



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2019

2019 - 2020

City of Sterling Heights, Michigan

Comprehensive Annual Financial Report

with Supplemental Information

June 30, 2019

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City Council
Mayor
Mayor Pro Tem
Councilwoman
Councilman
Councilwoman
Councilman
Councilwoman

Michael C. Taylor
Liz Sierawski
Deanna Koski
Michael V. Radtke Jr.
Maria G. Schmidt
Henry Yanez
Barbara A. Ziarko

City Manager Mark D. Vanderpool

November 25, 2019

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, 2019 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 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.

In addition, 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). The auditor's reports related specifically to the single audit are issued under separate cover.

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 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 351 miles are maintained by the City. City services are provided to 54,300 households and 4,333 commercial and industrial businesses. The 2019 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 4.2 percent unemployment rate as compared to a Macomb county rate of 4.4 percent, a statewide rate of 4.4 percent, and a national average of 3.8 percent.

The City's massive investment in quality of life assets, not to mention an impressive investment in road infrastructure and improvements, is paying dividends for the community. Nowhere is this payoff more evident than property values. Among the five communities with the highest overall property values, Sterling Heights now ranks third highest statewide and number one in Macomb County in terms of residential property valuation.

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.

Long-term Financial Planning

The City has continues to follow its successful long-term financial plan of providing excellent services with a low tax rate and continually monitoring revenue trends. After falling to a low of \$5.2 million in 2014 due to the Great Recession, the City has been able to add to General Fund reserves for the past five years bringing total reserves to \$26.9 million or 24.6% of expenditures as of the current audit. The recently renewed Safe Streets millage has been a critical factor in enabling to the City to continue to provide the excellent services expected by residents. The millage provides \$3.5 million

in dedicated funding for neighborhood street repairs and \$7.4 million to prevent further reductions in the number of sworn police and firefighters.

Because of the renewed 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 future.

In November 2016 the voters passed the Recreating Recreation millage. This millage provided 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. Further, 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 and updated mortality assumptions. However, with the approval of the 2.45 mills, the City has been able to continue funding for replacement capital equipment and infrastructure, which had been dramatically reduced.

Since 2008, the City lost a cumulative \$128.6 million in property taxes compared to a normal inflationary housing market. The City has also lost \$98 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 163 positions since 2002 and labor contract savings totaling \$15 million annually, 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 2018-19:

1. Dodge Park continued to be the place to be on Thursday nights throughout the summer. Not only did the City continue the tradition of the Thursday Farmer's Market and the Music in the Park concert series, this year the Patios 'n Pints beer garden was launched and based on the first year attendance, it is sure to be another popular event for City residents and friends.
2. In partnership with the Detroit Institute of Arts, the City of Sterling Heights and the Sterling Heights Police Department worked together with the community to design a meaningful piece of artwork that captures the spirit and values of our vibrant and safe community. The mural's design was recently revealed and this vibrant piece of art, which will be bordered by the unique tiles created by dozens of local children, will be installed on the outside wall of the police department during the coming year.
3. The Police Department instituted the Smart Moves program in our local schools, allowing children throughout the City to have direct contact with a police officer and learn about how to be responsible citizens and avoid drugs and alcohol.
4. The Fire Department continued the Survival Coin program, which brings together the survivors of cardiac arrest and the first responders who saved their lives. Five new survival coins were presented this year, bringing the total up to 18 since the program was instituted.
5. Evidence of the voter approved Recreating Recreation millage continued to be seen across the City. The brand new ice skating rink opened in Dodge Park last December and the grant funded improvements to the Clinton River were completed. Residents can now safely canoe or kayak for miles along this natural amenity, enjoying one of the best kept secrets in Sterling Heights.
6. The City developed a 2020 budget that continued substantial investment in road improvements and included financing for a new Public Works Facility, while also restoring reserves. The budget continued to fund City place making efforts resulting from the Visioning process and the Recreating Recreation initiative, and needed technology improvements identified through the City's Technology Plan.
7. Due to the Safe Streets initiative the City was able to increase funding for neighborhood road repairs for the sixth consecutive year. And thanks to the renewal of the Safe Streets millage, significant neighborhood road investment will continue for the next ten years.
8. The Sterling Heights Employee Health & Wellness Center was opened in August 2018 and offers primary care services for City employees and dependents with no copayments, no deductibles, and no costs for on-site generic medications. This innovative model has a proven track record of a significant reduction of the employer's overall healthcare dollars spent, an important savings for the taxpayers of Sterling Heights.

Major Initiatives for July 1, 2019 and Thereafter

1. The City continues to update an on-going five-year financial plan focusing on investing in the priorities identified through the Visioning 2030 plan while continuing to increase reserves to the level necessary to successfully weather any future economic downturn.
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 continue investing in major road construction by continuing to leverage Federal, State, County and local resources that will equate to \$416 million in road improvement funding between 2014 and 2022. This funding will result in another aggressive construction season in Sterling Heights for fiscal year 2020. In addition to the \$23.2 million plan to improve roads in the 2019 construction season, the Department of Public Works Streets Division will be making semi-permanent repairs to neighborhood roads throughout the City. The City's maintenance contractor will also be hard at work sealing pavement joints on various roadways which is necessary to extend the longevity of roads.
4. Thanks to the 10-year renewal of the Safe Streets millage that was passed in November 2019, the police and fire departments will continue to have the necessary revenue to preserve excellent police and fire services and the City will be able to continue with an aggressive program for improving our neighborhood streets.
5. Investments into parks and recreation made possible through the voter approved Recreating Recreation initiative will continue throughout the coming fiscal year, culminating with the grand opening of the 98,000 square foot Community Center in February 2020. Combined with additional grant funding, this total investment of \$55 million will result in upgraded parks, new amenities and structures, extended bike hike trails, restoration of the Clinton River and so much more.
6. The City will be actively working with the Complete Count Committee established in 2018 and community partners such as the Chaldean Community Foundation, Macomb County, the State of Michigan, and the Census Bureau to ensure that every resident of Sterling Heights is counted in the upcoming 2020 census.
7. The fiscal year 2020 budget emphasized investment in the City's most important assets – its employees. The budget allocates funding to expand Sterling University, a unique program that allows employees to spend time in other departments learning first-hand the services provided by their colleagues. This year the City Council will attend Sterling U and soon we hope to make it available to the public. The budget also allocates funding for leadership training for directors and managers, technical training for all employees and Lean Six Sigma productivity training through Macomb Community College. For the first time, the City will also offer a one day sabbatical for any employee to attend training of

their choice. Employees perform best when they feel valued and know their employer is investing in them under the premise of continuous improvement.

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 x 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, 2018. 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 31 consecutive years (fiscal years 1988-2018). 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.

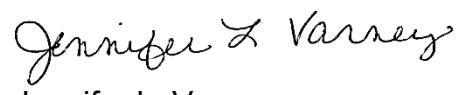
Acknowledgments

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

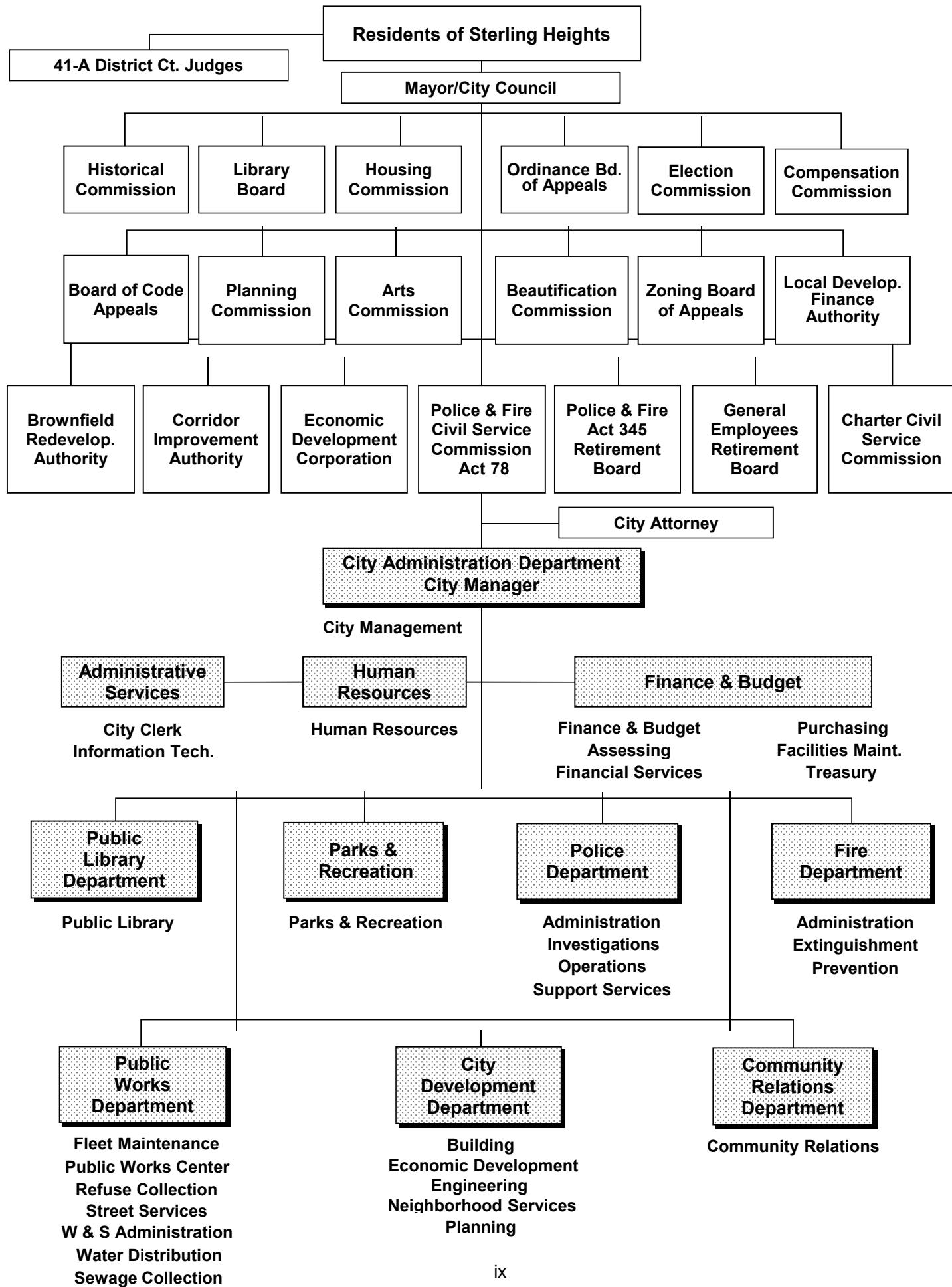
June 30, 2018

Christopher P. Monill

Executive Director/CEO

CITY OF STERLING HEIGHTS, MICHIGAN

Organizational Chart



CITY OF SERLING HEIGHTS, MICHIGAN
List of Principal Officials

Title	Name
City Manager	Mark D. Vanderpool
Assistant City Manager	Jeffery Bahorski
Building Official	Michael Viazanko
City Assessor	Marcia Magyar-Smith
City Attorney	Marc Kaszubski
City Clerk	Melanie Ryksa
City Development Director	Jason Castor
City Engineer	Brent S. Bashaw
City Planner/City Development Manager	Christopher McLeod
City Treasurer	Mary Jaganjac
Community Relations Director	Melanie Davis
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/Facilities Maintenance Manager	Jared Beaudoin

Governmental Funds

General *

Special Revenue

Major Roads
Local Roads
Parks and Recreation*
Public Safety Forfeiture
Indigent Defense
Community Development Block Grant
(CDBG)
Neighborhood Stabilization

Debt Service

Capital Projects

General Drain
Voted Tax General Obligation
Road Bond Debt Retirement
Limited Tax General Obligation

General Improvements
Road Bond Construction
Land and Water Conservation
Clinton River Restoration
Facilities Improvement *

Proprietary Funds

Enterprise

Internal Service

Water and Sewer *

Self-insurance

Fiduciary Funds

Trust

Agency

General Employees' Retirement System
Police and Fire Retirement System
Retiree Medical Benefits

Tax Collections
General Agency

Component Units

Economic Development Corporation
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 (the "City") as of and for the year ended June 30, 2019 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

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, 2019 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.

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

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of changes in the City's net pension liability and related ratios, schedule of changes in the City's net OPEB liability and related ratios, schedules of the City's contributions for pension and OPEB, schedules of investment returns for the pension and OPEB plans, 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 supplemental 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 supplemental information, as identified in the table of contents, and introductory, statistical, and continuing disclosure sections are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory, statistical, and continuing disclosure sections have 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2019 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 the City of Sterling Heights, Michigan's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Plante & Moran, PLLC". The signature is cursive and fluid, with "Plante & Moran" on the top line and "PLLC" on the bottom line.

November 25, 2019

City of Sterling Heights, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Sterling Heights, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2019. This narrative should be considered in conjunction with the additional information presented in the letter of transmittal found on pages i - vii and is intended to serve as an introduction to the City of Sterling Heights, Michigan's basic financial statements, which begin on page 11.

Financial Highlights

- As a result of this year's operations, the City's overall net position increased by \$22.1 million, or 17.6 percent, primarily due an increase in the net position of governmental activities offset by a decrease in the business-type activities.
- The net position of our governmental activities increased by \$24.1 million, primarily due to investments in roads and parks and recreation facilities.
- The net position of our business-type activities decreased by \$1.9 million, or 1.6 percent, primarily due to depreciation on capital assets.
- The General Fund reported a \$2.2 million contribution to fund balance for the current year, bringing total General Fund reserves to \$26.9 million, or 24.6 percent of expenditures. General Fund revenue increased \$11.3 million, or 11.3 percent, primarily due to increased property tax revenue resulting from a one-time, 1 mill increase to fund road improvements, increases in state revenue sharing, a full year of revenue from EMS transport, and increased investment income due to higher interest rates.
- General Fund expenses increased \$16.6 million, or 17.8 percent, over last year primarily due to additional investments in major and local roads, increased debt related to facilities improvements, and an increase in pension fund contributions.

Government-wide 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 three other separate entities in its report: the Economic Development Corporation, 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)

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City's funds can be divided into the following three categories:

- **Governmental Funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements. The City adopts annual appropriated budgets for its governmental funds. Budgetary comparison statements have been provided to demonstrate compliance with these budgets.
- **Proprietary Funds** - The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewage disposal activities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for the management of its retained risks. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.
- **Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's fiduciary funds include both the pension and other postemployment benefit trust funds and agency funds.

Notes and Other Information

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. In addition to the basic financial statements and accompanying notes, this report also presents required supplemental information concerning the City's progress in funding its obligation to provide pension and OPEB benefits to its employees. The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplemental information on pension and OPEB.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In a condensed format, the table below shows net position as of June 30, 2019 and 2018:

The City's Net Position

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets						
Current and other assets	\$ 109,163,858	\$ 123,318,269	\$ 25,418,946	\$ 26,732,370	\$ 134,582,804	\$ 150,050,639
Capital assets	264,602,664	232,968,772	186,383,384	189,915,798	450,986,048	422,884,570
Total assets	373,766,522	356,287,041	211,802,330	216,648,168	585,568,852	572,935,209
Deferred Outflows of Resources						
	40,601,852	22,350,982	1,119,446	895,561	41,721,298	23,246,543
Liabilities						
Current liabilities	15,981,394	18,046,817	5,252,617	5,651,362	21,234,011	23,698,179
Noncurrent liabilities	355,781,400	333,184,526	84,625,879	87,085,526	440,407,279	420,270,052
Total liabilities	371,762,794	351,231,343	89,878,496	92,736,888	461,641,290	443,968,231
Deferred Inflows of Resources						
	17,648,598	26,516,136	344,936	167,043	17,993,534	26,683,179
Net Position						
Net investment in capital assets	207,285,272	193,873,282	113,701,480	113,751,804	320,986,752	307,625,086
Restricted	17,743,175	10,881,283	2,459,517	3,008,771	20,202,692	13,890,054
Unrestricted	(200,071,465)	(203,864,021)	6,537,347	7,879,223	(193,534,118)	(195,984,798)
Total net position	\$ 24,956,982	\$ 890,544	\$ 122,698,344	\$ 124,639,798	\$ 147,655,326	\$ 125,530,342

The City as a Whole

The City's overall net position increased 17.6 percent from last year, growing from \$125.5 million to \$147.7 million. The increase in net position can be primarily attributed to significant investments in roads and parks and recreation facilities over the past year.

A review of the governmental activities, separate from the business-type activities, shows an increase of \$24.1 million in net position during fiscal year 2019. As noted above, this is primarily due to road and facility investments. As of June 30, 2019, 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 \$200.1 million. This represents a slight improvement of \$3.8 million compared to June 30, 2018. The negative amount is primarily due to recognition of future pension and OPEB liabilities. The City is committed to continue to fund these long-term liabilities on a yearly basis.

The business-type activities experienced a decrease in net position of \$1.9 million, primarily due to depreciation on capital assets.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The City's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenue						
Program revenue:						
Charges for services	\$ 14,570,609	\$ 11,985,036	\$ 49,231,779	\$ 50,589,347	\$ 63,802,388	\$ 62,574,383
Operating grants	11,315,298	9,931,126	565,149	559,609	11,880,447	10,490,735
Capital grants	14,537,254	14,316,813	1,986,596	3,100,357	16,523,850	17,417,170
General revenue:						
Taxes	72,772,592	66,282,454	-	-	72,772,592	66,282,454
Intergovernmental	12,162,566	11,784,623	-	-	12,162,566	11,784,623
Investment earnings	3,176,376	1,454,230	688,531	35,247	3,864,907	1,489,477
Other revenue	4,891,261	4,297,832	(1,951)	-	4,889,310	4,297,832
Total revenue	133,425,956	120,052,114	52,470,104	54,284,560	185,896,060	174,336,674
Expenses						
General government	14,512,563	7,267,842	-	-	14,512,563	7,267,842
41A District Court	3,704,070	3,728,890	-	-	3,704,070	3,728,890
Public safety	57,673,969	54,397,264	-	-	57,673,969	54,397,264
Public works	22,434,664	29,961,490	-	-	22,434,664	29,961,490
Recreation and culture	7,405,967	6,343,690	-	-	7,405,967	6,343,690
Debt service	3,628,285	2,496,423	-	-	3,628,285	2,496,423
Water and Sewer operations	-	-	54,411,558	55,599,159	54,411,558	55,599,159
Total expenses	109,359,518	104,195,599	54,411,558	55,599,159	163,771,076	159,794,758
Change in Net Position	24,066,438	15,856,515	(1,941,454)	(1,314,599)	22,124,984	14,541,916
Net Position - Beginning of year	890,544	(14,965,971)	124,639,798	125,954,397	125,530,342	110,988,426
Net Position - End of year	\$ 24,956,982	\$ 890,544	\$ 122,698,344	\$ 124,639,798	\$ 147,655,326	\$ 125,530,342

Financial Analysis of Individual Funds

The fund financial statements begin on page 15 and provide detailed information on the most significant funds. The City's major governmental funds for 2019 include the General Fund, Parks and Recreation Fund, and Facilities Improvement Fund.

Within these governmental funds, the General Fund is the most significant to understanding the City's financial activities. In addition, the Water and Sewer Fund is a significant enterprise activity for the City. A brief analysis of each of those funds is presented below:

General Fund Budgetary Highlights

General Fund revenue increased \$11.3 million, or 11.3 percent, over the prior year to \$111.6 million. Property taxes increased 14.4 percent due to a 2.1 percent inflationary increase and a one-time, 1 mill increase to fund road improvements. Other revenue increases included a \$500,000 or 4.5 percent increase in state revenue sharing, a \$1.7 million increase in EMS transport revenue due to a full year of operations, and an increase in investment income due to higher interest rates.

General Fund expenditures totaled \$109.5 million, which is an increase of \$16.6 million, or 17.8 percent, over the prior year. Over 50 percent of the increase was due to investments in major and local road repairs. The remainder was due to contractual increases in salaries, increased debt related to facilities improvements, and an increase in pension fund contributions.

General Fund activity resulted in an increase to fund balance of \$2.2 million, bringing total General Fund reserves to \$26.9 million, or 24.6 percent of current year expenditures.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

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 year 2019. Final budgeted expenditures were \$5.1 million, or 4.8 percent, higher than the original budget primarily due to the transfer of an additional \$3.5 million from the General Fund to the Major and Local Roads funds and an additional \$1 million contribution to the police and fire pension fund. Final budgeted revenue was \$4.9 million, or 4.6 percent, higher than the original budget due to a higher property tax reimbursement from the State of Michigan, increased state-shared revenue, higher interest revenue than planned, and an increase in EMS transport revenue.

At year end, actual General Fund expenditures were 99.2 percent of the budget or \$0.9 million under budget. Nearly every department in the City came in slightly under budget, resulting in the net savings of just over \$900,000. General Fund revenue was 100.2 percent, or \$0.3 million, of the budget due to higher EMS transport revenue and interest on investments.

Capital Assets and Debt Administration

At the end of fiscal year 2019, the City had \$321.0 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 \$268.5 million and \$263.1 million for fiscal years 2019 and 2018, respectively (see Note 6 of the notes to the basic financial statements for additional information).

As part of the City's August 2019 bond sale, Standard & Poor's affirmed the City's excellent AA credit rating and stable outlook. The City's 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 2019 consisted of \$5.5 million in principal and \$3.6 million in interest after adjustments for recognition of amortized premiums (see Note 10 of the notes to the basic financial statements for additional information).

There was no significant bond activity in fiscal year 2019; however, a \$22.8 million capital improvement bond was issued in August 2019 to finance the construction of a new public works building.

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

	Net Debt Outstanding (Direct and Indirect)	Ratio of Net Debt Outstanding to Total State Equalized Value	Net Debt Outstanding per Capita
2019	\$ 103,815,182	1.9008%	\$ 800
2018	108,293,780	2.0581%	835
2017	92,849,309	1.8519%	716

Current Economic Conditions

Over the past 10 years, the City of Sterling Heights, Michigan has been focused in solidifying the City's financial position on the heels of major restructuring due to declining revenue caused by the great recession. More recently, after completing the City's Visioning 2030 Plan, it was determined that there must be a focus on quality of life services in order to realize long-term prosperity. Thankfully the community agreed and the Recreating Recreation Initiative was approved. Combined with additional grant funding, a \$55 million investment was made in upgraded parks, new amenities and structures, extended bike hike trails, restoration of the Clinton River, and so much more. This massive investment in quality of life assets, not to mention an impressive investment in road infrastructure and improvements, is paying dividends for the community. Nowhere is this payoff more evident than in property values. Among the five communities with the highest overall property values, the City of Sterling Heights, Michigan now ranks third highest statewide and number one in Macomb County in terms of residential property valuation.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Economic development also continues in the commercial, industrial, and manufacturing sectors. Recently highlighted successes since 2015 include \$2.1 billion in investments, \$7.8 billion in gross regional product, 850 approved housing units, and \$64 billion in imports/exports, representing roughly 15 percent of Michigan's overall import/export activity. Highlights of recent private projects include HTI Cybernetics, Fiat Chrysler Automobiles, Christian Financial Credit Union, Holiday Inn, BJ's Brewhouse, Urban Air Adventure Park, and the new Robotics Collaboration Center at Velocity.

Although the City continues to see commercial and residential growth, there still remains a structural funding problem facing communities in Michigan. Due to the passage of Proposal A in 1993, the City will only see an inflationary adjustment from property tax revenue going forward. Additional tax revenue from economic development is also limited due to Headlee rollbacks, which reduce the overall millage rate, and the elimination of property taxes on eligible manufacturing personal property. State revenue sharing, the City's second largest revenue source, is tied to sales tax receipts and is always at risk of further cuts.

The passage of the Safe Streets millage in 2013 was a critical part of the stabilization of city finances after the great recession. The successful renewal of the millage by voters in November 2019 will allow the City to continue on the path of stabilized operations and investment in infrastructure and community. While the City will never recover the lost property tax revenue that occurred between 2008 and 2014, the City was able to take proactive 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.

Property Tax Revenue

The City's overall property tax assessments increased 3.6 percent in fiscal year 2019. Proposal A limited the inflationary adjustment to 2.1 percent, and new construction and property turnover leading to the uncapping of assessments accounted for an additional 4.6 percent increase in taxable value. Continued declines in personal property assessments due to the phased-in exemption of eligible manufacturing personal property, however, offset these increases. Despite recent increases, taxable values (including personal property value losses) have still fallen by 17 percent since 2008, resulting in a cumulative \$128.6 million loss in tax revenue growth during that same period. Even as property values grow, Proposal A will continue to 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. As a result of these revenue losses and despite the renewed Safe Streets millage, the City will not be able to restore all of the millions in operational cuts made to date. For the 2019 tax year, the average homeowner's total tax bill is less than \$300 higher than 2007 - an annualized increase of less than 1 percent per year. The City's tax rate remains lower than 56 percent of all cities in the state and one of the lowest of any city in Macomb County. For 2018, the City's tax rate was 5.9 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 percent of the City's General Fund revenue, while it currently represents just under 11 percent. The State has cut revenue-sharing payments, resulting in a cumulative \$43.2 million loss since 2002, despite a growing city population. When inflation is factored in, the City has now cumulatively lost \$98 million.

Road Funding

A significant challenge for the entire state, including southeastern Michigan, is the critical need for more road funding. The governor's office has indicated that Michigan needs to invest an additional \$2.5 billion annually into road reconstruction; however, the current fiscal 2020 state budget does not include any increase in road funding. This means cities and counties will need to find additional money to improve roads, which, in many cases, are in deplorable condition.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The City of Sterling Heights, Michigan stepped up to the challenge in 2019 by investing nearly \$20 million in major and local road reconstruction. This significant investment was financed through a variety of sources, including state road funding, bond proceeds, contributions from the General Fund, and a one-time, 1 mill property tax increase. Thankfully, the Safe Streets millage that was first approved in 2013 was renewed in 2019 for an additional 10 years and will generate \$3.6 million annually for local road reconstruction. Despite recent increases in road funding from the state due to the higher gas tax and registration fees passed by the State in January 2017 and one-time allocations from the State's General Fund budget, when adjusted for inflation, the City has still lost \$14.5 million in revenue since 2002. Until the state Legislature can agree on a permanent solution, the ongoing repair and maintenance of major and local roads will continue to be challenges.

City Staffing

Due to past revenue losses, the City had to eliminate numerous positions over the past 10 years, as nearly 70 percent of the city budget is composed of personnel costs. The City now has 486 budgeted full-time employees - a net increase of seven full-time positions for the 2020 budget year. In total, the City is down 163 full-time employees since its peak in 2002. The City continues to use part-time staffing when possible, and, as such, it has increased by 60 percent since 2004. Our ratio of full-time employees per 1,000 residents remains very low and is below any comparable city in Michigan. Over the years, staffing reductions have primarily occurred at city hall and public works, as the Safe Streets millage ensured funding for public safety personnel. Thanks to the renewal of the Safe Streets millage in November 2019, no further staffing cuts are planned.

Contribution to Fund Balance

After depleting the General Fund fund balance to just over \$5 million during the economic downturn, the City has been able to steadily restore reserves over the past five years. General Fund reserves now total \$26.9 million, or 24.6 percent of General Fund expenditures. The 2019-2020 budget funds critical capital replacements and facility improvements, including a new building for the department of public works. The budget also continues significant investment in road improvements, while keeping reserves at an optimal level. 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.

Future Actions Needed for 2019 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 2030 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 56 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 Dodge Park and other neighborhood 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)

Requests for Further Information

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, 2019

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 17,695,393	\$ 2,751,079	\$ 20,446,472	\$ 869,844
Investments (Note 3)	42,117,766	7,514,866	49,632,632	-
Receivables:				
Customer receivables	-	11,824,976	11,824,976	924
Special assessments receivable	1,290,957	-	1,290,957	-
Accrued interest receivable	529,530	51,800	581,330	-
Other receivables	1,056,179	-	1,056,179	-
Due from other governmental units	6,235,714	475,879	6,711,593	-
Due from component units	34,803	-	34,803	-
Due from primary government	-	-	-	472,217
Internal balances	(35,721)	35,721	-	-
Inventories	394,965	305,108	700,073	295,800
Prepaid costs and other assets	5,292,427	-	5,292,427	-
Due from primary government	381,413	-	381,413	-
Restricted assets - Cash and cash equivalents (Note 4)	32,688,760	2,459,517	35,148,277	-
Capital assets:				
Assets not subject to depreciation (Note 6)	105,115,142	5,075,966	110,191,108	2,380,787
Assets subject to depreciation - Net (Note 6)	159,487,522	181,307,418	340,794,940	2,149,913
Rehabilitation loans (Note 5)	1,481,672	-	1,481,672	-
Total assets	373,766,522	211,802,330	585,568,852	6,169,485
Deferred Outflows of Resources (Note 7)				
Deferred charges on bond refunding	-	277,232	277,232	-
Deferred pension costs	34,627,572	503,768	35,131,340	-
Deferred OPEB costs	5,974,280	338,446	6,312,726	-
Total deferred outflows of resources	40,601,852	1,119,446	41,721,298	-
Liabilities				
Accounts payable	7,061,120	4,533,097	11,594,217	68,247
Due to other governmental units	6,501	-	6,501	-
Due to component units	472,217	-	472,217	-
Due to primary government	-	-	-	34,803
Accrued and other liabilities	4,323,747	616,403	4,940,150	37,622
Unearned revenue (Note 8)	4,117,809	103,117	4,220,926	924
Noncurrent liabilities:				
Due within one year:				
Compensated absences	632,496	56,717	689,213	-
Provision for claims (Note 11)	688,276	-	688,276	-
Current portion of bonds and contracts payable (Note 10)	5,434,207	2,993,627	8,427,834	-
Due in more than one year:				
Compensated absences	3,638,015	197,519	3,835,534	-
Provision for claims (Note 11)	802,369	-	802,369	-
Bonds and contracts payable - Net of current portion (Note 10)	82,104,071	69,965,509	152,069,580	-
Net pension liability (Note 12)	176,614,374	6,548,067	183,162,441	-
Net OPEB liability (Note 13)	85,867,592	4,864,440	90,732,032	-
Total liabilities	371,762,794	89,878,496	461,641,290	141,596

City of Sterling Heights, Michigan

Statement of Net Position (Continued)

June 30, 2019

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Deferred Inflows of Resources (Note 7)				
Deferred pension cost reductions	\$ 11,559,752	\$ -	\$ 11,559,752	\$ -
Deferred OPEB cost reductions	6,088,846	344,936	6,433,782	-
Total deferred inflows of resources	<u>17,648,598</u>	<u>344,936</u>	<u>17,993,534</u>	-
Net Position				
Net investment in capital assets	207,285,272	113,701,480	320,986,752	4,530,700
Restricted:				
Roads	15,193,700	-	15,193,700	-
Public safety	834,915	-	834,915	-
Debt service	1,619,577	-	1,619,577	-
County drains (Note 4)	-	2,459,517	2,459,517	-
Facilities improvement	68,070	-	68,070	-
Community service	26,913	-	26,913	-
Unrestricted	<u>(200,071,465)</u>	<u>6,537,347</u>	<u>(193,534,118)</u>	<u>1,497,189</u>
Total net position	<u><u>\$ 24,956,982</u></u>	<u><u>\$ 122,698,344</u></u>	<u><u>\$ 147,655,326</u></u>	<u><u>\$ 6,027,889</u></u>

City of Sterling Heights, Michigan

Functions/Programs

Primary government:

Governmental activities:

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
General government	\$ 14,512,563	\$ 2,538,972	\$ 2,226	\$ 374,118
District court	3,704,070	3,079,738	239,427	-
Public safety	57,673,969	4,730,272	850,040	359,083
Public works	22,434,664	3,359,102	9,350,831	13,804,053
Recreation and culture	7,405,967	862,525	872,774	-
Interest on long-term debt	3,628,285	-	-	-
Total governmental activities	109,359,518	14,570,609	11,315,298	14,537,254
Business-type activities - Water and Sewer	54,411,558	49,231,779	565,149	1,986,596
Total primary government	\$ 163,771,076	\$ 63,802,388	\$ 11,880,447	\$ 16,523,850

Component units:

Corridor Improvement Authority	\$ 8,666	\$ -	\$ -	\$ -
Economic Development Corporation	108,820	-	300,000	-
Local Development Finance Authority	913,299	-	-	-

Total component units

\$ 1,030,785	\$ -	\$ 300,000	\$ -
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General revenue:

Property taxes	
Unrestricted state-shared revenue	
Unrestricted investment income	
Cable franchise fees	
Gain (loss) on sale of capital assets	
Other miscellaneous income	

Total general revenue

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

Statement of Activities

Year Ended June 30, 2019

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (11,597,247)	\$ -	\$ (11,597,247)	\$ -
(384,905)	-	(384,905)	-
(51,734,574)	-	(51,734,574)	-
4,079,322	-	4,079,322	-
(5,670,668)	-	(5,670,668)	-
(3,628,285)	-	(3,628,285)	-
 (68,936,357)	-	(68,936,357)	-
 - (2,628,034)	 (2,628,034)	 (2,628,034)	 -
 (68,936,357)	 (2,628,034)	 (71,564,391)	 -
 - - -	 - - -	 - - -	 (8,666)
 - - -	 - - -	 - - -	 191,180
 - - -	 - - -	 - - -	 (913,299)
 - - -	 - - -	 - - -	 (730,785)
 72,772,592	 - -	 72,772,592	 1,368,614
 12,162,566	 - -	 12,162,566	 -
 3,176,376	 688,531	 3,864,907	 218,305
 2,329,624	 - -	 2,329,624	 -
 39,292	 (1,951)	 37,341	 -
 2,522,345	 - -	 2,522,345	 -
 93,002,795	 686,580	 93,689,375	 1,586,919
 24,066,438	 (1,941,454)	 22,124,984	 856,134
 890,544	 124,639,798	 125,530,342	 5,171,755
 \$ 24,956,982	 \$ 122,698,344	 \$ 147,655,326	 \$ 6,027,889

City of Sterling Heights, Michigan

Governmental Funds Balance Sheet

June 30, 2019

	General Fund	Parks and Recreation Fund	Facilities Improvement Fund	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3)	\$ 3,541,197	\$ 3,450,648	\$ -	\$ 10,601,726	\$ 17,593,571
Investments - At fair value (Note 3)	24,351,347	1,565,440	371,077	8,180,099	34,467,963
Receivables:					
Special assessments receivable	-	-	-	1,290,957	1,290,957
Accrued interest receivable	123,759	180,417	82,424	65,956	452,556
Other receivables	878,001	-	-	-	878,001
Due from other governmental units	3,327,507	119,630	-	2,788,577	6,235,714
Due from component units	34,803	-	-	-	34,803
Due from other funds (Note 14)	914,264	25,769	-	393,042	1,333,075
Inventories	389,783	-	-	5,182	394,965
Prepaid costs and other assets	175,741	-	-	3,494,201	3,669,942
Due from primary government	381,413	-	-	-	381,413
Restricted assets (Note 4)	-	11,402,200	18,010,315	3,276,245	32,688,760
Rehabilitation loans (Note 5)	-	-	-	1,481,672	1,481,672
Total assets	\$ 34,117,815	\$ 16,744,104	\$ 18,463,816	\$ 31,577,657	\$ 100,903,392
Liabilities					
Accounts payable	\$ 1,838,483	\$ 1,860,022	\$ 385,431	\$ 2,879,911	\$ 6,963,847
6,501	-	-	-	-	6,501
Due to other governmental units	472,217	-	-	-	472,217
Due to component units	527,851	-	-	914,264	1,442,115
Due to other funds (Note 14)	1,512,188	1,413,225	-	629,498	3,554,911
Accrued and other liabilities	81,859	1,300	-	4,034,650	4,117,809
Total liabilities	4,439,099	3,274,547	385,431	8,458,323	16,557,400
Deferred Inflows of Resources -					
Unavailable revenue (Note 8)	2,794,803	-	-	1,162,096	3,956,899
Total liabilities and deferred inflows of resources	7,233,902	3,274,547	385,431	9,620,419	20,514,299
Fund Balances					
Nonspendable	565,524	-	-	3,499,383	4,064,907
Restricted	-	8,193,614	18,078,385	13,833,716	40,105,715
Committed - Park acquisitions and improvements	-	-	-	161,907	161,907
Assigned:					
Capital projects	-	-	-	4,461,941	4,461,941
Parks and recreation	-	5,275,943	-	291	5,276,234
Unassigned	26,318,389	-	-	-	26,318,389
Total fund balances	26,883,913	13,469,557	18,078,385	21,957,238	80,389,093
Total liabilities, deferred inflows of resources, and fund balances	\$ 34,117,815	\$ 16,744,104	\$ 18,463,816	\$ 31,577,657	\$ 100,903,392

City of Sterling Heights, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2019

Fund Balances Reported in Governmental Funds	\$ 80,389,093
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	264,602,664
Receivables that are not collected soon after year end are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds	3,956,899
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(87,538,278)
Accrued interest is not due and payable in the current period and is not reported in the funds	(768,836)
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities:	
Employee compensated absences	(4,270,511)
Pension benefits	(153,546,554)
Retiree healthcare benefits	(85,982,158)
Internal service funds are included as part of governmental activities	<u>8,114,663</u>
Net Position of Governmental Activities	<u>\$ 24,956,982</u>

City of Sterling Heights, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2019

	General Fund	Parks and Recreation Fund	Facilities Improvement Fund	Nonmajor Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 64,979,384	\$ 4,032,609	\$ -	\$ 3,747,334	\$ 72,759,327
Special assessments	-	-	-	263,804	263,804
Intergovernmental:					
Federal sources	647,589	394	-	1,708,740	2,356,723
State sources	19,693,022	638,464	-	14,367,912	34,699,398
Charges for services	14,157,459	781,064	-	-	14,938,523
Fines and forfeitures	2,517,198	-	-	-	2,517,198
Licenses and permits:					
Cable franchise fees	2,329,624	-	-	-	2,329,624
Fees and permits	2,629,072	-	-	-	2,629,072
Investment income:					
Investment earnings	1,751,720	640,701	566,925	422,713	3,382,059
Rental income	1,552,811	-	-	-	1,552,811
Other revenue	1,341,018	51,520	2,200	1,115,498	2,510,236
Total revenue	111,598,897	6,144,752	569,125	21,626,001	139,938,775
Expenditures					
Current services:					
General government	11,087,713	-	-	-	11,087,713
41A District Court	3,428,457	-	-	51,889	3,480,346
Public safety	54,208,699	-	-	217,787	54,426,486
Public works	15,820,955	-	-	5,538,696	21,359,651
General expenditures	1,586,079	-	-	3,825	1,589,904
Recreation and culture	2,507,500	3,646,499	-	5,500	6,159,499
Capital outlay	203,535	14,935,087	2,490,858	27,056,391	44,685,871
Debt service	-	3,001,088	-	5,448,691	8,449,779
Total expenditures	88,842,938	21,582,674	2,490,858	38,322,779	151,239,249
Excess of Revenue Over (Under) Expenditures	22,755,959	(15,437,922)	(1,921,733)	(16,696,778)	(11,300,474)
Other Financing Sources (Uses)					
Transfers in	-	2,693,460	-	20,440,530	23,133,990
Transfers out	(20,633,990)	-	-	(2,500,000)	(23,133,990)
Sale of capital assets	48,190	-	-	39,292	87,482
Total other financing (uses) sources	(20,585,800)	2,693,460	-	17,979,822	87,482
Net Change in Fund Balances	2,170,159	(12,744,462)	(1,921,733)	1,283,044	(11,212,992)
Fund Balances - Beginning of year	24,713,754	26,214,019	20,000,118	20,674,194	91,602,085
Fund Balances - End of year	\$ 26,883,913	\$ 13,469,557	\$ 18,078,385	\$ 21,957,238	\$ 80,389,093

City of Sterling Heights, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities

Year Ended June 30, 2019

Net Change in Fund Balances Reported in Governmental Funds	\$ (11,212,992)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	45,427,071
Depreciation expense	(11,499,210)
Net book value of assets disposed of	(665,314)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available	378,657
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	5,590,328
Interest expense is recognized in the government-wide statements as it accrues	(768,836)
Some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	(1,737,858)
Internal service funds are included as part of governmental activities	<u>(1,445,408)</u>
Change in Net Position of Governmental Activities	<u>\$ 24,066,438</u>

City of Sterling Heights, Michigan

Proprietary Funds Statement of Net Position

June 30, 2019

	Business-type Activities	Governmental Activities
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self-insurance
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 2,751,079	\$ 101,822
Investments - At fair value (Note 3)	7,514,866	7,649,803
Receivables:		
Customer receivables	11,824,976	-
Accrued interest receivable	51,800	76,974
Other receivables	-	178,178
Due from other governmental units	475,879	-
Due from other funds (Note 14)	35,721	73,319
Inventories	305,108	-
Prepaid costs and other assets	-	1,622,485
Total current assets	22,959,429	9,702,581
Noncurrent assets:		
Restricted assets (Note 4)	2,459,517	-
Capital assets: (Note 6)		
Assets not subject to depreciation	5,075,966	-
Assets subject to depreciation - Net	181,307,418	-
Total noncurrent assets	188,842,901	-
Total assets	211,802,330	9,702,581
Deferred Outflows of Resources (Notes 7, 12 and 13)		
Deferred charges on bond refunding	277,232	-
Deferred pension costs	503,768	-
Deferred OPEB costs	338,446	-
Total deferred outflows of resources	1,119,446	-
Liabilities		
Current liabilities:		
Accounts payable	4,533,097	97,273
Accrued and other liabilities	616,403	-
Unearned revenue (Note 8)	103,117	-
Compensated absences	56,717	-
Provision for claims	-	688,276
Current portion of bonds and contracts payable (Notes 9 and 10)	2,993,627	-
Total current liabilities	8,302,961	785,549
Noncurrent liabilities:		
Compensated absences	197,519	-
Provision for claims	-	802,369
Net pension liability (Note 12)	6,548,067	-
Net OPEB liability (Note 13)	4,864,440	-
Bonds and contracts payable - Net of current portion (Notes 9 and 10)	69,965,509	-
Total noncurrent liabilities	81,575,535	802,369
Deferred Inflows of Resources - Deferred OPEB costs (Notes 7 and 13)	344,936	-
Net Position		
Net investment in capital assets	113,701,480	-
Restricted - County drains	2,459,517	-
Unrestricted (Note 18)	6,537,347	8,114,663
Total net position	<u><u>\$ 122,698,344</u></u>	<u><u>\$ 8,114,663</u></u>

City of Sterling Heights, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position

Year Ended June 30, 2019

	Business-type Activities	Governmental Activities
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self-insurance
Operating Revenue		
Water sales	\$ 18,361,397	\$ -
Sewage disposal charges	28,696,392	-
Service charges	802,661	-
City contributions	-	6,366,657
Other	1,371,329	331,719
Total operating revenue	49,231,779	6,698,376
Operating Expenses		
Wages and fringe benefits	5,305,793	-
Water purchases	14,644,368	-
Sewage disposal charges	20,349,891	-
Materials and supplies	467,780	-
Repairs and maintenance	926,349	-
Building and equipment rental	115,874	-
Contractual services	1,110,397	-
Administration expenses and other	215,596	845,825
Other	2,349,690	-
Insurance and reinsurance charges and claims	137,460	7,919,288
Depreciation	6,466,324	-
Total operating expenses	52,089,522	8,765,113
Operating Loss	(2,857,743)	(2,066,737)
Nonoperating Revenue (Expense)		
Investment income	688,531	621,329
Interest expense	(2,322,036)	-
Loss on sale of assets	(1,951)	-
Operating grants	565,149	-
Total nonoperating (expense) revenue	(1,070,307)	621,329
Loss - Before capital contributions	(3,928,050)	(1,445,408)
Capital Contributions		
Lines donated by developers	1,062,936	-
Other capital contributions	923,660	-
Total capital contributions	1,986,596	-
Change in Net Position	(1,941,454)	(1,445,408)
Net Position - Beginning of year	124,639,798	9,560,071
Net Position - End of year	\$ 122,698,344	\$ 8,114,663

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows

Year Ended June 30, 2019

	Business-type Activities	Governmental Activities
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self-insurance
Cash Flows from Operating Activities		
Receipts from customers	\$ 51,134,532	\$ 6,334,421
Payments for interfund services and reimbursements	(2,393,876)	250,265
Payments to suppliers	(38,499,627)	6,800
Payments to employees and fringes	(4,593,380)	-
Claims paid	-	(7,567,599)
Net cash and cash equivalents provided by (used in) operating activities	5,647,649	(976,113)
Cash Flows Provided by Noncapital Financing Activities - Operating grants and subsidies	565,149	-
Cash Flows from Capital and Related Financing Activities		
Special assessment collections	923,660	-
Proceeds from sale of capital assets	1,025	-
Purchase of capital assets	(1,324,696)	-
Principal and interest paid on capital debt	(5,645,869)	-
Net cash and cash equivalents used in capital and related financing activities	(6,045,880)	-
Cash Flows from Investing Activities		
Interest received on investments	688,531	621,848
Proceeds from sale and maturities of investment securities	(892,842)	(341,618)
Net cash and cash equivalents (used in) provided by investing activities	(204,311)	280,230
Net Decrease in Cash and Cash Equivalents	(37,393)	(695,883)
Cash and Cash Equivalents - Beginning of year	2,788,472	797,705
Cash and Cash Equivalents - End of year	\$ 2,751,079	\$ 101,822
Classification of Cash and Cash Equivalents		
Cash and investments	\$ 10,265,945	\$ 7,751,625
Less amounts classified as investments	(7,514,866)	(7,649,803)
Total cash and cash equivalents	\$ 2,751,079	\$ 101,822

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows (Continued)

Year Ended June 30, 2019

	Business-type Activities	Governmental Activities
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self-insurance
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (2,857,743)	\$ (2,066,737)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	6,466,324	-
Changes in assets and liabilities:		
Receivables	1,902,753	(32,236)
Due to and from other funds	(44,186)	250,265
Inventories	11,427	-
Accrued wages	(301,815)	-
Accounts payable	(543,339)	9,680
Estimated claims liability	-	862,915
Net pension or OPEB liability	721,774	-
Deferrals related to pension or OPEB	292,454	-
Total adjustments	8,505,392	1,090,624
Net cash and cash equivalents provided by (used in) operating activities	\$ 5,647,649	\$ (976,113)
Significant Noncash Transactions		
Donated sewer lines	\$ 1,062,936	\$ -
Assets constructed using cash held at the county	549,254	-

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Fiduciary Net Position

June 30, 2019

	Trust Funds - Pensions and Other Retirement Benefits	Agency Funds
Assets		
Cash and cash equivalents	\$ 8,540,914	\$ 1,409,205
Investments - At fair value:		
Short-term investment fund	-	4,101,605
Government securities	38,077,123	-
Mutual funds	35,154,893	-
Common and preferred stocks	331,844,768	-
Corporate bonds	26,660,875	-
Private real estate	824,666	-
Due from primary government	4,944	-
 Total assets	 441,108,183	 <u>\$ 5,510,810</u>
Liabilities		
Accounts payable	1,089,901	\$ -
Due to other governmental units	347,169	60,833
Accrued and other liabilities	34,975	1,624,224
Cash and bond deposits	-	3,825,753
Provision for claims	630,318	-
 Total liabilities	 2,102,363	 <u>\$ 5,510,810</u>
 Net Position - Restricted for pension and OPEB	 <u>\$ 439,005,820</u>	

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2019

	Trust Funds - Pensions and Other Retirement Benefits
Additions	
Investment income (loss):	
Interest and dividends	\$ 13,851,836
Net increase in fair value of investments	15,993,414
Investment-related expenses	<u>(3,391,771)</u>
Net investment income	26,453,479
Contributions:	
Employer contributions	25,173,707
Employee contributions	2,573,512
Purchase of prior year's service credits	<u>13,072</u>
Total contributions	<u>27,760,291</u>
Total additions	54,213,770
Deductions	
Benefit payments	43,169,061
Refunds of contributions	<u>1,025,739</u>
Total deductions	<u>44,194,800</u>
Net Increase in Net Position - Restricted for pension and OPEB	10,018,970
Net Position - Restricted for pension and OPEB - Beginning of year	<u>428,986,850</u>
Net Position - Restricted for pension and OPEB - End of year	<u>\$ 439,005,820</u>

City of Sterling Heights, Michigan

Component Units Statement of Net Position

June 30, 2019

	Economic Development Corporation	Local Development Finance Authority	Corridor Improvement Authority	Total
Assets				
Cash and cash equivalents	\$ 340,535	\$ 418,064	\$ 111,245	\$ 869,844
Receivables - Customer receivables	-	924	-	924
Due from primary government	-	472,217	-	472,217
Inventories	-	-	295,800	295,800
Capital assets:				
Assets not subject to depreciation	-	2,380,787	-	2,380,787
Assets subject to depreciation - Net	-	2,149,913	-	2,149,913
Total assets	340,535	5,421,905	407,045	6,169,485
Liabilities				
Accounts payable	1,560	58,309	8,378	68,247
Due to primary government	-	34,515	288	34,803
Accrued and other liabilities	-	37,622	-	37,622
Unearned revenue	-	924	-	924
Total liabilities	1,560	131,370	8,666	141,596
Net Position				
Net investment in capital assets	-	4,530,700	-	4,530,700
Unrestricted	338,975	759,835	398,379	1,497,189
Total net position	\$ 338,975	\$ 5,290,535	\$ 398,379	\$ 6,027,889

City of Sterling Heights, Michigan

Component Units Statement of Activities

Year Ended June 30, 2019

	Program Revenue	Net (Expense) Revenue and Changes in Net Position				
		Operating Grants and Contributions	Economic Development Corporation	Local Development Finance Authority	Corridor Improvement Authority	Total
Expenses						
Functions/Programs						
Economic Development Corporation	\$ 108,820	\$ 300,000	\$ 191,180	\$ -	\$ -	\$ 191,180
Local Development Finance Authority	913,299	-	-	(913,299)	-	(913,299)
Corridor Improvement Authority	8,666	-	-	-	(8,666)	(8,666)
Total component units	\$ 1,030,785	\$ 300,000	191,180	(913,299)	(8,666)	(730,785)
General revenue:						
Property taxes		-	1,254,417	114,197	1,368,614	
Unrestricted investment income	7,649	209,396	1,260	218,305		
Total general revenue	7,649	1,463,813	115,457	1,586,919		
Change in Net Position	198,829	550,514	106,791	856,134		
Net Position - Beginning of year	140,146	4,740,021	291,588	5,171,755		
Net Position - End of year	\$ 338,975	\$ 5,290,535	\$ 398,379	\$ 6,027,889		

June 30, 2019

Note 1 - Significant Accounting Policies

Accounting and Reporting Principles

The City of Sterling Heights, Michigan (the "City") follows accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies used by the City of Sterling Heights, Michigan:

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 GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement Nos. 61 and 80, 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 Sterling Heights Building Authority (the "Building Authority") is governed by a board appointed by the City's governing body. Although it is legally separate from the City, the Building Authority is reported as if it were part of the primary government because its sole 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.

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 expending 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 Corridor Improvement Authority

The Corridor Improvement Authority (the "CI Authority") was created to encourage revitalization and redevelopment of commercial properties that 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.

June 30, 2019

Note 1 - Significant Accounting Policies (Continued)

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 come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

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 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 federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow."

Proprietary funds and fiduciary funds, as applicable, 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 related cash flows.

Fund Accounting

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

Governmental Funds

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

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.
- The Facilities Improvement Fund (a capital projects fund type) accounts for the proceeds of bond issues and all other resources used for the purpose of improving major city-owned facilities.
- 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.

Additionally, the City reports the following nonmajor governmental fund types:

- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes.
- Capital projects funds are used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new property, buildings, equipment, and technology upgrades and for remodeling and repairs. The funds operate until the purpose for which they were created is accomplished.

June 30, 2019

Note 1 - Significant Accounting Policies (Continued)

- Debt service funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on long-term debt.

Proprietary Funds

Proprietary funds include enterprise funds (which provide goods or 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 fund 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 that the costs are incurred.

Fiduciary Funds

Fiduciary funds include amounts held in a fiduciary capacity for others. These amounts are not used to operate the City's programs. Activities that are reported as fiduciary include the following:

- The General Employees' Retirement System, the Police and Fire Retirement System, and the Retiree Medical Benefits Trust 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 funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at 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 column.

June 30, 2019

Note 1 - Significant Accounting Policies (Continued)

Report 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, as applicable. 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 for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes, unrestricted intergovernmental receipts, and other items not properly included among program revenue are reported instead as general revenue.

As a general rule, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions to this general rule occur when there are charges between the City's water and sewer function and various other functions. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds, if any, 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 a 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 fiscal years and are recorded as prepaid items in both government-wide and fund financial statements, when applicable.

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 Facilities Improvement Fund, 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.

June 30, 2019

Note 1 - Significant Accounting Policies (Continued)

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 estimated acquisition value at the date of donation.

In accordance with GASB Statement No. 89, interest incurred during the construction of capital assets of business-type activities is expensed in the period it is incurred.

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

Capital Asset Class Type	Depreciable Life - Years
Buildings	50
Building improvements	25
Other improvements	10-30
Equipment	5-20
Furnishings and fixtures	10-15
Infrastructure	20-40
Water and sewer mains	50

Long-term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances and premiums as "other financing sources" and bond discounts as "other financing uses." The debt service funds, the Parks and Recreation Fund, and the Water and Sewer Fund are generally used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

June 30, 2019

Note 1 - Significant Accounting Policies (Continued)

The City reports the following deferred outflows of resources and deferred inflows of resources:

	Inflows	Outflows
Unavailable revenue (those not collected within the period of availability) - Reported only at the modified accrual level	✓	
Deferred charge on bond refunding		✓
Deferred pension costs (or cost reductions)	✓	✓
Deferred OPEB costs (or cost reductions)	✓	✓

Net Position

Net position of the City is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted.

Net Position Flow Assumption

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 (as applicable), 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 net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

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 nonspendable fund balance component represents amounts that are not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balance represents amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

June 30, 2019

Note 1 - 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 honorable mayor and members of the City Council are 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 government for specific purposes but do not meet the criteria to be classified as committed. The honorable mayor and members of the City Council may assign fund balance as they do 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 Tax Revenue

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 on 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 2019 taxable valuation of the City totaled \$4,217,745,625, on which taxes levied consisted of 10.4940 mills for operating purposes, 1.0420 mills for refuse collection, 2.1279 mills for police and fire pension, 0.0971 mills for debt service related to firehouse improvements, 2.4678 mills for safe streets, and 0.9516 mills for parks and recreation. This resulted in \$43,735,862 for operating, \$4,342,745 for refuse collection, \$8,868,452 for police and fire pension, \$404,684 for debt service related to firehouse improvements, \$10,285,054 for safe streets, and \$3,965,985 for parks and recreation. These amounts are recognized in the respective General Fund and special revenue funds financial statements as tax revenue.

Pension

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 plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the General Employees' Retirement System (GERS) and the Police and Fire Retirement System (PFRS) 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 plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefit (OPEB) Costs

The City offers retiree healthcare benefits to certain retirees. The City records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

June 30, 2019

Note 1 - Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave)

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Sick pay is accrued for the estimated amount that the City will pay upon employment termination; vacation pay is accrued when incurred. Both of these are reported in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. Generally, the funds that report each employee's compensation are used to liquidate the obligations, which are 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 or 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 these funds include the cost of sales or services and administrative expenses and may include depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions 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.

Upcoming Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. 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, 2020.

In June 2017, the GASB issued 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 year ending June 30, 2021.

June 30, 2019

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees

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 surplus or shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall at July 1, 2018	\$ (9,187,797)
Current year permit revenue	2,935,964
Related expenses:	
Direct costs	\$ 1,409,358
Estimated indirect costs	<u>1,657,500</u> 3,066,858
Current year shortfall	<u>(130,894)</u>
Cumulative shortfall at June 30, 2019	\$ (9,318,691)

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 law also allows investments outside the state of Michigan when fully insured. 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 that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that 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.

The investment policy adopted by the City Council in accordance with the Public Act 20 of 1948, as amended, authorizes investments in U.S. Treasurys, 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 are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$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 its funds. The investment policy adopted by the board 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 investments comply with all required laws and regulations.

June 30, 2019

Note 3 - Deposits and Investments (Continued)

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

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

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 does not have a deposit policy for custodial credit risk. At year end, the City had \$15,700,000 of 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 investment securities 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.

At year end, the City had the following fixed-income investments:

Investment	Carrying Value	Weighted-average Maturity (Years)
Government-wide		
Commercial paper	\$ 22,110,475	0.62
U.S. government agency bonds	49,427,089	3.34
Municipal bonds	4,189,156	1.66
General Employees' Retirement System		
Corporate bonds	8,828,087	5.41
U.S. government agency bonds	6,448,812	4.94
U.S. government obligations	3,841,250	14.90
Police and Fire Retirement System		
Corporate bonds	11,067,485	6.13
U.S. government agency bonds	10,813,283	4.32
U.S. government obligations	8,542,656	11.47
Municipal bonds	105,526	14.14
Retiree Medical Benefits Trust		
Corporate bonds	6,765,305	5.51
U.S. government agency bonds	5,134,306	4.89
U.S. government obligations	3,191,290	14.86

June 30, 2019

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 are as follows:

Investment	Fair Value	Rating	Rating Organization
Government-wide			
Pooled funds	\$ 15,460,698	NR	N/A
Pooled funds	4,316,367	AAA	S&P
Commercial paper	22,110,475	A1	S&P
U.S. government agency bonds	49,427,089	AA-	S&P
Municipal bonds	4,189,156	AA+	S&P
General Employees' Retirement System			
Money market	526,937	NR	N/A
Corporate bonds	628,842	AAA	S&P
Corporate bonds	656,772	Aaa	Moody's
Corporate bonds	199,161	AA+	S&P
Corporate bonds	1,740,068	A+ to A-	S&P
Corporate bonds	3,852,565	BBB+ to BBB-	S&P
Corporate bonds	1,470,295	BB+ to BB-	S&P
Corporate bonds	280,383	B+	S&P
U.S. government agency bonds	6,448,812	AA+	S&P
U.S. government obligations	3,841,250	AA+	S&P
Police and Fire Retirement System			
Money market	870,230	NR	N/A
Corporate bonds	1,230,995	AAA	S&P
Corporate bonds	258,338	AAA	Moody's
Corporate bonds	658,883	AA+ to A-	S&P
Corporate bonds	3,488,519	A+ to A-	S&P
Corporate bonds	4,523,181	BBB+ to BBB-	S&P
Corporate bonds	39,361	BBB	Moody's
Corporate bonds	354,369	BB+ to BB-	S&P
Corporate bonds	300,499	B+ to B-	S&P
Corporate bonds	213,341	CCC	S&P
U.S. government agency bonds	5,854,815	AAA	S&P
U.S. government agency bonds	4,958,468	AA+	S&P
U.S. government obligations	8,542,656	AA+	S&P
Municipal bonds	105,526	AAA	S&P
Retiree Medical Benefits Trust			
Pooled funds	60,337	NR	N/A
Corporate bonds	242,666	AAA	S&P
Corporate bonds	765,638	Aaa	Moody's
Corporate bonds	173,496	AA+ to AA-	S&P
Corporate bonds	1,411,125	A+ to A-	S&P
Corporate bonds	2,940,154	BBB+ to BBB-	S&P
Corporate bonds	1,066,224	BB+ to BB-	S&P
Corporate bonds	166,000	B+	S&P
U.S. government agency bonds	2,791,892	AAA	S&P
U.S. government agency bonds	2,342,414	AAA	S&P
U.S. government obligations	1,807,496	AA+	S&P
U.S. government obligations	1,383,794	AA+	S&P

June 30, 2019

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk

Through its investment policy, the City places a 15.0 percent limit on the amount it may invest in any one issuer. No issuer held greater than 15.0 percent of investments as of June 30, 2019.

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 percent of total pension system investments. No investments exceed 5.0 percent of total pension system investments as of June 30, 2019.

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' Retirement System and Police and Fire Retirement System are protected from foreign currency risk through the use of American Depository Receipts (ADRs).

Fair Value Measurements

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 net asset value per share (NAV) (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

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.

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2019

Note 3 - Deposits and Investments (Continued)

The City has the following recurring fair value measurements as of June 30, 2019:

Assets Measured at Carrying Value on a Recurring Basis at June 30, 2019					
Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2019		
Investments by fair value level:					
Debt securities:					
U.S. Treasury securities	\$ -	\$ 15,575,196	\$ -	\$ 15,575,196	
U.S. government agencies	-	71,823,490	-	71,823,490	
Municipal obligations	-	4,294,682	-	4,294,682	
Corporate bonds	-	48,771,352	-	48,771,352	
Total debt securities	-	140,464,720	-	140,464,720	
Equity securities:					
Consumer discretionary	47,556,198	-	-	47,556,198	
Consumer staples	23,270,030	-	-	23,270,030	
Energy	16,391,182	-	-	16,391,182	
Financials	57,753,667	-	-	57,753,667	
Health care	38,494,831	-	-	38,494,831	
Industrials	37,158,952	-	-	37,158,952	
Information technology	55,880,363	-	-	55,880,363	
Materials	17,538,537	-	-	17,538,537	
Telecommunications	6,820,421	-	-	6,820,421	
Utilities	4,121,949	-	-	4,121,949	
Other	26,858,637	-	-	26,858,637	
Total equity securities	331,844,767	-	-	331,844,767	
Total	\$ 331,844,767	\$ 140,464,720	\$ -	472,309,487	
Investments measured at NAV:					
Michigan CLASS Investment Pool				4,316,367	
Mutual funds - Western Asset Manager				35,154,893	
U.S. Real Estate Investment Fund				824,666	
Total investments measured at NAV				40,295,926	
Total assets				\$ 512,605,413	

The fair value of equity securities at June 30, 2019 was determined primarily based on Level 1 inputs. The City estimates the fair value using prices quoted in active markets for those securities.

The fair value of debt securities at June 30, 2019 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.

The valuation method for investments measured at net asset value per share (or its equivalent) is presented on the table below.

June 30, 2019

Note 3 - Deposits and Investments (Continued)

Investments that Calculate Net Asset Value per Share

The City holds shares or interests in investment companies whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

At June 30, 2019, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Carrying Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Michigan CLASS Investment Pool	\$ 4,316,367	\$ -	N/A	None
Mutual funds - Western Asset Management	35,154,893	\$ -	N/A	None
U.S. Real Estate Investment Fund	824,666	\$ -	N/A	None
Total	\$ 40,295,926	\$ -		

The Michigan CLASS Investment Pool invests in U.S. Treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated "A1" 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 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.

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 to 8 percent per annum, and target total annual average returns of 10 percent per annum.

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.

At June 30, 2019, restricted assets are composed of the following:

Water and Sewer Fund - Due from Oakland County, Michigan*	\$ 2,459,517
General Improvements Fund - Due from Macomb County, Michigan**	2,467,874
Facilities Improvement Fund - Unspent bond proceeds	18,010,315
Parks and Recreation Fund - Unspent bond proceeds	11,402,200
Road Bond Construction Fund - Unspent bond proceeds	808,371
Total	\$ 35,148,277

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2019

Note 4 - Restricted Assets (Continued)

*This amount is held by Oakland County, Michigan 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, Michigan 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.

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 \$1,481,672 at June 30, 2019 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

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

Governmental Activities

	Balance July 1, 2018	Additions	Disposals and Adjustments	Reclassifications	Balance June 30, 2019
Capital assets not being depreciated:					
Land	\$ 46,334,640	\$ -	\$ -	\$ -	\$ 46,334,640
Construction in progress	46,411,029	28,417,935	-	(16,506,909)	58,322,055
Works of art	436,791	15,823	-	5,833	458,447
Subtotal	93,182,460	28,433,758	-	(16,501,076)	105,115,142
Capital assets being depreciated:					
Buildings and improvements	39,788,384	1,929,490	(88,034)	74,362	41,704,202
Land improvements	28,244,244	9,179,220	(1,214,761)	-	36,208,703
Equipment	40,498,618	3,582,189	(3,104,138)	-	40,976,669
Furnishings and fixtures	1,071,852	344,241	(2,587)	-	1,413,506
Infrastructure	267,141,055	329,518	-	16,426,714	283,897,287
Subtotal	376,744,153	15,364,658	(4,409,520)	16,501,076	404,200,367
Accumulated depreciation:					
Buildings and improvements	17,057,405	958,496	(31,229)	-	17,984,672
Land improvements	4,690,977	967,738	(696,103)	-	4,962,612
Equipment	27,189,488	2,707,638	(3,014,030)	-	26,883,096
Furnishings and fixtures	973,068	14,590	(3,137)	-	984,521
Infrastructure	187,046,903	6,850,748	293	-	193,897,944
Subtotal	236,957,841	11,499,210	(3,744,206)	-	244,712,845
Net capital assets being depreciated	139,786,312	3,865,448	(665,314)	16,501,076	159,487,522
Net governmental activities capital assets	\$ 232,968,772	\$ 32,299,206	\$ (665,314)	\$ -	\$ 264,602,664

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2019

Note 6 - Capital Assets (Continued)

Business-type Activities

	Balance July 1, 2018	Additions	Disposals and Adjustments	Reclassifications	Balance June 30, 2019
Capital assets not being depreciated:					
Land	\$ 64,871	\$ -	\$ -	\$ -	\$ 64,871
Construction in progress	4,216,814	1,319,601	-	(525,320)	5,011,095
Subtotal	4,281,685	1,319,601	-	(525,320)	5,075,966
Capital assets being depreciated:					
Buildings and improvements	524,660	-	-	-	524,660
Equipment	5,883,880	534,355	(91,329)	5,545	6,332,451
Furnishings and fixtures	21,075	-	-	-	21,075
Water and sewer mains	323,943,642	1,082,930	-	519,775	325,546,347
Subtotal	330,373,257	1,617,285	(91,329)	525,320	332,424,533
Accumulated depreciation:					
Buildings and improvements	176,301	15,918	-	-	192,219
Equipment	3,607,227	384,222	(88,353)	-	3,903,096
Furnishings and fixtures	20,748	80	-	-	20,828
Water and sewer mains	140,934,868	6,066,104	-	-	147,000,972
Subtotal	144,739,144	6,466,324	(88,353)	-	151,117,115
Net capital assets being depreciated	185,634,113	(4,849,039)	(2,976)	525,320	181,307,418
Net business-type activities capital assets	\$ 189,915,798	\$ (3,529,438)	\$ (2,976)	\$ -	\$ 186,383,384

Construction in progress includes \$4,237,158 of drain improvements constructed by the Oakland-Macomb Interceptor Drainage District (OMID), which represents the City's in-progress portion of total OMID improvements in the amount of \$252,499,737. 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, 2019

Note 6 - Capital Assets (Continued)

Capital asset activity for the City's Local Development Finance Authority for the years ended June 30, 2019 was as follows:

Local Development Finance Authority

	Balance July 1, 2018	Additions	Disposals, Adjustments, and Reclassifications	Balance June 30, 2019
Capital assets not being depreciated:				
Land	\$ 1,209,203	\$ -	\$ -	\$ 1,209,203
Construction in progress	598,835	544,578	28,171	1,171,584
Subtotal	1,808,038	544,578	28,171	2,380,787
Capital assets being depreciated:				
Buildings and improvements	2,513,247	97,733	-	2,610,980
Equipment	51,447	-	-	51,447
Subtotal	2,564,694	97,733	-	2,662,427
Accumulated depreciation:				
Buildings and improvements	424,120	67,926	-	492,046
Equipment	14,422	6,046	-	20,468
Subtotal	438,542	73,972	-	512,514
Net capital assets being depreciated	2,126,152	23,761	-	2,149,913
Net capital assets	\$ 3,934,190	\$ 568,339	\$ 28,171	\$ 4,530,700

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

Governmental activities:			
General government			\$ 340,892
41A District Court			33,392
Public safety			1,807,500
Public works			8,170,935
Recreation and culture			1,146,491
Total governmental activities			\$ 11,499,210
Business-type activities - Water and Sewer			\$ 6,466,324
Component unit activities - Local Development Finance Authority			\$ 73,972

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:

	Spent to Date	Remaining Commitment
Construction and other contracts	\$ 45,090,468	\$ 31,478,722

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2019

Note 7 - Deferred Inflows/Outflows of Resources

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

	Governmental Activities	Business-type Activities	Total
Pension expense - GERS (Note 12)	\$ 2,141,762	\$ 503,768	\$ 2,645,530
Pension expense - PFRS (Note 12)	32,485,810	-	32,485,810
OPEB expense - RMB (Note 12)	5,974,280	338,446	6,312,726
Bond refunding loss being amortized (Note 10)	-	277,232	277,232
 Total deferred outflows	 \$ 40,601,852	 \$ 1,119,446	 \$ 41,721,298

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

	Governmental Funds	Governmental Activities	Business-type Activities	Total
Special assessments - Unavailable	\$ 1,162,096	\$ -	\$ -	\$ 1,162,096
Other revenue - Unavailable	2,794,803	-	-	2,794,803
 Total unavailable	 3,956,899	 -	 -	 3,956,899
 Pension expense - PFERS (Note 12)	 -	 11,559,752	 -	 11,559,752
OPEB expense (Note 13)	-	6,088,846	344,936	6,433,782
 Total deferred inflows	 \$ 3,956,899	 \$ 17,648,598	 \$ 344,936	 \$ 21,950,433

Note 8 - Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned.

At June 30, 2019, the City had \$3,956,899 of unavailable revenue and \$4,117,809 of unearned revenue. Unavailable revenue primarily relates to state-shared revenue and special assessments received outside the period of availability. Unearned revenue in the governmental activities represents various rents, state grant funds, and fees paid to the City in 2019 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, Michigan for future drain repairs.

Note 9 - Capital Leases

The City leases certain equipment (MFDs - copiers) under a long-term lease arrangement that is classified as a capital lease. For financial statement purposes, the present values of the net minimum lease payments have been capitalized and are being amortized over the useful lives of the assets. Under the terms of the lease agreements, payments of \$3,889 are due monthly through February 2020. The leases have been imputed with interest at an annual rate of 4.625 percent.

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2019

Note 9 - Capital Leases (Continued)

Property under the capital lease consists of the following at June 30, 2019:

Asset	General Government	Water and Sewer Fund	Total
Machinery and equipment	\$ 198,633	\$ 9,348	\$ 207,981
Less accumulated depreciation	<u>(168,849)</u>	<u>(7,947)</u>	<u>(176,796)</u>
Total property - Net	\$ 29,784	\$ 1,401	\$ 31,185

Depreciation expense on property under capital leases is included in the depreciation amount disclosed in Note 6.

The future minimum lease payments under capital leases are as follows:

Years Ending June 30	General Government	Water and Sewer Fund	Total
2020	\$ 29,714	\$ 1,398	\$ 31,112
Less amount representing interest	507	24	533
Present value of net minimum lease payments	\$ 29,207	\$ 1,374	\$ 30,579

Note 10 - Long-term Debt

Long-term debt activity for the year ended June 30, 2019 can be summarized as follows:

Governmental Activities

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable:							
Direct borrowings and direct placements:							
2013 Michigan Transportation Fund Refunding Bonds:							
Amount of issue - \$3,275,000	2.05%	\$430,000 - \$515,000	\$ 2,015,000	\$ -	\$ (515,000)	\$ 1,500,000	\$ 510,000
Maturing through 2022			5,729	-	(1,465)	4,264	-
Unamortized premium on refunding							
2017 Unlimited Tax General Obligation Refunding Bonds:							
Amount of issue - \$3,105,000	1.00% - 2.00%	\$445,000 - \$575,000	2,660,000	-	(450,000)	2,210,000	515,000
Maturing through 2023							
Total direct borrowings and direct placements principal outstanding			4,680,729	-	(966,465)	3,714,264	1,025,000
Other debt:							
2005 Limited Tax Refunding Bonds:							
Amount of issue - \$2,820,000	4.00% - 5.00%	\$295,000 - \$300,000	595,000	\$ -	(300,000)	295,000	295,000
Maturing through 2019			35,979	-	(18,783)	17,196	-
Unamortized premium							

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2019

Note 10 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Other debt (continued):							
2008 Special Assessment Limited Tax Bonds:							
Amount of issue - \$3,260,000	4.00% - 4.50%	\$150,000 - \$400,000	\$ 2,100,000	\$ -	\$ (150,000)	\$ 1,950,000	\$ 150,000
Maturing through 2028							
2010 Michigan Transportation Recovery Zone Bonds:							
Amount of issue - \$1,570,000	4.25% - 6.05%	\$50,000 - \$200,000	1,275,000	-	(100,000)	1,175,000	100,000
Maturing through 2025							
2012 Michigan Transportation Fund Refunding Bonds:							
Amount of issue - \$3,780,000	3.00% - 4.00%	\$475,000 - \$585,000	1,150,000	-	(565,000)	585,000	585,000
Maturing through 2020							
Unamortized premium on refunding			154,613	-	(74,117)	80,496	-
2016 Michigan Transportation Fund Bonds:							
Amount of issue - \$9,630,000	2.00% - 3.00%	\$520,000 - \$785,000	8,575,000	-	(550,000)	8,025,000	565,000
Maturing through 2031			240,422	-	(12,701)	227,721	-
Unamortized premium							
2017 Capital Improvement Bond Limited Tax General Obligation Bonds:							
Amount of issue - \$42,135,000	3.00% - 5.00%	\$1,390,000 - \$2,905,000	40,545,000	-	(1,390,000)	39,155,000	1,460,000
Maturing through 2037			2,809,885	-	(99,413)	2,710,472	-
Unamortized premium							
2017 Michigan Transportation Fund Bonds:							
Amount of issue - \$2,075,000	2.00% - 3.00%	\$110,000 - \$175,000	1,965,000	-	(110,000)	1,855,000	115,000
Maturing through 2032			37,801	-	(1,691)	36,110	-
Unamortized premium							
2018 Capital Improvement Bonds Limited Tax General Obligation:							
Amount of issue - \$19,390,000	3.00% - 5.00%	\$640,000 - \$1,330,000	19,390,000	-	(715,000)	18,675,000	640,000
Maturing through 2038			909,622	-	-	909,622	-
Unamortized premium							
2018 Michigan Transportation Fund Bonds:							
Amount of issue - \$8,200,000	2.625% - 5.00%	\$470,000 - \$655,000	8,200,000	-	(495,000)	7,705,000	470,000
Maturing through 2033			393,190	-	-	393,190	-
Unamortized premium							
Total other debt principal outstanding			88,376,512		(4,581,705)	83,794,807	4,380,000
Total bonds and contracts payable			93,057,241		(5,548,170)	87,509,071	5,405,000
Capital lease - Copiers:							
Amount of issue \$9,348							
Date of issue - February 2015							
Maturing through 2020	4.625%	\$1,727 - \$1,374	71,365	-	(42,158)	29,207	29,207
Compensated absences			3,868,047	402,464	-	4,270,511	632,496
Total governmental activities long-term debt			\$ 96,996,653	\$ 402,464	\$ (5,590,328)	\$ 91,808,789	\$ 6,066,703

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2019

Note 10 - Long-term Debt (Continued)

Business-type Activities - Water and Sewer

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable:							
Direct borrowings and direct placements:							
State Revolving Loan Funds (Michigan Municipal Finance Authority):							
Special Assessment Roll							
No. 1 Series 2010A (Segment 1 - ARRA funding):							
Maximum loan amount - \$4,299,957							
Balance drawn - \$4,299,957		\$194,583 -					
Maturing through 2031	2.50%	\$269,613	\$ 3,032,529	\$	-	\$ (199,530)	\$ 2,832,999
Special Assessment Roll							
No. 1 Series 2011A (Segment 2):							
Maximum loan amount - \$5,168,777							
Balance drawn - \$5,168,777		\$223,717 -					
Maturing through 2033	2.50%	\$322,923	4,328,573		-	(223,717)	4,104,856
Special Assessment Roll							
No. 1 Series 2013A (Segment 3):							
Maximum loan amount - \$11,278,994							
Balance drawn - \$11,278,994		\$492,612 -					
Maturing through 2034	2.50%	\$676,150	9,858,296		-	(492,612)	9,365,684
Special Assessment Roll							
No. 1 Series 2015A (MIDD Project #5624-01):							
Maximum loan amount - \$1,151,536							
Balance drawn - \$905,567		\$47,001 -					
Maturing through 2035	2.50%	\$65,802	814,697		-	(47,001)	767,696
2015 Oakland-Macomb Interceptor Drainage District SAW Loan:							
Maximum loan amount - \$3,298,735							
Balance drawn - \$3,298,735		\$135,991 -					
Maturing through 2036	2.50%	\$207,871	3,038,412		-	(135,991)	2,902,421
Total state revolving fund loans							
			21,072,507		-	(1,098,851)	19,973,656
							1,124,660
County drain contract obligations:							
2010B OMID Drainage District:							
Amount of issue - \$1,104,832	3.90% -	\$46,172 -					
Maturing through 2030	5.90%	\$85,749	784,105		-	(48,646)	735,459
							51,119

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2019

Note 10 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
County drain contract obligations (continued):							
2010 North Gratiot Interceptor Drainage District:							
Amount of issue -							
\$252,751	4.35% - 6.35%	\$8,716 - \$14,526	\$ 191,667	\$ -	\$ (8,716)	\$ 182,951	\$ 8,939
Maturing through 2035							
2011 Clintondale Pump Station Improvements Drainage District:							
Amount of issue -							
\$9,862,021	3.15% - 5.50%	\$384,235 - \$800,489	7,764,741	-	(416,254)	7,348,487	448,274
Maturing through 2032							
2014A Sewer Lining Repairs:							
Amount of issue -							
\$1,649,117	2.00% - 3.125%	\$68,381 - \$108,270	1,454,232	-	(68,381)	1,385,851	69,520
Maturing through 2034							
2015 North Gratiot Interceptor Drainage District Refunding Bonds:							
Amount of issue -							
\$2,067,205	3.50% - 5.00%	\$85,779 - \$140,531	1,896,256	-	(116,805)	1,779,451	118,022
Maturing through 2033							
Unamortized premium on refunding			170,456	-	(11,364)	159,092	-
2017A MID Drainage District:							
Amount of issue -							
\$19,085,935	3.00% - 5.00%	\$426,989 - \$1261,919	18,731,963	-	(426,989)	18,304,974	449,212
Maturing through 2042							
Unamortized premium on refunding			3,148,738	-	(131,197)	3,017,541	-
2017A MID Drainage District Refunding:							
Amount of issue -							
\$18,532,248	3.00% - 5.00%	\$687,570 - \$1,492,530	17,748,250	-	(687,570)	17,060,680	722,507
Maturing through 2035							
Unamortized premium on refunding			3,197,725	-	(188,105)	3,009,620	-
Total county drain contract obligations			55,088,133	-	(2,104,027)	52,984,106	1,867,593
Total direct borrowings and direct placements principal outstanding			76,160,640	-	(3,202,878)	72,957,762	2,992,253
Capital leases	4.625%	\$1,984 - \$1,375	3,359	-	(1,985)	1,374	1,374
Compensated absences			230,798	23,438	-	254,236	56,717
Total business-type activities long-term debt			\$ 76,394,797	\$ 23,438	\$ (3,204,863)	\$ 73,213,372	\$ 3,050,344

The City had deferred outflows of \$277,232 related to deferred charges on bond refundings at June 30, 2019.

June 30, 2019

Note 10 - Long-term Debt (Continued)

General Obligation Bonds and Contracts

The City issues general obligation bonds to provide for the acquisition and construction of major capital facilities. General obligations have been issued for both governmental and business-type activities. 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

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 City) are received.

Other Long-term Liabilities

Compensated absences attributable to the governmental activities will be liquidated primarily by the General and Water and Sewer funds. The claims and judgments liability will generally be liquidated through the City's internal service fund. That fund will finance the payment of those claims by charging the other funds based on management's assessment of the relative insurance risk that should be assumed by individual funds. The net pension liability and the net OPEB liability will be liquidated from the funds from which the individual employee's salaries are paid, generally the General Fund and the Water and Sewer Fund.

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2019

Note 10 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

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

Years Ending June 30	Governmental Activities					
	Direct Borrowings and Direct Placements			Other Debt		
	Principal	Interest	Principal	Interest	Total	
2020	\$ 1,025,000	\$ 63,283	\$ 4,380,000	\$ 2,993,911	\$ 8,462,194	
2021	1,055,000	45,720	3,705,000	2,808,266	7,613,986	
2022	1,055,000	26,693	3,885,000	2,644,947	7,611,640	
2023	575,000	11,500	4,085,000	2,472,197	7,143,697	
2024	-	-	4,235,000	2,290,699	6,525,699	
2025-2029	-	-	23,160,000	8,549,174	31,709,174	
2030-2034	-	-	22,460,000	4,290,009	26,750,009	
2035-2039	-	-	13,510,000	1,009,269	14,519,269	
Thereafter	-	-	-	-	-	
Total	\$ 3,710,000	\$ 147,196	\$ 79,420,000	\$ 27,058,472	\$ 110,335,668	
Business-type Activities						
Years Ending June 30	Direct Borrowings and Direct Placements					
	Principal	Interest	Total			
2020	\$ 2,992,253	\$ 2,642,712	\$ 5,634,965			
2021	3,113,333	2,525,642	5,638,975			
2022	3,236,102	2,403,140	5,639,242			
2023	3,348,389	2,275,112	5,623,501			
2024	3,482,307	2,142,104	5,624,411			
2025-2029	19,593,864	8,514,229	28,108,093			
2030-2034	19,676,788	4,520,256	24,197,044			
2035-2039	7,720,496	1,676,425	9,396,921			
Thereafter	3,607,977	366,671	3,974,648			
Total	\$ 66,771,509	\$ 27,066,291	\$ 93,837,800			

The Oakland-Macomb Interceptor Drainage District (OMID) is a construction and rehabilitation project that began in 2010 and is projected to continue through 2019. 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 \$139 million of loans, of which debt \$16 million was federally forgiven and \$125 million will be loans from the Michigan State Revolving Fund (SRF) (OMID Series 2010A \$26 million, OMID Series 2011A \$25 million, OMID Series 2013 \$65 million, OMID Series 2014 \$9 million). During the year, the City's portion of SRF draws was \$0.

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, 2019 is \$767,696. 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.

June 30, 2019

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), as well as medical benefits provided to employees.

The City participates in the Michigan Municipal Risk Management Authority (the "Authority") 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 premiums are paid annually to the Authority that it uses 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 the City's reinsurance coverage begins.

Property and Liability

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

The City estimates, based on past experience, that \$314,268 will be paid for all claims reported to date and \$209,406 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 are shown in table below.

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, 2019. At January 1, 1990, the City became self-insured for short-term disability.

It is estimated, based on past experience, that \$35,944 will be paid for all claims reported to date and \$621,747 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. Changes in the estimated liability for the past two fiscal years are shown in table below.

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, 2019. The City has purchased excess insurance to cover claims greater than \$400,000. At June 30, 2019, it was estimated, based on past experience, that \$309,279 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 are shown in table below.

June 30, 2019

Note 11 - Risk Management (Continued)

Changes in the estimated liabilities for the past two fiscal years were as follows:

	Property and Liability		Workers' Compensation		Self-insurance Internal Service Fund		Retiree Medical Benefits Trust	
	2019	2018	2019	2018	2019	2018	2019	2018
Estimated liability - Beginning of year	\$ 343,107	\$ 385,048	\$ 298,513	\$ 244,655	\$ 521,642	\$ 664,392	\$ 517,828	\$ 528,592
Estimated claims incurred, including changes in estimates	545,584	517,521	367,067	226,677	5,545,562	4,176,399	8,571,627	7,724,744
Claim payments	(365,016)	(559,462)	(356,301)	(172,819)	(5,409,513)	(4,319,149)	(8,459,137)	(7,735,508)
Estimated liability - End of year	<u>\$ 523,675</u>	<u>\$ 343,107</u>	<u>\$ 309,279</u>	<u>\$ 298,513</u>	<u>\$ 657,691</u>	<u>\$ 521,642</u>	<u>\$ 630,318</u>	<u>\$ 517,828</u>

Note 12 - Pension Plans

Plan Description

The City of Sterling Heights, Michigan provides retirement benefits to employees who meet the eligibility requirements, including age and years of service. The benefits are provided through the General Employees' Retirement System (GERS), a single-employer plan administered by the General Employees' Pension Board, and Police and Fire Retirement System (PFRS), a single-employer plan administered by the Police and Fire Pension Board.

General Employees' Retirement System (GERS)

GERS provides pensions for certain 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. The plan is closed to new members.

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 serves as an ex officio member.

Police and Fire Retirement System (PFRS)

PFRS 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.

The financial statements of each pension system are included in these financial statements as pensions and other retirement benefits trust funds (fiduciary funds). Separate statements are not available for these plans.

Benefits Provided

The General Employees' Retirement System and the Police and Fire Retirement System 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.

June 30, 2019

Note 12 - Pension Plans (Continued)

General Employees' Retirement System

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 nonduty disability benefits after 10 years (five for court ordinance and court clerical AFSCME employees) 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. Nonduty death provides the same benefit as regular retirement but is actuarially reduced in accordance with a 100.0 percent joint and survivor election. A member who leaves city service may withdraw his or her employee required contributions, plus any accumulated interest. General plan members are not eligible for annual cost of living increases subsequent to their retirement.

Police and Fire Retirement System

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 nonduty 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. Nonduty 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 that 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. Nonduty death provides the same benefit as regular retirement but is actuarially reduced with a 100.0 percent joint and survivor election. A member who leaves city service may withdraw his or her 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.

June 30, 2019

Note 12 - Pension Plans (Continued)

Employees Covered by Benefit Terms

At the June 30, 2019 measurement date, the following members were covered by the benefit terms:

	General Employees' Retirement System	Police and Fire Retirement System
Inactive plan members or beneficiaries currently receiving benefits	362	386
Inactive plan members entitled to but not yet receiving benefits	21	22
Active plan members	83	232
 Total employees covered by the plan	 466	 640

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

Contributions

State law requires public employers to make pension contributions in accordance with an actuarial valuation. The City hires an independent actuary for this purpose and annually contributes the amount determined to finance the costs of benefits earned by employees 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, 2019, the average active member contribution was approximately 8.3 percent of covered payroll for GERS and 8.1 percent for PFRS. The City's average contribution rate was 56.6 and 44.2 percent of covered payroll for GERS and PFRS, respectively.

Net Pension Liability

The City chooses a date for each pension plan to measure its net pension liability. This is based on the measurement date of each pension plan, which may be based on a comprehensive valuation as of that date or based on an earlier valuation that has used procedures to roll the information forward to the measurement date.

	General Employees' Retirement System	Police and Fire Retirement System
Measurement date used for the City's net pension liability	June 30, 2019	June 30, 2019
Based on a comprehensive actuarial valuation as of	June 30, 2019	June 30, 2019

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2019

Note 12 - Pension Plans (Continued)

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

General Employees' Retirement System

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at July 1, 2018	\$ 142,661,601	\$ 110,271,962	\$ 32,389,639
Changes for the year:			
Service cost	923,068	-	923,068
Interest	10,310,982	-	10,310,982
Differences between expected and actual experience	722,498	-	722,498
Contributions - Employer	-	3,612,060	(3,612,060)
Contributions - Employee	-	529,015	(529,015)
Net investment income	-	5,813,306	(5,813,306)
Benefit payments, including refunds	(11,286,739)	(11,286,739)	-
Miscellaneous other charges	-	4,897	(4,897)
Net changes	669,809	(1,327,461)	1,997,270
Balance at June 30, 2019	\$ 143,331,410	\$ 108,944,501	\$ 34,386,909

The plan's fiduciary net position represents 76.01 percent of the total pension liability.

Police and Fire Retirement System

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at July 1, 2018	\$ 328,495,966	\$ 206,639,692	\$ 121,856,274
Changes for the year:			
Service cost	4,116,668	-	4,116,668
Interest	24,500,149	-	24,500,149
Differences between expected and actual experience	2,866,838	-	2,866,838
Changes in assumptions	21,949,498	-	21,949,498
Contributions - Employer	-	10,103,803	(10,103,803)
Contributions - Employee	-	1,857,374	(1,857,374)
Net investment income	-	14,613,943	(14,613,943)
Benefit payments, including refunds	(23,083,898)	(23,083,898)	-
Administrative expenses	-	(61,225)	61,225
Net changes	30,349,255	3,429,997	26,919,258
Balance at June 30, 2019	\$ 358,845,221	\$ 210,069,689	\$ 148,775,532

The plan's fiduciary net position represents 58.5 percent of the total pension liability.

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

For the year ended June 30, 2019, the City recognized pension expense of \$6,276,621 related to GERS and \$12,340,950 related to PFRS.

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2019

Note 12 - Pension Plans (Continued)

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	GERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 223,259	\$ -
Net difference between projected and actual earnings on pension plan investments	<u>2,422,271</u>	-
Total	\$ 2,645,530	\$ -
<hr/>		
	PFRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 4,453,526	\$ 1,008,140
Changes in assumptions	28,032,284	9,008,885
Net difference between projected and actual earnings on pension plan investments	<u>-</u>	<u>1,542,727</u>
Total	\$ 32,485,810	\$ 11,559,752

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

Years Ending June 30	GERS	PFRS	Total
2020	\$ 1,876,480	\$ 2,836,829	\$ 4,713,309
2021	(178,488)	7,535,960	7,357,472
2022	509,288	8,382,371	8,891,659
2023	<u>438,251</u>	<u>2,170,898</u>	<u>2,609,149</u>
Total	\$ 2,645,531	\$ 20,926,058	\$ 23,571,589

Actuarial Assumptions

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

	General Employees' Retirement System	Police and Fire Retirement System
Inflation	2.60%	2.60%
Salary increases (including inflation)	3.25 to 11.25%	3.00 to 20.10%
Investment rate of return (net of investment expenses)	7.50%	7.50%
Mortality rates	RP 2014 Mortality Table with MP 2016	RP 2014 Mortality Table with MP 2017

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

June 30, 2019

Note 12 - Pension Plans (Continued)

Discount Rate

As shown below, the discount rate used to measure the total pension liability was determined after considering a projection of the cash flows to determine whether the future contributions (made at the current contribution rates) will be sufficient to allow the pension plans' fiduciary net position to make all projected future benefit payments of current active and inactive employees.

The long-term expected rate of return on pension 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 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 asset allocation percentage and by adding expected inflation.

	General Employees' Retirement System	Police and Fire Retirement System
Assumed investment rate of return	7.50%	7.50%
Are contributions expected to be sufficient to allow fiduciary net position to pay future benefits?	Yes	No
Discount rate used to measure the total pension liability	7.50%	7.02%

The Police and Fire Retirement System's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive employees through the year 2069. Therefore, the discount rate was determined by blending the long-term expected rate of return on pension plan investments (7.50 percent) with the current yield for tax-exempt municipal bonds based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date, which currently stands at 3.13 percent.

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

The following presents the net pension liability of GERS, 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 or 1 percentage point higher than the current rate. The following also presents the net pension liability of PFRS, calculated using the discount rate of 7.02 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 or 1 percentage point higher than the current rate:

	1 Percent Decrease (6.5% - GERS; 6.02% - PFRS)	Current Discount Rate (7.5% - GERS; 7.02% - PFRS)	1 Percent Increase (8.5% - GERS; 8.02% - PFRS)
Net pension liability of the General Employees' Retirement System	\$ 48,756,832	\$ 34,386,909	\$ 22,167,398
Net pension liability of the Police and Fire Retirement System	187,567,427	148,775,532	116,479,740

Assumption Changes

With respect to GERS, there were no significant assumption changes for the year ended June 30, 2019.

With respect to PFRS, the discount rate decreased from 7.68 to 7.02 percent.

June 30, 2019

Note 12 - Pension Plans (Continued)

Investment Policy and Long-term Expected Real Investment Rate of Return

The pension plans' policies in regard to the allocation of invested assets is established and may be amended by the pension boards by a majority vote of its 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 aim to refrain from dramatically shifting asset class allocations over short time spans. The pension boards' adopted asset allocation policies as of June 30, 2019 and best estimates of arithmetic real rates of return as of the June 30, 2019 measurement date for each major asset class included in the pension plans' target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Target Allocation - GERS	Long-term Expected Real Rate of Return -		Target Allocation - PFRS	Long-term Expected Real Rate of Return - PFRS
		GERS	PFRS		
Large-capitalization growth equities	7.30 %	5.61 %	12.00 %	6.63 %	
Large-capitalization value equities	7.30	6.09	12.00	6.93	
Large-capitalization core equities	7.40	5.85	12.00	6.78	
Small-/Middle-capitalization equities	10.00	6.62	6.00	7.43	
International equities	22.00	6.75	19.00	7.13	
Emerging markets	5.00	8.58	6.00	9.03	
Fixed income	32.00	1.78	25.00	1.93	
Alternative investments	5.00	6.36	5.00	6.33	
Real estate	4.00	6.01	3.00	6.13	

Annual Money-weighted Rate of Return

For the year ended June 30, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 5.39 and 7.15 percent for the General Employees' Retirement System and Police and Fire Retirement System, 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 plans maintain a record of the amount contributed by each employee and credit interest annually at a rate of 2.0 percent. For any employee who terminates before vesting in the pension plans, his or her balance is returned to him or her; 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 plans after funding the above two reserves.

June 30, 2019

Note 12 - Pension Plans (Continued)

The balances of the reserve accounts at June 30, 2019 are as follows:

	Required Reserve	Amount Funded
GERS		
Retiree reserve	\$ 114,783,071	\$ 102,263,858
Employee reserve	6,680,642	6,680,642
PFRS		
Retiree reserve	226,122,975	190,663,973
Employee reserve	19,405,716	19,405,716

Deferred Retirement Option Program (DROP)

The City offers certain employees the ability to continue services and be paid a salary after they are fully vested; this program credits the employee for benefit payments that would have been paid and pays them out with interest at 4.00 percent after the employee has fully retired (discontinued providing employee services to the City). At June 30, 2019, the plan has \$22,797,428 accumulated in DROP accounts.

Note 13 - Other Postemployment Benefit Plan

Plan Description

The City provides OPEB for all employees who are members of the GERS and PFRS pension plans who meet eligibility requirements. The benefits are provided through the City of Sterling Heights Retiree Health Care Plan (the "Plan"), a single-employer defined benefit plan under Public Act 149 of 1999 administered by the City Investment Council.

The financial statements of the OPEB plan are included in these financial statements as a pension and other employee benefit trust fund (a fiduciary fund).

Management of the Plan is vested in the investment committee, which consists of three members - the city treasurer, city finance director, and city clerk.

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.

Benefit terms provide for annual cost of living adjustments to each employee's OPEB benefits subsequent to the employee's retirement date. The annual adjustments are one-half of the change in the Consumer Price Index, limited to a maximum increase in OPEB benefits of 2 percent for general employees and 3 percent for public safety employees.

The City Council has the sole authority to establish and amend the benefit terms.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

	<u>City of Sterling Heights Retiree Health Care Plan</u>
Date of member count	December 31, 2018
Retirees and beneficiaries	632
Active and DROP members	475
Total members	1,107

June 30, 2019

Note 13 - Other Postemployment Benefit Plan (Continued)

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, 2019, the City's contribution was \$11,452,950. DROP plan members are required to contribute 5 percent of gross wages.

Net OPEB Liability

The City has chosen to use the June 30 measurement date as its measurement date for the net OPEB liability. The June 30, 2019 fiscal year end reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of the June 30, 2019 measurement date. The June 30, 2019 measurement date total OPEB liability was determined by an actuarial valuation performed as of December 31, 2018.

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

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balance at July 1, 2018	\$ 203,544,627	\$ 112,075,196	\$ 91,469,431
Changes for the year:			
Service cost	1,719,869	-	1,719,869
Interest	14,979,531	-	14,979,531
Differences between expected and actual experience	(5,425,052)	-	(5,425,052)
Changes in assumptions	5,723,906	-	5,723,906
Contributions - Employer	-	11,452,950	(11,452,950)
Contributions - Employee	-	200,196	(200,196)
Net investment income	-	6,082,507	(6,082,507)
Benefit payments, including refunds	(9,824,162)	(9,824,162)	-
Net changes	7,174,092	7,911,491	(737,399)
Balance at June 30, 2019	\$ 210,718,719	\$ 119,986,687	\$ 90,732,032

The Plan's fiduciary net position represents 56.94 percent of the total OPEB liability.

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

For the year ended June 30, 2019, the City recognized OPEB expense of \$7,722,350.

At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 6,433,782
Changes in assumptions	4,535,363	-
Net difference between projected and actual earnings on OPEB plan investments	1,777,363	-
Total	\$ 6,312,726	\$ 6,433,782

June 30, 2019

Note 13 - Other Postemployment Benefit Plan (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce the net OPEB liability and, therefore, will not be included in future OPEB expense):

Years Ending June 30	Amount
2020	\$ (402,121)
2021	(402,121)
2022	149,712
2023	<u>533,476</u>
Total	<u>\$ (121,054)</u>

Actuarial Assumptions

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using an inflation assumption of 2.60 percent; assumed salary increases (including inflation) of 3.5 to 11.25 percent; an investment rate of return (net of investment expenses) of 7.50 percent; a healthcare cost trend rate of 8.25 percent for 2019, decreasing 0.75 to 0.50 percent per year to an ultimate rate of 3.50 percent for 2029 and later years; and the RP-2014 mortality tables with the MP-2016 improvement scale. These assumptions were applied to all periods included in the measurement.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2016.

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 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.

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 active and inactive employees. 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.

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

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

	1 Percent Decrease (6.50%)	Current Discount Rate (7.50%)	1 Percent Increase (8.50%)
Net OPEB liability of the City of Sterling Heights Retiree Health Care Plan	\$ 116,390,257	\$ 90,732,032	\$ 69,531,356

June 30, 2019

Note 13 - Other Postemployment Benefit Plan (Continued)

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

The following presents the net OPEB liability of the City, calculated using the healthcare cost trend rate of 8.25 percent to 3.50 percent, as well as what the City's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (7.25% to 2.50%)	Current Healthcare Cost Trend Rate (8.25% to 3.50%)	1 Percent Increase (9.25% to 4.50%)
Net OPEB liability of the City of Sterling Heights Retiree Health Care Plan		\$ 68,159,799	\$ 90,732,032

Assumption Changes

Assumed salary increases (including inflation) were adjusted in 2019 to a range of 3.5 to 11.25 percent from 3.00 to 3.25 percent.

Investment Policy and Long-term Expected Real Investment Rate of Return

The OPEB 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 manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The OPEB 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 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 OPEB 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 asset allocation percentage and adding expected inflation.

The OPEB board's adopted asset allocation policies as of June 30, 2019 and best estimates of arithmetic real rates of return as of the June 30, 2019 measurement date for each major asset class included in the pension plans' target asset allocation, as disclosed in the investment footnote, are summarized in the following table:

City of Sterling Heights Retiree Health Care Plan

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large-capitalization equities	10.00 %	5.11 %
Large-capitalization value equities	10.00	5.59
Large-capitalization core equities	10.00	5.35
Small-/Middle-capitalization equities	15.00	6.12
International equities	20.00	6.25
Emerging markets	5.00	8.08
Fixed income	25.00	5.86
Alternative investments	5.00	1.28

June 30, 2019**Note 13 - Other Postemployment Benefit Plan (Continued)*****Annual Money-weighted Rate of Return***

For the year ended June 30, 2019, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 5.65 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 14 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor governmental funds	\$ 914,264
Parks and Recreation Fund	General Fund	25,769
Water and Sewer Fund	General Fund	35,721
Nonmajor governmental funds	General Fund	393,042
Self-insurance Fund	General Fund	73,319
	Total	\$ 1,442,115

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are composed of the following:

Paying Fund (Transfer Out)	Receiving Fund (Transfer In)	Amount
General Fund	Parks and Recreation Fund	\$ 2,693,460
	Nonmajor governmental funds	17,940,530
	Total General Fund	20,633,990
Nonmajor governmental funds	Nonmajor governmental funds	2,500,000
	Total	\$ 23,133,990

The transfers from the General Fund to the Parks and Recreation Fund represent the transfer of unrestricted resources for operations; the transfers from the General Fund to the nonmajor governmental funds represent restricted resources for debt service payments and repair and replacement of local roads.

The transfer from the nonmajor governmental funds (Major Roads Fund) to the nonmajor governmental funds (Road Bond Debt Retirement Fund) represents restricted resources for debt service payments.

Note 15 - 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 \$320,921 during the current year, and employees contributed \$455,111.

June 30, 2019**Note 16 - 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 17 - 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, 2019, the City abated \$813,377 of taxes under this program. There are no provisions to recapture taxes; however, the abatement may be eliminated if taxes are not paid timely.

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

Note 18 - Unrestricted Net Position

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

	Enterprise Fund - Water and Sewer
Capital improvement	\$ 2,540,000
Undesignated	<u>3,997,347</u>
Total unrestricted net position	<u><u>\$ 6,537,347</u></u>

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2019

Note 19 - Pension and Other Employee Benefit Trust Funds

The following are condensed financial statements for the individual pension plans and postemployment healthcare plan:

	General Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Total
Statement of Net Position				
Assets:				
Cash and cash equivalents	\$ 2,136,881	\$ 3,993,927	\$ 2,410,106	\$ 8,540,914
Investments	106,980,310	206,462,477	119,119,538	432,562,325
Due from primary government	4,944	-	-	4,944
Total assets	109,122,135	210,456,404	121,529,644	441,108,183
Liabilities:				
Accounts payable	(172,691)	(386,715)	(530,495)	(1,089,901)
Due to other governmental units	-	-	(347,169)	(347,169)
Accrued and other liabilities	-	-	(34,975)	(34,975)
Provision for claims	-	-	(630,318)	(630,318)
Net position	<u>\$ 108,949,444</u>	<u>\$ 210,069,689</u>	<u>\$ 119,986,687</u>	<u>\$ 439,005,820</u>
Statement of Changes in Net Position				
Investment income	\$ 6,516,493	\$ 16,470,180	\$ 6,858,577	\$ 29,845,250
Contributions	4,145,969	11,961,176	11,653,146	27,760,291
Benefit payments	(11,133,561)	(22,211,338)	(9,824,162)	(43,169,061)
Investment-related expenses	(698,241)	(1,917,460)	(776,070)	(3,391,771)
Withdrawals and refunds of contributions	(153,178)	(872,561)	-	(1,025,739)
Net change in net position	<u>\$ (1,322,518)</u>	<u>\$ 3,429,997</u>	<u>\$ 7,911,491</u>	<u>\$ 10,018,970</u>

Required Supplemental Information

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule General Fund

Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 65,485,250	\$ 65,058,130	\$ 64,979,384	\$ (78,746)
Intergovernmental:				
Federal sources	1,045,000	1,038,000	647,589	(390,411)
State sources	16,276,380	19,699,760	19,693,022	(6,738)
Charges for services	12,776,670	13,865,170	14,157,459	292,289
Fines and forfeitures - District court fines and fees	2,534,500	2,464,500	2,517,198	52,698
Licenses and permits	4,989,500	4,922,000	4,958,696	36,696
Investment income	2,233,710	3,014,710	3,304,531	289,821
Other revenue	1,095,000	1,272,520	1,341,018	68,498
Total revenue	106,436,010	111,334,790	111,598,897	264,107
Expenditures				
Current services:				
General government	10,845,080	11,141,740	11,087,713	54,027
41A District Court	3,545,610	3,440,410	3,428,457	11,953
Public safety	53,829,560	54,788,120	54,208,699	579,421
Public works	16,681,060	16,004,870	15,820,955	183,915
General expenditures	1,797,830	1,617,850	1,586,079	31,771
Recreation and culture	2,648,490	2,555,170	2,507,500	47,670
Capital outlay	202,700	204,400	203,535	865
Total expenditures	89,550,330	89,752,560	88,842,938	909,622
Excess of Revenue Over Expenditures	16,885,680	21,582,230	22,755,959	1,173,729
Other Financing (Uses) Sources				
Transfers out	(15,761,510)	(20,632,530)	(20,633,990)	(1,460)
Sale of capital assets	20,000	40,000	48,190	8,190
Total other financing uses	(15,741,510)	(20,592,530)	(20,585,800)	6,730
Net Change in Fund Balance	1,144,170	989,700	2,170,159	1,180,459
Fund Balance - Beginning of year	24,713,754	24,713,754	24,713,754	-
Fund Balance - End of year	\$ 25,857,924	\$ 25,703,454	\$ 26,883,913	\$ 1,180,459

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedules - Major Special Revenue Funds Parks and Recreation Fund

Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 4,050,770	\$ 4,028,640	\$ 4,032,609	\$ 3,969
Intergovernmental	215,000	603,400	638,858	35,458
Charges for services	578,110	728,110	781,064	52,954
Investment income	350,500	260,500	640,701	380,201
Other revenue	35,200	40,300	51,520	11,220
Total revenue	5,229,580	5,660,950	6,144,752	483,802
Expenditures				
Current services - Recreation and culture	2,979,930	3,740,220	3,646,499	93,721
Capital outlay	20,870,250	20,832,370	14,935,087	5,897,283
Debt service	3,001,090	3,001,090	3,001,088	2
Total expenditures	26,851,270	27,573,680	21,582,674	5,991,006
Excess of Expenditures Over Revenue	(21,621,690)	(21,912,730)	(15,437,922)	6,474,808
Other Financing Sources - Transfers in	1,347,410	2,693,460	2,693,460	-
Net Change in Fund Balance	(20,274,280)	(19,219,270)	(12,744,462)	6,474,808
Fund Balance - Beginning of year	26,214,019	26,214,019	26,214,019	-
Fund Balance - End of year	\$ 5,939,739	\$ 6,994,749	\$ 13,469,557	\$ 6,474,808

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedules - Major Special Revenue Funds (Continued) Facilities Improvement Fund

Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Investment income	\$ -	\$ 515,000	\$ 566,925	\$ 51,925
Other revenue	-	2,200	2,200	-
Total revenue	-	517,200	569,125	51,925
Expenditures - Capital outlay	<u>7,000,000</u>	<u>4,683,090</u>	<u>2,490,858</u>	<u>2,192,232</u>
Net Change in Fund Balance	<u>(7,000,000)</u>	<u>(4,165,890)</u>	<u>(1,921,733)</u>	<u>2,244,157</u>
Fund Balance - Beginning of year	<u>20,000,118</u>	<u>20,000,118</u>	<u>20,000,118</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 13,000,118</u>	<u>\$ 15,834,228</u>	<u>\$ 18,078,385</u>	<u>\$ 2,244,157</u>

City of Sterling Heights, Michigan

Required Supplemental Information Schedule of Changes in the Net Pension Liability and Related Ratios General Employees' Retirement System*

	Last Six Fiscal Years					
	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 923,068	\$ 1,011,294	\$ 1,033,145	\$ 999,822	\$ 1,059,741	\$ 1,149,820
Interest	10,310,982	10,259,718	10,194,909	10,251,133	10,094,749	10,079,470
Changes in benefit terms	-	-	21,314	468,337	-	(70,640)
Differences between expected and actual experience	722,498	782,654	(790,128)	(220,359)	1,896,980	-
Changes in assumptions	-	-	6,023,738	3,043,452	-	-
Benefit payments, including refunds	(11,286,739)	(11,365,307)	(11,080,749)	(11,221,254)	(10,912,153)	(10,933,108)
Net Change in Total Pension Liability	669,809	688,359	5,402,229	3,321,131	2,139,317	225,542
Total Pension Liability - Beginning of year	142,661,601	141,973,242	136,571,013	133,249,881	131,110,564	130,885,022
Total Pension Liability - End of year	\$ 143,331,410	\$ 142,661,601	\$ 141,973,242	\$ 136,571,012	\$ 133,249,881	\$ 131,110,564
Plan Fiduciary Net Position						
Contributions - Employer	\$ 3,612,060	\$ 3,265,820	\$ 2,648,960	\$ 2,768,790	\$ 2,610,080	\$ 2,735,453
Contributions - Member	529,015	555,471	583,975	619,418	712,397	711,608
Net investment income (loss)	5,813,306	7,578,055	11,402,709	(288,329)	3,903,536	18,570,457
Benefit payments, including refunds	(11,286,739)	(11,365,307)	(11,080,749)	(11,221,254)	(10,912,153)	(10,933,108)
Other	4,897	-	-	20,441	-	-
Net Change in Plan Fiduciary Net Position	(1,327,461)	34,039	3,554,895	(8,100,934)	(3,686,140)	11,084,410
Plan Fiduciary Net Position - Beginning of year	110,271,962	110,237,923	106,683,028	114,783,962	118,470,102	107,385,692
Plan Fiduciary Net Position - End of year	\$ 108,944,501	\$ 110,271,962	\$ 110,237,923	\$ 106,683,028	\$ 114,783,962	\$ 118,470,102
City's Net Pension Liability - Ending	\$ 34,386,909	\$ 32,389,639	\$ 31,735,319	\$ 29,887,984	\$ 18,465,919	\$ 12,640,462
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	76.01 %	77.30 %	77.65 %	78.12 %	86.14 %	90.36 %
Covered Payroll	\$ 6,380,656	\$ 6,204,481	\$ 7,420,404	\$ 7,491,549	\$ 8,903,144	\$ 9,187,685
City's Net Pension Liability as a Percentage of Covered Payroll	538.92 %	522.04 %	427.68 %	398.96 %	207.41 %	137.58 %

Notes to Schedule of Changes in the Net Pension Liability and Related Ratios - General Employees' Retirement System

The mortality table utilized in 2017 was the MP-2014 using a fully generational improvement scale (MP-2016), whereas the table utilized previously was the RP-2000 Male (unadjusted) and Female (unadjusted) Healthy Life Mortality Table, adjusted for mortality improvements to 2015 using projection scale AA. The discount rate in 2016 was adjusted from 8.00 to 7.75 percent. The discount rate in 2017 was adjusted from 7.75 to 7.50 percent.

*This schedule is being built prospectively until the required 10 years of data is presented.

See notes to required supplemental information.

City of Sterling Heights, Michigan

Required Supplemental Information

Schedule of Pension Contributions - General Employees' Retirement System

	Last Ten Fiscal Years Years Ended June 30									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 3,612,059	\$ 3,265,816	\$ 2,648,960	\$ 2,768,786	\$ 2,610,074	\$ 2,735,453	\$ 1,790,556	\$ 1,089,481	\$ 486,906	\$ 204,054
Contributions in relation to the actuarially determined contribution	<u>3,612,059</u>	<u>3,265,816</u>	<u>2,648,960</u>	<u>2,768,786</u>	<u>2,610,074</u>	<u>2,735,453</u>	<u>1,790,556</u>	<u>1,089,481</u>	<u>486,906</u>	<u>204,054</u>
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 6,380,656	\$ 6,204,481	\$ 7,420,404	\$ 7,491,549	\$ 8,903,144	\$ 9,187,685	\$ 12,375,670	\$ 13,709,541	\$ 1,500,778	\$ 14,794,008
Contributions as a Percentage of Covered Payroll	56.61 %	52.64 %	35.70 %	36.96 %	29.32 %	29.77 %	14.47 %	7.95 %	32.44 %	1.38 %

Notes to Schedule of Pension Contributions - General Employees' Retirement System

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution amounts are calculated as of June 30 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	15 years
Asset valuation method	Five-year smoothed market
Inflation	2.60 percent
Salary increase	3.50 to 11.25 percent including inflation
Investment rate of return	7.75 percent
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2017 valuation pursuant to an experience study of the period from 2011-2016
Mortality	RP-2014 Healthy Annuitant Mortality Table with blue-collar adjustments and extended via cubic spline adjusted backwards to 2006 with MP-2014 scale with future improvements using scale MP-2016
Other information	There were no benefit changes during the year.

City of Sterling Heights, Michigan

Required Supplemental Information Schedule of Pension Investment Returns General Employees' Retirement System*

**Last Six Fiscal Years
Years Ended June 30**

	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return - Net of investment expense	5.39 %	7.16 %	11.08 %	(0.24)%	3.40 %	17.90 %

*This schedule is being built prospectively until the required 10 years of data is presented

City of Sterling Heights, Michigan

Required Supplemental Information Schedule of Changes in the Net Pension Liability and Related Ratios Police and Fire Retirement System*

	Last Five Fiscal Years				
	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 4,116,668	\$ 3,380,879	\$ 3,118,370	\$ 4,566,392	\$ 3,745,877
Interest	24,500,149	23,166,857	23,330,680	21,627,043	20,597,428
Differences between expected and actual experience	2,866,838	2,689,692	(2,688,374)	4,075,015	5,363,325
Changes in assumptions	21,949,498	14,170,036	6,757,450	(60,488,228)	23,250,473
Benefit payments, including refunds	(23,083,898)	(24,296,503)	(22,414,879)	(19,003,317)	(18,772,663)
Net Change in Total Pension Liability	30,349,255	19,110,961	8,103,247	(49,223,095)	34,184,440
Total Pension Liability - Beginning of year	<u>328,495,966</u>	<u>309,385,005</u>	<u>301,281,758</u>	<u>350,504,853</u>	<u>316,320,413</u>
Total Pension Liability - End of year	<u>\$ 358,845,221</u>	<u>\$ 328,495,966</u>	<u>\$ 309,385,005</u>	<u>\$ 301,281,758</u>	<u>\$ 350,504,853</u>
Plan Fiduciary Net Position					
Contributions - Employer	\$ 10,103,803	\$ 8,297,370	\$ 7,994,747	\$ 7,986,312	\$ 7,953,970
Contributions - Member	1,857,374	2,038,119	1,660,858	1,538,401	1,297,931
Net investment income (loss)	14,613,943	19,084,405	22,479,683	(1,776,431)	9,106,541
Benefit payments, including refunds	(23,083,898)	(24,296,503)	(22,414,879)	(19,003,316)	(18,772,663)
Administrative expenses	(61,225)	(6,503)	(53,973)	(64,145)	(51,574)
Other	-	(259,392)	-	76,413	53,294
Net Change in Plan Fiduciary Net Position	3,429,997	4,857,496	9,666,436	(11,242,766)	(412,501)
Plan Fiduciary Net Position - Beginning of year	<u>206,639,692</u>	<u>201,782,196</u>	<u>192,115,760</u>	<u>203,358,526</u>	<u>203,771,027</u>
Plan Fiduciary Net Position - End of year	<u>\$ 210,069,689</u>	<u>\$ 206,639,692</u>	<u>\$ 201,782,196</u>	<u>\$ 192,115,760</u>	<u>\$ 203,358,526</u>
City's Net Pension Liability - Ending	<u>\$ 148,775,532</u>	<u>\$ 121,856,274</u>	<u>\$ 107,602,809</u>	<u>\$ 109,165,998</u>	<u>\$ 147,146,327</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	58.54 %	62.90 %	65.22 %	63.77 %	58.02 %
Covered Payroll	\$ 22,859,153	\$ 21,549,009	\$ 19,788,423	\$ 19,321,315	\$ 16,589,288
City's Net Pension Liability as a Percentage of Covered Payroll	650.84 %	565.48 %	543.77 %	565.00 %	887.00 %

Notes to Schedule of Changes in the Net Pension Liability and Related Ratios - Police and Fire Retirement System

The discount rate in 2019 was adjusted from 7.68 to 7.02 percent.

The discount rate in 2018 was adjusted from 7.75 to 7.68 percent. The mortality table utilized in 2018 was the RP-2014 with Generational MP-2017 improvement scale, whereas the table utilized previously was the RP-2000 Combined Healthy Mortality table projected to 2014.

The discount rate in 2017 was adjusted from 8.00 to 7.75 percent.

The discount rate in 2016 was adjusted from 6.30 to 8.00 percent. The mortality table utilized in 2016 was the RP-2000 Combined Healthy Mortality table projected to 2014, whereas the table utilized previously was the RP-2014 Health Annuitant Mortality table.

The discount rate in 2015 was adjusted from 6.67 to 6.30 percent. The mortality table utilized in 2015 was the RP-2014 Health Annuitant Mortality table, whereas the table utilized previously was the 1994 Uninsured Pension Mortality.

*This schedule is being built prospectively until the required 10 years of data is presented.

City of Sterling Heights, Michigan

Required Supplemental Information Schedule of Pension Contributions Police and Fire Retirement System

	Last Ten Fiscal Years Years Ended June 30									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 9,091,402	\$ 8,297,370	\$ 7,994,747	\$ 7,986,312	\$ 7,953,970	\$ 8,095,472	\$ 8,815,031	\$ 7,368,876	\$ 6,135,053	\$ 4,925,570
Contributions in relation to the actuarially determined contribution	10,103,803	8,297,370	7,994,747	7,986,312	7,953,970	8,095,472	8,815,031	7,368,876	6,135,053	4,925,570
Contribution Excess	\$ 1,012,401	\$ -								
Covered Payroll	\$ 22,859,153	\$ 21,549,009	\$ 16,589,288	\$ 15,378,745	\$ 14,300,045	\$ 14,671,724	\$ 19,213,007	\$ 22,432,921	\$ 22,510,638	\$ 22,064,557
Contributions as a Percentage of Covered Payroll	44.20 %	38.50 %	48.19 %	51.93 %	55.62 %	55.18 %	45.88 %	32.85 %	27.25 %	22.32 %

Notes to Schedule of Pension Contributions - Police and Fire Retirement System

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution amounts are calculated as of June 30 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method

Amortization method

Level percent of payroll, closed

Remaining amortization

24 years

Asset valuation method

Four-year smoothed market

Inflation

2.00 percent

Salary increase

3.00 to 20.10 percent including inflation

Investment rate of return

7.75 percent

Retirement age

Experience-based table of rates that are specific

City of Sterling Heights, Michigan

Required Supplemental Information Schedule of Pension Investment Returns Police and Fire Retirement System*

**Last Six Fiscal Years
Years Ended June 30**

	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return - Net of investment expense	7.15 %	10.22 %	12.70 %	(0.40)%	4.90 %	19.06 %

*This schedule is being built prospectively until the required 10 years of data is presented.

City of Sterling Heights, Michigan

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

	Last Three Fiscal Years		
	2019	2018	2017
Total OPEB Liability			
Service cost	\$ 1,719,869	\$ 1,882,705	\$ 2,001,128
Interest	14,979,531	14,695,533	14,177,069
Differences between expected and actual experience	(5,425,052)	(3,926,583)	(380,735)
Changes in assumptions	5,723,906	-	5,411,956
Benefit payments, including refunds	(9,824,162)	(8,212,223)	(8,447,897)
Net Change in Total OPEB Liability	7,174,092	4,439,432	12,761,521
Total OPEB Liability - Beginning of year	203,544,627	199,105,195	186,343,674
Total OPEB Liability - End of year	\$ 210,718,719	\$ 203,544,627	\$ 199,105,195
Plan Fiduciary Net Position			
Contributions - Employer	\$ 11,452,950	\$ 11,452,950	\$ 11,452,950
Contributions - Members	200,196	174,683	12,822
Net investment income	6,082,507	7,950,032	11,360,581
Benefit payments, including refunds	(9,824,162)	(8,752,335)	(8,447,897)
Other	-	-	10,572
Net Change in Plan Fiduciary Net Position	7,911,491	10,825,330	14,389,028
Plan Fiduciary Net Position - Beginning of year	112,075,196	101,249,866	86,860,838
Plan Fiduciary Net Position - End of year	\$ 119,986,687	\$ 112,075,196	\$ 101,249,866
Net OPEB Liability - Ending	\$ 90,732,032	\$ 91,469,431	\$ 97,855,329
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	56.94 %	55.06 %	50.85 %
Covered Payroll	\$ 27,050,738	\$ 27,014,605	\$ 28,386,397
Net OPEB Liability as a Percentage of Covered Payroll	335.41 %	338.59 %	344.73 %

Notes to Schedule of Changes in the Net OPEB Liability and Related Ratios - Retiree Medical Benefits Trust

Assumed salary increases (including inflation) were adjusted in 2019 to a range of 3.5 to 11.25 percent from 3.00 to 3.25 percent.

The discount rate in 2017 was adjusted from 7.75 to 7.50 percent. The mortality table utilized in 2017 was the RP-2014, whereas the table utilized previously was the RP-2000 Combined Healthy Mortality table projected to 2015.

*This schedule is being built prospectively until the required 10 years of data is presented.

City of Sterling Heights, Michigan

Required Supplemental Information Schedule of OPEB Contributions Retiree Medical Benefits Trust

	Last Ten Fiscal Years Years Ended June 30									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 10,553,939	\$ 10,637,102	\$ 11,452,950	\$ 11,572,635	\$ 12,334,370	\$ 12,195,350	\$ 11,984,780	\$ 11,523,820	\$ 12,070,700	\$ 11,604,200
Contributions in relation to the actuarially determined contribution	<u>11,452,950</u>	<u>11,452,950</u>	<u>11,452,950</u>	<u>12,584,830</u>	<u>12,334,370</u>	<u>12,195,350</u>	<u>11,984,780</u>	<u>11,523,820</u>	<u>12,070,700</u>	<u>11,604,200</u>
Contribution Excess	\$ 899,011	\$ 815,848	\$ -	\$ 1,012,195	\$ -					
Covered Payroll	\$ 27,050,738	\$ 27,014,605	\$ 28,386,397	\$ 35,568,006	\$ 35,567,006	\$ 40,887,900	\$ 40,887,900	\$ 43,400,000	\$ 43,400,000	\$ 46,814,550
Contributions as a Percentage of Covered Payroll	42.34 %	42.40 %	40.35 %	35.38 %	34.68 %	29.83 %	29.31 %	26.55 %	27.81 %	24.79 %

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	25 years
Asset valuation method	Market value of assets
Inflation	No explicit price inflation assumption used
Healthcare cost trend rates	Initial trend of 9.00 percent gradually decreasing to an ultimate trend rate of 3.50 percent
Salary increase	3.75 to 20.00 percent, including inflation
Investment rate of return	7.75 percent, net of OPEB plan investment expense, including inflation
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Healthy Annuitant Tables for males and females projected to 2015 using Scale AA
Other information	Liabilities increased by 2 percent for excise tax

City of Sterling Heights, Michigan

Required Supplemental Information Schedule of OPEB Investment Returns*

	Last Three Fiscal Years Years Ended June 30		
	2019	2018	2017
Annual money-weighted rate of return - Net of investment expense	5.65 %	7.77 %	12.86 %

*This schedule is being built prospectively until the required 10 years of data is presented.

City of Sterling Heights, Michigan

Notes to Required Supplemental Information

June 30, 2019

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, 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:

- (1) 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.
- (2) A public hearing is conducted to obtain taxpayer comments.
- (3) Prior to May 10, the budget is legally adopted by the City Council through the adoption of the appropriation ordinance.
- (4) The city manager is authorized to transfer budgeted amounts within budgetary centers (activity); however, any revisions that alter the total expenditure of any budget 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.

Excess of Expenditures over Appropriations in Budgeted Funds

During the year, the City of Sterling Heights, Michigan incurred expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual	Variance
Local Roads Fund - Public works	\$ 2,244,870	\$ 2,447,171	\$ (202,301)
Local Roads Fund - Capital outlay	5,128,790	5,255,060	(126,270)
Indigent Defense Fund - Capital outlay	40,880	43,932	(3,052)
Road Bond Debt Retirement	3,258,100	3,258,131	(31)
Land and Water Conservatism	65,170	68,010	(2,840)

Other Financial and Supplemental Information

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Nonmajor Governmental Funds Fund Descriptions

Special Revenue Funds

CDBG

The Community Development Block Grant Fund accounts for federal grant funds received from the U.S. Department of Housing and Urban Development for the purpose of developing a viable urban community by providing economic opportunities principally for persons of low and moderate income.

Major Roads

The Major Roads Fund accounts for the resources of state gas and weight tax revenue that is restricted for use on major streets.

Local Roads

The Local Roads Fund accounts for the resources of property tax revenue and state gas and weight tax revenue that is restricted for use on local streets.

Public Safety Forfeiture

The Public Safety Forfeiture Fund accounts for the resources from seized monies and the proceeds from the sale of forfeited property.

Neighborhood Stabilization Program

The Neighborhood Stabilization Program Fund accounts for federal grant funds received from the U.S. Department of Housing and Urban Development for the purpose of assisting governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within the community.

Michigan Indigent Defense Commission

The Michigan Indigent Defense Commission Fund accounts for state grants received for the purpose of assisting governments to provide indigent defendants in criminal cases with effective assistance of counsel.

Debt Service Funds

Road Bond Debt Retirement

The Road Bond Debt Retirement Fund accounts for revenue accumulated to pay principal and interest on outstanding debt associated with various road and infrastructure assets.

General Drain Debt, Voted Tax GO Debt, and Limited Tax GO Debt

The General Drain Debt, Voted Tax GO Debt, and Limited Tax GO Debt funds account for the revenue accumulated to pay principal and interest on outstanding debt associated with various public improvements.

Capital Project Funds

Land and Water Conservation

The Land and Water Conservation Fund accounts for the resources for the construction, development, and acquisition of land for the City's park system.

Clinton River Restoration

The Clinton River Restoration Fund 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

Other Financial and Supplemental Information

Nonmajor Governmental Funds

Fund Descriptions (Continued)

General Improvements

The General Improvements Fund 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.

Road Bond Construction

The Road Bond Construction Fund accounts for the proceeds of bond issues and all other resources used for the purpose of construction activity for roads and storm drains.

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2019

	Special Revenue Funds												Debt Service Funds						Capital Project Funds						
	CDBG	Major Roads	Local Roads	Public Safety Forfeiture	Neighborhood Stabilization Program	Michigan Indigent Defense Commission	Total Special Revenue Funds	General Drain Debt	Road Bond Debt Retirement		Voted Tax GO Debt	Limited Tax GO Debt	Total Debt Service Funds	Clinton River Restoration	Land and Water Conservation	General Improvements	Road Bond Construction	Total Capital Project Funds	Total						
Assets																									
Cash and cash equivalents	\$ -	\$ 3,171,607	\$ 1,999,358	\$ 827,523	\$ -	\$ 156,629	\$ 6,155,117	\$ 43,016	\$ 284,786	\$ 14,712	\$ 291	\$ 342,805	\$ -	\$ 171,777	\$ 3,609,908	\$ 322,119	\$ 4,103,804	\$ 10,601,726							
Investments		\$ 5,206,411	\$ 1,484,011				\$ 6,690,422																		
Receivables:																									
Special assessments receivable			61,479						1,214,884																
Accrued interest receivable			2,614						63,152																
Due from other governmental units		257,709	1,614,826	581,681		593			2,454,809																
Due from other funds			376,325		16,717				393,042																
Inventories					5,182				5,182																
Prepaid costs and other assets			2,233,415						2,233,415																
Restricted assets - Restricted cash and cash equivalents																									
Rehabilitation loans																									
	1,481,672																								
Total assets	\$ 1,739,381	\$ 12,602,584	\$ 4,129,143	\$ 849,422	\$ 593	\$ 156,629	\$ 19,477,752	\$ 43,016	\$ 1,562,822	\$ 14,712	\$ 291	\$ 1,620,841	\$ 246,435	\$ 171,777	\$ 7,617,640	\$ 2,443,212	\$ 10,479,064	\$ 31,577,657							
Liabilities																									
Accounts payable	\$ 126,913	\$ 810,191	\$ 1,059,278	\$ 14,507	\$ 512	\$ 43,346	\$ 2,054,747	\$ -	\$ 322	\$ -	\$ 322	\$ 81,435	\$ 2,866	\$ 604,359	\$ 136,182	\$ 824,842	\$ 2,879,911								
Due to other funds	130,796	-	656,603		81	1,266	788,746																		
Accrued and other liabilities	-	188,681	171,655				360,336		651			651	165,000	7,004	12,889	83,618	268,511	629,498							
Unearned revenue - Unearned miscellaneous revenue	1,481,672	-	-	-	-	85,104	1,566,776	-	-	-	-	-	-	-	2,467,874	-	2,467,874	4,034,650							
Total liabilities	1,739,381	998,872	1,887,536	14,507	593	129,716	4,770,605	-	973	-	973	246,435	9,870	3,143,980	286,460	3,686,745	8,458,323								
Deferred Inflows of Resources - Unavailable revenue																									
	-	-	58,404	-	-	-	58,404	-	1,091,973	-	-	1,091,973	-	-											
Total liabilities and deferred inflows of resources	1,739,381	998,872	1,945,940	14,507	593	129,716	4,829,009	-	1,091,973	973	-	1,092,946	246,435	9,870	3,155,699	286,460	3,698,464	9,620,419							
Fund Balances																									
Nonspendable	-	2,233,415	-	5,182	-	-	2,238,597	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,260,786	1,260,786	3,499,383	
Restricted:																									
Roads	-	9,370,297	2,183,203	-	-	-	11,553,500	-	-	-	-	-	-	-	-	-	-	-	-	-	895,966	895,966	12,449,466		
Public safety	-	-	-	829,733	-	-	829,733	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	829,733		
Debt service	-	-	-	-	-	-	-	43,016	470,849	13,739	-	527,604	-	-	-	-	-	-	-	-	-	-	527,604		
Community service	-	-	-	-	-	26,913	26,913	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	26,913		
Committed - Park acquisitions and improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	161,907	-	-	161,907	161,907	161,907					
Assigned	-	-	-	-	-	-	-	-	-	-	291	291	-	-	4,461,941	-	4,461,941	4,461,941	4,462,232						
Total fund balances	-	11,603,712	2,183,203	834,915	-	26,913	14,648,743	43,016	470,849	13,739	291	527,895	-	161,907	4,461,941	2,156,752	6,780,600	21,957,238							
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,739,381	\$ 12,602,584	\$ 4,129,143	\$ 849,422	\$ 593	\$ 156,629	\$ 19,477,752	\$ 43,016	\$ 1,562,822	\$ 14,712	\$ 291	\$ 1,620,841	\$ 246,435	\$ 171,777	\$ 7,617,640	\$ 2,443,212	\$ 10,479,064	\$ 31,577,657							

City of Sterling Heights, Michigan

Other Financial and Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

Year Ended June 30, 2019

	Special Revenue Funds													Debt Service Funds					Capital Project Funds				
	CDBG	Major Roads	Local Roads	Public Safety Forfeiture	Neighborhood Stabilization Program	Michigan Indigent Defense Commission	Total Special Revenue Funds	General Drain Debt	Road Bond Debt Retirement		Voted Tax GO Debt	Limited Tax GO Debt	Total Debt Service Funds	Clinton River Restoration	Land and Water Conservation	General Improvements	Road Bond Construction	Total Capital Project Funds	Total				
									Drain	Retirement													
Revenue																							
Property taxes - Property Special assessments	\$ -	\$ -	\$ 3,332,576	\$ 3,093	\$ -	\$ -	\$ 3,332,576	\$ 689	\$ 257,297	\$ 414,069	\$ -	\$ 414,758	\$ 257,297	\$ -	\$ -	\$ 3,414	\$ -	\$ 3,414	\$ 3,747,334				
Intergovernmental:																							
Federal sources	579,367	-	74,374	158,729	6,626	-	819,096	-	-	-	-	-	179,034	-	710,610	-	889,644	1,708,740					
State sources	-	10,315,072	3,562,535	329,083	-	95,821	14,302,511	-	-	35,401	-	35,401	-	-	30,000	-	30,000	14,367,912					
Investment income	-	88,253	51,380	19,247	-	483	159,363	1,006	18,230	6,876	8	26,120	-	5,689	122,898	108,643	237,230	422,713					
Other revenue	-	303,989	67,890	8,439	-	-	380,318	-	97,378	-	-	97,378	-	-	637,802	-	637,802	1,115,498					
Total revenue	579,367	10,707,314	7,091,848	515,498	6,626	96,304	18,996,957	1,695	372,905	456,346	8	830,954	179,034	5,689	1,504,724	108,643	1,798,090	21,626,001					
Expenditures																							
Current services:																							
41A District Court	-	-	-	-	-	51,889	51,889	-	-	-	-	-	-	-	-	-	-	-	51,889				
Public safety	-	-	-	217,787	-	-	217,787	-	-	-	-	-	-	-	-	-	-	-	217,787				
Public works	336,678	2,748,221	2,447,171	-	6,626	-	5,538,696	-	-	-	-	-	-	-	-	-	-	-	5,538,696				
General expenditures	-	-	-	-	-	-	-	2,600	500	725	3,825	-	-	-	-	-	-	-	3,825				
Recreation and culture	-	-	-	-	-	-	-	-	-	-	-	-	-	5,500	-	-	-	-	5,500				
Capital outlay	242,689	8,019,395	5,255,060	190,983	-	43,932	13,752,059	-	3,258,131	493,160	1,697,400	5,448,691	-	179,034	68,010	6,611,693	6,445,595	13,304,332	27,056,391				
Debt service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,448,691				
Total expenditures	579,367	10,767,616	7,702,231	408,770	6,626	95,821	19,560,431	-	3,260,731	493,660	1,698,125	5,452,516	179,034	73,510	6,611,693	6,445,595	13,309,832	38,322,779					
Excess of Revenue (Under) Over Expenditures	-	(60,302)	(610,383)	106,728	-	483	(563,474)	1,695	(2,887,826)	(37,314)	(1,698,117)	(4,621,562)	-	(67,821)	(5,106,969)	(6,336,952)	(11,511,742)	(16,696,778)					
Other Financing Sources (Uses)																							
Transfers in	-	9,000,000	1,500,000	-	-	26,430	10,526,430	-	2,500,000	-	1,698,060	4,198,060	-	-	5,716,040	-	5,716,040	20,440,530					
Transfers out	-	(2,500,000)	-	-	-	-	(2,500,000)	-	-	-	-	-	-	-	-	-	-	(2,500,000)					
Sale of capital assets	-	-	-	-	-	-	-	-	-	-	-	-	-	39,292	-	-	-	39,292					
Total other financing sources	-	6,500,000	1,500,000	-	-	26,430	8,026,430	-	2,500,000	-	1,698,060	4,198,060	-	39,292	5,716,040	-	5,755,332	17,979,822					
Net Change in Fund Balances	-	6,439,698	889,617	106,728	-	26,913	7,462,956	1,695	(387,826)	(37,314)	(57)	(423,502)	-	(28,529)	609,071	(6,336,952)	(5,756,410)	1,283,044					
Fund Balances - Beginning of year	-	5,164,014	1,293,586	728,187	-	-	7,185,787	41,321	858,675	51,053	348	951,397	-	190,436	3,852,870	8,493,704	12,537,010	20,674,194					
Fund Balances - End of year	\$ -	\$ 11,603,712	\$ 2,183,203	\$ 834,915	\$ -	\$ 26,913	\$ 14,648,743	\$ 43,016	\$ 470,849	\$ 13,739	\$ 291	\$ 527,895	\$ -	\$ 161,907	\$ 4,461,941	\$ 2,156,752	\$ 6,780,600	\$ 21,957,238					

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedules - Nonmajor Governmental Funds CDBG

Year Ended June 30, 2019

	<u>Original Budget (Unaudited)</u>	<u>Amended Budget (Unaudited)</u>	<u>Actual</u>	<u>Variance with Amended Budget (Unaudited)</u>
Revenue - Federal grants	\$ 961,930	\$ 658,310	\$ 579,367	\$ (78,943)
Expenditures - Community development	<u>961,930</u>	<u>658,310</u>	<u>579,367</u>	<u>78,943</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance - Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedules - Nonmajor Governmental Funds (Continued) Major Roads

Year Ended June 30, 2019

	Original Budget (Unaudited)	Amended Budget (Unaudited)	Actual	Variance with Amended Budget (Unaudited)
Revenue				
Intergovernmental	\$ 8,449,710	\$ 10,200,280	\$ 10,315,072	\$ 114,792
Investment income	30,000	80,500	88,253	7,753
Other revenue	<u>156,000</u>	<u>228,870</u>	<u>303,989</u>	<u>75,119</u>
Total revenue	8,635,710	10,509,650	10,707,314	197,664
Expenditures				
Current services - Public works	2,502,120	2,758,420	2,748,221	10,199
Capital outlay	<u>10,075,000</u>	<u>14,186,940</u>	<u>8,019,395</u>	<u>6,167,545</u>
Total expenditures	12,577,120	16,945,360	10,767,616	6,177,744
Excess of Expenditures Over Revenue	(3,941,410)	(6,435,710)	(60,302)	6,375,408
Other Financing Sources (Uses)				
Transfers in	7,000,000	9,000,000	9,000,000	-
Transfers out	<u>(2,500,000)</u>	<u>(2,500,000)</u>	<u>(2,500,000)</u>	<u>-</u>
Total other financing sources	4,500,000	6,500,000	6,500,000	-
Net Change in Fund Balance	558,590	64,290	6,439,698	6,375,408
Fund Balance - Beginning of year	5,164,014	5,164,014	5,164,014	-
Fund Balance - End of year	\$ 5,722,604	\$ 5,228,304	\$ 11,603,712	\$ 6,375,408

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedules - Nonmajor Governmental Funds (Continued) Local Roads

Year Ended June 30, 2019

	Original Budget (Unaudited)	Amended Budget (Unaudited)	Actual	Variance with Amended Budget (Unaudited)
Revenue				
Property taxes	\$ 3,365,190	\$ 3,345,190	\$ 3,332,576	\$ (12,614)
Special assessments	3,090	3,090	3,093	3
Intergovernmental	3,123,520	3,551,120	3,636,909	85,789
Investment income	35,000	38,500	51,380	12,880
Other revenue	52,770	69,470	67,890	(1,580)
Total revenue	6,579,570	7,007,370	7,091,848	84,478
Expenditures				
Current services - Public works	2,384,570	2,244,870	2,447,171	(202,301)
Capital outlay	4,230,090	5,128,790	5,255,060	(126,270)
Total expenditures	6,614,660	7,373,660	7,702,231	(328,571)
Excess of Expenditures Over Revenue	(35,090)	(366,290)	(610,383)	(244,093)
Other Financing Sources - Transfers in	-	1,500,000	1,500,000	-
Net Change in Fund Balance	(35,090)	1,133,710	889,617	(244,093)
Fund Balance - Beginning of year	1,293,586	1,293,586	1,293,586	-
Fund Balance - End of year	\$ 1,258,496	\$ 2,427,296	\$ 2,183,203	\$ (244,093)

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedules - Nonmajor Governmental Funds (Continued) Public Safety Forfeiture

Year Ended June 30, 2019

	Original Budget (Unaudited)	Amended Budget (Unaudited)	Actual	Variance with Amended Budget (Unaudited)
Revenue				
State sources	\$ 29,800	\$ 458,540	\$ 487,812	\$ 29,272
Investment income	4,880	15,850	19,247	3,397
Other revenue	-	7,010	8,439	1,429
Total revenue	34,680	481,400	515,498	34,098
Expenditures				
Public safety	149,230	256,680	217,787	38,893
Capital outlay	313,320	250,470	190,983	59,487
Total expenditures	462,550	507,150	408,770	98,380
Net Change in Fund Balance	(427,870)	(25,750)	106,728	132,478
Fund Balance - Beginning of year	728,187	728,187	728,187	-
Fund Balance - End of year	\$ 300,317	\$ 702,437	\$ 834,915	\$ 132,478

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedules - Nonmajor Governmental Funds (Continued) Neighborhood Stabilization Program

Year Ended June 30, 2019

	Original Budget (Unaudited)	Amended Budget (Unaudited)	Actual	Variance with Amended Budget (Unaudited)
Revenue - Federal grants	\$ -	\$ 19,440	\$ 6,626	\$ (12,814)
Expenditures - Public works	<hr/> - -	<hr/> 19,440	<hr/> 6,626	<hr/> 12,814
Net Change in Fund Balance	- -	- -	- -	- -
Fund Balance - Beginning of year	<hr/> - -	<hr/> - -	<hr/> - -	<hr/> - -
Fund Balance - End of year	<hr/> \$ -	<hr/> \$ -	<hr/> \$ -	<hr/> \$ -

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedules - Nonmajor Governmental Funds (Continued) Michigan Indigent Defense Commission

Year Ended June 30, 2019

	Original Budget (Unaudited)	Amended Budget (Unaudited)	Actual	Variance with Amended Budget (Unaudited)
Revenue				
State sources	\$ -	\$ 241,230	\$ 95,821	\$ (145,409)
Investment income	-	500	483	(17)
Total revenue	-	241,730	96,304	(145,426)
Expenditures				
Current services	-	227,280	51,889	175,391
Capital outlay	-	40,880	43,932	(3,052)
Total expenditures	-	268,160	95,821	172,339
Excess of Revenue (Under) Over Expenditures	-	(26,430)	483	26,913
Other Financing Sources - Transfers in	-	26,430	26,430	-
Net Change in Fund Balance	-	-	26,913	26,913
Fund Balance - Beginning of year	-	-	-	-
Fund Balance - End of year	\$ -	\$ -	\$ 26,913	\$ 26,913

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedules - Nonmajor Governmental Funds (Continued) General Drain Debt

Year Ended June 30, 2019

	Original Budget (Unaudited)	Amended Budget (Unaudited)	Actual	Variance with Amended Budget (Unaudited)
Revenue				
Property taxes	\$ 500	\$ 500	\$ 689	\$ 189
Investment income	480	480	1,006	526
Total revenue	980	980	1,695	715
Expenditures	-	-	-	-
Net Change in Fund Balance	980	980	1,695	715
Fund Balance - Beginning of year	41,321	41,321	41,321	-
Fund Balance - End of year	\$ 42,301	\$ 42,301	\$ 43,016	\$ 715

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedules - Nonmajor Governmental Funds (Continued) Road Bond Debt Retirement

Year Ended June 30, 2019

	Original Budget (Unaudited)	Amended Budget (Unaudited)	Actual	Variance with Amended Budget (Unaudited)
Revenue				
Special assessments	\$ 142,030	\$ 156,030	\$ 257,297	\$ 101,267
Investment income	8,800	19,800	18,230	(1,570)
Other revenue	<u>101,960</u>	<u>101,960</u>	<u>97,378</u>	<u>(4,582)</u>
Total revenue	252,790	277,790	372,905	95,115
Expenditures				
Current services	2,100	2,600	2,600	-
Debt service	<u>3,196,460</u>	<u>3,258,100</u>	<u>3,258,131</u>	<u>(31)</u>
Total expenditures	3,198,560	3,260,700	3,260,731	(31)
Excess of Expenditures Over Revenue	(2,945,770)	(2,982,910)	(2,887,826)	95,084
Other Financing Sources - Transfers in	2,500,000	2,500,000	2,500,000	-
Net Change in Fund Balance	(445,770)	(482,910)	(387,826)	95,084
Fund Balance - Beginning of year	858,675	858,675	858,675	-
Fund Balance - End of year	<u>\$ 412,905</u>	<u>\$ 375,765</u>	<u>\$ 470,849</u>	<u>\$ 95,084</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedules - Nonmajor Governmental Funds (Continued) Voted Tax GO Debt

Year Ended June 30, 2019

	Original Budget (Unaudited)	Amended Budget (Unaudited)	Actual	Variance with Amended Budget (Unaudited)
Revenue				
Property taxes	\$ 416,100	\$ 416,100	\$ 414,069	\$ (2,031)
Intergovernmental	29,710	29,710	35,401	5,691
Investment income	3,500	3,500	6,876	3,376
Total revenue	449,310	449,310	456,346	7,036
Expenditures				
Current services	500	500	500	-
Debt service	493,160	493,160	493,160	-
Total expenditures	493,660	493,660	493,660	-
Net Change in Fund Balance	(44,350)	(44,350)	(37,314)	7,036
Fund Balance - Beginning of year	51,053	51,053	51,053	-
Fund Balance - End of year	\$ 6,703	\$ 6,703	\$ 13,739	\$ 7,036

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedules - Nonmajor Governmental Funds (Continued) Limited Tax GO Debt

Year Ended June 30, 2019

	Original Budget (Unaudited)	Amended Budget (Unaudited)	Actual	Variance with Amended Budget (Unaudited)
Revenue - Investment income	\$ -	\$ -	\$ 8	\$ 8
Expenditures				
Current services	460	730	725	5
Debt service	1,697,830	1,697,400	1,697,400	-
Total expenditures	<u>1,698,290</u>	<u>1,698,130</u>	<u>1,698,125</u>	<u>5</u>
Excess of Expenditures Over Revenue	(1,698,290)	(1,698,130)	(1,698,117)	13
Other Financing Sources - Transfers in	1,698,060	1,698,060	1,698,060	-
Net Change in Fund Balance	(230)	(70)	(57)	13
Fund Balance - Beginning of year	348	348	348	-
Fund Balance - End of year	<u>\$ 118</u>	<u>\$ 278</u>	<u>\$ 291</u>	<u>\$ 13</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedules - Nonmajor Governmental Funds (Continued) Clinton River Restoration

Year Ended June 30, 2019

	Original Budget (Unaudited)	Amended Budget (Unaudited)	Actual	Variance with Amended Budget (Unaudited)
Revenue - Federal grants	\$ -	\$ 179,040	\$ 179,034	\$ (6)
Expenditures - Capital outlay	-	179,040	179,034	6
Net Change in Fund Balance	-	-	-	-
Fund Balance - Beginning of year	-	-	-	-
Fund Balance - End of year	\$ -	\$ -	\$ -	\$ -

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedules - Nonmajor Governmental Funds (Continued) Land and Water Conservation

Year Ended June 30, 2019

	Original Budget (Unaudited)	Amended Budget (Unaudited)	Actual	Variance with Amended Budget (Unaudited)
Revenue - Investment income	\$ 4,000	\$ 5,690	\$ 5,689	\$ (1)
Expenditures				
Current services	-	5,500	5,500	-
Capital outlay	-	65,170	68,010	(2,840)
Total expenditures	-	70,670	73,510	(2,840)
Excess of Revenue Over (Under) Expenditures	4,000	(64,980)	(67,821)	(2,841)
Other Financing Sources - Sale of capital assets	-	39,290	39,292	2
Net Change in Fund Balance	4,000	(25,690)	(28,529)	(2,839)
Fund Balance - Beginning of year	190,436	190,436	190,436	-
Fund Balance - End of year	\$ 194,436	\$ 164,746	\$ 161,907	\$ (2,839)

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedules - Nonmajor Governmental Funds (Continued) General Improvements

Year Ended June 30, 2019

	Original Budget (Unaudited)	Amended Budget (Unaudited)	Actual	Variance with Amended Budget (Unaudited)
Revenue				
Special assessments	\$ 930	\$ 930	\$ 3,414	\$ 2,484
Intergovernmental	-	1,289,810	740,610	(549,200)
Investment income	20,050	120,050	122,898	2,848
Other revenue	140,640	371,640	637,802	266,162
Total revenue	161,620	1,782,430	1,504,724	(277,706)
Expenditures - Capital outlay	4,771,540	9,749,760	6,611,693	3,138,067
Excess of Expenditures Over Revenue	(4,609,920)	(7,967,330)	(5,106,969)	2,860,361
Other Financing Sources - Transfers in	5,716,040	5,716,040	5,716,040	-
Net Change in Fund Balance	1,106,120	(2,251,290)	609,071	2,860,361
Fund Balance - Beginning of year	3,852,870	3,852,870	3,852,870	-
Fund Balance - End of year	\$ 4,958,990	\$ 1,601,580	\$ 4,461,941	\$ 2,860,361

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedules - Nonmajor Governmental Funds (Continued) Road Bond Construction

Year Ended June 30, 2019

	Original Budget (Unaudited)	Amended Budget (Unaudited)	Actual	Variance with Amended Budget (Unaudited)
Revenue - Investment income	\$ 30,000	\$ 107,000	\$ 108,643	\$ 1,643
Expenditures - Capital outlay	4,400,000	7,615,990	6,445,595	1,170,395
Net Change in Fund Balance	(4,370,000)	(7,508,990)	(6,336,952)	1,172,038
Fund Balances - Beginning of year	8,493,704	8,493,704	8,493,704	-
Fund Balances - End of year	\$ 4,123,704	\$ 984,714	\$ 2,156,752	\$ 1,172,038

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Fiduciary Net Position Trust Funds

June 30, 2019

	Pension and Other Retirement Benefits Funds			
	General Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Total
Assets				
Cash and cash equivalents	\$ 2,136,881	\$ 3,993,927	\$ 2,410,106	\$ 8,540,914
Investments:				
Government securities	10,290,062	19,461,465	8,325,596	38,077,123
Mutual funds	8,562,119	18,333,133	8,259,641	35,154,893
Common and preferred stocks	79,300,043	156,775,728	95,768,997	331,844,768
Corporate bonds	8,828,086	11,067,485	6,765,304	26,660,875
Private real estate	-	824,666	-	824,666
Due from primary government	4,944	-	-	4,944
Total assets	109,122,135	210,456,404	121,529,644	441,108,183
Liabilities				
Accounts payable	172,691	386,715	530,495	1,089,901
Due to other governmental units	-	-	347,169	347,169
Accrued and other liabilities	-	-	34,975	34,975
Provision for claims	-	-	630,318	630,318
Total liabilities	172,691	386,715	1,542,957	2,102,363
Net Position - Restricted for pension and OPEB	\$ 108,949,444	\$ 210,069,689	\$ 119,986,687	\$ 439,005,820

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Fiduciary Net Position Trust Funds

Year Ended June 30, 2019

Pension and Other Retirement Benefits Funds				
	General Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Total
Additions				
Investment income (loss):				
Interest and dividends	\$ 3,943,573	\$ 6,229,135	\$ 3,679,128	\$ 13,851,836
Net adjustment to fair value of investments	2,572,920	10,241,045	3,179,449	15,993,414
Less investment-related expenses	<u>(698,241)</u>	<u>(1,917,460)</u>	<u>(776,070)</u>	<u>(3,391,771)</u>
Net investment income	5,818,252	14,552,720	6,082,507	26,453,479
Contributions:				
Employer contributions	3,616,954	10,103,803	11,452,950	25,173,707
Employee contributions	529,015	1,844,301	200,196	2,573,512
Purchase of prior year's service credits	-	13,072	-	13,072
Total additions - Net	9,964,221	26,513,896	17,735,653	54,213,770
Deductions				
Benefit payments	11,133,561	22,211,338	9,824,162	43,169,061
Withdrawals and refunds of contributions	<u>153,178</u>	<u>872,561</u>	<u>-</u>	<u>1,025,739</u>
Total deductions	11,286,739	23,083,899	9,824,162	44,194,800
Net Change in Net Position - Restricted for pension and OPEB	(1,322,518)	3,429,997	7,911,491	10,018,970
Net Position - Restricted for pension and OPEB				
- Beginning of year	110,271,962	206,639,692	112,075,196	428,986,850
- End of year	<u>\$ 108,949,444</u>	<u>\$ 210,069,689</u>	<u>\$ 119,986,687</u>	<u>\$ 439,005,820</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Assets and Liabilities Agency Funds

June 30, 2019

	Tax Collection	General Agency	Total
Assets			
Cash and cash equivalents	\$ -	\$ 1,409,205	\$ 1,409,205
Investments - At fair value - Short-term investments funds	-	4,101,605	4,101,605
Total assets	\$ -	\$ 5,510,810	\$ 5,510,810
Liabilities			
Due to other governmental units	\$ -	\$ 60,833	\$ 60,833
Accrued and other liabilities	-	1,624,224	1,624,224
Cash and bond deposits	-	3,825,753	3,825,753
Total liabilities	\$ -	\$ 5,510,810	\$ 5,510,810

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Assets and Liabilities Agency Funds

Year Ended June 30, 2019

Tax Collection				
	July 1, 2018	Additions	Deductions	June 30, 2019
Assets - Cash and cash equivalents				
	\$ 71,184	\$ 157,351,354	\$ (157,422,538)	\$ -
Liabilities				
Due to other governmental units	\$ 71,184	\$ 236,049,735	\$ (236,120,919)	\$ -
Accrued and other liabilities	-	602,546	(602,546)	-
Total liabilities	\$ 71,184	\$ 236,652,281	\$ (236,723,465)	\$ -
General Agency				
	July 1, 2018	Additions	Deductions	June 30, 2019
Assets				
Cash and cash equivalents	\$ 1,615,255	\$ 12,954,300	\$ (13,160,350)	\$ 1,409,205
Investments - At fair value - Short-term investment fund	3,563,331	11,091,343	(10,553,069)	4,101,605
Total assets	\$ 5,178,586	\$ 24,045,643	\$ (23,713,419)	\$ 5,510,810
Liabilities				
Due to other governmental units	\$ 24,292	\$ 23,176,176	\$ (23,139,635)	\$ 60,833
Accrued and other liabilities	1,417,212	1,706,786	(1,499,774)	1,624,224
Cash and bond deposits	3,737,082	4,780,917	(4,692,246)	3,825,753
Total liabilities	\$ 5,178,586	\$ 29,663,879	\$ (29,331,655)	\$ 5,510,810
Totals - All Agency Funds				
	July 1, 2018	Additions	Deductions	June 30, 2019
Assets				
Cash and cash equivalents	\$ 1,686,439	\$ 170,305,654	\$ (170,582,888)	\$ 1,409,205
Investments - Short-term investment fund	3,563,331	11,091,343	(10,553,069)	4,101,605
Total assets	\$ 5,249,770	\$ 181,396,997	\$ (181,135,957)	\$ 5,510,810
Liabilities				
Due to other governmental units	\$ 95,476	\$ 259,225,911	\$ (259,260,554)	\$ 60,833
Accrued and other liabilities	1,417,212	2,309,332	(2,102,320)	1,624,224
Cash and bond deposits	3,737,082	4,780,917	(4,692,246)	3,825,753
Total liabilities	\$ 5,249,770	\$ 266,316,160	\$ (266,055,120)	\$ 5,510,810

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.

City of Sterling Heights, Michigan

	As of June 30,			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Governmental Activities:				
Net investment in capital assets	\$ 169,230,936	\$ 166,882,162	\$ 163,744,453	\$ 159,678,093
Restricted	9,733,081	9,413,052	10,876,504	11,385,681
Unrestricted	<u>34,565,371</u>	<u>31,667,843</u>	<u>27,712,790</u>	<u>26,650,520</u>
Total net position	<u>\$ 213,529,388</u>	<u>\$ 207,963,057</u>	<u>\$ 202,333,747</u>	<u>\$ 197,714,294</u>
Business Type Activities:				
Net investment in capital assets	\$ 130,990,910	\$ 128,950,328	\$ 127,122,039	\$ 125,395,977
Restricted	8,308,749	8,369,375	9,424,998	9,596,925
Unrestricted	<u>25,732,829</u>	<u>24,334,830</u>	<u>22,170,126</u>	<u>20,362,360</u>
Total net position	<u>\$ 165,032,488</u>	<u>\$ 161,654,533</u>	<u>\$ 158,717,163</u>	<u>\$ 155,355,262</u>
Primary government in total:				
Net investment in capital assets	\$ 300,221,846	\$ 295,832,490	\$ 290,866,492	\$ 285,074,070
Restricted	18,041,830	17,782,427	20,301,502	20,982,606
Unrestricted	<u>60,298,200</u>	<u>56,002,673</u>	<u>49,882,916</u>	<u>47,012,880</u>
Total net position	<u>\$ 378,561,876</u>	<u>\$ 369,617,590</u>	<u>\$ 361,050,910</u>	<u>\$ 353,069,556</u>

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

(2) - GASB No. 75 was implemented with the fiscal year ended June 30, 2018

Net Position by Component

Last Ten Fiscal Years

June 30, 2019

As of June 30,

<u>2014</u>	<u>2015 (1)</u>	<u>2016</u>	<u>2017</u>	<u>2018 (2)</u>	<u>2019</u>
\$ 159,604,551	\$ 166,305,991	\$ 172,609,179	\$ 141,192,833	\$ 193,873,282	\$ 207,285,272
9,040,309	9,687,600	8,325,564	52,219,283	10,222,676	17,743,175
<u>24,290,676</u>	<u>(107,150,997)</u>	<u>(110,411,191)</u>	<u>(114,623,816)</u>	<u>(203,205,414)</u>	<u>(200,071,465)</u>
<u>\$ 192,935,536</u>	<u>\$ 68,842,594</u>	<u>\$ 70,523,552</u>	<u>\$ 78,788,300</u>	<u>\$ 890,544</u>	<u>\$ 24,956,982</u>
\$ 122,324,204	\$ 118,109,220	\$ 119,117,466	\$ 109,551,411	\$ 113,751,804	\$ 113,701,480
9,368,833	10,521,601	1,307,099	10,193,185	3,008,771	2,459,517
<u>14,888,421</u>	<u>9,948,067</u>	<u>14,617,172</u>	<u>12,974,017</u>	<u>7,879,223</u>	<u>6,537,347</u>
<u>\$ 146,581,458</u>	<u>\$ 138,578,888</u>	<u>\$ 135,041,737</u>	<u>\$ 132,718,613</u>	<u>\$ 124,639,798</u>	<u>\$ 122,698,344</u>
\$ 281,928,755	\$ 284,415,211	\$ 291,726,645	\$ 250,744,244	\$ 307,625,086	\$ 320,986,752
18,409,142	20,209,201	9,632,663	62,412,468	13,231,447	20,202,692
<u>39,179,097</u>	<u>(97,202,930)</u>	<u>(95,794,019)</u>	<u>(101,649,799)</u>	<u>(195,326,191)</u>	<u>(193,534,118)</u>
<u>\$ 339,516,994</u>	<u>\$ 207,421,482</u>	<u>\$ 205,565,289</u>	<u>\$ 211,506,913</u>	<u>\$ 125,530,342</u>	<u>\$ 147,655,326</u>

City of Sterling Heights, Michigan

	As of June 30,			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Expenses:				
Governmental activities				
General government	\$ 8,804,497	\$ 8,011,940	\$ 6,543,937	\$ 5,918,474
District Court	3,470,065	3,523,447	3,379,925	3,334,854
Public safety	52,695,852	53,740,479	54,994,001	51,345,058
Public works	25,269,096	26,062,500	23,959,824	22,852,033
Recreation and culture	5,695,827	5,617,090	5,291,332	4,891,039
Interest on long-term debt	1,086,571	1,192,797	1,081,347	1,099,714
Total governmental activities	<u>97,021,908</u>	<u>98,148,253</u>	<u>95,250,366</u>	<u>89,441,172</u>
Business-type activities - Water and sewer	<u>30,901,624</u>	<u>33,562,610</u>	<u>37,438,961</u>	<u>38,788,850</u>
Total primary government expenses	<u>127,923,532</u>	<u>131,710,863</u>	<u>132,689,327</u>	<u>128,230,022</u>
Program revenues:				
Governmental activities				
Charges for services				
General government	3,020,737	2,906,715	3,513,053	3,634,419
District Court	2,985,409	2,888,076	2,570,621	2,336,662
Public safety	1,629,846	1,695,612	1,519,175	1,558,701
Public works	2,545,211	2,295,345	3,563,445	2,533,213
Recreation and culture	948,463	982,981	807,387	677,068
Total charges for services	11,129,666	10,768,729	11,973,681	10,740,063
Operating grants and contributions	9,676,314	9,091,234	8,565,267	5,136,968
Capital grants and contributions	1,090,732	1,809,917	2,546,378	4,547,019
Total governmental activities program revenue	<u>21,896,712</u>	<u>21,669,880</u>	<u>23,085,326</u>	<u>20,424,050</u>
Business-type activities - Water and sewer:				
Charges for services	25,057,683	28,222,756	31,028,424	35,282,896
Operating grants and contributions	-	-	-	-
Capital grants and contributions	2,912,917	1,459,851	2,721,482	601,903
Total business-type activities program revenue	<u>27,970,600</u>	<u>29,682,607</u>	<u>33,749,906</u>	<u>35,884,799</u>
Total primary government program revenues	<u>49,867,312</u>	<u>51,352,487</u>	<u>56,835,232</u>	<u>56,308,849</u>
General revenues:				
Governmental activities				
Property taxes	56,801,307	59,196,747	53,247,883	51,643,869
State-shared revenues	9,057,434	9,057,434	10,094,387	10,342,983
Investment earnings	1,098,458	707,426	1,159,709	118,280
Insurance proceeds	16,318,640	-	-	-
Cable franchise fees	-	-	-	-
Miscellaneous	1,786,782	1,950,435	2,033,751	2,292,537
Total governmental activities general revenues	<u>85,062,621</u>	<u>70,912,042</u>	<u>66,535,730</u>	<u>64,397,669</u>
Business-type activities - Investment income	920,857	502,048	751,685	(457,850)
Total primary government	<u>85,983,478</u>	<u>71,414,090</u>	<u>67,287,415</u>	<u>63,939,819</u>
Change in net position				
Governmental activities	9,937,425	(5,566,331)	(5,629,310)	(4,619,453)
Business-type activities	(2,010,167)	(3,377,955)	(2,937,370)	(3,361,901)
Total primary government	<u>7,927,258</u>	<u>(8,944,286)</u>	<u>(8,566,680)</u>	<u>(7,981,354)</u>

Changes in Net Position

Last Ten Fiscal Years

June 30, 2019

As of June 30,

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
\$ 5,467,242	\$ 6,200,880	\$ 7,351,777	\$ 8,060,141	\$ 7,267,842	\$ 14,396,969
3,288,275	3,351,422	3,877,503	4,126,604	3,728,890	3,762,089
52,851,304	61,063,426	55,117,055	55,632,517	54,397,264	58,518,653
24,439,731	24,385,159	28,014,220	26,282,093	29,961,490	21,642,326
4,640,609	4,892,593	5,735,889	6,624,266	6,343,690	7,411,196
718,646	603,500	514,247	675,198	2,496,423	3,628,285
<u>91,405,807</u>	<u>100,496,980</u>	<u>100,610,691</u>	<u>101,400,819</u>	<u>104,195,599</u>	<u>109,359,518</u>
41,790,235	44,886,232	49,351,047	52,082,635	55,599,159	54,411,558
<u>133,196,042</u>	<u>145,383,212</u>	<u>149,961,738</u>	<u>153,483,454</u>	<u>159,794,758</u>	<u>163,771,076</u>
3,272,341	3,760,720	3,227,800	3,441,658	2,378,747	2,538,972
2,227,523	2,368,667	2,692,034	2,604,583	2,908,337	3,079,738
1,445,007	1,562,339	1,633,571	1,656,530	2,679,269	4,730,272
2,768,235	2,936,122	3,189,189	3,596,813	3,443,958	3,359,102
724,114	760,007	733,620	752,883	574,725	862,525
<u>10,437,220</u>	<u>11,387,855</u>	<u>11,476,214</u>	<u>12,052,467</u>	<u>11,985,036</u>	<u>14,570,609</u>
2,747,213	3,566,906	4,048,708	6,618,802	9,931,126	11,315,298
8,552,754	8,129,304	8,553,786	16,135,905	14,316,813	14,537,254
<u>21,737,187</u>	<u>23,084,065</u>	<u>24,078,708</u>	<u>34,807,174</u>	<u>36,232,975</u>	<u>40,423,161</u>
32,097,323	36,020,248	40,026,642	45,917,303	50,589,347	49,231,779
-	602,738	96,712	-	559,609	565,149
<u>338,004</u>	<u>1,954,700</u>	<u>5,014,380</u>	<u>3,906,683</u>	<u>3,100,357</u>	<u>1,986,596</u>
<u>32,435,327</u>	<u>38,577,686</u>	<u>45,137,734</u>	<u>49,823,986</u>	<u>54,249,313</u>	<u>51,783,524</u>
<u>54,172,514</u>	<u>61,661,751</u>	<u>69,216,442</u>	<u>84,631,160</u>	<u>90,482,288</u>	<u>92,206,685</u>
51,344,025	62,231,352	64,036,721	60,946,929	66,282,454	72,772,592
10,606,230	10,785,806	10,694,421	11,259,947	11,784,623	12,162,566
596,654	630,068	886,403	71,918	1,454,230	3,176,376
-	-	-	-	-	-
-	-	-	-	2,414,752	2,329,624
<u>2,342,953</u>	<u>2,533,069</u>	<u>2,595,396</u>	<u>2,579,599</u>	<u>1,883,080</u>	<u>2,561,637</u>
64,889,862	76,180,295	78,212,941	74,858,393	83,819,139	93,002,795
581,104	635,502	676,162	(64,475)	35,247	686,580
<u>65,470,966</u>	<u>76,815,797</u>	<u>78,889,103</u>	<u>74,793,918</u>	<u>83,854,386</u>	<u>93,689,375</u>
(4,778,758)	(1,232,620)	1,680,958	8,264,748	15,856,515	24,066,438
(8,773,804)	(5,673,044)	(3,537,151)	(2,323,124)	(1,314,599)	(1,941,454)
<u>(13,552,562)</u>	<u>(6,905,664)</u>	<u>(1,856,193)</u>	<u>5,941,624</u>	<u>14,541,916</u>	<u>22,124,984</u>

City of Sterling Heights, Michigan

	As of June 30,			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General Fund:				
Prior to adoption of GASB 54:				
Reserved	\$ 1,005,948	\$ -	\$ -	\$ -
Unreserved and undesignated	11,522,975	- -	- -	- -
Subsequent to adoption of GASB 54:				
Nonspendable	- -	861,449	823,640	821,876
Assigned	- -	5,500,280	973,137	691,319
Unassigned	- -	4,629,487	3,451,703	3,735,285
Total general fund	<u>12,528,923</u>	<u>10,991,216</u>	<u>5,248,480</u>	<u>5,248,480</u>
All other governmental funds:				
Prior to adoption of GASB 54:				
Reserved	596,419	- -	- -	- -
Unreserved and undesignated	8,569,782	- -	- -	- -
Subsequent to adoption of GASB 54:				
Nonspendable	- -	463,096	219,826	175,383
Restricted	- -	4,730,650	6,366,964	7,014,780
Committed	- -	733,573	623,578	605,390
Assigned	- -	2,113,709	1,181,275	1,012,786
Total all other governmental funds	<u>9,166,201</u>	<u>8,041,028</u>	<u>8,391,643</u>	<u>8,808,339</u>
Total of all governmental funds	<u>\$ 21,695,124</u>	<u>\$ 19,032,244</u>	<u>\$ 13,640,123</u>	<u>\$ 14,056,819</u>

Note: GASB No. 54 was implemented with the fiscal year ended June 30, 2011

Fund Balances, Governmental Funds

Last Ten Fiscal Years

June 30, 2019

As of June 30,

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
538,644	580,872	735,358	829,129	563,361	565,524
3,668,787	4,457,140	5,095,500	5,076,900	-	-
<u>1,021,961</u>	<u>2,501,722</u>	<u>5,564,011</u>	<u>11,360,580</u>	<u>24,150,393</u>	<u>26,318,389</u>
<u>5,229,392</u>	<u>7,539,734</u>	<u>11,394,869</u>	<u>17,266,609</u>	<u>24,713,754</u>	<u>26,883,913</u>
-	-	-	-	-	-
-	-	-	-	-	-
24,079	222,835	2,009,754	610,377	695,486	3,499,383
4,739,133	5,391,767	10,514,620	54,501,560	62,149,539	40,105,715
528,412	85,588	623,435	374,420	190,436	161,907
657,869	1,630,427	1,732,331	1,499,058	3,852,870	9,738,175
<u>5,949,493</u>	<u>7,330,617</u>	<u>14,880,140</u>	<u>56,985,415</u>	<u>66,888,331</u>	<u>53,505,180</u>
<u>\$ 11,178,885</u>	<u>\$ 14,870,351</u>	<u>\$ 26,275,009</u>	<u>\$ 74,252,024</u>	<u>\$ 91,602,085</u>	<u>\$ 80,389,093</u>

City of Sterling Heights, Michigan

	As of June 30,			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Revenue				
Property taxes	\$ 56,801,306	\$ 59,045,208	\$ 53,149,713	\$ 51,665,928
Fees and permits	1,194,707	1,438,197	2,271,967	1,789,803
Federal sources	2,789,569	3,085,016	2,661,338	1,126,423
State and local sources	17,114,177	17,184,734	18,065,838	18,825,672
Fines and forfeitures	3,618,574	3,353,875	2,770,160	2,489,252
Charges for services	8,598,054	8,583,882	8,443,205	8,306,458
Investment income	582,435	308,422	672,239	58,534
Special assessments	215,118	203,298	254,977	206,501
Rental income	1,429,222	1,685,041	1,508,954	1,536,939
Cable revenue	1,799,495	1,950,435	2,033,751	2,292,537
Other	1,898,739	1,526,205	2,044,415	1,700,076
Total revenue	96,041,396	98,364,313	93,876,557	89,998,123
Expenditures				
Current:				
General government	9,000,797	8,613,941	8,571,928	7,700,466
District Court	3,221,815	3,246,811	3,252,852	3,258,362
Public safety	49,130,527	50,929,421	52,297,573	48,644,125
Public works	20,321,669	21,034,821	18,680,870	18,062,177
Recreation and culture	4,747,596	4,603,108	4,489,169	4,339,952
General expenditures	2,814,058	2,540,873	2,766,125	2,294,184
Capital outlay	4,694,663	4,867,162	4,275,883	3,115,621
Debt service principal	15,235,000	3,970,000	3,940,000	3,895,000
Debt service Interest	1,628,030	1,221,055	1,098,474	1,114,056
Total expenditures	110,794,155	101,027,192	99,372,874	92,423,943
Excess of Revenue Over Expenditures	(14,752,759)	(2,662,879)	(5,496,317)	(2,425,820)
Other Financing Sources (Uses)				
Debt issuance	3,810,000	-	3,780,000	3,275,000
Debt premium or discount	33,935	-	274,196	9,311
Sale of fixed assets	115,724	-	-	-
Transfers in	16,194,395	3,953,940	3,526,740	6,158,405
Transfers out	(5,056,810)	(3,953,940)	(3,526,740)	(3,500,200)
Total other financing sources (uses)	15,097,244	-	4,054,196	5,942,516
Net change in fund balances	\$ 344,485	\$ (2,662,879)	\$ (1,442,121)	\$ 3,516,696
Debt service as a percentage of noncapital expenditures	15.89%	5.40%	5.30%	5.61%

Changes in Fund Balances, Governmental Funds

Last Ten Fiscal Years

June 30, 2019

As of June 30,

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
\$ 51,344,025	\$ 62,231,352	\$ 64,036,721	\$ 60,946,929	\$ 66,282,454	\$ 72,759,327
1,735,413	1,800,968	2,149,069	2,568,909	2,648,068	2,629,072
1,921,050	1,456,596	1,990,255	6,300,698	4,122,227	2,356,723
19,920,337	21,054,148	21,279,925	27,584,764	31,365,436	34,699,398
2,326,870	2,567,229	3,057,417	2,944,500	2,384,499	2,517,198
9,048,012	10,085,731	9,719,467	9,842,019	12,373,661	14,938,523
257,632	247,437	426,998	112,450	1,120,683	3,382,059
314,871	212,828	201,579	199,092	222,250	263,804
1,951,540	1,829,381	1,578,977	1,488,753	1,630,951	1,552,811
2,342,953	2,533,069	2,595,396	2,579,599	2,414,752	2,329,624
<u>1,619,427</u>	<u>1,414,282</u>	<u>1,960,041</u>	<u>1,568,519</u>	<u>1,866,109</u>	<u>2,510,236</u>
92,782,130	105,433,021	108,995,845	116,136,232	126,431,090	139,938,775
7,175,604	7,803,567	8,154,052	8,300,238	9,118,455	11,087,713
3,078,766	3,087,262	3,223,740	3,242,874	3,309,841	3,480,346
48,807,450	49,752,772	49,704,157	48,646,567	50,311,362	54,426,486
20,790,973	21,450,688	20,929,934	20,869,103	23,165,358	21,359,651
4,002,476	4,189,468	4,393,760	7,664,887	4,805,997	6,159,499
2,171,473	1,119,452	1,027,555	1,164,656	1,845,158	1,589,904
7,026,982	14,388,416	19,122,277	22,513,996	39,333,835	44,685,871
3,235,000	2,620,000	1,725,000	2,280,000	4,100,000	5,340,000
<u>744,170</u>	<u>628,563</u>	<u>545,331</u>	<u>700,971</u>	<u>2,025,489</u>	<u>3,109,779</u>
<u>97,032,894</u>	<u>105,040,188</u>	<u>108,825,806</u>	<u>115,383,292</u>	<u>138,015,495</u>	<u>151,239,249</u>
(4,250,764)	392,833	170,039	752,940	(11,584,405)	(11,300,474)
-	198,633	9,630,000	47,315,000	27,590,000	-
-	-	254,555	2,902,577	1,302,812	-
-	-	-	80,363	41,655	87,482
5,639,290	13,594,435	10,797,379	10,180,735	10,588,025	23,133,990
<u>(4,266,460)</u>	<u>(10,494,435)</u>	<u>(9,447,315)</u>	<u>(10,180,735)</u>	<u>(10,588,025)</u>	<u>(23,133,990)</u>
1,372,830	3,298,633	11,234,619	50,297,940	28,934,467	87,482
\$ (2,877,934)	\$ 3,691,466	\$ 11,404,658	\$ 51,050,880	\$ 17,350,062	\$ (11,212,992)

4.42%

3.58%

2.53%

3.21%

6.23%

7.99%

Revenue Capacity

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

City of Sterling Heights, Michigan

General Government Tax Revenue by Source

Last Ten Fiscal Years
June 30, 2019

Fiscal Year Ended June 30	General Fund Property Taxes				Local Roads Property Taxes	Parks and Recreation Property Taxes	Debt Service Funds Property Taxes			Total All Property Taxes	
	Police and Fire Retirement System		Safe Streets	Total			Safe Streets	Recreatin Recreation	General Drain		
	Operating	Refuse									
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
2018	39,003,553	4,425,923	8,251,737	6,916,401	58,597,614	3,258,923	3,965,701	1,052	459,166	460,218	66,282,456
2019	44,404,945	4,407,310	9,011,570	7,102,036	64,925,861	3,330,120	4,032,610	688	413,759	414,447	72,703,038

City of Sterling Heights, Michigan

Property Tax Levies and Collections

Last Ten Fiscal Years
June 30, 2019

Tax Year	Year ended June 30,	Total levy (1)	Current collections	Percent collected	Delinquent collections (2)	Total tax collections	Percent of levy collected
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	66,431,075	65,265,032	98.24%	1,074,118	66,339,150	99.86%
2018	2019	73,342,584	71,900,008	98.03%	1,295,204	73,195,212	99.80%
2019	2020	72,980,584	(2)				

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

(2) Estimated tax levy. 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										
			Police and Fire Retirement System		Drain Debt Service		Public Improvement Debt Service		Safe Streets		Recreating Recreation		Total	Macomb Intermediate School District	Macomb Community College	Huron/Clinton Metro Authority		S.M.A.R.T.	County Zoo Authority	Veterans Operations	D.I.A.
	Operating (1)	Refuse																			
2009 (2008)																					
Homestead	9.1777	0.8381	0.4853	0.2180	0.0667	0.0000	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	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	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	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	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	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	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	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	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	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	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	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	0.0000	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	0.0000	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	0.0000	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	0.0000	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	0.0000	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	0.0000	15.1858	2.9355	1.4212	0.2146	0.9974	0.0997	0.0398	0.1994						
2018 (2017)																					
Homestead	9.4940	1.0827	2.0124	0.0000	0.1114	2.4853	0.9700	16.1558	2.9146	1.4034	0.2140	0.9903	0.0989	0.0682	0.1979						
Non-homestead	9.4940	1.0827	2.0124	0.0000	0.1114	2.4853	0.9700	16.1558	2.9146	1.4034	0.2140	0.9903	0.0989	0.0682	0.1979						
2019 (2018)																					
Homestead	10.4940	1.0420	2.1279	0.0000	0.0971	2.4678	0.9516	17.1804	2.8945	1.4640	0.2129	1.0000	0.0985	0.0676	0.1965						
Non-homestead	10.4940	1.0420	2.1279	0.0000	0.0971	2.4678	0.9516	17.1804	2.8945	1.4640	0.2129	1.0000	0.0985	0.0676	0.1965						

(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.

Direct and Overlapping Governments

Last Ten Fiscal Years

June 30, 2019

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	5.2688	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	
4.5242	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	6.5091	0.0000	4.8700	36.4223	43.9514	
4.5242	0.0050	6.0000	17.5676	3.8500	6.0000	17.7487	0.0000	0.0000	4.8700	53.9899	55.1910	
4.4925	0.0050	6.0000	0.0000	3.7600	6.0000	0.0000	6.1678	0.0000	4.7800	37.3719	44.5597	
4.4925	0.0050	6.0000	17.3128	3.7600	6.0000	18.0000	0.0000	0.0000	4.7800	54.6847	56.3919	

City of Sterling Heights, Michigan

	2010	2011	2012	2013
State Equalized Value				
SEV equivalent	\$ 5,555,163,580	\$ 4,879,206,305	\$ 4,488,430,900	\$ 4,154,032,625
IFT exemption	239,402,825	223,651,575	204,669,200	150,866,925
Total SEV	\$ 5,794,566,405	\$ 5,102,857,880	\$ 4,693,100,100	\$ 4,304,899,550

Taxable Value

By Class:

Real property	\$ 4,508,088,655	\$ 4,046,809,230	\$ 3,743,670,800	\$ 3,503,196,250
Personal property	986,259,050	917,612,350	874,496,200	755,514,350
Total value	\$ 5,494,347,705	\$ 4,964,421,580	\$ 4,618,167,000	\$ 4,258,710,600

By Type:

Residential	\$ 3,328,660,655	\$ 2,920,197,630	\$ 2,714,198,550	\$ 2,527,262,250
Commercial	726,513,650	704,190,150	651,408,200	609,340,350
Industrial	416,847,650	388,756,200	348,879,800	314,238,500
Personal property	545,007,250	504,729,350	494,463,050	506,194,400
IFT real and personal property	477,318,500	446,548,250	409,217,400	301,675,100
Total	5,494,347,705	4,964,421,580	4,618,167,000	4,258,710,600
Less exempt property	(238,659,250)	(223,274,125)	(204,608,700)	(150,837,550)
Total taxable value	\$ 5,255,688,455	\$ 4,741,147,455	\$ 4,413,558,300	\$ 4,107,873,050
Total direct tax rate (1)	\$ 10.7858	\$ 12.6858	\$ 12.6858	\$ 12.6858

Total taxable value as

a percentage of SEV equivalent **90.70%** **92.91%** **94.04%** **95.42%**

Total taxable value as

a percentage of total value **95.66%** **95.50%** **95.57%** **96.46%**

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

Source: City of Sterling Heights, Assessor's Office

Assessed Taxable Values

Last Ten Fiscal Years

June 30, 2019

2014	2015	2016	2017	2018	2019
\$ 4,201,961,947 147,523,025	\$ 4,421,529,781 149,204,525	\$ 4,796,034,350 123,790,350	\$ 4,949,191,377 64,411,150	\$ 5,200,275,450 61,439,675	\$ 5,409,399,365 52,225,350
\$ 4,349,484,972	\$ 4,570,734,306	\$ 4,919,824,700	\$ 5,013,602,527	\$ 5,261,715,125	\$ 5,461,624,715
\$ 3,526,557,005 724,659,700	\$ 3,564,635,642 714,092,150	\$ 3,665,393,466 670,143,500	\$ 3,737,558,043 366,173,450	\$ 3,855,214,582 327,166,100	\$ 4,032,937,100 289,445,900
\$ 4,251,216,705	\$ 4,278,727,792	\$ 4,335,536,966	\$ 4,103,731,493	\$ 4,182,380,682	\$ 4,322,383,000
\$ 2,584,362,566 564,052,015 305,334,016 502,509,250 294,958,858	\$ 2,640,642,487 558,328,319 296,637,552 488,607,400 294,512,034	\$ 2,717,724,673 574,872,887 305,821,724 494,865,700 242,251,982	\$ 2,777,714,820 594,885,971 314,006,932 289,981,650 127,142,120	\$ 2,863,163,811 612,549,438 317,662,123 270,324,150 118,681,160	\$ 2,986,252,214 637,542,166 343,983,905 254,615,000 99,989,715
4,251,216,705 (147,479,429)	4,278,727,792 (147,256,017)	4,335,536,966 (121,125,991)	4,103,731,493 (63,571,060)	4,182,380,682 (59,340,580)	4,322,383,000 (49,994,858)
\$ 4,103,737,276	\$ 4,131,471,775	\$ 4,214,410,975	\$ 4,040,160,433	\$ 4,123,040,102	\$ 4,272,388,143
\$ 12.6858	\$ 15.1858	\$ 15.1858	\$ 15.1858	\$ 16.1558	\$ 17.1804
94.35%	90.39%	85.66%	80.58%	77.49%	78.23%
96.53%	96.56%	97.21%	98.45%	98.84%	98.84%

City of Sterling Heights, Michigan

Principal Property Taxpayers (Major Taxpayers)

Current Year and Ten Years Ago
June 30, 2019

Company Name	Product/Service	Year Ended June 30, 2019			Year Ended June 30, 2010		
		Taxable Value	Rank	Percent of Total City Taxable Value	Taxable Value	Rank	Percent of Total City Taxable Value
FCA US, LLC	Automotive assembly and stamping	\$ 86,638,454	1	2.03	\$ 245,395,225	1	4.67
Ford Motor Company	Automotive manufacturing and drive shafts	59,000,070	2	1.38	242,280,950	2	4.61
DTE Energy	Public electric utility	42,137,122	3	0.99	36,429,750	3	0.69
Wells Fargo Bank	Retail and rental properties	24,111,895	4	0.56	-	-	-
Chalk Spade Investments (USA)	Investments	21,130,979	5	0.49	0	-	0.00
Consumers Energy	Public utility for gas	17,077,956	6	0.40	-	-	-
BAE Systems	Military and defense systems	15,819,744	7	0.37	-	-	0.00
PC Sterling Heights, LLC	Accounting Firm	11,511,000	8	0.27	-	-	-
TV - Mich, LP	Cable Providers	10,044,700	9	0.24	-	-	-
Laguna Associates Ltd Partners	Office and apartment complex	9,774,191	10	0.23	-	-	-
Detroit News Agency	Printing plant - Newspapers	-	-	-	34,728,500	4	0.66
Lakeside Associates	Retail shopping center	-	-	-	31,452,700	5	0.60
General Dynamics	Engineering and design	-	-	-	31,445,800	6	0.60
Laurel/Shoal Creek	Office and apartment complex	-	-	-	18,532,450	7	0.35
Ledd's Development	Office and business complex	-	-	-	16,117,500	8	0.31
Market Place Properties	Retail shopping center	-	-	-	13,807,900	9	0.26
Comcast Cable	Cable communications	-	-	-	13,404,850	10	0.26
	Ten largest taxpayers	297,246,111	<u>6.96</u>	683,595,625		<u>13.01</u>	
	Other taxpayers	<u>3,975,142,032</u>		<u>4,572,092,830</u>			
	Total taxable value	<u>\$ 4,272,388,143</u>		<u>\$ 5,255,688,455</u>			

Source: City of Sterling Heights Assessor's Office

Debt Capacity

These schedules contain 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.

City of Sterling Heights, Michigan

Fiscal Year Ended June 30	Governmental Activities			Amounts Available in Debt Service Funds
	General Obligation Bonds	County Issued Bonds	Capital Leases	
2010	11,060,000	4,635,000	-	(9,821)
2011	9,595,000	3,655,000	-	(11,873)
2012	8,455,000	2,630,000	-	(22,232)
2013	7,690,000	1,525,000	-	(19,201)
2014	5,777,683	775,000	-	(20,308)
2015	5,253,950	150,000	186,769	(18,201)
2016	4,667,114	-	150,062	(28,263)
2017	46,135,000	-	111,621	(63,338)
2018	63,190,000	-	71,364	(92,722)
2019	60,335,000	-	29,207	(57,046)

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.

Ratios of General Bonded Debt Outstanding

Last Ten Fiscal Years

June 30, 2019

Business-type Activities		Percentage of Estimated Total Taxable Value of Property (1)			
County Issued Bonds	Capital Leases	Total Primary Government			Per Capita
3,702,531	-	19,387,710	0.3689	128,500	150.88
27,799,300	-	41,037,427	0.8656	129,699	316.41
36,565,773	-	47,628,541	1.0791	129,699	367.22
35,428,997	-	44,624,796	1.0863	129,699	344.06
34,264,780	-	40,797,155	0.9941	129,699	314.55
33,071,724	8,789	38,653,031	0.9356	129,699	298.02
35,885,137	7,063	40,681,113	0.9653	129,699	313.66
50,299,962	5,253	96,488,498	2.3882	129,699	743.94
48,741,669	3,358	111,913,669	2.6207	129,699	862.87
46,797,853	1,375	107,106,389	2.5069	129,699	825.81

City of Sterling Heights, Michigan

Governmental Activities

Fiscal Year Ended June 30	General Obligation Bonds	Michigan Transportation Bonds	Special Assessment Bonds	County-issued Bonds	Capital Leases
2010	8,820,000	16,130,000	3,160,000	4,635,000	-
2011	7,880,000	14,180,000	3,060,000	3,655,000	-
2012	6,905,000	12,170,000	2,960,000	2,630,000	-
2013	6,165,000	10,405,000	2,850,000	1,525,000	-
2014	5,777,683	8,811,416	2,700,000	775,000	-
2015	5,253,950	7,465,086	2,550,000	150,000	186,769
2016	4,667,114	16,480,393	2,400,000	-	150,062
2017	46,135,000	16,595,000	2,250,000	-	111,621
2018	63,190,000	23,180,000	2,100,000	-	71,364
2019	60,335,000	20,845,000	1,950,000	-	29,207

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.

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

June 30, 2019

Business-type Activities

County Issued				Total Primary Government	Percentage of Personal Income (1)	Population	Per Capita
General Obligation Bonds	Special Assessment Bonds	County State Revolving Loan Funds	Capital Leases				
3,702,531	-	-	-	36,447,531	0.96%	128,500	283.64
30,584,068	-	3,314,862	-	62,673,930	2.00%	129,699	483.23
36,565,773	2,716,185	4,931,838	-	68,878,796	2.19%	129,699	531.07
35,428,997	2,647,602	6,825,826	-	65,847,425	2.10%	129,699	507.69
34,264,780	2,548,452	11,703,389	-	66,580,720	2.12%	129,699	513.35
33,071,724	4,098,344	17,592,684	7,063	70,338,913	2.24%	129,699	542.32
31,831,025	4,054,112	20,725,947	7,063	80,315,716	2.56%	129,699	619.25
46,597,435	3,702,527	22,126,394	5,253	137,523,230	4.38%	129,699	1,060.33
48,741,669	2,258,379	21,072,504	3,358	160,617,274	5.11%	129,699	1,238.38
46,797,853	1,962,402	19,973,656	1,375	151,894,493	4.84%	129,699	1,171.13

City of Sterling Heights, Michigan

Direct and Overlapping Governmental Activities Debt

June 30, 2019

Direct Debt

General Obligation Bonds

04/27/05	Limited Tax	\$ 295,000
04/21/17	GO Refunding Unlimited Tax	2,210,000
05/09/17	Limited Tax	39,155,000
05/22/18	Limited Tax	<u>18,675,000</u> \$ 60,335,000

Michigan Transportation Fund Bonds

06/22/10	Recovery Zone Bonds, Series 2010	1,175,000
02/07/12	Refunding Bonds, Series 2012	585,000
02/14/13	Refunding Bonds, Series 2013	1,500,000
04/05/16	MTF Bonds, Series 2016	8,025,000
05/09/17	MTF Bonds, Series 2017	1,855,000
05/22/18	MTF Bonds, Series 2018	<u>7,705,000</u> 20,845,000

Special Assessment Bonds

08/03/08	Improvements	1,950,000
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Capital Lease

	Capital Lease - Office equipment	<u>30,582</u>
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Total direct debt outstanding		83,160,582
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Indirect Debt

Share of County-issued Drain Bonds

MID District - 2010 A Series	-
MID District SA - 2010 North Gratiot	182,951
MID District - 2011 Clintondale Pump	7,348,487
MID District SA - 2015 North Gratiot Refunding	1,779,451
MID District - 2017A Series	18,304,974
MID District - 2017A Refunding	17,060,680
OMID District - 2010 Series B	735,459
OMID District SA - 2014 Series A	<u>1,385,851</u> 46,797,853

Total direct and indirect debt outstanding		129,958,435
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Less:

MTF Bonds	20,845,000
Special Assessment Bonds	1,950,000
MID District Special Assessments	1,962,402
OMID District Special Assessments	<u>1,385,851</u> 26,143,253

Net direct and indirect debt outstanding		103,815,182
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Overlapping Debt

Municipality

Net Tax Supported Debt

City allocation

Utica Community School District	204,990,000	36.78%	75,395,322
Warren Consolidated School District	211,895,000	44.24%	93,742,348
Macomb Intermediate School District	2,250,000	15.21%	342,225
Macomb County at large	286,030,322	15.57%	44,534,921
Total overlapping debt			<u>214,014,816</u>
Net direct and indirect debt outstanding and overlapping debt			<u>\$ 317,829,998</u>

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

	As of June 30,			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Governmental Activities:				
General obligation bonds	\$ 8,820,000	\$ 7,880,000	\$ 6,905,000	\$ 6,165,000
Michigan transportation fund bonds	16,130,000	14,180,000	12,170,000	10,405,000
Special assessment bonds	3,160,000	3,060,000	2,960,000	2,850,000
County issued bonds	4,635,000	3,655,000	2,630,000	1,525,000
Capital leases	-	-	-	-
Total	32,745,000	28,775,000	24,665,000	20,945,000
Business Type Activities:				
General obligation bonds	3,702,531	30,584,068	36,565,773	35,428,997
Special assessment bonds	-	-	2,716,185	2,647,602
County state revolving loan funds	-	3,314,862	4,931,838	6,825,826
Capital leases	-	-	-	-
Total	3,702,531	33,898,930	44,213,796	44,902,425
Total debt of the government	\$ 36,447,531	\$ 62,673,930	\$ 68,878,796	\$ 65,847,425
Total residential personal income	\$3,668,161,000	\$ 3,781,755,000	\$ 3,140,402,000	\$ 3,140,402,000
Ratio of total debt to personal income	0.99%	1.66%	2.19%	2.10%
Total Population	128,500	129,699	129,699	129,699
Total debt per capita	283.64	483.23	531.07	507.69

Ratios of Outstanding Debt

Last Ten Fiscal Years

June 30, 2019

As of June 30,						
<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	
\$ 5,777,683	\$ 5,253,950	\$ 4,667,114	\$ 49,055,194	\$ 63,190,000	\$ 60,335,000	
8,811,416	7,465,086	16,480,393	17,080,252	23,180,000	20,845,000	
2,700,000	2,550,000	2,400,000	2,250,000	2,100,000	1,950,000	
775,000	150,000	-	-	-	-	
-	186,769	150,062	111,621	71,364	29,207	
18,064,099	15,605,805	23,697,569	68,497,067	88,541,364	83,159,207	
34,264,780	33,071,724	31,831,025	53,263,196	48,741,669	46,797,853	
2,548,452	4,098,344	4,054,112	3,884,347	2,258,379	1,962,402	
11,703,389	17,592,684	20,725,947	22,126,394	21,072,504	19,973,656	
-	7,063	7,063	5,253	3,358	1,375	
48,516,621	54,769,815	56,618,147	79,279,190	72,075,910	68,735,286	
\$ 66,580,720	\$ 70,375,620	\$ 80,315,716	\$ 147,776,257	\$ 160,617,274	\$ 151,894,493	
\$ 3,140,402,000	\$ 3,140,402,000	\$ 3,140,402,000	\$ 3,140,402,000	\$ 3,140,402,000	\$ 3,140,402,000	
2.12%	2.24%	2.56%	4.71%	5.11%	4.84%	
129,699	129,699	129,699	129,699	129,699	129,699	
513.35	542.61	619.25	1,139.38	1,238.38	1,171.13	

City of Sterling Heights, Michigan

	As of June 30,			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Calculation of debt limit:				
State equalized valuation	\$ 5,794,566,405	\$ 5,102,857,880	\$ 4,693,100,100	\$ 4,304,899,550
10% of taxable value	579,456,641	510,285,788	469,310,010	430,489,955
Calculation of debt subject to limit:				
Total debt	36,447,531	59,359,068	63,946,958	59,021,599
Less: debt not subject to limit:				
Michigan Transportation Fund Bonds	16,130,000	14,180,000	12,170,000	8,880,000
Special Assessment Bonds	3,160,000	3,060,000	2,960,000	2,850,000
MID District Special Assessments	-	2,784,768	2,716,185	2,647,602
OMID District Special Assessments	-	-	-	-
Net debt subject to limit	17,157,531	39,334,300	46,100,773	44,643,997
Legal debt margin	562,299,110	470,951,488	423,209,237	385,845,958
Net debt subject to limit as % of debt limit	2.96%	7.71%	9.82%	10.37%

(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

Legal Debt Margin

Last Ten Fiscal Years
June 30, 2019

As of June 30,					
<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
\$ 4,349,484,972 434,948,497	\$ 4,570,734,306 457,073,431	\$ 4,919,824,700 491,982,470	\$ 5,013,602,527 501,360,253	\$ 5,261,715,125 526,171,513	\$ 5,461,624,715 546,162,472
54,523,232	52,260,068	59,037,263	115,396,836	137,286,391	129,958,435
8,535,000	7,205,000	15,995,000	16,595,000	23,180,000	20,845,000
2,700,000	2,550,000	2,400,000	2,250,000	2,100,000	1,950,000
2,548,452	2,449,227	2,468,817	2,182,194	2,258,379	1,962,402
100	1,649,117	1,585,295	1,520,333	1,454,232	1,385,851
40,739,680	38,406,724	36,588,151	92,849,309	108,293,780	103,815,182
394,208,817	418,666,707	455,394,319	408,510,944	417,877,733	442,347,290
9.37%	8.40%	7.44%	18.52%	20.58%	19.01%

City of Sterling Heights, Michigan

Pledged Revenue Coverage

Last Ten Fiscal Years
June 30, 2019

Limited Tax Obligation Bonds					
Fiscal Year Ended	Collections	Debt Service			Coverage
		Principal	Interest	Total	
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
2018	4,297,400	1,890,000	1,450,769	3,340,769	1.286
2019	5,720,642	2,405,000	2,293,487	4,698,487	1.218
Michigan Transportation Fund Bonds					
Fiscal Year Ended	Collections	Debt Service			Coverage
		Principal	Interest	Total	
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
2018	5,548,637	1,615,000	440,801	2,055,801	2.699
2019	-	2,335,000	773,131	3,108,131	-
Special Assessment Bonds					
Fiscal Year Ended	Collections (1)	Debt Service			Coverage (1)
		Principal	Interest	Total	
2009	\$ 331,654	\$ -	\$ -	\$ -	-
2010	298,947	100,000	127,000	227,000	1
2011	311,450	100,000	123,400	223,400	1
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
2018	296,155	150,000	91,600	241,600	1.226
2019	320,493	150,000	85,600	235,600	1.360

(1) - 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

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.

City of Sterling Heights, Michigan

Demographic and Economic Statistics

Last Ten Fiscal Years
June 30, 2019

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)	Household Income (1)	
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%	
2018	129,699	40-44	86.4%	22.9%	24,213	3,140,402	49,576	53,390	3.9%	
2019	129,699	40-44	86.4%	22.9%	24,213	3,140,402	49,576	53,390	4.2%	

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

June 30, 2019

Population	
2010 U.S. Census	129,699
2000 U.S. Census	124,471
1990 U.S. Census	117,810
1980 U.S. Census	108,999

Income and Benefit Characteristics		
	Household Income	Number of Households
Less than \$14,999		4,139
\$15,000 - \$34,999		9,039
\$35,000 - \$49,999		7,008
\$50,000 - \$74,999		9,585
\$75,000 - \$99,999		7,231
\$100,000 or more		12,836

Housing Tenure		
Types	2010	2000
Owner occupied	37,685	36,584
Renter occupied	11,766	9,735
Vacant:		
Seasonal/Migrant	128	148
Other vacant units	2,611	1,080
Total	52,190	47,547

Households:	Number
With earnings	38,003
With Social Security income	17,692
With retirement income	11,401
With supplemental security income	3,145
With cash public assistance income	1,357
With food stamps/SNAP benefits	6,638

Household Characteristics		
Types	2010	2000
With seniors 65+	14,229	10,252
Without seniors	35,222	36,067
Two or more without children	21,007	19,041
Live alone, over 65	5,316	3,915
Live alone, under 65	7,791	7,245
With children	15,337	16,118
Total households	49,451	46,319

Labor Characteristics	
By Occupation:	Number of Employees
Management, professional, and related	23,296
Service	11,169
Sales and office	15,305
Natural resources, construction, and maintenance	3,851
Production, transportation, and material moving	10,084
Total	63,705

Age Statistics		
Years	2010	2000
Under 5	5.5%	6.2%
5 to 19	18.7%	20.3%
20 to 24	6.3%	6.1%
25 to 44	25.8%	30.4%
45 to 64	28.5%	25.2%
Over 64	15.2%	11.8%

Labor Characteristics	
By Industry:	Number of Employees
Agriculture, forestry, fishing and hunting, and mining	190
Construction	2,626
Manufacturing	13,243
Wholesale trade	1,623
Retail trade	8,727
Transportation, warehousing, and utilities	2,025
Information	835
Finance, insurance, real estate, rental, and leasing	3,974
Professional, scientific, management, administrative, and waste management services	5,821
Educational, health, and social services	12,271
Arts, entertainment, recreation, accommodation, and food services	6,823
Other professional and related services	3,167
Public administration	2,380
Total	63,705

Source: United States Census Bureau - 2000/2010 Census and 2017 American Community Survey One Year Estimates

City of Sterling Heights, Michigan

Principal Employers (Major Employers)

Current Year and Ten Years Ago
June 30, 2019

Company Name	Product/Service	Year Ended June 30, 2019			Year Ended June 30, 2010		
		Employees	Rank	Total City Employment	Employees	Rank	Total City Employment
FCA US, LLC	Automotive assembly and stamping	10,177	1	15.98%	1,000	6	1.72%
Ford Motor Company	Automotive axles and transmissions	3,910	2	6.14%	2,300	2	3.96%
Administrative Employer Services, LLC	Professional employer organization	2,800	3	4.40%	-	-	-
General Dynamics	Defense-related manufacturing	2,670	4	4.19%	2,900	1	5.00%
Utica Community Schools	Education	1,637	5	2.57%	1,150	5	1.98%
Mayco International/Stonebridge Industries	Automotive plastics	1,324	6	2.08%	-	-	-
Detroit Media Partnership	Printing plant - Newspapers (3)	1,000	7	1.57%	1,200	4	2.07%
Lakeside Associates	Retail shopping center	1,000	8	1.57%	2,000	3	3.45%
Walmart Stores	Retail	850	9	1.33%	-	-	-
BAE Systems	Defense Technology	600	10	0.94%	-	-	-
Warren Consolidated Schools	Education	-	-	-	790	7	1.36%
City of Sterling Heights	Government	-	-	-	587	8	1.01%
Kuka Flexible Production System, Inc.	Automotive interior	-	-	-	450	10	0.78%
U.S. Farathane Corporation	Paints and finishes manufacturer	-	-	-	580	9	1.00%
	Ten largest employers	25,968		40.76%	12,957		22.32%
	Other employers	<u>37,737</u>		59.24%	<u>45,095</u>		77.68%
	Total employment	<u>63,705</u>			<u>58,052</u>		

Source: City of Sterling Heights, Economic Development Office

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.

City of Sterling Heights, Michigan

Operating Indicators by Function

Last Ten Fiscal Years
June 30, 2019

	Fiscal Year									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General Government										
Election Data										
Registered voters	85,345	85,953	86,231	85,436	88,164	87,576	86,465	88,520	84,781	86,629
Voters at polls	10,138	39,285	13,020	42,504	21,322	26,444	8,178	41,578	8,130	35,160
Absentee ballots	7,963	11,037	8,299	16,205	8,966	11,862	8,475	16,443	8,221	14,232
Percent voting	21.21%	58.55%	24.72%	68.72%	34.35%	43.74%	19.00%	65.55%	19.29%	57.02%
41A District Court										
Court Cases										
Civil	3,816	4,037	3,760	3,546	2,550	2,652	2,566	2,612	3,021	3,180
Criminal	4,818	4,254	3,654	3,408	3,813	4,279	3,644	3,321	3,825	4,018
Landlord and tenant	2,407	2,442	2,610	2,265	2,491	2,223	2,161	1,932	1,971	2,164
Small claims	448	451	404	313	400	333	386	393	340	282
Traffic	35,540	31,074	22,924	22,889	22,550	25,887	31,584	31,445	26,847	27,350
Public Safety										
Police Protection										
Adult arrests	3,000	2,691	2,686	3,083	3,113	3,882	3,919	3,612	3,290	3,411
Civil infractions	32,724	29,315	20,670	21,788	20,535	27,031	30,780	26,088	22,994	23,990
Group A offenses (1)	6,484	5,769	3,890	3,216	2,926	2,885	2,871	2,782	3,078	3,210
Group B offenses (2)	2,370	1,960	1,652	2,030	2,306	2,867	3,235	2,917	3,467	4,090
Injury accidents	704	752	616	598	860	952	1,300	1,265	899	925
Juvenile arrests	173	159	143	195	190	219	212	116	99	88
OUIL arrests	394	297	199	220	183	204	169	138	157	120
Parking violations	1,992	1,125	585	1,116	1,298	1,282	1,333	1,468	1,116	1,326
Property damage	3,071	3,408	2,849	2,974	3,488	3,625	3,638	3,825	3,915	3,680
Private property damage	944	846	820	712	741	700	644	531	323	197
Total traffic violations	37,022	32,752	24,109	22,428	24,142	31,777	35,610	30,678	26,521	27,986
Fire Protection										
Emergency alarms answered										
Emergency alarms answered	10,383	11,062	11,589	11,653	12,451	13,588	14,293	14,805	15,930	15,795
Fire inspections conducted	2,859	2,288	1,029	882	878	863	1,232	1,688	1,146	1,235
Inspection violations issued	5,831	4,397	2,067	1,670	1,020	945	2,433	24,722	2,500	2,319
Medical emergencies	7,693	8,617	8,948	8,969	9,435	10,253	10,753	11,025	11,808	11,856
Training hours completed	30,955	29,986	23,230	22,790	24,994	26,086	24,359	32,116	35,002	43,780
Recreation and Culture										
Parks and Recreation										
Adult athletics attendance	25,477	21,301	21,221	24,357	21,967	19,006	17,914	21,291	20,051	18,728
Instructional rec. attendance	23,999	23,933	27,132	22,666	20,344	23,566	23,916	22,903	27,143	29,802
Nature program attendance	27,708	23,374	21,318	14,582	17,170	15,079	16,187	15,753	18,085	16,020
Senior program attendance	117,570	102,577	103,663	103,667	100,026	97,769	101,770	101,825	108,155	118,720
Special event attendance	65,551	72,321	62,015	53,734	46,379	80,680	114,295	93,327	112,833	120,118
Adaptive recreation program attendance	11,351	10,803	10,766	9,895	8,395	8,847	8,460	7,568	7,523	7,135
Summer playground attendance	7,565	12,160	11,144	12,613	13,053	12,765	10,353	12,182	11,254	8,776
Library										
Book van deliveries										
Book van deliveries	7,909	7,367	4,547	3,788	3,253	3,259	2,833	2,797	2,837	2,833
Community meeting room reservations	1,289	1,209	1,463	1,325	1,183	1,463	1,528	1,587	1,668	1,600
In-house materials usage	93,714	107,155	133,539	132,298	82,304	60,279	54,742	39,714	32,590	33,526
Interlibrary loan requests	110,778	97,588	93,068	90,764	86,950	80,545	78,015	71,796	69,323	68,940
Interlibrary loans - Lent	105,692	87,255	82,094	82,832	79,360	72,109	70,606	62,818	61,479	61,875
Items circulated	627,496	614,905	600,445	577,448	536,485	536,038	548,414	536,321	565,478	632,157
Library visits	560,035	484,259	453,690	412,656	384,063	376,007	385,398	314,813	241,302	223,577
Online computer uses	583,260	610,054	768,815	1,050,062	1,659,105	1,216,053	921,671	998,803	913,999	1,091,578
Program attendance	31,664	23,184	22,168	15,310	15,196	16,322	20,209	23,208	27,721	32,751
Reference transactions	131,039	120,873	93,243	83,000	68,052	65,368	65,587	64,893	59,864	54,365
Registered borrowers	53,114	53,181	52,733	51,248	49,863	48,490	47,334	46,498	66,043	64,449
Water and Sewer Services										
Customers: (3)										
Residential	34,846	34,869	34,995	35,077	35,155	35,223	35,319	35,419	35,494	35,539
Commercial/Industrial	4,234	4,126	4,262	4,280	4,280	4,274	4,297	4,270	4,320	4,333
Water (in thousand cubic feet):										
Purchased from Detroit	659,817	683,223	695,711	678,000	614,039	603,378	636,215	615,045	580,053	584,634
Sold to residents	667,792	692,621	677,554	698,650	618,799	602,994	590,426	629,333	591,358	587,317
Rates (per thousand):										
1,000 CU. FT.	\$ 37.22	\$ 40.59	\$ 42.07	\$ 43.97	\$ 48.52	\$ 55.37	\$ 62.59	\$ 71.79	\$ 74.75	\$ 77.20
Next 2,000 CU.FT.	37.22	40.59	42.07	43.97	48.52	55.37	62.59	71.79	74.75	77.20
Over 3,000 CU.FT.	38.32	41.77	46.18	48.24	53.13	60.53	68.26	78.11	81.51	84.39
Sewer only - Per billing	45.00	50.00	55.00	60.00	65.00	70.00	80.00	85.00	87.00	89.00

(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
June 30, 2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General Government										
Buildings										
City Center Commons	1	1	1	1	1	1	1	1	1	1
41A District Court	1	1	1	1	1	1	1	1	1	1
Public Safety										
Police Protection										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles - Marked	54	54	51	50	50	53	54	49	51	45
Vehicles - Unmarked	64	63	65	57	54	65	56	57	58	58
Fire Protection										
Stations	5	5	5	5	5	5	5	5	5	5
Vehicles - Extinguishment	16	16	16	16	16	16	16	21	21	23
Public Works										
Streets and Sidewalks										
Miles of City:										
Primary streets	63	63	63	63	63	63	63	63	63	63
Secondary streets	286	286	286	286	286	286	286	286	288	288
Sidewalks	609	610	610	611	612	614	615	617	618	620
Bridges	11	11	11	11	11	11	11	11	11	11
Buildings	2	2	2	2	2	2	2	2	2	1
Street lights	2,520	2,520	2,530	2,530	2,530	2,535	2,535	2,535	2,535	2,535
Vehicles - Snow plows	23	22	22	22	21	21	25	25	25	23
Water and Sewer Services										
Fire hydrants	7,203	7,221	7,238	7,261	7,270	7,281	7,292	7,305	7,317	7,429
Miles of water mains	574	575	576	576	576	576	667	667	667	667
Miles of sanitary sewers	430	430	430	430	430	430	430	475	475	475
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	228
Buildings	3	3	3	3	3	3	3	3	3	3
Library										
Book collections	203,593	204,977	208,102	209,040	195,656	196,437	196,019	190,166	186,932	185,922
Other collections (1)	37,051	37,603	42,507	46,306	37,848	57,623	53,447	64,638	71,715	143,464
Buildings	1	1	1	1	1	1	1	1	1	1
Vehicles - Library van	1	1	1	1	1	1	1	1	1	1

(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
June 30, 2019

Fiscal Year Ended June 30	Residential				Total Residential
	New Construction		Additions/Improvements		
Number	Value	Number	Value	Total Residential	
2010	70	12,386,830	980	839,587	13,226,417
2011	87	15,494,221	1,152	1,147,729	16,641,950
2012	96	19,872,576	1,187	1,291,986	21,164,562
2013	89	20,919,441	964	2,528,899	23,448,340
2014	134	31,286,101	1,104	1,191,570	32,477,671
2015	96	22,656,130	1,443	1,126,895	23,783,025
2016	170	87,099,668	1,652	1,528,732	88,628,400
2017	247	55,558,146	1,694	958,155	56,516,301
2018	62	19,906,414	1,548	1,101,534	21,007,948
2019	42	13,392,236	1,401	887,605	14,279,841

Fiscal Year Ended June 30	Commercial				Total Commercial
	New Construction		Additions/Improvements		
Number	Value	Number	Value	Total Commercial	
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
2018	124	86,425,717	131	31,448,148	117,873,865
2019	11	108,794,390	110	29,263,744	138,058,134

Source: City of Sterling Heights Office of Building Services

City of Sterling Heights, Michigan

Full-time and Part-time City Government Employees by Function

Last Ten Fiscal Years
June 30, 2019

<u>Function</u>	Full-time and Part-time Employees as of June 30									
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
General government	71	74	60	56	57	60	61	57	63	65
41A District Court	40	40	39	38	37	39	39	41	41	42
Public safety:										
Police	251	243	228	222	222	203	203	202	206	206
Fire	104	101	91	86	86	88	88	88	104	104
Public works:										
City development	32	24	19	24	26	28	29	31	28	31
Public works	37	34	26	29	31	34	34	35	35	19
Street services	21	21	21	18	21	25	24	24	24	28
Engineering (1)	13	11	9	8	9	9	9	9	9	9
Recreation and culture:										
Parks and recreation	12	11	10	10	10	11	12	10	15	17
Library	42	41	38	36	37	38	38	38	38	39
Water and sewer	39	39	37	35	35	35	36	36	40	46
Total	662	639	578	562	571	570	573	571	603	606

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

Source: City of Sterling Heights

Continuing Disclosures

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.

City of Sterling Heights, Michigan

State-shared Revenue

Last Ten Fiscal Years
June 30, 2019

Fiscal Year Ended June 30	Modified Accrual Basis of Accounting	Accrual Basis of Accounting
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
2018	11,626,225	11,721,760
2019	12,149,046	12,162,566

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Gas and Weight Taxes

Last Ten Fiscal Years
June 30, 2019

Fiscal Year <u>Ended June 30</u>	Type of Street		Total Gas and Weight Tax (Act 51) Receipts
	Major Roads	Local Roads	
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
2018	8,095,038	3,002,237	11,097,275
2019	8,635,594	3,203,092	11,838,686

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Labor Agreements

June 30, 2019

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	117	-
Firefighters International Association of Firefighters, Local 1557	6/30/2022	99	-
Technical/Office Employees Michigan Association of Public Employees (MAPE)	6/30/2022	62	32*
Department of Public Works Field Employees Teamsters, Local 214	6/30/2021	59	-
Police Command Officers Sterling Heights Police Command Officers Association	6/30/2022	34	-
Professional and Technical Employees Michigan Association of Public Employees (MAPE)	6/30/2023	36	13
Court Clerical AFSCME, Local 1884, Council 25	6/30/2022	19	6
Police Clerical Employees Michigan Association of Police (MAP)	6/30/2019	20	0
Supervisory Employees Michigan Association of Public Employees (MAPE)	6/30/2022	11	-
Executive Employees Sterling Heights Executive Group	6/30/2022	7	-
Department of Public Works Supervisors AFSCME, Local 1917, Council 25	6/30/2020	7	-
Nonunion Employees			
41A District Court Administration	N/A	10	-
41A District Court Judges	N/A	3	-
Ordinance Employees	N/A	2	-

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

Source: City of Sterling Heights, Office of City Management



STERLING HEIGHTS CITY COUNCIL

Mayor Michael C. Taylor

Mayor Pro Tem Liz Sierawski
Councilwoman Deanna Koski
Councilman Michael V. Radtke Jr.
Councilwoman Maria G. Schmidt
Councilman Henry Yanez
Councilwoman Barbara A. Ziarko

STERLING HEIGHTS CITY MANAGER

Mark D. Vanderpool

FINANCE & BUDGET DIRECTOR

Jennifer L. Varney