<u>1,520,333</u>

Net debt applicable limit	<u>102,435,264</u>
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Legal debt margin	<u>\$ 398,924,989</u>
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(1) Debt limit set forth in Section 4a, Act 279 of 1909 and Act 202, P.A. 1943, as amended by Act 42, P.A. 1960

City of Sterling Heights, Michigan

Legal Debt Margin Information Last Ten Fiscal Years

	Fiscal Year				
	2008	2009	2010	2011	2012
Debt limit	\$ 667,117,910	\$ 619,634,650	\$ 579,456,641	\$ 510,285,788	\$ 469,310,010
Total net debt applicable to limit	<u>(30,130,000)</u>	<u>(26,575,000)</u>	<u>(17,157,531)</u>	<u>(39,334,300)</u>	<u>(46,100,773)</u>
Legal debt margin	<u>\$ 636,987,910</u>	<u>\$ 593,059,650</u>	<u>\$ 562,299,110</u>	<u>\$ 470,951,488</u>	<u>\$ 423,209,237</u>
Total net debt applicable to the limit as a percentage of debt limit	4.52%	4.29%	2.96%	7.71%	9.82%
	Fiscal Year				
	2013	2014	2015	2016	2017
Debt limit	\$ 430,489,955	\$ 434,948,497	\$ 457,073,431	\$ 491,982,470	\$ 501,360,253
Total net debt applicable to limit	<u>(44,643,997)</u>	<u>(38,406,724)</u>	<u>(38,406,724)</u>	<u>(36,588,151)</u>	<u>(102,435,264)</u>
Legal debt margin	<u>\$ 385,845,958</u>	<u>\$ 396,541,773</u>	<u>\$ 418,666,707</u>	<u>\$ 455,394,319</u>	<u>\$ 398,924,989</u>
Total net debt applicable to the limit as a percentage of debt limit	10.37%	8.83%	8.40%	7.44%	20.43%

City of Sterling Heights, Michigan

Pledged Revenue Coverage Last Ten Fiscal Years

Limited Tax Obligation Bonds						
Fiscal Year Ended	Collections	Debt Service			Total	Coverage
		Principal	Interest			
2008	\$ 1,339,073	\$ 1,075,000	\$ 263,348	\$ 1,338,348		1.001
2009	1,389,151	1,155,000	233,238	1,388,238		1.001
2010	1,047,761	890,000	157,097	1,047,097		1.001
2011	647,941	485,000	132,554	617,554		1.049
2012	608,680	495,000	113,291	608,291		1.001
2013	528,740	540,000	96,951	636,951		0.830
2014	297,080	215,000	81,850	296,850		1.001
2015	312,675	240,000	72,450	312,450		1.001
2016	322,375	260,000	62,150	322,150		1.001
2017	356,075	305,000	50,850	355,850		1.001
Michigan Transportation Fund Bonds						
Fiscal Year Ended	Collections	Debt Service			Total	Coverage
		Principal	Interest			
2008	\$ 3,398,754	\$ 1,900,000	\$ 735,012	\$ 2,635,012		1.290
2009	3,281,889	2,175,000	754,573	2,929,573		1.120
2010	3,241,801	2,115,000	611,907	2,726,907		1.189
2011	3,289,715	1,950,000	559,979	2,509,979		1.311
2012	3,559,189	1,840,000	517,614	2,357,614		1.510
2013	3,628,067	1,940,000	430,950	2,370,950		1.530
2014	3,970,676	1,870,000	314,858	2,184,858		1.817
2015	3,819,418	1,330,000	257,912	1,587,912		2.405
2016	4,025,210	1,165,000	227,707	1,392,707		2.890
2017	4,630,041	1,625,000	515,996	2,140,996		2.163
Special Assessment Bonds						
Fiscal Year Ended	Collections (I)	Debt Service			Total	Coverage (I)
		Principal	Interest			
2008	\$ -	\$ -	\$ -	\$ -	-	-
2009	331,654	-	-	-	-	-
2010	298,947	100,000	127,000	227,000		1
2011	311,450	100,000	123,400	223,400		1.394
2012	319,122	100,000	120,400	220,400		1.448
2013	267,645	110,000	117,250	227,250		1.178
2014	271,069	150,000	113,162	263,162		1.030
2015	250,699	150,000	108,207	258,207		0.971
2016	246,302	150,000	103,225	253,225		0.973
2017	267,781	150,000	97,600	247,600		1.082

(I) Customers may choose to make special assessment payments up front to avoid paying interest to the City, which creates uneven payment streams over the life of the assessment.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Demographic and Economic Statistics Last Ten Fiscal Years

Fiscal Year Ended June 30	Estimated Population (1)	Median Age (2)	Education Age 25 or Older (2)		Per Capita Income (4)/(1)	Income (in thousands) (4)	Number of Households (2)	Median Household Income (1)		Unemployment Rate (3)/(4)
			High School Graduate or Higher	Bachelor's Degree or Higher				Household Income (1)	Unemployment Rate (3)/(4)	
2008	128,500	35-39	84.0%	22.9%	\$ 29,308	\$ 3,766,078	50,375	\$ 60,494	8.8%	
2009	128,500	35-39	84.0%	22.9%	\$ 28,546	\$ 3,668,161	49,735	\$ 60,494	14.1%	
2010	128,500	35-39	84.0%	22.9%	\$ 29,430	\$ 3,781,755	49,339	\$ 60,494	13.6%	
2011	129,699	40-44	84.0%	22.9%	\$ 24,213	\$ 3,140,402	49,508	\$ 53,390	9.8%	
2012	129,699	40-44	86.4%	22.9%	\$ 24,213	\$ 3,140,402	49,576	\$ 53,390	9.0%	
2013	129,699	40-44	86.4%	22.9%	\$ 24,213	\$ 3,140,402	49,576	\$ 53,390	9.0%	
2014	129,699	40-44	86.4%	22.9%	\$ 24,213	\$ 3,140,402	49,576	\$ 53,390	9.0%	
2015	129,699	40-44	86.4%	22.9%	\$ 24,213	\$ 3,140,402	49,576	\$ 53,390	7.0%	
2016	129,699	40-44	86.4%	22.9%	\$ 24,213	\$ 3,140,402	49,576	\$ 53,390	4.6%	
2017	129,699	40-44	86.4%	22.9%	\$ 24,213	\$ 3,140,402	49,576	\$ 53,390	3.4%	

Sources:

(1) United States Census Bureau - 2000/2010 Census and 2010 American Community Survey One Year Estimates

(2) Southeast Michigan Council of Governments (SEMCOG)

(3) Michigan Department of Career Development, Employment Security Agency, Office of Labor Market Information

(4) Michigan Department of Technology, Labor & Budget

City of Sterling Heights, Michigan

Miscellaneous Demographics

Population			Income and Benefit Characteristics	
Housing Tenure		2010	Households:	Number of Households
Types		2010	2000	
Owner occupied		37,685	36,584	4,552
Renter occupied		11,766	9,735	9,888
Vacant:				6,638
Seasonal/Migrant		128	148	9,511
Other vacant units		2,611	1,080	7,060
Total		52,190	47,547	11,795
Household Characteristics			Labor Characteristics	
Types	2010	2000	Number of Employees	
With seniors 65+	14,229	10,252	Management, professional, and related	22,968
Without seniors	35,222	36,067	Service	11,237
Two or more without children	21,007	19,041	Sales and office	15,204
Live alone, over 65	5,316	3,915	Natural resources, construction, and maintenance	3,793
Live alone, under 65	7,791	7,245	Production, transportation, and material moving	9,542
With children	15,337	16,118	Total	62,744
Total households	49,451	46,319	By Industry:	
Age Statistics			Agriculture, forestry, fishing and hunting, and mining	126
Years	2010	2000	Construction	2,309
Under 5	5.5%	6.2%	Manufacturing	12,835
5 to 19	18.7%	20.3%	Wholesale trade	1,437
20 to 24	6.3%	6.1%	Retail trade	8,119
25 to 44	25.8%	30.4%	Transportation, warehousing, and utilities	2,005
45 to 64	28.5%	25.2%	Information	1,056
Over 64	15.2%	11.8%	Finance, insurance, real estate, rental, and leasing	3,785
Total			Professional, scientific, management, administrative, and waste management services	6,219
			Educational, health, and social services	12,586
			Arts, entertainment, recreation, accommodation, and food services	6,197
			Other professional and related services	3,553
			Public administration	2,517
			Total	62,744

Source: United States Census Bureau - 2000/2010 Census and 2015 American Community Survey One Year Estimates

City of Sterling Heights, Michigan

Principal Employers (Major Employers) Last Fiscal Year and Ten Years Ago

Company Name	Product/Service	Year Ended June 30, 2017			Year Ended June 30, 2008		
		Employees	Rank	Total City Employment	Employees	Rank	Total City Employment
FCA US, LLC	Automotive assembly and stamping	4,000	1	6.61%	2,450	1	4.54%
Ford Motor Company	Automotive axles and transmissions	3,600	2	5.95%	1,400	7	2.60%
General Dynamics	Defense-related manufacturing	2,000	3	3.30%	2,278	2	4.23%
Lakeside Associates	Retail shopping center	2,000	4	3.30%	2,000	3	3.71%
Utica Community Schools	Education	1,150	5	1.90%	1,158	6	2.15%
Kuka Systems Corporation	Metalworking machinery and robotic systems	1,000	6	1.65%	450	10	0.83%
Detroit Media Partnership	Printing plant - Newspapers (I)	1,000	7	1.65%	1,200	8	2.23%
Warren Consolidated Schools	Education	790	8	1.31%	792	7	1.47%
U.S. Farathane Corporation	Paints and finishes	750	9	1.24%	-	-	-
Mayco Plastics	Automotive plastics	600	10	99.00%	-	-	-
Henry Ford Health System	Healthcare provider (I)	600	11	0.99%	-	-	-
City of Sterling Heights	Government	496	12	0.82%	624	8	1.16%
Miliken Millwork	Wooden, stainless steel doors and stairs	-	-	-	500	9	0.93%
U.S. Farathane Corporation	Paints and finishes manufacturer	-	-	-	450	11	0.83%
	Twelve largest employers	17,986		29.72%	13,752		25.51%
	Other employers	42,530		70.28%	40,160		74.49%
	Total employment	<u>60,516</u>			<u>53,912</u>		

(I) Analyst Resource Center Employer Database Infogroup Inc.

Source: City of Sterling Heights, Economic Development Office

City of Sterling Heights, Michigan

Operating Indicators by Function Last Ten Fiscal Years

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government										
Election Data										
Registered voters	84,082	88,258	85,345	85,953	86,231	85,436	88,164	87,576	86,465	88,520
Voters at polls	3,842	44,074	10,138	39,285	13,020	42,504	21,322	26,444	32,486	41,578
Absentee ballots	7,556	16,972	7,963	11,037	8,299	16,205	8,966	11,862	18,357	16,443
Percent voting	13.56%	69.17%	21.21%	58.55%	24.72%	68.72%	34.35%	43.74%	58.80%	65.55%
41A District Court										
Court Cases										
Civil	3,867	3,947	3,816	4,037	3,760	3,546	2,550	2,652	2,566	2,612
Criminal	5,677	4,922	4,818	4,254	3,654	3,408	3,813	4,279	3,644	3,321
Landlord and tenant	2,471	2,653	2,407	2,442	2,610	2,265	2,491	2,223	2,161	1,932
Small claims	425	524	448	451	404	313	400	333	386	393
Traffic	27,709	30,422	35,540	31,074	22,924	22,889	22,550	25,887	31,584	31,445
Public Safety										
Police Protection										
Adult arrests	3,747	3,079	3,000	2,691	2,686	3,083	3,113	3,882	3,919	3,612
Civil infractions	27,596	29,855	32,724	29,315	20,670	21,788	20,535	27,031	30,780	26,088
Group A offenses (1)	7,361	6,686	6,484	5,769	3,890	3,216	2,926	2,885	2,871	2,782
Group B offenses (2)	3,433	2,632	2,370	1,960	1,652	2,030	2,306	2,867	3,235	2,917
Injury accidents	1,004	824	704	752	616	598	860	952	1,300	1,265
Juvenile arrests	174	156	173	159	143	195	190	219	212	116
OUIL arrests	340	414	394	297	199	220	183	204	169	138
Parking violations	1,706	1,702	1,992	1,125	585	1,116	1,298	1,282	1,333	1,468
Property damage	4,353	3,191	3,071	3,408	2,849	2,974	3,488	3,625	3,638	3,825
Private property damage	1,133	1,037	944	846	820	712	741	700	644	531
Total traffic violations	30,484	32,154	37,022	32,752	24,109	22,428	24,142	31,777	35,610	30,678
Fire Protection										
Emergency alarms answered	10,500	10,480	10,383	11,062	11,589	11,653	12,451	13,588	14,293	14,805
Fire inspections conducted	3,767	3,874	2,859	2,288	1,029	882	878	863	1,232	1,688
Inspection violations issued	9,391	7,495	5,831	4,397	2,067	1,670	1,020	945	2,433	24,722
Medical emergencies	7,691	7,745	7,693	8,617	8,948	8,969	9,435	10,253	10,753	11,025
Training hours completed	33,857	31,121	30,955	29,986	23,230	22,790	24,994	26,086	24,359	32,116
Recreation and Culture										
Parks and Recreation										
Adult athletics attendance	20,135	15,360	25,477	21,301	21,221	24,357	21,967	19,006	17,914	21,291
Instructional rec. attendance	25,666	24,795	23,999	23,933	27,132	22,666	20,344	23,566	23,916	22,903
Nature program attendance	24,399	23,321	27,708	23,374	21,318	14,582	17,170	15,079	16,187	15,753
Senior program attendance	109,970	116,564	117,570	102,577	103,663	103,667	100,026	97,769	101,770	112,279
Special event attendance	73,100	74,449	65,551	72,321	62,015	53,734	46,379	80,680	114,295	93,327
Special recreation program attendance	16,060	15,679	11,351	10,803	10,766	9,895	8,395	8,847	8,460	7,568
Summer playground attendance	14,094	11,370	7,565	12,160	11,144	12,613	13,053	12,765	10,353	12,182
Library										
Book van deliveries	9,318	8,818	7,909	7,367	4,547	3,788	3,253	3,259	2,833	2,797
Community meeting room reservations	384	1,200	1,289	1,209	1,463	1,325	1,183	1,463	1,528	1,587
In-house materials usage	139,973	121,907	93,714	107,155	133,539	132,298	82,304	60,279	54,742	39,714
Interlibrary loan requests	123,142	125,167	110,778	97,588	93,068	90,764	86,950	80,545	78,015	71,796
Interlibrary loans - Lent	113,947	117,671	105,692	87,255	82,094	82,832	79,360	72,109	70,606	62,818
Items circulated	616,323	625,688	627,496	614,905	600,445	577,448	536,485	536,038	548,414	536,321
Library visits	442,768	581,046	560,035	484,259	453,690	412,656	384,063	376,007	385,398	314,813
Online computer uses	514,794	552,503	583,260	610,054	768,815	1,050,062	1,659,105	1,216,053	921,671	998,803
Program attendance	36,204	37,639	31,664	23,184	22,168	15,310	15,196	16,322	20,209	23,208
Reference transactions	141,610	148,978	131,039	120,873	93,243	83,000	68,052	65,368	65,587	64,893
Registered borrowers	51,098	52,043	53,114	53,181	52,733	51,248	49,863	48,490	47,334	46,498

City of Sterling Heights, Michigan

Operating Indicators by Function (Continued) Last Ten Fiscal Years

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Water and Sewer Services										
Customers: (3)										
Residential	35,048	34,811	34,846	34,869	34,995	35,077	35,155	35,223	35,319	35,419
Commercial/Industrial	4,539	4,233	4,234	4,126	4,262	4,280	4,280	4,274	4,297	4,270
Water (in thousand cubic feet):										
Purchased from Detroit	786,726	716,384	659,817	683,223	695,711	678,000	614,039	603,378	636,215	615,045
Sold to residents	827,893	711,126	667,792	692,621	677,554	698,650	618,799	602,994	590,426	629,333
Rates (per thousand):										
1,000 CU. FT.	\$ 30.74	\$ 31.94	\$ 37.22	\$ 40.59	\$ 42.07	\$ 43.97	\$ 48.52	\$ 55.37	\$ 62.59	\$ 71.79
Next 2,000 CU.FT.	30.74	31.94	37.22	40.59	42.07	43.97	48.52	55.37	62.59	71.79
Over 3,000 CU.FT.	31.67	32.90	38.32	41.77	46.18	48.24	53.13	60.53	68.26	78.11
Sewer only - Per billing	30.00	35.00	45.00	50.00	55.00	60.00	65.00	70.00	80.00	85.00

(1) Aggravated assault, arson, burglary, criminal sexual conduct and murder, larceny, motor vehicle theft, robbery, etc.

(2) Assault, disorderly conduct, family trouble, negligent homicide, obstructing justice, etc.

(3) Beginning in FY 2009, the customer count excludes approximately 370 and 260 inactive or suspended accounts for commercial and residential totals, respectively.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Capital Asset Statistics by Function Last Ten Fiscal Years

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government										
Buildings										
City Center Commons										
41A District Court										
Public Safety										
Police Protection										
Stations										
Vehicles - Marked	54	54	54	54	51	50	50	53	54	49
Vehicles - Unmarked	79	77	64	63	65	57	54	65	56	57
Fire Protection										
Stations	5	5	5	5	5	5	5	5	5	5
Vehicles - Extinguishment	16	16	16	16	16	16	16	16	16	21
Public Works										
Streets and Sidewalks										
Miles of City:										
Primary streets	60	63	63	63	63	63	63	63	63	63
Secondary streets	289	286	286	286	286	286	286	286	286	286
Sidewalks	608	609	609	610	610	611	612	614	615	617
Bridges	11	11	11	11	11	11	11	11	11	11
Buildings	2	2	2	2	2	2	2	2	2	2
Street lights	2,520	2,520	2,520	2,520	2,530	2,530	2,530	2,535	2,535	2,535
Vehicles - Snow plows	22	22	23	22	22	22	21	21	25	25
Water and Sewer Services										
Fire hydrants	7,050	7,162	7,203	7,221	7,238	7,261	7,270	7,281	7,292	7,305
Miles of water mains	570	573	574	575	576	576	576	576	667	667
Miles of sanitary sewers	429	430	430	430	430	430	430	430	430	430
Recreation and Culture										
Parks and Recreation										
Acres	820	820	820	820	820	820	820	820	820	820
Developed parks	28	28	28	28	28	28	28	28	28	28
Buildings	3	3	3	3	3	3	3	3	3	3
Library										
Book collections	197,412	199,968	203,593	204,977	208,102	209,040	195,656	196,437	196,019	190,166
Other collections (1)	36,619	37,344	37,051	37,603	42,507	46,306	37,848	57,623	53,447	64,638
Buildings										
Vehicles - Library van										

(1) Includes art prints, audio/video cassettes, compact discs, posters, puppets, software discs, etc.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Building Permits at Market Value Last Ten Fiscal Years

Fiscal Year Ended June 30	Residential					
	New Construction		Additions/Improvements		Total Residential	
Number	Value	Number	Value			
2008	37 \$ 8,034,365	536	\$ 1,503,824	\$ 9,538,189		
2009	14 3,481,198	429	1,261,884	4,743,082		
2010	70 12,386,830	360	839,587	13,226,417		
2011	87 15,494,221	402	1,147,729	16,641,950		
2012	96 19,872,576	405	1,291,986	21,164,562		
2013	89 20,919,441	442	2,528,899	23,448,340		
2014	134 31,286,101	537	1,191,570	32,477,671		
2015	96 22,656,130	585	1,126,895	23,783,025		
2016	170 87,099,668	726	1,528,732	88,628,400		
2017	247 55,558,146	574	958,155	56,516,301		
Commercial						
Fiscal Year Ended June 30	New Construction		Additions/Improvements		Total	
	Number	Value	Number	Value	Commercial	
2008	17 \$ 38,153,479	239	\$ 26,322,149	\$ 64,475,628		
2009	16 5,148,379	160	23,119,046	28,267,425		
2010	27 31,115,804	165	28,194,133	59,309,937		
2011	20 91,661,691	122	21,444,771	113,106,462		
2012	46 97,795,253	114	16,137,512	113,932,765		
2013	8 15,546,849	141	37,063,864	52,610,713		
2014	8 6,077,060	129	25,288,174	31,365,234		
2015	10 25,455,891	166	26,570,017	52,025,908		
2016	31 31,932,939	135	15,628,005	47,560,944		
2017	29 81,070,698	94	9,340,587	90,411,285		

Source: City of Sterling Heights Office of Building Services

City of Sterling Heights, Michigan

Full-time Equivalent City Government Employees by Function Last Ten Fiscal Years

Function	Full-time and Part-time Employees as of June 30									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government	83	78	71	74	60	56	57	60	61	57
41A District Court	40	39	40	40	39	38	37	39	39	41
Public safety:										
Police	261	259	251	243	228	222	222	203	203	202
Fire	106	106	104	101	91	86	86	88	88	88
Public works:										
City development (2) (3)	37	32	32	24	19	24	26	28	29	31
Public works	42	40	37	34	26	29	31	34	34	35
Street services	23	21	21	21	18	18	21	25	24	24
Engineering (1)	17	14	13	11	9	8	9	9	9	9
Recreation and culture:										
Parks and recreation	16	13	12	11	10	10	10	11	12	10
Library	42	42	42	41	38	36	37	38	38	38
Water and sewer	41	40	39	39	37	35	35	35	36	36
Total	708	684	662	639	578	562	571	570	573	571

(1) Prior to 2007, engineering employees were included in City development.

(2) Prior to 2008, information technology employees were included in general government.

(3) Prior to 2013, facilities maintenance employees were included in general government.

Source: City of Sterling Heights

Continuing Disclosure

City of Sterling Heights, Michigan

State-shared Revenue Last Ten Fiscal Years

Fiscal Year Ended June 30	Modified Accrual Basis of Accounting	Accrual Basis of Accounting
2008	\$ 10,683,045	\$ 10,675,667
2009	10,487,825	10,183,758
2010	9,136,700	9,057,434
2011	9,368,599	9,057,434
2012	9,615,531	10,094,387
2013	10,268,109	10,342,983
2014	10,541,415	10,606,230
2015	10,814,534	10,785,806
2016	10,694,421	10,776,313
2017	11,259,947	11,389,139

Gas and Weight Taxes Last Ten Fiscal Years

Fiscal Year Ended June 30	Type of Street		Total Gas and Weight Tax (Act 51) Receipts
	Major Roads	Local Roads	
2008	\$ 4,933,090	\$ 1,864,418	\$ 6,797,508
2009	4,763,221	1,800,557	6,563,778
2010	4,719,496	1,764,105	6,483,601
2011	4,788,874	1,790,555	6,579,429
2012	5,194,602	1,923,776	7,118,378
2013	5,297,645	1,958,488	7,256,133
2014	5,461,373	2,020,459	7,481,832
2015	5,575,631	2,063,204	7,638,835
2016	5,874,539	2,175,881	8,050,420
2017	6,755,605	2,504,476	9,260,081

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Labor Agreements

Name	Contract Expiration Date	Actual Number of Employees Covered	
		Full Time	Part Time
Union Employees			
Police Officers Michigan Association of Police (MAP)	6/30/2021	115	-
Firefighters International Association of Firefighters, Local 1557	6/30/2018	99	-
Technical/Office Employees Michigan Association of Public Employees (MAPE)	6/30/2018	59	26*
Department of Public Works Field Employees Teamsters, Local 214	6/30/2017	55	-
Police Command Officers Sterling Heights Police Command Officers Association	6/30/2018	33	-
Professional and Technical Employees Michigan Association of Public Employees (MAPE)	6/30/2019	29	15
Court Clerical AFSCME, Local 1884, Council 25	6/30/2018	18	6
Police Clerical Employees Michigan Association of Police (MAP)	6/30/2019	20	2
Supervisory Employees Michigan Association of Public Employees (MAPE)	6/30/2018	14	-
Executive Employees Sterling Heights Executive Group	6/30/2018	7	-
Department of Public Works Supervisors AFSCME, Local 1917, Council 25	6/30/2017	7	-
Nonunion Employees			
41A District Court Administration	N/A	10	-
41A District Court Judges	N/A	3	-
Ordinance Employees	N/A	2	-

* Includes eight part-time employees that are excluded from the part-time limit.

Source: City of Sterling Heights, Office of City Management

