



Comprehensive Annual Financial Report

Michael C. Taylor
Mayor Pro Tem

Deanna Koski
Councilwoman

Joseph V. Romano
Councilman

Maria G. Schmidt
Councilwoman

Doug Skrzyniarz
Councilman

Barbara A. Ziarko
Councilwoman

Mark D. Vanderpool
City Manager

Brian S. Baker
Finance and Budget Director

Leslie D. Reinhart, CPA
Controller

For the Fiscal Year Ended June 30, 2014

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

City of Sterling Heights, Michigan

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City of Sterling Heights, Michigan

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Administration Building

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CITY COUNCIL

Mayor

Mayor Pro Tem

Councilwoman

Councilman

Councilwoman

Councilman

Councilwoman

Richard J. Notte
Michael C. Taylor
Deanna Koski
Joseph V. Romano
Maria G. Schmidt
Doug Skrzyniarz
Barbara A. Ziarko

CITY MANAGER

Mark D. Vanderpool

November 10, 2014

To the 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, 2014 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 are accurate in all material respects and are reported in a manner that fairly presents the financial position and results of operations of the governmental activities, business-type activities, the various funds and component units of the City of Sterling Heights. All disclosures necessary to enable the reader to gain an understanding of the City activities have been included.

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

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 Brownfield Redevelopment Authority, Corridor Improvement Authority, Economic Development Corporation, and Local Development Finance Authority have been included in this report.

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

Governmental Structure and Local Economy

Sterling Heights is a vibrant community with a strong sense of civic pride and determination by its community leaders. Located in the northwest quadrant of Macomb County, at 36.8 square miles, there are 395 miles of roadway in Sterling Heights, of which 349 miles are maintained by the City. City services are provided to 49,451 households and 4,280 commercial and industrial businesses. The 2014 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 7.0 percent unemployment rate as compared to a Macomb county rate of 9.1 percent, a statewide rate of 7.9 percent, and a national average of 6.3 percent.

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

The City has grown over the years to the point where less than 5 percent of its total land area is vacant. The most recent growth that took place in Macomb County largely occurred to the northeast. The M-53 highway running through the City and the M-59 highway bordering the City continues to provide a corridor of opportunity for redevelopment and enhancement of existing development.

Long-term Financial Planning

The City has successfully followed its long-term financial plan of reducing expenditures to match lower revenues. Due to revenue losses, General Fund reserves have now fallen from \$14.0 million in 2005 to \$5.2 million in 2014. Despite continual expenditure cuts, the City used \$1.4 million of Internal Service Fund reserves to balance the General Fund budget in fiscal year 2014.

As a result of increased use of reserves, and despite millions in expenditure savings, a 2.5 mill tax (Safe Streets) increase was needed and approved by City residents in November 2013. The millage will allow the City to partially recover a portion of lost tax revenues. Starting in fiscal year 2015, the millage provides \$3.3 million in new funding for neighborhood street repairs and \$7.0 million to correct the current imbalance and to prevent further reductions in the number of sworn police and firefighters.

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

Even with the millage, 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 continued recognition of prior stock market losses compounded by the temporary impact of closing plans to new employees. However, with the approval of the 2.5 mills, the City is now able to restore funding for replacement capital equipment and infrastructure, which had been dramatically reduced over the past six years.

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 193 positions since 2002 and labor contract savings totaling 15 percent, as well as reducing future long-term legacy costs. Going forward, the plan allows the City to continue providing excellent services, while maintaining low operational costs and 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 maintain core services, 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 2013-2014:

1. The City developed a Safe Streets millage proposal, educated residents on the proposal, and informed voters on the contingency plans in place if the millage was not approved. City voters approved the millage on the November 2013 ballot.
2. The City developed a 2015 budget that enables the City to avoid additional cuts to public safety staffing, provide for community investments, and increases reserves. Nearly 80% of the budget increases funds for replacement of capital items; repairs to City parks, infrastructure and neighborhood roads; and the reconstruction of Van Dyke. Without capital increases, total expenditures increase by \$4.5 million or 3.3%. Most of the \$4.5 million is due to water and sewer increases from Detroit, the full funding of long-term legacy liabilities, and restoring stability to all operating departments.
3. After reducing the number of employees for six consecutive years, the City developed a successful succession plan and restored eight full-time positions, most of which were converted from part-time. Plans were also made to fund new hires in the Police and Fire Departments due to upcoming retirements. At the same time, the City was successful in negotiating the elimination of retiree healthcare benefits for all new hires and reducing fixed pensions for those employees not already members of the defined contribution plan.
4. The City has hired a firm to redesign the City's website to improve the type of online services residents are seeking. In addition, the City invested in road maintenance equipment to improve repairs and road pavement conditions throughout the year.
5. By continuing to follow its long-term financial plan, the City maintained its superior Aa1 and AA+ bond ratings, which annually saves taxpayers hundreds of thousands of dollars.

Major Initiatives for July 1, 2014 and Thereafter

1. After successfully weathering the financial storm and achieving a path toward financial stability, the City is now able to focus on the future. The City has begun an inclusive Visioning process that will result in a new Strategic Plan, setting forth guiding principles for future growth and redevelopment of the City. In addition, the completion of the City's Visioning Plan will set the stage to formally update the City's Master Land Use Plan, Parks & Recreation Plan, Technology Plan, and Master Road Plan.
2. The City will further advance our economic development initiatives with renewed emphasis on marketing for VELOCITY, the Defense Corridor, the Blue Water Economy (Clinton River) and Sterling Heights Initiative for Neighborhood Excellence (SHINE).
3. The City will continue to implement its succession plan for directors, managers and employees to prepare for staff turnover, will further develop employee training opportunities, and continue to provide the tools employees need to provide excellent service to our residents.

4. The City continues to evaluate service-sharing agreements with surrounding communities and other entities, including the successful transition to the County for consolidated dispatch.

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, 2013. 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 26 consecutive years (fiscal years 1988-2013). 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



Brian S. Baker
Finance and Budget Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Sterling Heights
Michigan**

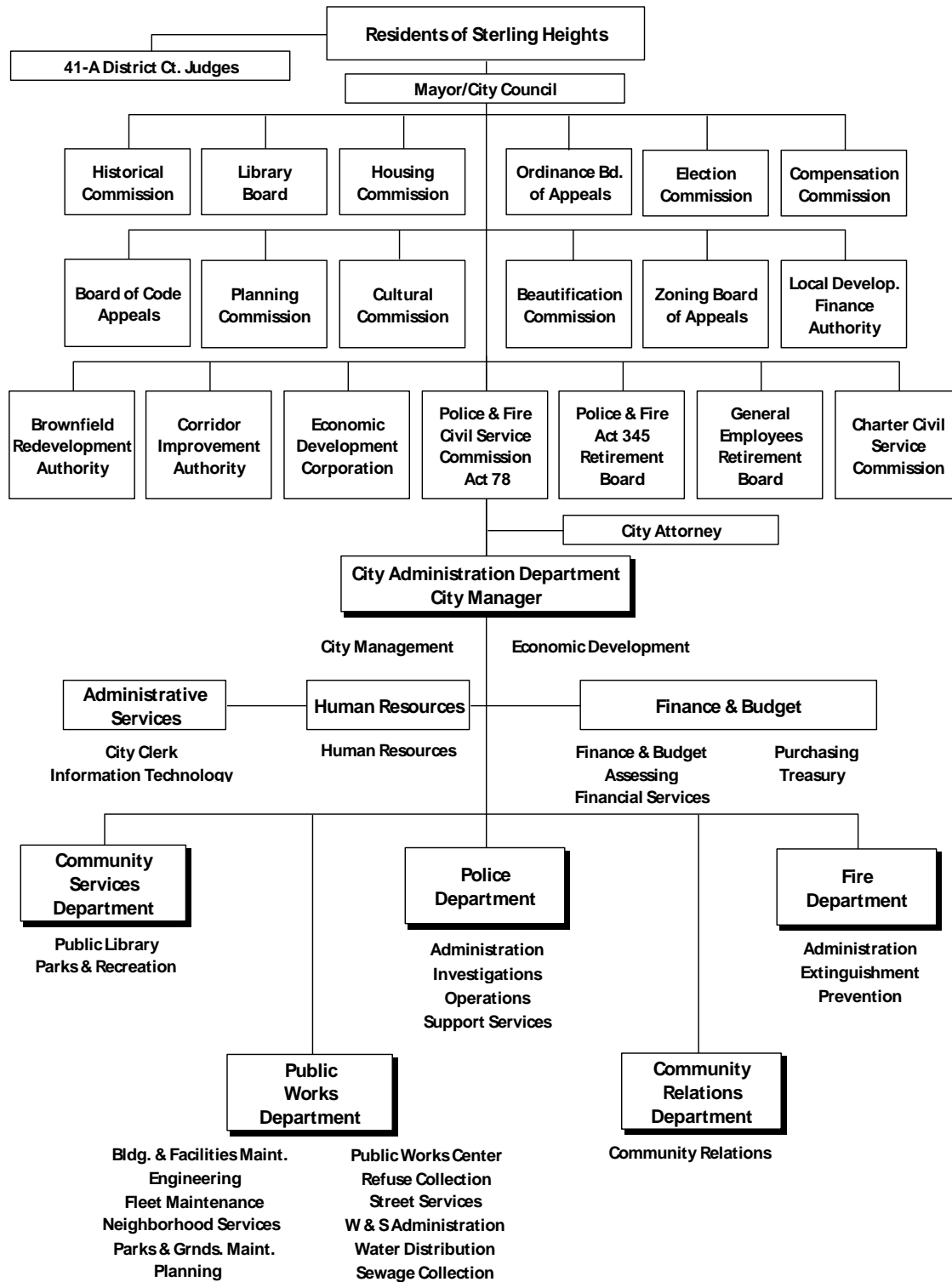
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

City of Sterling Heights, Michigan

City Organization Chart



City of Sterling Heights, Michigan

List of Principal Officials

Title	Name
City Manager	Mark D. Vanderpool
Building Official/Facilities Maintenance Manager	Michael Viazanko
City Assessor	Dwayne McLachlan
City Attorney	Jeffrey A. Bahorski
City Clerk/Risk Manager	Mark Carufel
City Development Manager	Denice A. Gerstenberg
City Engineer	Brent S. Bashaw
City Planner	Donald Mende
City Treasurer	Jennifer L. Varney
Community Relations Director	Steve Guitar
Community Services/Library Director	Tammy L. Turgeon
Controller	Leslie D. Reinhart
Economic Development Manager	Barry Hicks
Finance and Budget Director	Brian S. Baker
Fire Chief	Christopher Martin
Human Resources Director/Assistant City Manager	Walter C. Blessed
Information Technology Manager	Steve Deon
Parks and Recreation Manager	Kyle Langlois
Police Chief	Michael Reese
Public Works Director	Salvatore Conigliaro
Purchasing Manager	James P. Buhlinger

City of Sterling Heights, Michigan

Fund Organization Chart

Governmental Funds

General *	Special Revenue
	Major Roads *
	Local Roads
	Public Safety Forfeiture
	Community Development Block Grant (CDBG)*
	Neighborhood Stabilization
Debt Service	Capital Projects
General Drain	General Improvements *
Voted Tax General Obligation	Road Bond Construction *
Road Bond Debt Retirement*	Land and Water Conservation
Limited Tax General Obligation	

Proprietary Funds

Enterprise	Internal Service
Water and Sewer *	Self-insurance

Fiduciary Funds

Trust	Agency
General Employees' Retirement System	Tax Collections
Police and Fire Retirement System	General Agency
Retiree Medical Benefits	

Component Units

Economic Development Corporation
Brownfield Redevelopment Authority
Corridor Improvement Authority
Local Development Finance Authority

* Major funds under GASB 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, 2014, and the related notes to the financial statements, which collectively comprise the City of Sterling Heights' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sterling Heights as of June 30, 2014 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.

Emphasis of Matter

As discussed in Note 16 to the basic financial statements, the City of Sterling Heights adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* and GASB Statement No. 67, *Financial Reporting for Pension Plans*. As a result of implementing GASB Statement No. 65, the City of Sterling Heights now reports deferred inflows for governmental fund revenue that is not available. Adopting GASB Statement No. 67 resulted in significant changes to the defined benefit related note disclosures as well as the required supplemental information schedules. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules for the General Fund and each major special revenue fund, and retirement schedules of funding progress, changes in the net pension liability, contributions, and investment returns, 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' basic financial statements. The other financial and supplemental information and introductory section and statistical and continuing disclosure sections, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The other financial and supplemental information (other budgetary comparison schedules and combining statements) are the responsibility of management and were derived from and relate 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 budgetary comparison schedules and combining statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and statistical and continuing disclosure section 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 10, 2014 on our consideration of the City of Sterling Heights' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Sterling Heights' internal control over financial reporting and compliance.

Plante & Morse, PLLC

November 10, 2014

City of Sterling Heights, Michigan

Management's Discussion and Analysis

Overview of the Financial Statements

Our discussion and analysis of the City of Sterling Heights, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. This narrative should be considered in conjunction with the additional information presented in the letter of transmittal found on pages i-vi and is intended to serve as an introduction to the City of Sterling Heights' basic financial statements which begin on page 16.

Financial Highlights

- As a result of this year's operations, the City's overall net position decreased by \$13.5 million or 3.8 percent. The net position of our governmental activities decreased by \$4.8 million or 2.4 percent and the net position of our business-type activities decreased by \$8.7 million or 5.6 percent.
- Net position for governmental activities decreased primarily due to depreciation exceeding capital asset additions resulting from a lack of funding available for new investment in capital and road improvements.
- The General Fund reported only a \$0.1 million increase in revenue or 0.1 percent. Cross-charge revenues rose by \$1.2 million due to increased road maintenance and snow plowing needs, while State revenue-sharing payments increased \$0.3 million or 2.7 percent. Property tax revenues increased 0.1 percent due to lower property tax refunds, as overall property tax assessments fell for the sixth consecutive year. Investment earnings increased by \$0.2 million due to slightly higher interest rates and market value adjustments. Revenue declines in other areas offset these revenue increases. Transfers from the Self-insurance Fund declined by \$1.3 million. 41A District Court revenues declined by \$0.2 million or 5.2 percent primarily due to lower ordinance fines, while building revenues declined by \$0.1 million or 5.8 percent. Despite the slight overall increase in 2014, General Fund revenues were at their second lowest level since 2005.
- General Fund expenditures increased by \$0.1 million or 0.2 percent due primarily to higher overtime costs from increased road maintenance and snow plowing efforts, increased funding for general employee pensions and retiree medical liabilities, and additional part-time employees. Most of these increases were offset by other expenditure savings. Wages for full-time employees decreased by \$1.0 million (3.2 percent) and actuarially required police and fire pension contributions fell by \$0.7 million (8.2 percent). In addition, employee longevity costs and transfers out for debt purposes each declined by \$0.2 million.
- General Fund reserves fell by less than \$0.1 million (approximately \$19,100) due to continued expenditure savings. Going forward, the passage of the 2.5 mill Safe Streets proposal will not only allow the City to avoid further reductions in police and fire staffing and the funding of capital equipment, but the City will also be able to partially restore depleted General Fund reserves.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

- Despite stabilizing State gas tax revenues and savings achieved from delaying new major road construction projects, long-term funding remains inadequate to repair all major roads in the City. However, the respective portion of the 2.5 mills approved by the voters will generate \$3.3 million in the first year and will allow the City to invest \$20 million in neighborhood road repairs over the next six years.
- The City continues to fully fund its retirement systems. Despite reducing or eliminating various employee retirement benefits, in the short term, retirement costs are expected to grow. However, through successful financial and economic development programs, the City has been able to maintain a diversified tax base with very low tax and water and sewer rates, while continuing to provide core services to residents and business customers.

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the government'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:

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

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The City's overall net position decreased 3.8 percent from a year ago, falling from \$353.0 million to \$339.5 million. A review of the governmental activities, separate from the business-type activities, shows a decrease of \$4.8 million in net position, or 2.4 percent, during fiscal year 2014. While this is up slightly from the \$4.6 million decrease in net position during 2013, the passage of the Safe Streets proposal going forward will help stabilize this trend.

As of June 30, 2014, 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 \$24.3 million. This represents a \$2.3 million decrease as compared to June 30, 2013. The major factor contributing to the decrease was the continued use of Self-insurance Fund reserves to stabilize General Fund operations and increased road maintenance costs due to the severe winter.

The business-type activities experienced a decrease in net position of \$8.7 million, which is significantly higher than the \$3.4 million net decrease the previous year. The decline was primarily due to lower water and sewer consumption attributable to a rainy summer, without a corresponding decrease in fixed water and sewer charges from the City of Detroit and Macomb County. In addition, the County passed on a \$1.2 million one-time sewer look-back charge based on a recent district meter study. A total of \$5.5 million of the decrease is due to depreciation expense which the City does not fund through its operating rates. The decrease in net position flowed through the balance sheet of the business-type activities as a decrease in restricted net position of \$0.2 million, along with a decrease in capital assets net of debt of \$3.1 million and a \$5.4 million use of unrestricted net position.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

In a condensed format, the table below shows net position (in millions of dollars) as of June 30, 2014 compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current assets	\$ 42.3	\$ 45.2	\$ 21.9	\$ 26.3	\$ 64.2	\$ 71.5
Noncurrent assets:						
Restricted assets and other assets	6.0	6.3	9.4	9.6	15.4	15.9
Capital assets	<u>177.7</u>	<u>181.0</u>	<u>170.8</u>	<u>170.3</u>	<u>348.5</u>	<u>351.3</u>
Total assets	226.0	232.5	202.1	206.2	428.1	438.7
Liabilities						
Current liabilities	9.4	8.4	8.5	5.8	17.9	14.2
Long-term liabilities	<u>23.7</u>	<u>26.4</u>	<u>47.0</u>	<u>45.1</u>	<u>70.7</u>	<u>71.5</u>
Total liabilities	<u>33.1</u>	<u>34.8</u>	<u>55.5</u>	<u>50.9</u>	<u>88.6</u>	<u>85.7</u>
Net Position						
Net investment in capital assets	159.6	159.7	122.3	125.4	281.9	285.1
Restricted	9.0	11.4	9.4	9.6	18.4	21.0
Unrestricted	<u>24.3</u>	<u>26.6</u>	<u>14.9</u>	<u>20.3</u>	<u>39.2</u>	<u>46.9</u>
Total net position	<u><u>\$ 192.9</u></u>	<u><u>\$ 197.7</u></u>	<u><u>\$ 146.6</u></u>	<u><u>\$ 155.3</u></u>	<u><u>\$ 339.5</u></u>	<u><u>\$ 353.0</u></u>

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the change in net position (in millions of dollars) as of June 30, 2014 and the prior year:

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue						
Charges for services	\$ 10.4	\$ 10.7	\$ 32.1	\$ 35.3	\$ 42.5	\$ 46.0
Operating grants and contributions	2.7	5.1	-	-	2.7	5.1
Capital grants and contributions	8.6	4.6	0.3	0.6	8.9	5.2
Property taxes	51.4	51.7	-	-	51.4	51.7
State-shared revenue	10.6	10.3	-	-	10.6	10.3
Investment earnings	0.6	0.1	0.6	(0.5)	1.2	(0.4)
Other nonprogram revenue	2.3	2.3	-	-	2.3	2.3
Total revenue	86.6	84.8	33.0	35.4	119.6	120.2
Program Expenses						
General government	5.5	5.9	-	-	5.5	5.9
41A District Court	3.3	3.3	-	-	3.3	3.3
Public safety	52.9	51.3	-	-	52.9	51.3
Public works	24.4	22.9	-	-	24.4	22.9
Recreation and culture	4.6	4.9	-	-	4.6	4.9
Interest on long-term debt	0.7	1.1	-	-	0.7	1.1
Water and sewer	-	-	41.7	38.8	41.7	38.8
Total program expenses	91.4	89.4	41.7	38.8	133.1	128.2
Change in Net Position	(4.8)	(4.6)	(8.7)	(3.4)	(13.5)	(8.0)
Net Position - Beginning of year	197.7	202.3	155.3	158.7	353.0	361.0
Net Position - End of year	\$ 192.9	\$ 197.7	\$ 146.6	\$ 155.3	\$ 339.5	\$ 353.0

Governmental Activities

During fiscal year 2014, the City's total governmental revenue increased by \$1.8 million or 2.1 percent. The increase was largely due to higher operating and capital grants including increased Public Safety forfeitures, CDBG Federal funds, increased State ACT 51 gas tax receipts, and State winter road maintenance funds.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Expenses increased by \$2.0 million or 2.2 percent from the previous fiscal year. Expenses rose primarily due to increased snow plowing and road maintenance efforts and an increased investment in road repair equipment. These increased costs were partially offset by savings from eliminating 36 full-time positions, while still adding 20 additional part-time positions.

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

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water, which is purchased from the City of Detroit Water System, to nearly all residents. Water rates charged by the City of Detroit for fiscal year 2014 increased by 4.6 percent, while the City only passed on a 3.9 percent water rate adjustment to its retail customers. The City provides sewage treatment to 99.0 percent of its residents through the Macomb County Sewage District. The City passed on a 4.9 percent sewage rate adjustment to its customers, which offset a 3.7 percent variable rate increase and 11.1 percent increase in debt payments for the District's sewer rehabilitation projects.

During fiscal year 2014, the water and sewer system experienced a 9.4 percent decrease in water purchased from the City of Detroit. Volumes are down 29.3 percent since 2005.

Capital Assets and Debt Administration

At the end of fiscal year 2014, the City had \$281.9 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 \$242.3 million and \$241.3 million for fiscal years 2014 and 2013, respectively (see Note 4 of the notes to the basic financial statements for additional information). The City's general obligation bonds maintained their excellent ratings from all bond rating agencies including Fitch (AA+), Moody's (Aa1), and Standard & Poor's (AA+). No additional direct debt was issued by the City during the year. Debt service for all outstanding direct debt during fiscal year 2014 consisted of \$3.2 million in principal and \$0.7 million in interest after adjustments for recognition of amortized premiums (see Note 7 of the notes to the basic financial statements for additional information).

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

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

	2014	2013
Net debt outstanding (direct and indirect)	\$ 40,739,780	\$ 44,643,997
Ratio of net debt outstanding to total taxable value	0.9923%	1.0863%
Net debt outstanding per capita	\$ 313.95	\$ 344.06

Fund Financial Statements

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

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

The fund financial statements begin on pages 19-20 and provide detailed information on the most significant funds - not the City as a whole. The City's major funds for 2014 include the General Fund, Major Roads Fund, Community Development Block Grant Fund, Road Bond Debt Retirement Fund, General Improvements Fund, and Road Bond Construction Fund.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The major components of revenue in these funds are property taxes and state sources. The major components of expenditures in these funds are public safety (police and fire) and public works. Revenues were lower than expenditures (including transfers) in these funds by \$2.9 million. In the General Fund, revenues nearly equaled expenditures due to a \$1.4 million transfer from the Self-insurance Fund, down from the \$2.7 million transfer needed in 2013. Expenditures rose only \$0.1 million due to operational savings, partially offset by higher overtime costs due to the severe winter and increased funding for the closed general employees retirement system. The Major Roads Fund net decrease of \$1.7 million in fund balance was a result of increased road maintenance and repairs. The General Improvements Fund showed a net decrease in fund balance of \$0.4 million, largely related to the purchase of road repair equipment. The Road Bond Construction Fund net decrease of \$0.1 million was attributable to the use of prior year's bond sale proceeds. The Community Development Block Grant Fund is a reimbursement-based grant fund. Other nonmajor governmental funds showed a \$0.7 million net decrease primarily due to higher local road maintenance costs.

General Fund Budgetary Highlights

Over the course of the year, City administration and the City Council monitor and amend the budget to take into account unanticipated events that occur during the year. The budget was amended twice during fiscal 2014. Final budgeted expenditures were \$1.1 million or 1.4 percent higher than the original budget primarily due to the severe winter which resulted in higher public works costs for snow removal and increased road maintenance. Final budgeted revenue was also \$1.1 million higher than the original budget due to higher road fund cross-charges, State revenue sharing, and cable franchise revenues. The net result allowed the City to transfer fewer Self-insurance Fund reserves to the General Fund than originally planned.

At year end, actual General Fund expenditures came in at 99.6 percent of the budget or \$0.3 million under budget due to additional savings. General Fund revenue also came in at 99.6 percent or \$0.3 million under budget due to lower Building and Court revenues.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Current Economic Conditions

The housing crisis which dramatically affected the City appears to have leveled off. While the City will never recover the lost property tax revenues, the passage of the Safe Streets millage by voters in November 2013 has provided at least six years of relative stability. The City now has the ability to stabilize operations and reinvest in the community. The City's cost structure has been reduced, and legacy benefit reforms have been achieved including the closing of the general employees' pension system to new members and eliminating retiree medical benefits for all new hires.

While the City continues to carry out its long-term financial plan, there still remains a structural funding problem facing communities in Michigan. Unfortunately, the City's future revenue growth is limited. The City will only see an inflationary adjustment from property tax revenues going forward as most of the City is developed and personal property tax for major manufacturers has been eliminated. State revenue sharing, the City's second largest revenue, is tied to sales tax receipts and is always at risk of further cuts. The State's gas tax has increased only once in the past 30 years and has been seriously eroded by inflation during that time.

Assessments Caused Lower Property Tax Bills and Related Revenue

The City's overall property tax assessments fell again in fiscal year 2014 by 0.1 percent. Fortunately assessments rose for the first time in seven years by 0.7 percent for fiscal year 2015. However, taxable values remain below 2008 levels by 23.6 percent, resulting in a cumulative \$16 million loss and a \$62 million loss of tax revenue growth. Even as property values grow, Proposal A will limit increases to the rate of inflation, such that the City has permanently lost property tax dollars. As a result, taxable values are not projected to return to 2008 levels until 2026 at the earliest. As a result of these revenue losses and despite the new Safe Streets millage, the City will not be able to restore the \$32.2 million in operational cuts made to date. The average property tax bill remains \$252 or 9.1 percent less than it was seven years ago. In fact, tax bills remain lower today than amounts paid 10 years ago in 2004. The City's tax rate remains lower than two-thirds of all cities in the State and one of the lowest of any city in Macomb County. The City's tax rate is 5.75 mills below the average of all cities in the County.

State Revenue-sharing Cuts

The City's second largest revenue source is state revenue sharing, which is distributed to communities from sales tax receipts collected by the State of Michigan. Revenue sharing previously represented 20.0 percent of the City's budget, while it currently represents less than 12.0 percent. The State has cut revenue-sharing payments, resulting in a cumulative \$35.4 million reduction since 2002, despite a growing City population and inflationary cost factors.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Road Funding

Gas tax receipts from the State remain much lower, on an inflation adjusted basis, than 2004 levels due to higher gas prices and the use of more fuel-efficient vehicles which have lessened gas consumption and corresponding tax revenue. The State's gas tax of 19 cents per gallon has increased once in the past 30 years. As a result, the City cumulatively lost \$4.0 million in State gas tax revenue from 2004 to 2013. While the Safe Streets millage will provide \$3.3 million annually for neighborhood road repairs, the ability of the City to fund major road construction remains a concern.

Expenditure Savings

Though General Fund expenditures rose by 0.2 percent in 2014, expenditures remain \$5.7 million and \$1.0 million less than amounts spent in 2011 and 2007, respectively. During this time, the City achieved 15 percent wage and benefit concessions from all 12 labor groups.

As a result of the declining revenue, the City developed a proactive multifaceted financial strategy to successfully navigate these financial challenges. The City has implemented numerous budgeted savings and limited revenue enhancement measures over the past several years. The City has eliminated 193 full-time budgeted positions or 30.0 percent of its full-time workforce since 2002 while relying more on part-time staff, saving \$15.4 million annually.

The City has also achieved significant reform of employee retirement benefits. The City no longer offers fixed pensions for general employees, has reduced pensions for future retirees who are still entitled to fixed pensions, closed the police deferred retirement option plan, eliminated retiree medical for all new employees, and reduced future retiree health care benefits. The City has contracted out the police detention facility, the cleaning of City buildings, and certain park maintenance functions. The City continues to downsize, pursue service-sharing agreements with surrounding communities, and outsource services where possible. Today, nearly 75.0 percent of the budget is directed toward the City's largest departments which are police, fire, and public works.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

City Staffing

Due to revenue losses, the City had to eliminate numerous positions over the past seven years given that nearly 77.0 percent of the City budget is comprised of personnel costs. The City now has 456 budgeted full-time employees - one of the lowest numbers since the 1970's. With the approval of the Safe Streets millage for 2015, the City was able to restore eight full-time positions, most of which were converted from part-time. The City's employee per resident ratio has still decreased by 43.0 percent. Our ratio of full-time employees per 1,000 residents is well below any comparable city in Michigan and is lower than 89.0 percent of cities across the country. Over the years, staffing reductions have primarily occurred at City Hall and public works, as fewer cuts have been made to public safety. Going forward, no further staffing reductions are planned with the exception of outsourcing the 911 dispatch operations to the County.

Use of Fund Balance

Despite expenditure savings, the City needed to use its fund balance. General Fund reserves declined for five fiscal years and currently total only \$5.2 million. As a result, the City has needed to utilize its Self-insurance Fund reserves to balance the General Fund budget. The use of \$2.7 million of Self-insurance Fund reserves occurred in 2013 and an additional \$1.4 million use of reserves was needed in 2014. With the passage of the Safe Streets millage, the City's 2015 budget contributes to General Fund reserves for the first time in nine years and sets the City on a path to begin to restore reserves to an acceptable 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 2015 and Beyond

Since 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 focus on the future beginning with an inclusive Visioning process already underway. This process will further guide our master land use, parks and recreation, and succession and technology plans, allowing the City to strategically plan its long-term success.

Due to 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. Even with the approval of the November 2013 millage, the City's tax rate continues to be one of the lowest of any city in the county and is lower than the vast majority of cities throughout the state. The City also continues to have the lowest residential water and sewer rates of any city 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.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

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.

Contacting the City's Management

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

City of Sterling Heights, Michigan

Statement of Net Position June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 11,056,334	\$ -	\$ 11,056,334	\$ 779,940
Investments - At fair value (Note 3)	21,853,663	17,649,297	39,502,960	-
Receivables:				
Customers	-	3,734,703	3,734,703	10,048
Special assessments - Current	198,863	-	198,863	-
Accrued interest	235,777	136,491	372,268	-
Other	1,083,614	-	1,083,614	-
Internal balances	(200,217)	200,217	-	-
Due from other governmental units	3,968,995	-	3,968,995	-
Prepaid costs and other assets	3,783,268	-	3,783,268	-
Inventories	365,576	211,717	577,293	-
Special assessments	2,243,598	-	2,243,598	-
Restricted assets (Note 8)	2,088,524	9,368,833	11,457,357	-
Loans receivable (Note 9)	1,722,636	-	1,722,636	-
Capital assets:				
Nondepreciable (Note 4)	54,058,960	10,050,412	64,109,372	1,209,203
Depreciable - Net (Note 4)	123,609,690	160,790,413	284,400,103	1,936,312
Total assets	226,069,281	202,142,083	428,211,364	3,935,503
Liabilities				
Accounts payable	4,472,873	4,780,378	9,253,251	14,841
Accrued and other liabilities	2,994,739	146,197	3,140,936	444,621
Due to other governmental units	44,461	1,827,891	1,872,352	9,197
Unearned revenue (Note 6)	1,889,978	85,569	1,975,547	-
Noncurrent liabilities (Note 7):				
Provision for uninsured losses and liabilities (Note 10)	448,020	-	448,020	-
Due within one year	3,176,653	1,746,398	4,923,051	-
Due in more than one year	20,107,021	46,974,192	67,081,213	-
Total liabilities	33,133,745	55,560,625	88,694,370	468,659
Net Position				
Net investment in capital assets	159,604,551	122,324,204	281,928,755	3,145,515
Restricted:				
Roads	3,493,310	-	3,493,310	-
Public safety	788,976	-	788,976	-
Debt service	2,669,499	-	2,669,499	-
County drains (Note 8)	2,088,524	297,055	2,385,579	-
Ordinance requirements (Note 8)	-	9,071,778	9,071,778	-
Unrestricted	24,290,676	14,888,421	39,179,097	321,329
Total net position	<u>\$ 192,935,536</u>	<u>\$ 146,581,458</u>	<u>\$ 339,516,994</u>	<u>\$ 3,466,844</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Sterling Heights, Michigan

	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 5,467,242	\$ 3,272,341	\$ 33,013	\$ -
41A District Court	3,288,275	2,227,523	137,172	-
Public safety	52,851,304	1,445,007	111,350	606,140
Public works	24,439,731	2,768,235	2,041,791	7,946,614
Recreation and culture	4,640,609	724,114	423,887	-
Interest on long-term debt	718,646	-	-	-
Total governmental activities	91,405,807	10,437,220	2,747,213	8,552,754
Business-type activities - Water and sewer	41,790,235	32,097,323	-	338,004
Total primary government	<u><u>\$ 133,196,042</u></u>	<u><u>\$ 42,534,543</u></u>	<u><u>\$ 2,747,213</u></u>	<u><u>\$ 8,890,758</u></u>
Component units:				
Economic Development Corporation	\$ -	\$ -	\$ -	\$ -
Brownfield Redevelopment Authority	114,284	-	113,960	-
Corridor Improvement Authority	1,104	-	-	-
Local Development Finance Authority	568,281	109,340	617,711	-
Total component units	<u><u>\$ 683,669</u></u>	<u><u>\$ 109,340</u></u>	<u><u>\$ 731,671</u></u>	<u><u>\$ -</u></u>
General revenue:				
Property taxes				
Unrestricted state revenue-sharing program				
Investment income				
Other nonprogram generated revenue				
Total general revenue				
Change in Net Position				
Net Position - Beginning of year				
Net Position - End of year				

Statement of Activities Year Ended June 30, 2014

Net (Expenses) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (2,161,888)	\$ -	\$ (2,161,888)	\$ -
(923,580)	-	(923,580)	-
(50,688,807)	-	(50,688,807)	-
(11,683,091)	-	(11,683,091)	-
(3,492,608)	-	(3,492,608)	-
(718,646)	-	(718,646)	-
(69,668,620)	-	(69,668,620)	-
-	(9,354,908)	(9,354,908)	-
(69,668,620)	(9,354,908)	(79,023,528)	-
-	-	-	-
-	-	-	(324)
-	-	-	(1,104)
-	-	-	158,770
-	-	-	157,342
51,344,025	-	51,344,025	-
10,606,230	-	10,606,230	-
596,654	581,104	1,177,758	307
2,342,953	-	2,342,953	-
64,889,862	581,104	65,470,966	307
(4,778,758)	(8,773,804)	(13,552,562)	157,649
197,714,294	155,355,262	353,069,556	3,309,195
\$ 192,935,536	\$ 146,581,458	\$ 339,516,994	\$ 3,466,844

City of Sterling Heights, Michigan

	General Fund	Major Roads	Community Development Block Grant
Assets			
Cash and cash equivalents (Note 3)	\$ 3,930,607	\$ 2,589,687	\$ -
Investments - At fair value (Note 3)	4,776,600	509,365	-
Receivables:			
Special assessments:			
Current	-	-	-
Unavailable	-	-	-
Accrued interest	36,804	445	-
Other	980,013	22,520	-
Prepaid costs and other assets	177,266	9,881	-
Due from other funds (Note 5)	454,274	-	-
Due from other governmental units	503,711	1,088,674	231,972
Inventories	361,378	-	-
Restricted assets (Note 8)	-	-	-
Rehabilitation loans (Note 9)	-	-	1,722,636
Total assets	\$ 11,220,653	\$ 4,220,572	\$ 1,954,608
Liabilities			
Accounts payable	\$ 1,847,814	\$ 636,459	\$ 198,137
Accrued and other liabilities	2,771,799	65,358	-
Due to other funds (Note 5)	1,066,144	420,410	33,835
Due to other governmental units	44,461	-	-
Unearned revenue (Note 6)	157,112	-	1,722,636
Total liabilities	5,887,330	1,122,227	1,954,608
Deferred Inflows of Resources -			
Unavailable revenue (Notes 1 and 16)	103,931	-	-
Fund Balances			
Nonspendable:			
Inventory	361,378	-	-
Prepaid costs	177,266	9,881	-
Restricted for:			
Road improvements	-	3,088,464	-
Public safety	-	-	-
Debt service	-	-	-
Committed - Park acquisitions and improvements	-	-	-
Assigned to:			
Debt service	312,680	-	-
Other capital projects	3,285,830	-	-
Significant encumbrances	70,277	-	-
Use of next year's fund balance	-	-	-
Unassigned	1,021,961	-	-
Total fund balances	5,229,392	3,098,345	-
Total liabilities, deferred inflows of resources, and fund balances	\$ 11,220,653	\$ 4,220,572	\$ 1,954,608

The Notes to Financial Statements are an
Integral Part of this Statement.

**Governmental Funds
Balance Sheet
June 30, 2014**

Road Bond Debt Retirement	General Improvements	Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 350,626	\$ 625,870	\$ 68,918	\$ 2,049,007	\$ 9,614,715
-	499,378	-	-	5,785,343
145,749	16,290	-	36,824	198,863
2,040,487	30,946	-	172,165	2,243,598
112,329	2,015	-	10,184	161,777
-	23,580	-	-	1,026,113
-	-	10,000	-	197,147
-	-	-	165,158	619,432
-	-	-	332,641	2,156,998
-	-	-	4,198	365,576
-	2,088,524	-	-	2,088,524
-	-	-	-	1,722,636
\$ 2,649,191	\$ 3,286,603	\$ 78,918	\$ 2,770,177	\$ 26,180,722
\$ -	\$ 503,846	\$ -	\$ 929,932	\$ 4,116,188
-	5,389	6,995	145,198	2,994,739
-	29	-	-	1,520,418
-	-	-	-	44,461
-	-	-	10,230	1,889,978
-	509,264	6,995	1,085,360	10,565,784
2,040,487	2,119,470	-	172,165	4,436,053
-	-	-	4,198	365,576
-	-	10,000	-	197,147
-	-	61,923	170,758	3,321,145
-	-	-	788,976	788,976
608,704	-	-	20,308	629,012
-	-	-	528,412	528,412
-	-	-	-	312,680
-	335,989	-	-	3,621,819
-	-	-	-	70,277
-	321,880	-	-	321,880
-	-	-	-	1,021,961
608,704	657,869	71,923	1,512,652	11,178,885
\$ 2,649,191	\$ 3,286,603	\$ 78,918	\$ 2,770,177	\$ 26,180,722

City of Sterling Heights, Michigan

Governmental Funds Reconciliation of Balance Sheet to the Statement of Net Position June 30, 2014

Total Fund Balances of Governmental Funds	\$ 11,178,885
Amounts reported for governmental activities in the statement of net position are different because:	
Certain receivables are expected to be collected over several years in the General Fund, special revenue funds, and debt service funds	2,347,529
Receivables related to state-shared revenue that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	1,811,997
Restricted assets held by Macomb County to be used over several years and which are not available to pay for current year expenditures	2,088,524
Capital assets used in governmental activities are not financial resources and are not reported in the funds	177,668,650
Long-term liabilities not due and payable in the current period are not reported in the funds	(17,710,000)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources are not reported as fund liabilities	(4,124,411)
Bond premiums are amortized over the life of the bonds, while recognized as an other financing source in the funds when received	(354,099)
Internal service fund is included as part of governmental activities	<u>20,028,461</u>
Net Position of Governmental Activities	<u>\$ 192,935,536</u>

City of Sterling Heights, Michigan

	General Fund	Major Roads	Community Development Block Grant
Revenue			
Property taxes	\$ 50,107,694	\$ -	\$ -
Fees and permits	1,735,413	-	-
Federal sources	111,350	178,271	873,271
State and local sources	11,426,148	6,040,409	-
Fines and forfeitures	2,326,870	-	-
Charges for services	9,048,012	-	-
Investment income	245,856	6,986	-
Special assessments	-	-	-
Rental income	1,951,540	-	-
Cable revenue	2,342,953	-	-
Other	1,054,630	190,998	-
Total revenue	80,350,466	6,416,664	873,271
Expenditures			
Current:			
General government	7,175,604	-	-
41A District Court	3,078,766	-	-
Public safety	48,577,037	-	-
Public works	15,659,259	2,950,709	283,651
Recreation and culture	4,002,476	-	-
General expenditures	2,167,782	-	-
Capital outlay	-	1,957,721	589,620
Debt service	-	-	-
Total expenditures	80,660,924	4,908,430	873,271
Excess of Revenue (Under) Over Expenditures	(310,458)	1,508,234	-
Other Financing Sources (Uses)			
Interfund transfers in (Note 5)	1,372,830	-	-
Interfund transfers out (Note 5)	(1,081,460)	(3,185,000)	-
Total other financing sources (uses)	291,370	(3,185,000)	-
Net Change in Fund Balances	(19,088)	(1,676,766)	-
Fund Balances - Beginning of year	5,248,480	4,775,111	-
Fund Balances - End of year	<u>\$ 5,229,392</u>	<u>\$ 3,098,345</u>	<u>\$ -</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2014

Road Bond Debt Retirement	General Improvements	Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 1,236,331	\$ 51,344,025
-	-	-	-	1,735,413
-	147,257	-	610,901	1,921,050
-	50,000	-	2,403,780	19,920,337
-	-	-	-	2,326,870
-	-	-	-	9,048,012
856	1,250	29	2,655	257,632
158,499	17,828	-	138,544	314,871
-	-	-	-	1,951,540
-	-	-	-	2,342,953
<u>145,613</u>	<u>172,243</u>	<u>-</u>	<u>55,943</u>	<u>1,619,427</u>
304,968	388,578	29	4,448,154	92,782,130
-	-	-	-	7,175,604
-	-	-	-	3,078,766
-	-	-	230,413	48,807,450
-	-	-	1,897,354	20,790,973
-	-	-	-	4,002,476
1,400	-	-	2,291	2,171,473
-	1,527,875	127,877	2,823,889	7,026,982
<u>2,448,020</u>	<u>-</u>	<u>-</u>	<u>1,531,150</u>	<u>3,979,170</u>
<u>2,449,420</u>	<u>1,527,875</u>	<u>127,877</u>	<u>6,485,097</u>	<u>97,032,894</u>
(2,144,452)	(1,139,297)	(127,848)	(2,036,943)	(4,250,764)
2,160,000	784,380	-	1,322,080	5,639,290
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,266,460)</u>
<u>2,160,000</u>	<u>784,380</u>	<u>-</u>	<u>1,322,080</u>	<u>1,372,830</u>
15,548	(354,917)	(127,848)	(714,863)	(2,877,934)
<u>593,156</u>	<u>1,012,786</u>	<u>199,771</u>	<u>2,227,515</u>	<u>14,056,819</u>
<u>\$ 608,704</u>	<u>\$ 657,869</u>	<u>\$ 71,923</u>	<u>\$ 1,512,652</u>	<u>\$ 11,178,885</u>

City of Sterling Heights, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds \$ (2,877,934)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation (net of prior year's construction in progress placed in service):

Capital outlay	7,394,259
Depreciation expense	(10,667,313)
Net book value of assets disposed of	(61,012)

Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection 52,557

Special assessment revenue is recorded in the statement of activities when the assessment is earned (i.e., work is substantially complete); it is not reported in the funds until collected or collectible within 60 days of year end. In the current year, more was collected than earned (101,654)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 3,235,000

Premiums received on bond issuance are recognized in the year of issuance in the governmental funds, but are amortized over the life of the bonds on the statement of activities 25,524

Changes in accumulated employee sick and vacation pay, as well as estimated general liability claims reported in the statement of activities, do not require the use of current resources, and therefore are not reported in the funds statements until they come due for payment (340,905)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the Internal Service Fund is reported with governmental activities (1,437,280)

Change in Net Position of Governmental Activities \$ **(4,778,758)**

City of Sterling Heights, Michigan

Proprietary Funds Statement of Net Position June 30, 2014

	Business-type Activities	Governmental Activity
	Enterprise	Internal Service
	Fund -	Fund - Self-
	Water and Sewer	insurance
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ -	\$ 1,441,619
Investments - At fair value (Note 3)	17,649,297	16,068,320
Receivables:		
Customers	3,734,703	-
Accrued interest	136,491	74,000
Other	-	57,501
Prepaid costs and other assets	-	3,586,121
Due from other funds (Note 5)	200,217	700,769
Inventories	211,717	-
Total current assets	21,932,425	21,928,330
Noncurrent assets:		
Restricted assets (including \$4,258,754 of cash and cash equivalents) (Note 8)	9,368,833	-
Capital assets - Net (Note 4)	170,840,825	-
Total noncurrent assets	180,209,658	-
Total assets	202,142,083	21,928,330
Liabilities		
Current liabilities:		
Accounts payable	4,780,378	356,685
Accrued and other liabilities	146,197	-
Compensated absences (Note 7)	71,091	-
Due to other governmental units	1,827,891	-
Current portion of long-term debt (Note 7)	1,675,307	-
Provision for uninsured losses and liabilities (Note 10)	-	448,020
Unearned revenue (Note 6)	85,569	-
Total current liabilities	8,586,433	804,705
Noncurrent liabilities:		
Compensated absences (Note 7)	132,878	-
Long-term debt (Note 7)	46,841,314	-
Provision for uninsured losses and liabilities (Note 10)	-	1,095,164
Total noncurrent liabilities	46,974,192	1,095,164
Total liabilities	55,560,625	1,899,869
Net Position		
Net investment in capital assets	122,324,204	-
Restricted for county drains (Note 8)	297,055	-
Restricted for ordinance requirements (Note 8)	9,071,778	-
Unrestricted	14,888,421	20,028,461
Total net position	\$ 146,581,458	\$ 20,028,461

City of Sterling Heights, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2014

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Operating Revenue		
Water sales	\$ 11,967,193	\$ -
Sewage treatment	17,034,621	-
Service charges	783,331	-
City contributions	-	6,259,555
Other	2,312,178	250,979
	<hr/>	<hr/>
Total operating revenue	32,097,323	6,510,534
Operating Expenses		
Wages and fringe benefits	3,840,885	-
Contractual services	339,182	-
Water purchases	12,015,093	-
Sewage disposal charges	14,918,850	-
Materials and supplies	339,235	-
Repairs and maintenance	744,213	-
Building and equipment rental	122,859	-
Insurance	270,260	-
Depreciation	5,503,820	-
Administration expenses	1,800,440	244,587
Reinsurance charges and claims	-	6,597,735
Other	194,644	71,684
	<hr/>	<hr/>
Total operating expenses	40,089,481	6,914,006
Operating Loss	(7,992,158)	(403,472)
Nonoperating Revenue (Expenses)		
Investment income	581,104	339,022
Interest expense	(1,700,754)	-
	<hr/>	<hr/>
Total nonoperating (expenses) revenue	(1,119,650)	339,022
Loss - Before contributions and operating transfers	(9,111,808)	(64,450)
Capital Contributions - Other capital contributions	338,004	-
Operating Transfers Out (Note 5)	<hr/>	<hr/>
	-	(1,372,830)
Change in Net Position	(8,773,804)	(1,437,280)
Net Position - Beginning of year	<hr/>	<hr/>
	155,355,262	21,465,741
Net Position - End of year	<hr/>	<hr/>
	\$ 146,581,458	\$ 20,028,461

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2014

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Cash Flows from Operating Activities		
Receipts from customers	\$ 32,754,376	\$ 7,824,541
Payments to suppliers for goods and services	(27,867,718)	228,925
Payments to employees for services	(3,891,831)	-
Payments connected with interfund services	(1,800,440)	-
Claims paid	-	(6,847,412)
Other receipts	-	179,295
Net cash (used in) provided by operating activities	(805,613)	1,385,349
Cash Flows from Noncapital Financing Activities - Transfer to governmental funds	-	(1,372,830)
Cash Flows from Capital and Related Financing Activities		
Collection of customer assessments (principal and interest)	338,004	-
Principal paid for long-term debt	(1,439,811)	-
Interest paid for long-term debt	(1,700,754)	-
Purchase of capital assets	(875,642)	-
Net cash used in capital and related financing activities	(3,678,203)	-
Cash Flows from Investing Activities		
Income received on investments	396,998	341,642
Purchase of investment securities	(35,955,587)	(34,214,008)
Proceeds from sales and maturities of investment securities	38,240,995	32,668,094
Net cash provided by (used in) investing activities	2,682,406	(1,204,272)
Net Decrease in Cash and Cash Equivalents	(1,801,410)	(1,191,753)
Cash and Cash Equivalents - Beginning of year	6,060,164	2,633,372
Cash and Cash Equivalents - End of year	<u>\$ 4,258,754</u>	<u>\$ 1,441,619</u>

(This statement is continued on the following page.)

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2014

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (7,992,158)	\$ (403,472)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	5,503,820	-
Changes in assets and liabilities:		
Receivables	644,654	(6,770)
Prepaid costs and other assets	-	1,571,756
Due from other funds	-	228,925
Inventory	14,299	-
Accounts payable	1,062,319	(294,774)
Provision for compensated absences	(50,946)	-
Provision for uninsured losses and liabilities	-	289,684
Unearned revenue	12,399	-
Net cash (used in) provided by operating activities	<u>\$ (805,613)</u>	<u>\$ 1,385,349</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2014, the Oakland-Macomb Interceptor Drainage District (OMID) constructed and contributed Segment I drainage system improvements totaling \$355,066, which was funded through assigned debt; constructed and contributed Segment II drainage system improvements totaling \$1,396,100, which was funded through assigned debt and advanced funding (\$761,359) by other communities; constructed and contributed Segment III drainage system improvements totaling \$3,329,199, which was funded through assigned debt; and constructed and contributed Segment IV drainage system improvements totaling \$90,236, which was advanced funded by the OMID.

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2014

	Trust Funds - Pensions and Other Retirement Benefits	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 15,446,117	\$ 2,098,787
Investments - At fair value (Note 3):		
Government securities	37,652,504	-
Short-term investment fund	-	876,948
Mutual funds	36,169,771	-
Corporate bonds	9,790,014	-
Common and preferred stocks	288,579,587	-
Private real estate	11,778,456	-
	<hr/>	<hr/>
Total assets	399,416,449	<u><u>\$ 2,975,735</u></u>
Liabilities		
Accounts payable	2,275,648	\$ -
Accrued and other liabilities	23,851	1,022,653
Due to other governmental units	249,715	20,216
Provision for uninsured losses and liabilities (Note 10)	460,827	-
Cash bonds and deposits	-	1,932,866
	<hr/>	<hr/>
Total liabilities	3,010,041	<u><u>\$ 2,975,735</u></u>
Net Position - Held in trust for pensions and other retirement benefits	<u><u>\$ 396,406,408</u></u>	

City of Sterling Heights, Michigan

Fiduciary Funds **Statement of Changes in Fiduciary Net Position** **Year Ended June 30, 2014**

	Trust Funds - Pensions and Other Retirement Benefits
Additions	
Investment income (loss):	
Interest and dividends	\$ 8,132,730
Net adjustment to fair value of investments	58,624,224
Less investment expenses	<u>(2,534,672)</u>
Net investment income	64,222,282
Contributions:	
Employer	23,026,275
Employee	1,873,696
Purchase of prior year's service credits	66,034
Insurance recovery	<u>6,766</u>
Total additions	89,195,053
Deductions	
Benefit payments	31,956,215
Withdrawals and refunds of contributions	<u>1,054,350</u>
Total deductions	<u>33,010,565</u>
Change in Net Position	56,184,488
Net Position - Beginning of year	<u>340,221,920</u>
Net Position - End of year	<u><u>\$ 396,406,408</u></u>

City of Sterling Heights, Michigan

Component Units Statement of Net Position June 30, 2014

	Economic Development Corporation	Brownfield Redevelopment Authority	Corridor Improvement Authority	Local Development Finance Authority	Total
Assets					
Cash and cash equivalents	\$ 12,697	\$ 233,508	\$ 25,437	\$ 508,298	\$ 779,940
Receivables	-	-	-	10,048	10,048
Capital assets:					
Nondepreciable (Note 4)	-	-	-	1,209,203	1,209,203
Depreciable - Net (Note 4)	-	-	-	1,936,312	1,936,312
Total assets	12,697	233,508	25,437	3,663,861	3,935,503
Liabilities					
Accounts payable	-	183	-	14,658	14,841
Accrued and other liabilities	-	227,991	-	216,630	444,621
Due to other governmental units	-	-	564	8,633	9,197
Total liabilities	-	228,174	564	239,921	468,659
Net Position					
Net investment in capital assets	-	-	-	3,145,515	3,145,515
Unrestricted	12,697	5,334	24,873	278,425	321,329
Total net position	\$ 12,697	\$ 5,334	\$ 24,873	\$ 3,423,940	\$ 3,466,844

City of Sterling Heights, Michigan

Component Units Statement of Activities Year Ended June 30, 2014

	Program Revenue			Net (Expenses) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Economic Develop- ment Corporation	Brownfield Redevelop- ment Authority	Corridor Improvement Authority	Local Develop- ment Finance Authority	Total
Economic Development Corporation - Public works	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Brownfield Redevelopment Authority - Public works	114,284	-	113,960	-	(324)	-	-	(324)
Corridor Improvement Authority - Public works	1,104	-	-	-	-	(1,104)	-	(1,104)
Local Development Finance Authority - Public works	<u>568,281</u>	<u>109,340</u>	<u>617,711</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>158,770</u>	<u>158,770</u>
Total component units	<u>\$ 683,669</u>	<u>\$ 109,340</u>	<u>\$ 731,671</u>	-	(324)	(1,104)	158,770	157,342
General Revenue - Investment income				<u>5</u>	<u>113</u>	<u>10</u>	<u>179</u>	<u>307</u>
Change in Net Position				5	(211)	(1,094)	158,949	157,649
Net Position - Beginning of year				<u>12,692</u>	<u>5,545</u>	<u>25,967</u>	<u>3,264,991</u>	<u>3,309,195</u>
Net Position - End of year				<u>\$ 12,697</u>	<u>\$ 5,334</u>	<u>\$ 24,873</u>	<u>\$ 3,423,940</u>	<u>\$ 3,466,844</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

The City is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

Blended Component Unit

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

Discretely Presented Component Units - The following nonmajor component units are reported within the component units column in the government-wide financial statements to emphasize that they are legally separate from the City. 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.

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued)

- c. The Corridor Improvement Authority (the “CI Authority”) was created to encourage revitalization and redevelopment of commercial properties which have been developed along the City’s major arterial roadways. The CI Authority’s governing body, which consists of seven individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the CI Authority. The CI Authority is presented as a governmental activity.
- d. 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. The LDF Authority is presented as a governmental activity.

Accounting and Reporting Principles

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

Fund Accounting

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

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

- The General Fund is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Roads Fund (a special revenue fund type) accounts for the resources of state gas and weight tax revenue that is restricted for use on major streets.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued)

- The Community Development Block Grant Fund (a special revenue fund type) accounts for federal grant funds received from the U.S. Department of Housing and Urban Development for purposes of developing a viable urban community by providing economic opportunities principally for persons of low and moderate income.
- The Road Bond Debt Retirement Fund (a debt service fund type) accounts for revenue accumulated to pay principal and interest on outstanding debt associated with various road and infrastructure assets.
- The General Improvements Fund (a capital projects fund type) accounts for the proceeds of bond issues and all other resources used for the purpose of constructing all major capital improvement projects of the City other than special assessment, road, and enterprise projects.
- The Road Bond Construction Fund (a capital projects fund type) accounts for the proceeds of bond issues and all other resources used for the purpose of construction activity for roads and storm drains.

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

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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 health care related costs, or sick and vacation pay) are not counted until they become due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

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

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 1 - Summary of 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 non-fiduciary activities of the primary government and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual based presentation found in the fund-based statements.

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

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues 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 the major individual enterprise fund are reported as separate columns in the fund financial statements.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued)

Specific Balances and Transactions

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

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

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

Restricted Assets - The City Charter requires amounts in the enterprise fund to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve, when applicable. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for construction, maintenance, or debt service. Unspent bond proceeds in the Road Bond Construction Fund (a capital projects fund) are required to be set aside for construction. These amounts have also been classified as restricted assets.

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 \$1,000 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 fair market value at the date of donation.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

Long-term Obligations - In the government-wide financial statements and 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 as they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an "other financing source," as well as bond premiums and discounts. The debt service funds and the Water and Sewer Fund are used to liquidate long-term debt.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position/use of fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. During 2014, the City had no deferred outflows that qualified to be reported in the deferred outflow of resources category.

Note 1 - Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position/fund balance that applies to future period and so will not be recognized as an inflow of resources (revenue) until that time. During 2014, the City had two items that qualified for reporting in this category. They are deferred charges for fees billed and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption may be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumption

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

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

Property Taxes

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

The 2013 taxable valuation of the City totaled approximately \$4,103,737,000 on which ad valorem taxes levied consisted of 10.5582 for operating purposes, 1.8225 for police and fire pension, and 0.3051 for debt service. The ad valorem taxes raised approximately \$42,664,000 for operating, \$7,444,000 for police and fire pension, and \$1,236,000 for debt service. These amounts are recognized in the respective General Fund, special revenue and debt service fund financial statements as tax revenue.

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

Proprietary Funds Operating Classification - Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund and the internal service fund are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administration, expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 2 - Stewardship, Compliance, and Accountability

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

Shortfall at July 1, 2013	\$ (8,797,952)
Current year building permit revenue	1,894,051
Related expenses:	
Direct costs	\$ 1,135,063
Estimated indirect costs	<u>950,561</u>
Total construction code expenses	<u>(2,085,624)</u>
Net shortfall for the year ended June 30, 2014	<u>(191,573)</u>
Cumulative shortfall at June 30, 2014	<u>\$ (8,989,525)</u>

Note 3 - Deposits and Investments

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

The investment policy adopted by the City Council in accordance with Public Act 20 of 1948, as amended, authorizes investments in U.S. Treasury, 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.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 3 - Deposits and Investments (Continued)

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

The Pension Trust Funds and the Retiree Medical Benefits Trust Fund are also authorized to invest in certain reverse purchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (limited to 5 percent of the trust fund's assets if total assets are less than \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

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

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy does not directly address a deposit policy for custodial credit risk. At year end, the City had \$13,292,627 of bank deposits (certificates of deposit, 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.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, none of the City's investments were subject to custodial credit risk due to one of the following:

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

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy is very specific as it relates to investment maturities, as indicated in the table below:

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 3 - Deposits and Investments (Continued)

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

Investment	Fair Value	Average Maturity
Government-wide		
Commercial paper	\$ 4,296,981	0.16 years
Municipal obligations	3,043,351	4.58 years
U.S. government agencies	29,184,321	7.12 years
General Employees' Retirement System		
Corporate bonds	3,106,262	5.98 years
Foreign bonds	359,337	6.71 years
U.S. government agencies	5,893,248	3.97 years
U.S. government obligations	7,349,136	7.04 years
Municipal obligations	455,128	7.29 years
Police and Fire Retirement System		
Corporate bonds	4,771,388	7.24 years
U.S. government agencies	8,472,451	5.26 years
U.S. government obligations	9,305,049	7.59 years
Retiree Medical Benefits		
Corporate bonds	1,553,027	7.11 years
U.S. government agencies	3,051,529	4.89 years
U.S. government obligations	3,125,963	6.80 years

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 3 - Deposits and Investments (Continued)

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

Investment	Fair Value	Rating	Organization
Government-wide			
Pooled funds	\$ 3,621,248	AI	S&P
Pooled funds	1,411,715	AAA	S&P
Commercial paper	4,296,981	AI to A2	S&P
Municipal obligations	3,043,351	AA- to A-	S&P
U.S. government agencies	29,184,321	AA+	S&P
General Employees' Retirement System			
U.S. government agencies	5,893,248	AA+	S&P
U.S. government obligations	7,349,136	AA+	S&P
Municipal obligations	236,502	Aa1 to Aa3	Moody
Municipal obligations	201,964	AI to A3	Moody
Municipal obligations	16,662	NR	Moody
Corporate bonds	232,519	AAA to Aaa	Moody
Corporate bonds	43,257	Aaa	Moody
Corporate bonds	297,603	Aa1 to Aa3	Moody
Corporate bonds	1,037,644	AI to A3	Moody
Corporate bonds	1,495,239	Baa1 to Baa3	Moody
Foreign bonds	52,121	Aa3	Moody
Foreign bonds	172,694	AI to A3	Moody
Foreign bonds	134,522	Baa1	Moody
Police and Fire Retirement System			
U.S. government agencies	8,472,451	AA+	S&P
U.S. government obligations	9,305,049	AA+	S&P
Corporate bonds	815,704	AA+ to AA	S&P
Corporate bonds	2,326,884	A+ to A-	S&P
Corporate bonds	1,628,800	BBB+ to BBB-	S&P
Retiree Medical Benefits			
Pooled funds	236,467	A-I	S&P
Pooled funds	1,973,338	AAA	S&P
U.S. government agencies	3,051,529	AA+	S&P
U.S. government obligations	3,125,963	AA+	S&P
Corporate bonds	253,624	AA+ to AA-	S&P
Corporate bonds	792,956	A+ - A-	S&P
Corporate bonds	506,447	BBB+ to BBB-	S&P

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk

Through its investment policy, the City places a 5 percent limit on the amount the City may invest in any one issuer.

Approximately \$11,778,000 or 5.78 percent of the Police and Fire Retirement System plan's net position as of June 30, 2014 is not publicly traded and therefore does not always have a readily determinable market value. Management's estimates of these values are based on information provided by investment managers, general partners, real estate advisors, and other means. Since alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ significantly from the values that would have been used had a ready market for these securities existed. The difference could be material.

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.

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 4 - Capital Assets

Primary Government

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

	Balance June 30, 2013	Additions	Disposals and Adjustments	Balance June 30, 2014
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 45,414,228	\$ -	\$ -	\$ 45,414,228
Construction in progress	5,728,381	4,847,679	(2,267,479)	8,308,581
Works of art	336,751	-	(600)	336,151
Net capital assets - Nondepreciable	51,479,360	4,847,679	(2,268,079)	54,058,960
Capital assets being depreciated:				
Building and building improvements	39,006,569	584,515	(6,050)	39,585,034
Improvements other than buildings	9,798,101	-	-	9,798,101
Equipment	37,593,981	1,443,188	(1,468,274)	37,568,895
Furnishings and fixtures	1,243,274	25,606	(18,415)	1,250,465
Infrastructure	239,599,188	2,760,750	-	242,359,938
Subtotal	327,241,113	4,814,059	(1,492,739)	330,562,433
Accumulated depreciation:				
Building and building improvements	14,169,291	861,129	(2,449)	15,027,971
Improvements other than buildings	2,985,010	318,079	-	3,303,089
Equipment	27,872,047	2,100,038	(1,420,221)	28,551,864
Furnishings and fixtures	1,076,805	30,810	(9,657)	1,097,958
Infrastructure	151,614,604	7,357,257	-	158,971,861
Subtotal	197,717,757	10,667,313	(1,432,327)	206,952,743
Net capital assets being depreciated	129,523,356	(5,853,254)	(60,412)	123,609,690
Net governmental capital assets	<u>\$ 181,002,716</u>	<u>\$ (1,005,575)</u>	<u>\$ (2,328,491)</u>	<u>\$ 177,668,650</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 4 - Capital Assets (Continued)

	Balance June 30, 2013	Additions	Disposals and Adjustments	Balance June 30, 2014
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 64,871	\$ -	\$ -	\$ 64,871
Construction in progress	<u>14,832,514</u>	<u>5,177,685</u>	<u>(10,024,658)</u>	<u>9,985,541</u>
Net capital assets - Nondepreciable	14,897,385	5,177,685	(10,024,658)	10,050,412
Capital assets being depreciated:				
Building and building improvements	374,997	-	-	374,997
Equipment	4,351,209	59,831	(15,754)	4,395,286
Furnishings and fixtures	28,230	-	-	28,230
Water and sewer mains	<u>266,680,364</u>	<u>10,833,385</u>	<u>-</u>	<u>277,513,749</u>
Subtotal	271,434,800	10,893,216	(15,754)	282,312,262
Accumulated depreciation:				
Building and building improvements	109,270	10,910	-	120,180
Equipment	2,502,295	265,863	(15,754)	2,752,404
Furnishings and fixtures	25,391	985	-	26,376
Water and sewer mains	<u>113,396,827</u>	<u>5,226,062</u>	<u>-</u>	<u>118,622,889</u>
Subtotal	<u>116,033,783</u>	<u>5,503,820</u>	<u>(15,754)</u>	<u>121,521,849</u>
Net capital assets being depreciated	<u>155,401,017</u>	<u>5,389,396</u>	<u>-</u>	<u>160,790,413</u>
Net business-type capital assets	<u>\$ 170,298,402</u>	<u>\$ 10,567,081</u>	<u>\$ (10,024,658)</u>	<u>\$ 170,840,825</u>

Construction in progress includes \$9,978,459 (of which the current year amount is \$5,170,601) of drain improvements constructed by the Oakland-Macomb Interceptor Drainage District (OMID), which represents the City's portion of total OMID improvements in the amount of \$132,670,000. These improvements will be completed by OMID using state revolving loan funds and bonded debt. See Note 7 for additional information.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 4 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 142,070
41A District Court	30,400
Public safety	1,758,829
Public works	8,060,501
Recreation and culture	<u>675,513</u>

Total governmental activities \$ 10,667,313

Business-type activities - Water and sewer \$ 5,503,820

Discretely Presented Component Units

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

	Balance June 30, 2013	Additions	Disposals and Adjustments	Balance June 30, 2014
Local Development Finance Authority				
Capital assets not being depreciated -				
Land	\$ 1,209,203	\$ -	\$ -	\$ 1,209,203
Capital assets being depreciated -				
Building and building improvements	2,124,795	-	-	2,124,795
Less accumulated depreciation	<u>137,746</u>	<u>50,737</u>	<u>-</u>	<u>188,483</u>
Net capital assets being depreciated	<u>1,987,049</u>	<u>(50,737)</u>	<u>-</u>	<u>1,936,312</u>
Net component units capital assets	<u>\$ 3,196,252</u>	<u>\$ (50,737)</u>	<u>\$ -</u>	<u>\$ 3,145,515</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 4 - Capital Assets (Continued)

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

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Construction and other contracts	\$ 4,460,316	\$ 5,094,638

Note 5 - Interfund Receivables, Payables, and Transfers

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Major Roads Fund	\$ 420,410
	CDBG Fund	33,835
	General Improvements Fund	29
	Total General Fund	454,274
Nonmajor governmental funds	General Fund	165,158
	Total governmental activities	619,432
Proprietary Fund	General Fund	200,217
Self-insurance Fund	General Fund	700,769
	Total	<u>\$ 1,520,418</u>

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers Reported in the Fund Statements

Fund Transferred From	Fund Transferred To	Amount
General Fund	General Improvements Fund	\$ 784,380
	Nonmajor governmental funds	<u>297,080</u>
	Total General Fund	1,081,460
Major Roads Fund	Road Bond Debt Retirement Fund	2,160,000
	Nonmajor governmental funds	<u>1,025,000</u>
	Total Major Roads Fund	3,185,000
Self-insurance Fund	General Fund	<u>1,372,830</u>
	Total	<u>\$ 5,639,290</u>

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

The transfer from the Major Roads Fund to the Road Bond Debt Retirement Fund represents the funding of current debt service and the transfers from the Major Roads Fund to the nonmajor governmental funds represent unrestricted resources for current road repair and replacement programs.

The transfer from the Self-insurance Fund to the General Fund represents the transfer of unrestricted resources for government operations.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 6 - Unearned Revenue

Unearned revenue in the governmental activities represents various rents and fees paid to the City in 2014 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.

Note 7 - Long-term Debt

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds:					
2005 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$3,285,000					
Maturing through 2015					
Interest Rate 4.125%					
Principal Maturity \$500,000	\$ 1,000,000	\$ -	\$ (500,000)	\$ 500,000	\$ 500,000
2005 Limited Tax Refunding Bonds:					
Amount of Issue - \$2,820,000					
Maturing through 2019					
Interest Rate Ranges 4.00% - 5.00%					
Principal Maturity Range \$215,000 - \$600,000	1,915,000	-	(215,000)	1,700,000	240,000
2007 Michigan Transportation Fund Bonds:					
Amount of Issue - \$4,650,000					
Maturing through 2021					
Interest Rate Ranges 3.70% - 4.00%					
Principal Maturity \$300,000	600,000	-	(300,000)	300,000	300,000
2008 Unlimited Tax Fire Station Improvements:					
Amount of Issue - \$5,000,000					
Maturing through 2023					
Interest Rate Ranges 3.25% - 4.00%					
Principal Maturity Range \$250,000 - \$600,000	4,250,000	-	(250,000)	4,000,000	275,000
2010 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$2,240,000					
Maturing through 2014					
Interest Rate 2.00%					
Principal Maturity Range \$590,000	590,000	-	(590,000)	-	-
2010 Michigan Transportation Recovery Zone Bonds:					
Amount of Issue - \$1,570,000					
Maturing through 2025					
Interest Rate Ranges 2.35% - 6.05%					
Principal Maturity \$50,000 - \$200,000	1,525,000	-	(50,000)	1,475,000	50,000
2012 Michigan Transportation Fund Refunding Bonds:					
Amount of Issue - \$3,780,000					
Maturing through 2020					
Interest Rate Ranges 2.00% - 4.00%					
Principal Maturity Range \$400,000 - \$585,000	3,415,000	-	(400,000)	3,015,000	440,000
2013 Michigan Transportation Fund Refunding Bonds:					
Amount of Issue - \$3,275,000					
Maturing through 2022					
Interest Rate 2.05%					
Principal Maturity Range \$30,000 - \$515,000	3,275,000	-	(30,000)	3,245,000	40,000
County Drain contract obligations:					
Busch Drain Drainage District:					
Amount of Issue - \$1,250,000					
Maturing through 2014					
Interest Rate 4.49%					
Principal Maturity \$125,000	125,000	-	(125,000)	-	-

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
County Drain contract obligations (Continued):					
Hawken Drain Drainage District:					
Amount of Issue - \$795,000					
Maturing through 2015					
Interest Rate 5.17%					
Principal Maturity \$75,000	\$ 150,000	\$ -	\$ (75,000)	\$ 75,000	\$ 75,000
Hayes Drain Drainage District:					
Amount of Issue - \$1,095,000					
Maturing through 2015					
Interest Rate Ranges 5.15% - 5.20%					
Principal Maturity \$125,000	250,000	-	(125,000)	125,000	125,000
Plumbrook Bridge Replacement Drain Drainage District:					
Amount of Issue - \$2,800,000					
Maturing through 2015					
Interest Rate Ranges 4.00% - 5.00%					
Principal Maturity \$275,000	550,000	-	(275,000)	275,000	275,000
17 Mile Extension Drain Drainage District:					
Amount of Issue - \$1,725,000					
Maturing through 2016					
Interest Rate Ranges 4.30% - 4.50%					
Principal Maturity \$150,000	450,000	-	(150,000)	300,000	150,000
Special Assessment Bonds:					
2008 Special Assessment Limited Tax Bonds:					
Amount of Issue - \$3,260,000					
Maturing through 2028					
Interest Rate Ranges 3.25% - 4.50%					
Principal Maturity Range \$150,000 - \$400,000	2,850,000	-	(150,000)	2,700,000	150,000
Total bond obligations	20,945,000	-	(3,235,000)	17,710,000	2,620,000
Other long-term obligations:					
Provision for uninsured losses and other liabilities	1,253,500	5,564,631	(5,274,947)	1,543,184	448,020
Compensated absences - General Fund obligations	3,783,506	773,505	(432,600)	4,124,411	531,590
Total other long-term obligations	5,037,006	6,338,136	(5,707,547)	5,667,595	979,610
Unamortized premium on refunding	379,623	-	(25,524)	354,099	25,063
Total governmental activities	26,361,629	6,338,136	(8,968,071)	23,731,694	3,624,673
Business-type Activities - Water and Sewer					
County Drain Contract Obligations:					
General obligation bonds:					
2010B OMID Drainage District:					
Amount of Issue - \$1,104,832					
Maturing through 2030					
Interest Rate Ranges 1.15% - 5.90%					
Principal Maturity Range \$31,331 - \$85,748	998,475	-	(39,576)	958,899	41,225

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Business-type Activities - Water and Sewer (Continued)					
County Drain contract obligations (Continued):					
General obligation bonds:					
2010A MID Drainage District:					
Amount of Issue - \$26,725,795					
Maturing through 2035					
Interest Rate Ranges 1.25% -5.50%					
Principal Maturity Range \$834,308 - \$1,573,586	\$ 25,048,794	\$ -	\$ (852,475)	\$ 24,196,319	\$ 863,655
2011 Clintondale Pump Station Improvements Drainage District:					
Amount of Issue - \$9,862,021					
Maturing through 2032					
Interest Rate 5.00%					
Principal Maturity Range \$224,137 - \$800,489	9,381,728	-	(272,166)	9,109,562	288,176
Special Assessment Bonds:					
2008 North Gratiot Interceptor Drainage District:					
Amount of Issue - \$2,597,695					
Maturing through 2033					
Interest Rate Ranges 3.50% -5.00%					
Principal Maturity Range \$60,836 - \$146,006	2,415,187	-	(91,254)	2,323,933	91,254
2010 North Gratiot Interceptor Drainage District:					
Amount of Issue - \$252,751					
Maturing through 2035					
Interest Rate Ranges 1.00% -6.35%					
Principal Maturity Range \$4,842 - \$14,526	232,415	-	(7,896)	224,519	7,971
Total bond obligations	38,076,599	-	(1,263,367)	36,813,232	1,292,281
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 - \$3,783,653					
Maturing through 2031					
Interest Rate - 2.50%					
Principal Maturity Range \$86,616 - \$263,017	3,934,557	25,540	(176,444)	3,783,653	180,567
Special Assessment Roll No. 1 Series 2011A (Segment 2)					
Maximum Loan Amount - \$5,168,777					
Balance Drawn - \$4,057,784					
Maturing through 2031					
Interest Rate - 2.50%					
Principal Maturity Range \$99,360 - \$265,221	2,891,269	1,166,515	-	4,057,784	202,459
Special Assessment Roll No. 1 Series 2013A (Segment 3)					
Maximum Loan Amount - \$11,278,994					
Balance Drawn - \$3,861,952					
Maturing through 2023					
Interest Rate - 2.50%					
Principal Maturity Range \$411,073 - \$522,913	-	3,861,952	-	3,861,952	-
Total state revolving loan funds	6,825,826	5,054,007	(176,444)	11,703,389	383,026
Total county drain obligations	44,902,425	5,054,007	(1,439,811)	48,516,621	1,675,307
Other long-term obligations - Compensated					
absences - Water and Sewer Fund	254,915	33,764	(84,710)	203,969	71,091
Total business-type activities	45,157,340	5,087,771	(1,524,521)	48,720,590	1,746,398
Total	\$ 71,518,969	\$ 11,425,907	\$ (10,492,592)	\$ 72,452,284	\$ 5,371,071

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 7 - Long-term Debt (Continued)

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

Years	Governmental Activities		
	Principal	Interest	Total
2015	\$ 2,620,000	\$ 628,562	\$ 3,248,562
2016	1,725,000	545,332	2,270,332
2017	1,760,000	486,828	2,246,828
2018	1,820,000	428,864	2,248,864
2019	2,055,000	364,817	2,419,817
2020-2024	6,330,000	871,148	7,201,148
2025-2029	1,400,000	135,150	1,535,150
Total	<u>\$ 17,710,000</u>	<u>\$ 3,460,701</u>	<u>\$ 21,170,701</u>

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

Years	Business-type Activities		
	Principal	Interest	Total
2015	\$ 1,292,281	\$ 1,730,045	\$ 3,022,326
2016	1,340,073	1,693,720	3,033,793
2017	1,392,059	1,647,071	3,039,130
2018	1,445,516	1,595,483	3,040,999
2019	1,531,613	1,538,627	3,070,240
2020-2024	8,552,191	6,626,165	15,178,356
2025-2029	10,298,773	4,400,478	14,699,251
2030-2034	9,372,614	1,778,718	11,151,332
2035-2036	1,588,112	85,041	1,673,153
Total	<u>\$ 36,813,232</u>	<u>\$ 21,095,348</u>	<u>\$ 57,908,580</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 7 - Long-term Debt (Continued)

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

Years	State Revolving Loan Funds		
	Principal	Interest	Total
2015	\$ 383,026	\$ 253,059	\$ 636,085
2016	857,076	251,970	1,109,046
2017	876,608	232,768	1,109,376
2018	895,315	213,126	1,108,441
2019	915,859	193,062	1,108,921
2020-2024	4,230,716	656,959	4,887,675
2025-2029	2,583,453	281,656	2,865,109
2030-2031	961,336	20,000	981,336
Total	<u>\$ 11,703,389</u>	<u>\$ 2,102,600</u>	<u>\$ 13,805,989</u>

In 2010, the Oakland Macomb Interceptor Drainage District (OMID) was approved for \$42,000,000, Series 2010A, of loans through the Michigan State Revolving Loan Fund Program (SRF), of which approximately \$6,900,000 was anticipated as the City's share. The SRF loans were, in part, supported by grant funding from the American Recovery and Reinvestment Act of 2010 (ARRA) and include loan principal forgiveness which will equal 40 percent of final allowable project costs. The ARRA amounts were recognized as contributed capital when construction costs were incurred. The City's portion of the forgiven principal recognized in prior years as contributed capital in the Water and Sewer Fund totaled \$2,635,777. The City's share of SRF funds drawn and payable at June 30, 2014 is \$3,783,653.

In 2011, the OMID was approved for \$25,530,000, Series 2011A, of loans through the Michigan State Revolving Loan Fund Program (SRF), of which approximately \$5,169,000 was anticipated as the City's share. The City's share of SRF funds drawn and payable at June 30, 2014 is \$4,057,784. In addition, a portion of construction costs were paid from advance funding received from other communities. The City has recognized its portion of those construction costs, in the amount of \$1,174,293, as funds due to other governmental units.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 7 - Long-term Debt (Continued)

In 2013, the OMID was approved for \$65,140,000, Series 2013A, of loans through the Michigan State Revolving Loan Fund Program (SRF), of which approximately \$11,279,000 was anticipated as the City's share. The City's share of SRF funds drawn and payable at June 30, 2014 is \$3,861,952. In addition, a portion of construction costs were paid from advance funding received from other communities. The City has recognized its portion of those construction costs, in the amount of \$563,382, as funds due to other governmental units.

Subsequent Event

Subsequent to year end, the OMID was approved for \$28,000,000 of loans through the Michigan State Revolving Loan Fund Program (SRF), of which approximately \$4,617,000 is anticipated as the City's share. As of June 30, 2014, minimal construction start-up costs were paid. The City has recognized its portion of those costs, in the amount of \$90,236, as funds due to other governmental units.

Note 8 - Restricted Assets

Specific assets of the Water and Sewer Fund have been restricted by ordinance which requires the City to set aside a sum sufficient to provide for the subsequent quarter's expenses for operations, maintenance, and replacement. Additionally, 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 the bonds were issued or the repayment of the bonds. The following is the detail of restricted assets at June 30, 2014:

Water and Sewer Fund:

Cash and cash equivalents	\$ 4,258,754
Accounts receivable	4,813,024
Due from Oakland County*	<u>297,055</u>

Total Water and Sewer Fund 9,368,833

General Improvements Fund - Due from Macomb County** 2,088,524

Total restricted assets \$ 11,457,357

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 8 - Restricted Assets (Continued)

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

There were no unrecorded liabilities payable from county restricted assets.

Note 9 - 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 \$1,722,636 at June 30, 2014 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 10 - Risk Management

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

The City participates in the Michigan Municipal Risk Management Authority (MMRMA) risk pool program for claims relating to liability and auto and property loss. The program operates as a claim servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although funds are paid annually to the Authority that the Authority 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 time the City's reinsurance coverage begins.

Property and Liability

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 10 - Risk Management (Continued)

It is estimated, based on past experience, that \$577,869 will be paid for all claims reported to date and \$128,827 will be paid for claims incurred but not reported. The estimated liability for reported and incurred but not reported claims has been recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2014	2013
Estimated liability - Beginning of year	\$ 588,755	\$ 1,450,635
Estimated claims incurred, including changes in estimates	657,794	(243,042)
Claim payments	(539,853)	(618,838)
Estimated liability - End of year	<u>\$ 706,696</u>	<u>\$ 588,755</u>

Medical Claims and Short-term Disability

As of April 1, 1989, the City became self-insured for Blue Cross/Blue Shield equivalent healthcare coverage. Under the program, the City was liable for claims up to a retention amount of \$250,000 per active and retired employee (including dependents) for the contract year ended June 30, 2014. At January 1, 1990, the City became self-insured for short-term disability.

It is estimated, based on past experience, that \$30,282 will be paid for all claims reported to date and \$867,570 will be paid for claims incurred but not reported. This amount and all other transactions with respect to active employee medical and short-term disability claims are reflected in the Self-insurance Internal Service Fund. Retired employee medical claims are reflected in the Retiree Medical Benefits Trust Fund. Changes in the estimated liability for the past two fiscal years are as follows:

	Self-insurance Internal Service Fund	
	2014	2013
Estimated liability - Beginning of year	\$ 404,040	\$ 460,053
Estimated claims incurred, including changes in estimates	4,476,654	3,939,307
Claim payments	(4,443,669)	(3,995,320)
Estimated liability - End of year	<u>\$ 437,025</u>	<u>\$ 404,040</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 10 - Risk Management (Continued)

	Retiree Medical Benefits Trust Fund	
	2014	2013
Estimated liability - Beginning of year	\$ 478,153	\$ 527,599
Estimated claims incurred, including changes in estimates	7,056,560	6,386,744
Claim payments	(7,073,886)	(6,436,190)
Estimated liability - End of year	<u>\$ 460,827</u>	<u>\$ 478,153</u>

Workers' Compensation

On July 1, 1992, the City became self-insured for workers' compensation claims. Under the program, the City was liable for the first \$400,000 of any occurrence for the contract year ended June 30, 2014. The City has purchased excess insurance to cover claims greater than \$400,000. At June 30, 2014, it was estimated, based on past experience, that \$399,463 will be paid in total for both claims reported to date and claims incurred but not reported. This estimated liability for claims reported to date has been recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2014	2013
Estimated liability - Beginning of year	\$ 260,705	\$ 325,467
Estimated claims incurred, including changes in estimates	430,183	207,594
Claim payments	(291,425)	(272,356)
Estimated liability - End of year	<u>\$ 399,463</u>	<u>\$ 260,705</u>

Note 11 - Defined Benefit Pension Plans

The City participates in two retirement plans, the General Employees' Retirement System and the Police and Fire Retirement System. The plans do not issue separate financial statements.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 11 - Defined Benefit Pension Plans (Continued)

Accounting and Reporting Principles

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

Pension Plan Description

Plan Administration

General Employees' Retirement System (GERS) - The General Employees' Pension Board administers the General Employees' Retirement System plan - a single-employer plan - that provides pensions for approximately 62.0 percent of all active permanent full-time general employees of the City. Benefit terms have been established by contractual agreements between the City and the various employee union representation; and amendments are subject to the same process.

Pension Plan Description (continued)

Management of the Plan is vested in the Pension Board, which consists of five members - two elected by plan members, one appointed by the City, and the City Treasurer and Finance Director, who serve as ex-officio members.

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

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 11 - Defined Benefit Pension Plans (Continued)

Plan Membership

At December 31, 2013, the date of the most recent actuary reports, pension plan memberships consisted of the following:

	GERS	PFRS
Inactive plan members or beneficiaries currently receiving benefits	344	369
Inactive plan members entitled to but not yet receiving benefits	15	3
Active plan members	132	159
Total members	491	531

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

Benefits Provided

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

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Pension Boards retain an independent actuary to determine the annual contributions. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the City Charter, union contracts and plan provisions. For the plan year ended June 30, 2014, the average active member contribution was 8.0 percent of annual pay. The City's average contribution rate was 29.8 percent and 56.6 percent of annual payroll for the General Employees' Retirement System and the Police and Fire Retirement System, respectively.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 11 - Defined Benefit Pension Plans (Continued)

Deferred Retirement Option Program (DROP)

The City offered certain police and fire employees the ability to continue services and be paid a salary after they were fully vested; this program credits the employee for benefit payments that would have been paid, and pays them out with interest at 4 percent after the employee has fully retired (discontinued providing employee services to the City). At plan year end, June 30, 2014, the Police and Fire Retirement System has accumulated \$21,482,615 in DROP account reserves.

Pension Plan Investments - Policy and Rate of Return

Investment Policy

The pension plans policies, in regard to the allocation of invested assets, are established and may be amended by the Pension Boards by a majority vote of their members. It is the policy of the Pension Boards to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plans' investment policies discourage the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following were the Boards' adopted asset allocation policies as of fiscal year end, June 30, 2014:

Asset Class	Target Allocation %	
	GERS	PFRS
Large capitalization growth equities	16	22
Large capitalization value equities	16	22
Small/Middle capitalization equities	15	6
International equities	17	17
Fixed income	32	30
Real estate	4	3
Total allocation percentages	100	100

Note 11 - Defined Benefit Pension Plans (Continued)

Rate of Return

For the fiscal year end June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 17.9 percent and 19.6 percent for the General Employees' and Police and Fire Retirement Systems, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Plan Reserves

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

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

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 11 - Defined Benefit Pension Plans (Continued)

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

The balances of the reserve accounts at June 30, 2014 are as follows:

	GERS		PFRS	
	Required Reserve	Amount Funded	Required Reserve	Amount Funded
Retiree reserve	\$ 100,905,572	\$ 100,905,572	\$ 204,482,909	\$ 186,606,033
Employee reserve	6,081,050	6,081,050	14,205,648	14,205,648
Employer reserve	N/A	11,483,481	N/A	-

Net Pension Liability of the City

The City reports pension expense based on funding requirements, as directed by GASB Statement No. 27. Beginning next year, the City will adopt GASB Statement No. 68 which will require the measurement of pension expense as it is earned, rather than as it is funded. The net pension liability of the City has been measured as of fiscal year end June 30, 2014 and is composed of the following:

	GERS	PFRS
Total pension liability	\$ 131,110,564	\$ 278,709,301
Plan fiduciary net position	118,470,102	203,771,027
City's net pension liability	12,640,462	74,938,274
Plan fiduciary net position, as a percentage of the total pension liability	90.36%	73.11%

Actuarial Assumptions

The fiscal year end total pension liabilities were determined by an actuarial valuation as of December 31, 2013 which was used to update procedures to roll forward the estimated liability to June 30, 2014. The valuation used the following actuarial assumptions, applied to all periods included in the measurement:

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 11 - Defined Benefit Pension Plans (Continued)

	GERS	PFRS
Inflation	3.5%	3.0%
Salary increases (average, including inflation)	3.75 - 11.5 %	4.0 - 17.0 %
Investment rate of return (net of pension plan investment expense, including inflation)	8.0%	8.0%

Mortality rates were based on the *RP-2000 Healthy Life Mortality Table* and the *1994 Uninsured Pension Mortality Table* for the General Employees' Retirement System and the Police and Fire Retirement System, respectively.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of the actuarial experience studies normally within a five-year look-back window for the period.

Discount Rate

The discount rate used to measure the total pension liability was 8.0 percent for both the General Employees' and the Police and Fire Retirement Systems. The projection of cash flows used to determine this discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. The actuary for the Police and Fire Retirement System is contemplating the appropriateness of a blended discount rate. The use of a blended discount rate is likely to result in a 1.0 percent reduction from the discount rate currently utilized. The impact of a 1.0 percent reduction in the Police and Fire Retirement System discount rate on that system's net pension liability is approximated on page 72 of this report.

Projected Cash Flows

Based on those assumptions with regard to the General Employees' Retirement System and the Police and Fire Retirement System, the pension 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 pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 11 - Defined Benefit Pension Plans (Continued)

The long-term expected rate of return for both pension plans' investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of the plans' year end, December 31, 2013, for each major asset class included in the pension plans' target allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return (%)	
	GERS	PFRS
Large capitalization growth equities	7.40	7.40
Large capitalization value equities	6.70	6.70
Small/Middle capitalization equities	8.15	8.15
International equities	7.50	7.50
Fixed income	2.75	2.75
Real estate	4.70	4.70

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

For the General Employees' Retirement System the following presents the net pension liability of the City calculated using the discount rate of 8.0 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 (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net pension liability of City	\$ 25,787,338	\$ 12,640,462	\$ 1,423,910

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 11 - Defined Benefit Pension Plans (Continued)

For the Police and Fire Retirement System the following presents the net pension liability of the City calculated using the discount rate of 8.0 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 (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net pension liability of City	\$ 101,159,711	\$ 74,938,274	\$ 52,453,183

Annual Pension Costs

General Employees' Retirement System - For the fiscal year ended June 30, 2014, the City's annual pension cost of \$2,735,453 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2012, using the entry age level dollar method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return and (b) projected salary increases of 3.5 to 11.5 percent per year long term. Both (a) and (b) include an inflation component of 3.5 percent and were determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as smooth dollar on a closed basis. The remaining amortization period is 16 years.

Police and Fire Retirement System - For the fiscal year ended June 30, 2014, the City's annual pension cost of \$8,095,472 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2012, using the entry age level percent of payroll method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return and (b) projected salary increases of 4.0 to 17.0 percent per year long term. Both (a) and (b) include an inflation component of 3.0 percent and were determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 25 years.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 11 - Defined Benefit Pension Plans (Continued)

The pension cost for the three most recent years is as follows:

	Year Ended		
	2014	2013	2012
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 2,735,453	\$ 1,790,556	\$ 1,089,481
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ 8,095,472	\$ 8,815,031	\$ 7,368,876
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Funded Status and Funding Progress

The schedules of funding progress, presented as required supplemental information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

General Employees' Retirement System - As of December 31, 2013, the most recent actuarial valuation date, the plan was 84.2 percent funded. The actuarial accrued liability for benefits was \$131.1 million, and the actuarial value of assets was \$110.3 million, resulting in an unfunded actuarial accrued liability of \$20.8 million. The covered payroll (annual payroll for active employees covered by the plan) was \$8.5 million, and the ratio for the unfunded actuarial accrued liability to the covered payroll was 243.5 percent.

Police and Fire Retirement System - As of December 31, 2013, the most recent actuarial valuation date, the plan was 67.4 percent funded. The actuarial accrued liability for benefits was \$276.7 million, and the actuarial value of assets was \$186.6 million, resulting in an unfunded actuarial accrued liability of \$90.1 million. The covered payroll (annual payroll for active employees covered by the plan) was \$14.3 million and the ratio for the unfunded actuarial accrued liability to the covered payroll was 630.2 percent.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 11 - Defined Benefit Pension Plans (Continued)

	General Employees' Retirement System	Police and Fire Retirement System
Assets		
Cash and cash equivalents	\$ 4,762,572	\$ 8,473,740
Investments - At fair value:		
Government securities	13,697,512	17,777,500
Mutual funds	8,337,315	21,718,694
Corporate bonds	3,465,599	4,771,388
Common and preferred stocks	89,063,994	140,532,385
Private real estate	-	11,778,456
Total assets	119,326,992	205,052,163
Liabilities		
Accounts payable	850,317	1,281,136
Due to other governmental units	6,573	-
Total liabilities	856,890	1,281,136
Net Position - Held in trust for pensions	<u>\$ 118,470,102</u>	<u>\$ 203,771,027</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 11 - Defined Benefit Pension Plans (Continued)

Statement of Changes in Net Position

	General Employees' Retirement System	Police and Fire Retirement System
Additions		
Investment income (loss):		
Interest and dividends	\$ 2,669,755	\$ 4,021,260
Net adjustment to fair value of investments	16,612,732	31,089,444
Less investment expenses	<u>(712,030)</u>	<u>(1,352,729)</u>
Net investment income	18,570,457	33,757,975
Contributions:		
Employer	2,735,453	8,095,472
Employee	711,608	1,162,088
Purchase of prior year's service credits	<u>-</u>	<u>66,034</u>
Total additions - Net	22,017,518	43,081,569
Deductions		
Benefit payments	10,077,223	14,817,864
Refunds of contributions	<u>855,885</u>	<u>198,465</u>
Total deductions	<u>10,933,108</u>	<u>15,016,329</u>
Change in Net Position	11,084,410	28,065,240
Net Position - Beginning of year	<u>107,385,692</u>	<u>175,705,787</u>
Net Position - End of year	<u><u>\$ 118,470,102</u></u>	<u><u>\$ 203,771,027</u></u>

Note 12 - 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 \$162,473 during the current year and employees contributed \$251,973.

Note 13 - Postemployment Benefits

Plan Description - The City provides other postemployment benefits (OPEB) to eligible employees and their spouses or beneficiaries through the Sterling Heights Retiree Medical Benefits Trust plan. Health and life insurance benefits are provided to all public safety and general employees. Additionally, public safety employees are provided with dental benefits. At December 31, 2012, the date of the most recent actuary report, the plan has 994 members (including employees in active service and retirees or beneficiaries currently receiving benefits). Of those members, 276 general and 296 police and fire retirees are receiving benefits.

This is a single-employer defined benefit plan administered by the City. The benefits are provided for employees who satisfy applicable service retirement eligibility as contained in collectively bargained labor agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

Funding Policy - The contribution requirements of plan members and the City are established by collectively bargained labor agreements. For current employees, the City includes pre-Medicare retirees and their spouses or beneficiaries in its healthcare plan.

General employees and firefighters hired after June 30, 2012 and patrol officers hired after July 1, 2013 are not eligible for retiree health benefits. In addition, patrol officers currently in the DROP plan (deferred retirement option plan), or those eligible for the EROP plan (early retirement option plan), are required to contribute 5.0 percent of base pay to the City's Retiree Medical Benefits Trust plan.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 13 - Postemployment Benefits (Continued)

All new contracts settled after July 1, 2011 require contributions from retiring plan members. Plan members who retired after this date and are receiving benefits contributed \$10,750 during the fiscal year.

As of June 30, 2008, labor contracts include a clause that requires new employees to contribute 50.0 percent of the monthly retiree healthcare coverage premium upon retirement except for the U.A.W. Professional and Technical Employees Union, which requires employees hired after July 1, 2003 to contribute 25.0 percent and for employees hired after July 1, 2008 to contribute 60.0 percent of the monthly retiree premium.

The City purchases Medicare supplemental insurance for retirees eligible for Medicare. The cost of retiree healthcare benefits is reflected in the Retiree Medical Benefits Fund, which was established during the 1989 fiscal year when the City began to prefund postemployment benefits. During the current year, the contribution amounted to \$12,195,350, which was funded by the General and Water and Sewer Funds, and benefit payments totaled \$7,061,128

Funding Progress - For the year ended June 30, 2014, the City estimated the cost of providing postemployment benefits through an actuarial biennial valuation as of December 31, 2012. The valuation computes an annual required contribution (ARC) which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. For the fiscal year ended June 30, 2014, the City's annual contribution of \$12,195,350 to the plan was equal to the required contribution.

The OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the three most recent years have been presented:

	Fiscal Year Ended		
	2014	2013	2012
Annual OPEB costs (AOC)	\$ 12,195,350	\$ 11,984,780	\$ 11,523,820
Percentage of AOC contributed	100%	100%	100%
Net OPEB obligation	\$ -	\$ -	\$ -

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 13 - Postemployment Benefits (Continued)

The funding progress of the plan as of the most recent biennial valuation date is as follows:

Valuation as of December 31, 2012:

Actuarial value of assets	\$ 52,663,559
Actuarial value of liability (AAL)	181,013,043
Unfunded AAL (UAAL)	128,349,484
Funded ratio	29.1%
Annual covered payroll	\$ 40,887,900
Ratio of UAAL to covered payroll	313.9%

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrences of events into the future. As a result, the amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to revision as actual results are compared to past expectations and new estimates are formulated about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 13 - Postemployment Benefits (Continued)

The annual required contribution was determined as part of an actuarial valuation at December 31, 2012 using the individual entry age actuarial cost method. The actuarial assumptions included an 8.0 percent rate of return on investments (net of applicable expenses identified above) which was based on the historical rate of return achieved by the asset mix used within the plan. An annual healthcare cost trend ranging downward from 9.0 percent to 3.5 percent was used in fiscal year 2012, grading to 3.5 percent in fiscal year 2021 and thereafter. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using the market value of the assets at the date of the valuation. The UAAL is being amortized as a level percent of projected payroll on an open basis. The remaining amortization period is 30 years.

Statement of Net Position

	Retiree Medical Benefits
Assets	
Cash and cash equivalents	\$ 2,209,805
Investments - At fair value:	
Government securities	6,177,492
Mutual funds	6,113,762
Corporate bonds	1,553,027
Common and preferred stocks	58,983,208
Total assets	75,037,294
Liabilities	
Accounts payable	144,195
Accrued and other liabilities	23,851
Due to other governmental units	243,142
Provision for uninsured losses and liabilities	460,827
Total liabilities	872,015
Net Position - Held in trust for other retiree benefits	\$ 74,165,279

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 13 - Postemployment Benefits (Continued)

Statement of Changes in Net Position

	Retiree Medical Benefits
Additions	
Investment income (loss):	
Interest and dividends	\$ 1,441,715
Net adjustment to fair value of investments	10,922,048
Less investment expenses	<u>(469,913)</u>
Net investment income	11,893,850
Contributions - Employer	12,195,350
Insurance recovery	<u>6,766</u>
Total additions	24,095,966
Deductions - Benefit payments	<u>7,061,128</u>
Net Change in Net Position	17,034,838
Net Position - Beginning of year	<u>57,130,441</u>
Net Position - End of year	<u><u>\$ 74,165,279</u></u>

Note 14 - Unrestricted Net Position

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

<u>Designated for</u>	Enterprise Fund - Water and Sewer
Capital improvement	\$ 2,540,000
Undesignated	<u>12,348,421</u>
Total	<u><u>\$ 14,888,421</u></u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2014

Note 15 - 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.

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

Note 16 - Changes in Accounting

Effective July 1, 2013, the City implemented the provisions of the following Governmental Accounting Standards Board (GASB) Statements:

No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or outflows of resources.

As a result of implementing this statement, the following assets and liabilities have been reclassified, as indicated:

Item	Amount	Prior Reporting Classification/ Treatment	New Classification After Adoption of GASB Stmt. No. 65
Governmental Funds:			
Revenue in governmental funds not collected within 45 days of year end	\$ 4,436,053	Liability	Deferred inflow of resources
Component Units:			
Revenue in governmental funds not collected within 45 days of year end	10,048	Liability	Deferred inflow of resources

Note 16 - Changes in Accounting (continued)

No. 66, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. This statement resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. This statement did not have a significant impact on the City's financial statements.

No. 67, *Financial Reporting for Pension Plans*. This statement improves financial reporting by state and local governmental pension plans through enhanced note disclosures and schedules of required supplemental information that are presented by pension plans that are within its scope. New information enhances the decision-usefulness of the financial reports of these pension plans, their value for assessing accountability, and their transparency by providing information about the measurement of net pension liabilities and explanations of how and why those liabilities changed from year to year.

This statement required changes to the actuarial valuations resulting in a different measurement period of the liability of the employer to plan members for benefits provided through the pension plans. As a result, the required disclosures within the pension footnote changed considerably along with related schedules as part of required supplemental information.

No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement enhances comparability of financial statements among governments by requiring consistent reporting by governments that extend or receive nonexchange financial guarantees. This statement enhances the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees and augments the ability of financial statement users to assess the probability that governments will repay obligation holders. This statement did not have a significant impact on the City's financial statements.

Note 17 - Upcoming Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement will be in effect for the City's 2015 fiscal year. This statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement will be in effect for the City's 2015 fiscal year. This statement will improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term "government combinations" is used in this statement to refer to a variety of arrangements including mergers and acquisitions. Government combinations also include transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide these services.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This statement will be in effect for the City's 2015 fiscal year. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Note 18 - Subsequent Events

On August 11, 2014, a massive thunderstorm dumped more than five inches of rain on southeastern Michigan causing property damage to City public parks and municipal offices and multiple sewer collapses. The estimated cost of emergency protection and repairs is estimated to be between \$950,000 and \$1.0 million.

Please refer to Note 7 for additional subsequent event disclosure.

Required Supplemental Information

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 5,248,480	\$ 5,248,480	\$ 5,248,480	\$ -
Resources (Inflows)				
Property taxes	37,980,530	38,055,530	38,262,436	206,906
Refuse taxes	4,457,700	4,407,700	4,400,850	(6,850)
Police and fire pension taxes	7,468,050	7,448,050	7,444,408	(3,642)
Licenses and permits	1,926,200	1,910,000	1,735,413	(174,587)
Federal, state, and local returns	11,257,360	11,521,970	11,537,498	15,528
Charges for services	8,427,630	9,354,530	9,048,012	(306,518)
Fines and forfeitures	2,621,020	2,399,000	2,326,870	(72,130)
Cable revenue	2,200,000	2,325,000	2,342,953	17,953
Other revenue	2,540,890	3,273,460	3,252,026	(21,434)
Transfers from other funds	2,056,050	1,372,830	1,372,830	-
Total resources (inflows)	80,935,430	82,068,070	81,723,296	(344,774)
Charges to Appropriations (Outflows)				
41A District Court	3,174,060	3,107,010	3,078,766	28,244
City administration	6,496,860	6,405,270	6,317,930	87,340
Community relations	827,710	864,180	857,674	6,506
Police department	32,121,330	31,675,340	31,498,586	176,754
Fire department	16,813,600	17,203,720	17,078,451	125,269
Public works department	10,053,220	10,887,330	10,961,623	(74,293)
Refuse collection	4,486,700	4,625,130	4,697,636	(72,506)
Community services department	4,100,930	4,025,160	4,002,476	22,684
General expenditures	2,205,790	2,193,470	2,167,782	25,688
Transfers to other funds	655,230	1,081,460	1,081,460	-
Total charges to appropriations (outflows)	80,935,430	82,068,070	81,742,384	325,686
Fund Balance - End of year	\$ 5,248,480	\$ 5,248,480	\$ 5,229,392	\$ (19,088)

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Roads Fund Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 4,775,111	\$ 4,775,111	\$ 4,775,111	\$ -
Resources (Inflows)				
State sources	5,824,000	6,110,000	6,218,680	108,680
Other	<u>155,000</u>	<u>195,000</u>	<u>197,984</u>	<u>2,984</u>
Total resources (inflows)	5,979,000	6,305,000	6,416,664	111,664
Charges to Appropriations (Outflows)				
Public works:				
Administration	115,590	215,590	228,780	(13,190)
Routine maintenance	1,640,500	2,680,710	2,721,929	(41,219)
Improvements	2,644,000	2,646,390	1,957,721	688,669
Transfers to other funds	<u>2,160,000</u>	<u>2,960,000</u>	<u>3,185,000</u>	<u>(225,000)</u>
Total charges to appropriations (outflows)	<u>6,560,090</u>	<u>8,502,690</u>	<u>8,093,430</u>	<u>409,260</u>
Fund Balance - End of year	<u>\$ 4,194,021</u>	<u>\$ 2,577,421</u>	<u>\$ 3,098,345</u>	<u>\$ 520,924</u>

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Community Development Block Grant Fund Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal sources	1,109,490	1,004,750	873,271	(131,479)
Charges to Appropriations (Outflows)				
Administrative expenses	145,000	161,730	131,474	30,256
Books	6,000	7,080	7,079	1
Senior citizens home chore	21,500	19,090	19,083	7
Single parent education program	10,000	10,580	10,582	(2)
Minor home repair	45,000	23,000	22,756	244
Handicapped recreation program	19,000	19,080	19,083	(3)
Senior recreation program	17,640	14,050	14,050	-
Housing rehabilitation program	154,000	57,000	35,704	21,296
Awards to nonprofit organizations	22,350	33,700	30,920	2,780
Capital improvements	669,000	659,440	582,540	76,900
Total charges to appropriations (outflows)	<u>1,109,490</u>	<u>1,004,750</u>	<u>873,271</u>	<u>131,479</u>
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Sterling Heights, Michigan

Note to Required Supplemental Information June 30, 2014

Note - Stewardship, Compliance, and Accountability

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

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

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

- Prior to April 1, the City manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to May 10, the budget is legally adopted by the City Council through adoption of the appropriation ordinance.
- The City manager is authorized to transfer budgeted amounts within budgetary centers (activity); however, any revisions that alter the total expenditure of any budgetary center (activity) must be approved by the City Council.

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

Encumbrance accounting is employed in all governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be re-appropriated and honored during the subsequent year.

City of Sterling Heights, Michigan

Note to Required Supplemental Information June 30, 2014

Note - Stewardship, Compliance, and Accountability (Continued)

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

	Budget	Actual
General Fund:		
Public works department	\$ 10,887,330	\$ 10,961,623
Refuse collection	4,625,130	4,697,636
Total General Fund	<u>\$ 15,512,460</u>	<u>\$ 15,659,259</u>
Major Roads Fund:		
Administration	\$ 215,590	\$ 228,780
Routine maintenance	2,680,710	2,721,929
Transfers to other funds	2,960,000	3,185,000
Total Major Roads Fund	<u>\$ 5,856,300</u>	<u>\$ 6,135,709</u>

The General Fund had unfavorable variances in the activity of:

- Public works department, as a result of higher than anticipated personnel costs due to increased road maintenance resulting from the unusually harsh winter; higher fuel costs; and higher than anticipated personnel costs and other contracted services for parks and grounds maintenance also resulting from the unusually harsh winter.
- Refuse collection, which was attributable to higher than anticipated soft yard waste collection costs for condominiums and loss of revenues for recycled paper and cardboard due to a significant drop in commodity pricing.

The Major Roads Fund had unfavorable variances in the activity of:

- Administration and routine maintenance, as a result of higher-than-anticipated costs for increased major road maintenance resulting from the unusually harsh winter.
- Transfers to other funds as a result of higher-than-anticipated costs for increased local road maintenance also resulting from the unusually harsh winter.

City of Sterling Heights, Michigan

Required Supplemental Information General Employees' Retirement System Schedule of Funding Progress and Employee Contributions June 30, 2014

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c) Underfunded/ (Overfunded)
12/31/08	\$ 123,523,191	\$ 112,085,828	\$ (11,437,363)	110.2	\$ 14,794,008	(77.3)
12/31/09	121,518,199	114,380,940	(7,137,259)	106.2	15,000,778	(47.6)
12/31/10	119,072,680	119,558,268	485,588	99.6	13,709,541	3.5
12/31/11	113,331,998	124,620,578	11,288,580	90.9	12,375,670	91.2
12/31/12	107,080,076	128,217,690	21,137,614	83.5	10,007,272	211.2
12/31/13	110,273,270	131,042,403	20,769,133	84.2	8,527,956	243.5

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
06/30/08	12/31/06	\$ -	100.0
06/30/09	12/31/07	-	100.0
06/30/10	12/31/08	204,054	100.0
06/30/11	12/31/09	486,096	100.0
06/30/12	12/31/10	1,089,481	100.0
06/30/13	12/31/11	1,790,556	100.0

* Expressed as a percentage of payroll.

Additional information as of December 31, 2013, the latest actuarial valuation, follows:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Amortization period (perpetual)	16 years
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases**	3.75% - 11.5%
**Includes inflation at	3.5%
Cost-of-living adjustments	None
Retirement age - Experienced-based table rates that are specific to type of eligibility	
Mortality - RP2000 Male and Female Healthy Life Mortality (unadjusted) tables, adjusted for mortality improvements to 2015 using projection scale AA	
Other - Benefit multiplier and employee contribution rates changed for certain members	

City of Sterling Heights, Michigan

Required Supplemental Information **General Employees' Retirement System** **Schedule of Changes in the City's Net Pension Liability and** **Related Ratios** **June 30, 2014**

Total Pension Liability

Service cost	\$ 1,149,820
Interest	10,079,470
Changes of benefit terms	(70,640)
Benefit payments, including refunds of member contributions	<u>(10,933,108)</u>
Net change in total pension liability	225,542
Total pension liability - Beginning of year	<u>130,885,022</u>
Total pension liability - End of year	<u>\$ 131,110,564</u>

Plan Fiduciary Net Position

Contributions - Employer	\$ 2,735,850
Contributions - Members	711,607
Net investment income	18,570,058
Benefit payments, including refunds of member contributions	<u>(10,933,108)</u>
Net change in plan fiduciary net position	11,084,407
Plan fiduciary net position - Beginning of year	<u>107,385,695</u>
Plan fiduciary net position - End of year	<u>\$ 118,470,102</u>
City's net pension liability - End of year	<u>\$ 12,640,462</u>
Plan fiduciary net position as a percent of total pension liability	90.36%
Covered employee payroll	\$ 9,187,685
City's net pension liability as a percent of covered employee payroll	137.58%

City of Sterling Heights, Michigan

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 204,054	\$ 486,906	\$ 1,089,481	\$ 1,790,556	\$ 2,735,453
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	204,054	486,906	1,089,481	1,790,556	2,735,453
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 14,544,030	\$ 15,251,784	\$ 15,012,036	\$ 15,382,785	\$ 15,406,591	\$ 14,794,008	\$ 15,000,778	\$ 13,709,541	\$ 12,375,670	\$ 10,007,272
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%	1.38%	3.25%	7.95%	14.47%	27.33%

Note to Schedule of City Contributions

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions - The actuarially determined contribution rates in the schedule of the City's contributions are calculated as of fiscal year end, June 30, 2014. The following actuarial methods and assumptions were used to determine contribution rates reported in the schedules:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Amortization period (perpetual)	16 years
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases**	3.75% - 11.5%
**Includes inflation at	3.5%
Cost-of-living adjustments	None
Retirement age - Experienced-based table rates that are specific to type of eligibility	
Mortality - RP2000 Male and Female Healthy Life Mortality (unadjusted) tables, adjusted for mortality improvements to 2015 using projection scale AA	
Other - Benefit multiplier and employee contribution rates changed for certain members	

City of Sterling Heights, Michigan

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

	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	17.90%

City of Sterling Heights, Michigan

Required Supplemental Information Police and Fire Retirement System Schedule of Funding Progress and Employee Contributions June 30, 2014

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c) Underfunded/ (Overfunded)
12/31/08	\$ 202,192,211	\$ 212,914,310	\$ 10,722,099	95.0	\$ 22,064,557	48.6
12/31/09	193,164,045	227,549,069	34,385,024	84.9	22,510,638	152.8
12/31/10	185,750,293	237,994,618	52,244,325	78.0	22,432,921	232.9
12/31/11	173,001,421	260,283,654	87,282,233	66.5	19,213,007	454.3
12/31/12	177,718,953	269,210,724	91,491,771	66.0	14,671,724	623.6
12/31/13	186,606,033	276,717,787	90,111,754	67.4	14,300,045	630.2

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
06/30/08	12/31/06	\$ 1,707,910	100.0
06/30/09	12/31/07	2,594,194	100.0
06/30/10	12/31/08	4,925,570	100.0
06/30/11	12/31/09	6,135,053	100.0
06/30/12	12/31/10	7,368,876	100.0
06/30/13	12/31/11	8,815,031	100.0

* Expressed as a percentage of payroll.

Additional information as of December 31, 2013, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll, open
Amortization period (perpetual)	25 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases**	17.0% - 4.0%
**Includes inflation at	4.0%
Cost-of-living adjustments	None
Retirement age - Experienced-based table rates that are specific to type of eligibility	
Mortality - 1994 Uninsured Pension Mortality Table	
Other - Benefit multiplier and employee contribution rates changed for certain members	

City of Sterling Heights, Michigan

Required Supplemental Information Police and Fire Retirement System Schedule of Changes in the City's Net Pension Liability and Related Ratios June 30, 2014

Total Pension Liability

Service cost	\$ 3,473,840
Interest	21,603,104
Differences between expected and actual experience	(7,161,354)
Benefit payments, including refunds of member contributions	<u>(15,016,329)</u>
Net change in total pension liability	2,899,261
Total pension liability - Beginning of year	<u>275,810,040</u>
Total pension liability - End of year*	<u>\$ 278,709,301</u>

Plan Fiduciary Net Position

Contributions - Employer	\$ 8,095,072
Contributions - Members	1,228,122
Net investment income	33,813,713
Benefit payments, including refunds of member contributions	(15,016,329)
Administrative expense	(55,738)
Other	<u>401</u>
Net change in plan fiduciary net position	28,065,241
Plan fiduciary net position - Beginning of year	<u>175,705,786</u>
Plan fiduciary net position - End of year	<u>\$ 203,771,027</u>
City's net pension liability - End of year	<u>\$ 74,938,274</u>
Plan fiduciary net position as a percent of total pension liability	73.11%
Covered employee payroll	\$ 15,056,168
City's net pension liability as a percent of covered employee payroll	497.72%

- * The actuary for the Police and Fire Retirement System is contemplating the appropriateness of a blended discount rate. The use of a blended discount rate is likely to result in a 1.0 percent reduction from the discount rate currently utilized. The impact of a 1.0 percent reduction in the Police and Fire Retirement System discount rate on that system's net pension liability is an approximate increase in the liability of \$26.2 million.

City of Sterling Heights, Michigan

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Actuarially determined contribution	\$ 4,204,831	\$ 2,993,592	\$ 2,646,459	\$ 1,707,910	\$ 2,594,194	\$ 4,925,570	\$ 6,135,053	\$ 7,368,876	\$ 8,815,031	\$ 8,095,472
Contributions in relation to the actuarially determined contribution	<u>4,204,831</u>	<u>2,993,592</u>	<u>2,646,459</u>	<u>1,707,910</u>	<u>2,594,194</u>	<u>4,925,570</u>	<u>6,135,053</u>	<u>7,368,876</u>	<u>8,815,031</u>	<u>8,095,472</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 18,271,892	\$ 19,906,323	\$ 19,787,496	\$ 19,837,496	\$ 20,979,120	\$ 22,064,557	\$ 22,510,638	\$ 22,432,921	\$ 19,213,007	\$ 14,671,724
Contributions as a percentage of covered-employee payroll	23.01%	15.04%	13.37%	8.61%	12.37%	22.32%	27.25%	32.85%	45.88%	55.18%

Note to Schedule of City Contributions

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions - The actuarially determined contribution rates in the schedule of the City's contributions are calculated as of fiscal year end, June 30, 2014. The following actuarial methods and assumptions were used to determine contribution rates reported in the schedules:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll, open
Amortization period (perpetual)	25 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases**	17.0% - 4.0%
**Includes inflation at	4.0%
Cost-of-living adjustments	None
Retirement age - Experienced-based table rates that are specific to type of eligibility	
Mortality - 1994 Uninsured Pension Mortality Table	
Other - Benefit multiplier and employee contribution rates changed for certain members	

City of Sterling Heights, Michigan

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

2014

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

19.60%

City of Sterling Heights, Michigan

Required Supplemental Information Retiree Medical Benefits Trust Schedule of Funding Progress and Employee Contributions June 30, 2014

The schedule of funding progress is as follows:

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

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
06/30/10	12/31/08	\$ 11,604,200	100.0
06/30/11	12/31/08	12,070,700	100.0
06/30/12	12/31/10	11,523,820	100.0
06/30/13	12/31/10	11,984,780	100.0
06/30/14	12/31/12	12,195,350	100.0

* Expressed as a percentage of payroll.

Additional information as of December 31, 2012, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level dollar
Amortization period (perpetual)	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	3.5%
Cost-of-living adjustments	None

Other Financial and Supplemental Information

Nonmajor Governmental Funds

City of Sterling Heights, Michigan

	Nonmajor Special Revenue Funds			
	Local Roads	Public Safety Forfeiture	Neighborhood Stabilization Fund	Total Nonmajor Special Revenue Funds
Assets				
Cash and cash equivalents	\$ 646,159	\$ 835,599	\$ -	\$ 1,481,758
Receivables:				
Special assessments:				
Current	36,824	-	-	36,824
Unavailable	172,165	-	-	172,165
Accrued interest	10,184	-	-	10,184
Prepaid costs and other assets	-	-	-	-
Due from other funds	123,720	31,208	10,230	165,158
Due from other governmental units	332,641	-	-	332,641
Inventories	-	4,198	-	4,198
Total assets	\$ 1,321,693	\$ 871,005	\$ 10,230	\$ 2,202,928
Liabilities				
Accounts payable	\$ 849,038	\$ 77,831	\$ -	\$ 926,869
Accrued and other liabilities	129,732	-	-	129,732
Unearned revenue	-	-	10,230	10,230
Total liabilities	978,770	77,831	10,230	1,066,831
Deferred Inflows of Resources -				
Unavailable revenue	172,165	-	-	172,165
Fund Balances				
Nonspendable - Inventory	-	4,198	-	4,198
Restricted for:				
Road improvements	170,758	-	-	170,758
Public safety	-	788,976	-	788,976
Debt service	-	-	-	-
Committed - Park acquisitions and improvements	-	-	-	-
Total fund balances	170,758	793,174	-	963,932
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,321,693	\$ 871,005	\$ 10,230	\$ 2,202,928

Other Financial and Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014

Nonmajor Debt Service Funds						
General Drain	Voted Tax General Obligation	Limited Tax General Obligation	Total Nonmajor Debt Service Funds	Nonmajor Capital Projects - Land and Water Conservation	Total Nonmajor Governmental Funds	
\$ 21,418	\$ 9,722	\$ 339	\$ 31,479	\$ 535,770	\$ 2,049,007	
-	-	-	-	-	36,824	
-	-	-	-	-	172,165	
-	-	-	-	-	10,184	
-	-	-	-	-	-	
-	-	-	-	-	165,158	
-	-	-	-	-	332,641	
-	-	-	-	-	4,198	
\$ 21,418	\$ 9,722	\$ 339	\$ 31,479	\$ 535,770	\$ 2,770,177	
\$ 59	\$ 25	\$ -	\$ 84	\$ 2,979	\$ 929,932	
7,787	3,300	-	11,087	4,379	145,198	
-	-	-	-	-	10,230	
7,846	3,325	-	11,171	7,358	1,085,360	
-	-	-	-	-	172,165	
-	-	-	-	-	4,198	
-	-	-	-	-	170,758	
-	-	-	-	-	788,976	
13,572	6,397	339	20,308	-	20,308	
-	-	-	-	528,412	528,412	
13,572	6,397	339	20,308	528,412	1,512,652	
\$ 21,418	\$ 9,722	\$ 339	\$ 31,479	\$ 535,770	\$ 2,770,177	

City of Sterling Heights, Michigan

	Nonmajor Special Revenue Funds			
	Local Roads	Public Safety Forfeiture	Neighborhood Stabilization Fund	Total Nonmajor Special Revenue Funds
Revenue				
Property taxes	\$ -	\$ -	\$ -	\$ -
Federal sources	-	605,892	5,009	610,901
State sources	2,234,623	169,157	-	2,403,780
Investment income	374	343	-	717
Special assessments	138,544	-	-	138,544
Other	52,223	-	-	52,223
Total revenue	2,425,764	775,392	5,009	3,206,165
Expenditures				
Current:				
Public safety	-	230,413	-	230,413
Public works	1,896,143	-	1,211	1,897,354
Other	-	-	-	-
Capital outlay	2,455,928	282,664	3,798	2,742,390
Debt service	-	-	-	-
Total expenditures	4,352,071	513,077	5,009	4,870,157
Excess of Expenditures (Under) Over Revenue	(1,926,307)	262,315	-	(1,663,992)
Other Financing Sources - Interfund transfers in	1,025,000	-	-	1,025,000
Change in Fund Balances	(901,307)	262,315	-	(638,992)
Fund Balances - Beginning of year	1,072,065	530,859	-	1,602,924
Fund Balances - End of year	<u>\$ 170,758</u>	<u>\$ 793,174</u>	<u>\$ -</u>	<u>\$ 963,932</u>

**Other Financial and Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2014**

Nonmajor Debt Service Funds					
General Drain	Voted Tax General Obligation	Limited Tax General Obligation	Total Nonmajor Debt Service Funds	Nonmajor Capital Projects - Land and Water Conservation	Total Nonmajor Governmental Funds
\$ 823,757	\$ 412,574	\$ -	\$ 1,236,331	\$ -	\$ 1,236,331
-	-	-	-	-	610,901
-	-	-	-	-	2,403,780
827	310	-	1,137	801	2,655
-	-	-	-	-	138,544
-	-	-	-	3,720	55,943
824,584	412,884	-	1,237,468	4,521	4,448,154
-	-	-	-	-	230,413
-	-	-	-	-	1,897,354
1,716	350	225	2,291	-	2,291
-	-	-	-	81,499	2,823,889
821,050	413,250	296,850	1,531,150	-	1,531,150
822,766	413,600	297,075	1,533,441	81,499	6,485,097
1,818	(716)	(297,075)	(295,973)	(76,978)	(2,036,943)
-	-	297,080	297,080	-	1,322,080
1,818	(716)	5	1,107	(76,978)	(714,863)
11,754	7,113	334	19,201	605,390	2,227,515
<u>\$ 13,572</u>	<u>\$ 6,397</u>	<u>\$ 339</u>	<u>\$ 20,308</u>	<u>\$ 528,412</u>	<u>\$ 1,512,652</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds Year Ended June 30, 2014

Special Revenue Fund - Local Roads

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 1,072,065	\$ 1,072,065	\$ 1,072,065	\$ -
Resources (Inflows)				
State sources	2,040,000	2,245,000	2,234,623	(10,377)
Charges for services	52,000	52,000	41,701	(10,299)
Other	64,550	90,810	149,440	58,630
Transfers from other funds	-	800,000	1,025,000	225,000
Total resources (inflows)	2,156,550	3,187,810	3,450,764	262,954
Charges to Appropriations (Outflows)				
Administration	130,290	203,290	199,073	4,217
Local street maintenance	1,279,000	1,854,000	1,697,070	156,930
Local street improvements	1,000,000	2,120,360	2,455,928	(335,568)
Total charges to appropriations (outflows)	2,409,290	4,177,650	4,352,071	(174,421)
Fund Balance - End of year	\$ 819,325	\$ 82,225	\$ 170,758	\$ 88,533

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2014

Special Revenue Fund - Public Safety Forfeiture Fund

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 530,859	\$ 530,859	\$ 530,859	\$ -
Resources (Inflows)				
Federal forfeitures	-	461,600	605,892	144,292
State forfeitures	-	126,640	134,313	7,673
Gambling forfeitures	-	19,990	20,194	204
OWI forfeitures	-	9,000	14,650	5,650
Interest income	-	230	343	113
Total resources (inflows)	-	617,460	775,392	157,932
Charges to Appropriations (Outflows)				
Federal forfeiture expenditures	157,820	357,770	330,584	27,186
State forfeiture expenditures	86,230	163,780	162,737	1,043
Gambling forfeiture expenditures	-	1,590	1,588	2
OWI forfeiture expenditures	38,400	35,600	18,168	17,432
Total charges to appropriations (outflows)	282,450	558,740	513,077	45,663
Fund Balance - End of year	\$ 248,409	\$ 589,579	\$ 793,174	\$ 203,595

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2014

Special Revenue Fund - Neighborhood Stabilization Fund

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal sources	-	5,150	5,009	(141)
Charges to Appropriations (Outflows)				
Acquisition and redevelopment	-	3,800	3,797	3
Administration costs	-	1,350	1,212	138
Total charges to appropriations (outflows)	-	5,150	5,009	141
Fund Balance - End of year	\$ -	\$ -	\$ -	\$ -

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2014

Debt Service Fund - General Drain

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 11,754	\$ 11,754	\$ 11,754	\$ -
Resources (Inflows)				
Property taxes	817,900	817,900	819,973	2,073
Delinquents and penalties	4,000	4,000	3,784	(216)
Other revenue	600	840	827	(13)
Total resources (inflows)	822,500	822,740	824,584	1,844
Charges to Appropriations (Outflows)				
Other charges	1,450	1,720	1,716	4
Principal	750,000	750,000	750,000	-
Interest	71,050	71,050	71,050	-
Total charges to appropriations (outflows)	822,500	822,770	822,766	4
Fund Balance - End of year	<u>\$ 11,754</u>	<u>\$ 11,724</u>	<u>\$ 13,572</u>	<u>\$ 1,848</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2014

Debt Service Fund - Voted Tax General Obligation

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 7,113	\$ 7,113	\$ 7,113	\$ -
Resources (Inflows)				
Property taxes	411,950	411,950	411,158	(792)
Delinquents and penalties	1,400	1,400	1,416	16
Other revenue	250	250	310	60
Total resources (inflows)	413,600	413,600	412,884	(716)
Charges to Appropriations (Outflows) -				
Proposal F	413,600	413,600	413,600	-
Fund Balance - End of year	<u>\$ 7,113</u>	<u>\$ 7,113</u>	<u>\$ 6,397</u>	<u>\$ (716)</u>

Debt Service Fund - Limited Tax General Obligation

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 334	\$ 334	\$ 334	\$ -
Resources (Inflows) - Transfer from other funds	297,080	297,080	297,080	-
Charges to Appropriations (Outflows)				
Other charges	230	230	225	5
Principal	215,000	215,000	215,000	-
Interest	81,850	81,850	81,850	-
Total charges to appropriations (outflows)	297,080	297,080	297,075	5
Fund Balance - End of year	<u>\$ 334</u>	<u>\$ 334</u>	<u>\$ 339</u>	<u>\$ 5</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2014

Capital Projects Fund - Land and Water Conservation Fund

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 605,390	\$ 605,390	\$ 605,390	\$ -
Resources (Inflows) - Other	1,400	6,400	4,521	(1,879)
Charges to Appropriations (Outflows) - Land improvements	<u>4,000</u>	<u>108,600</u>	<u>81,499</u>	<u>27,101</u>
Fund Balance - End of year	<u>\$ 602,790</u>	<u>\$ 503,190</u>	<u>\$ 528,412</u>	<u>\$ 25,222</u>

Major Funds

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Major Debt Service and Capital Projects Funds Year Ended June 30, 2014

Debt Service Fund - Road Bond Debt Retirement

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 593,156	\$ 593,156	\$ 593,156	\$ -
Resources (Inflows)				
Federal interest rebates	35,900	35,900	33,043	(2,857)
Special assessments	259,640	259,640	271,046	11,406
Interest income	400	400	879	479
Transfer from other funds	<u>2,160,000</u>	<u>2,160,000</u>	<u>2,160,000</u>	<u>-</u>
Total resources (inflows)	2,455,940	2,455,940	2,464,968	9,028
Charges to Appropriations (Outflows)				
Other	1,880	1,880	1,400	480
Principal	2,020,000	2,020,000	2,020,000	-
Interest	<u>428,020</u>	<u>428,020</u>	<u>428,020</u>	<u>-</u>
Total charges to appropriations (outflows)	<u>2,449,900</u>	<u>2,449,900</u>	<u>2,449,420</u>	<u>480</u>
Fund Balance - End of year	<u>\$ 599,196</u>	<u>\$ 599,196</u>	<u>\$ 608,704</u>	<u>\$ 9,508</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Major Debt Service and Capital Projects Funds (Continued) Year Ended June 30, 2014

Capital Projects Fund - General Improvements

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 1,012,786	\$ 1,012,786	\$ 1,012,786	-
Resources (Inflows)				
Federal, state, and local sources	140,410	206,570	197,257	(9,313)
Other revenue	291,640	211,640	191,321	(20,319)
Transfer from other funds	358,150	784,380	784,380	-
Total resources (inflows)	790,200	1,202,590	1,172,958	(29,632)
Charges to Appropriations (Outflows)				
Capital operations	344,600	468,180	410,270	57,910
Capital vehicles	182,600	313,780	313,780	-
Capital projects	307,620	888,360	803,825	84,535
Total charges to appropriations (outflows)	834,820	1,670,320	1,527,875	142,445
Fund Balance - End of year	<u>\$ 968,166</u>	<u>\$ 545,056</u>	<u>\$ 657,869</u>	<u>\$ 112,813</u>

Capital Projects Fund - Road Bond Construction

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 199,771	\$ 199,771	\$ 199,771	\$ -
Resources (Inflows)				
Other revenue	200	30	29	(1)
Sale of capital assets	160,000	-	-	-
Total resources (inflows)	160,200	30	29	(1)
Charges to Appropriations (Outflows) -				
Capital outlay	-	192,040	127,877	64,163
Fund Balance - End of year	<u>\$ 359,971</u>	<u>\$ 7,761</u>	<u>\$ 71,923</u>	<u>\$ 64,162</u>

Fiduciary and Agency Funds

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Fiduciary Net Position Trust Funds June 30, 2014

	Trust Funds			
	Pension and Other Retirement Benefits Funds			
	General Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Total
Assets				
Cash and cash equivalents	\$ 4,762,572	\$ 8,473,740	\$ 2,209,805	\$ 15,446,117
Investments - At fair value:				
Government securities	13,697,512	17,777,500	6,177,492	37,652,504
Mutual funds	8,337,315	21,718,694	6,113,762	36,169,771
Corporate bonds	3,465,599	4,771,388	1,553,027	9,790,014
Common and preferred stocks	89,063,994	140,532,385	58,983,208	288,579,587
Private real estate	-	11,778,456	-	11,778,456
Total assets	119,326,992	205,052,163	75,037,294	399,416,449
Liabilities				
Accounts payable	850,317	1,281,136	144,195	2,275,648
Accrued and other liabilities	-	-	23,851	23,851
Due to other governmental units	6,573	-	243,142	249,715
Provision for uninsured losses and liabilities	-	-	460,827	460,827
Total liabilities	856,890	1,281,136	872,015	3,010,041
Net Position - Held in trust for pension and other retiree benefits	<u>\$ 118,470,102</u>	<u>\$ 203,771,027</u>	<u>\$ 74,165,279</u>	<u>\$ 396,406,408</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Fiduciary Net Position Trust Funds Year Ended June 30, 2014

	General Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Total
Additions				
Investment income (loss):				
Interest and dividends	\$ 2,669,755	\$ 4,021,260	\$ 1,441,715	\$ 8,132,730
Net adjustment to fair value of investments	16,612,732	31,089,444	10,922,048	58,624,224
Less investment expenses	<u>(712,030)</u>	<u>(1,352,729)</u>	<u>(469,913)</u>	<u>(2,534,672)</u>
Net investment income	18,570,457	33,757,975	11,893,850	64,222,282
Contributions:				
Employer	2,735,453	8,095,472	12,195,350	23,026,275
Employee	711,608	1,162,088	-	1,873,696
Purchase of prior year's service credits	-	66,034	-	66,034
Insurance recovery	<u>-</u>	<u>-</u>	<u>6,766</u>	<u>6,766</u>
Total additions - Net	22,017,518	43,081,569	24,095,966	89,195,053
Deductions				
Benefit payments	10,077,223	14,817,864	7,061,128	31,956,215
Withdrawals and refunds of contributions	<u>855,885</u>	<u>198,465</u>	<u>-</u>	<u>1,054,350</u>
Total deductions	<u>10,933,108</u>	<u>15,016,329</u>	<u>7,061,128</u>	<u>33,010,565</u>
Net Change in Net Position	11,084,410	28,065,240	17,034,838	56,184,488
Net Position - Beginning of year	<u>107,385,692</u>	<u>175,705,787</u>	<u>57,130,441</u>	<u>340,221,920</u>
Net Position - End of year	<u>\$ 118,470,102</u>	<u>\$ 203,771,027</u>	<u>\$ 74,165,279</u>	<u>\$ 396,406,408</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Fiduciary Assets and Liabilities Agency Funds June 30, 2014

	Agency Funds		
	Tax	General Agency	Total
Assets			
Cash and cash equivalents	\$ 11,216	\$ 2,087,571	\$ 2,098,787
Investments - At fair value - Short-term investment funds	-	876,948	876,948
Total assets	<u>\$ 11,216</u>	<u>\$ 2,964,519</u>	<u>\$ 2,975,735</u>
Liabilities			
Accrued and other liabilities	\$ -	\$ 1,022,653	\$ 1,022,653
Due to other governmental units	11,216	9,000	20,216
Cash bonds and deposits	-	1,932,866	1,932,866
Total liabilities	<u>\$ 11,216</u>	<u>\$ 2,964,519</u>	<u>\$ 2,975,735</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Assets and Liabilities Agency Funds Year Ended June 30, 2014

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014
<u>Tax Collection</u>				
Assets - Cash and cash equivalents	\$ 4,856	\$ 118,193,042	\$ 118,186,682	\$ 11,216
Liabilities				
Accrued and other liabilities	\$ -	\$ 1,944,557	\$ 1,944,557	\$ -
Due to other governmental units	4,856	163,070,401	163,064,041	11,216
Total liabilities	\$ 4,856	\$ 165,014,958	\$ 165,008,598	\$ 11,216
<u>General Agency</u>				
Assets				
Cash and cash equivalents	\$ 1,798,097	\$ 11,777,325	\$ 11,487,851	\$ 2,087,571
Investments - At fair value	1,296,467	9,953,902	10,373,421	876,948
Total assets	\$ 3,094,564	\$ 21,731,227	\$ 21,861,272	\$ 2,964,519
Liabilities				
Accrued and other liabilities	\$ 1,142,242	\$ 242,545	\$ 362,135	\$ 1,022,652
Due to other governmental units	35,915	1,633	28,548	9,000
Cash and bond deposits	1,916,407	1,293,342	1,276,882	1,932,867
Total liabilities	\$ 3,094,564	\$ 1,537,520	\$ 1,667,565	\$ 2,964,519
<u>Totals - All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 1,802,953	\$ 129,970,367	\$ 129,674,533	\$ 2,098,787
Investments - At fair value	1,296,467	9,953,902	10,373,421	876,948
Total assets	\$ 3,099,420	\$ 139,924,269	\$ 140,047,954	\$ 2,975,735
Liabilities				
Accrued and other liabilities	\$ 1,142,242	\$ 2,187,102	\$ 2,306,692	\$ 1,022,652
Due to other governmental units	40,771	163,072,034	163,092,589	20,216
Cash and bond deposits	1,916,407	1,293,342	1,276,882	1,932,867
Total liabilities	\$ 3,099,420	\$ 166,552,478	\$ 166,676,163	\$ 2,975,735

City of Sterling Heights, Michigan

Statistical Information and Continuing Disclosure Contents

STATISTICAL INFORMATION

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

Financial Trends

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

Net Position by Component	122
Changes in Net Position	123-124
Fund Balances of Governmental Funds	125
Changes in Fund Balances of Governmental Funds	126-127*
General Governmental Tax Revenue by Source	128

Revenue Capacity

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

Property Tax Levies and Collections	129*
Property Tax Rates - Direct and Overlapping Governments	130-131*
Assessed Taxable Values (History of Property Values)	132-133*
Principal Property Taxpayers (Major Taxpayers)	134*

Debt Capacity

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

Ratios of Net General Bonded Debt Outstanding	135
Ratios of Outstanding Debt by Type	136
Direct and Overlapping Governmental Activities Debt	137*
Legal Debt Margin	138*
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Demographic and Economic Information

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

Demographic and Economic Statistics	141
Miscellaneous Demographics	142
Principal Employers (Major Employers)	143*

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

City of Sterling Heights, Michigan

Statistical Information and Continuing Disclosure Contents (Continued)

STATISTICAL INFORMATION (CONTINUED)

Operating Information

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

Operating Indicators by Function	144-145
Capital Asset Statistics by Function	146
Building Permits at Market Value	147
Full-time Equivalent City Government Employees by Function	148

CONTINUING DISCLOSURE

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

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

State-shared Revenue	150
Gas and Weight Taxes	150
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Statistical Information

City of Sterling Heights, Michigan

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental activities:										
Invested in capital assets -										
Net of related debt	\$ 165,784,014	\$ 171,697,125	\$ 175,544,446	\$ 175,084,518	\$ 173,670,878	\$ 169,230,936	\$ 166,882,162	\$ 163,744,453	\$ 159,678,093	\$ 159,604,551
Restricted	5,537,300	13,956,025	6,601,883	12,015,678	10,040,331	9,733,081	9,413,052	10,876,504	11,385,681	9,040,309
Unrestricted	(3,747,590)	7,320,525	20,524,819	19,437,952	19,880,753	34,565,371	31,667,843	27,712,790	26,650,520	24,290,676
Total governmental activities -										
Net position	<u>\$ 167,573,724</u>	<u>\$ 192,973,675</u>	<u>\$ 202,671,148</u>	<u>\$ 206,538,148</u>	<u>\$ 203,591,962</u>	<u>\$ 213,529,388</u>	<u>\$ 207,963,057</u>	<u>\$ 202,333,747</u>	<u>\$ 197,714,294</u>	<u>\$ 192,935,536</u>
Business-type activities:										
Net investment in capital assets	\$ 135,416,064	\$ 139,088,895	\$ 137,413,059	\$ 135,723,619	\$ 133,050,974	\$ 130,990,910	\$ 128,950,328	\$ 127,122,039	\$ 125,395,977	\$ 122,324,204
Restricted	9,029,341	7,050,855	7,418,300	7,522,330	7,605,803	8,308,749	8,369,375	9,424,998	9,596,925	9,368,833
Unrestricted	23,607,368	28,265,921	29,163,010	29,337,877	26,385,878	25,732,829	24,334,830	22,170,126	20,362,360	14,888,421
Total business-type activities -										
Net position	<u>\$ 168,052,773</u>	<u>\$ 174,405,671</u>	<u>\$ 173,994,369</u>	<u>\$ 172,583,826</u>	<u>\$ 167,042,655</u>	<u>\$ 165,032,488</u>	<u>\$ 161,654,533</u>	<u>\$ 158,717,163</u>	<u>\$ 155,355,262</u>	<u>\$ 146,581,458</u>
Primary government:										
Net investment in capital assets	\$ 301,200,078	\$ 310,786,020	\$ 312,957,505	\$ 310,808,137	\$ 306,721,852	\$ 300,221,846	\$ 295,832,490	\$ 290,866,492	\$ 285,074,070	\$ 281,928,755
Restricted	14,566,641	21,006,880	14,020,183	19,538,008	17,646,134	18,041,830	17,782,427	20,301,502	20,982,606	18,409,142
Unrestricted	19,859,778	35,586,446	49,687,829	48,775,829	46,266,631	60,298,200	56,002,673	49,902,461	47,012,880	39,179,097
Total primary government -										
Net position	<u>\$ 335,626,497</u>	<u>\$ 367,379,346</u>	<u>\$ 376,665,517</u>	<u>\$ 379,121,974</u>	<u>\$ 370,634,617</u>	<u>\$ 378,561,876</u>	<u>\$ 369,617,590</u>	<u>\$ 361,070,455</u>	<u>\$ 353,069,556</u>	<u>\$ 339,516,994</u>

City of Sterling Heights, Michigan

	Fiscal Year			
	2005	2006	2007	2008
Expenses				
Governmental activities:				
General government	\$ 9,873,718	\$ 8,760,970	\$ 10,348,927	\$ 11,017,399
41A District Court	2,852,812	2,864,422	2,992,184	3,164,448
Public safety	42,253,545	41,327,439	43,995,464	48,044,223
Public works	25,464,111	24,181,418	22,603,155	24,083,515
Recreation and culture	5,716,243	5,989,344	5,890,651	6,322,163
Interest on long-term debt	2,585,777	2,463,042	1,922,125	1,921,428
Total governmental activities expenses	88,746,206	85,586,635	87,752,506	94,553,176
Business-type activities - Water and sewer	28,142,434	28,106,435	30,290,386	32,784,120
Total primary government expenses	<u>\$ 116,888,640</u>	<u>\$ 113,693,070</u>	<u>\$ 118,042,892</u>	<u>\$ 127,337,296</u>
Program Revenue				
Governmental activities:				
Charges for services:				
General government	\$ 844,263	\$ 1,829,127	\$ 2,022,680	\$ 2,216,008
41A District Court	2,320,411	2,424,477	2,185,724	2,351,225
Public safety	1,249,154	1,394,981	1,326,061	1,984,318
Public works	6,241,366	6,813,150	8,125,228	6,363,346
Recreation and culture	513,241	583,627	563,152	629,818
Operating grants and contributions	9,547,201	9,184,599	9,148,913	8,525,230
Capital grants and contributions	1,336,930	2,751,871	2,638,714	3,173,757
Total governmental activities program revenue	22,052,566	24,981,832	26,010,472	25,243,702
Business-type activities - Water and sewer:				
Charges for services	22,619,205	24,944,170	25,404,755	27,456,965
Operating grants and contributions	-	-	-	-
Capital grants and contributions	4,911,208	8,364,981	2,662,317	2,461,289
Total business-type activities program revenue	27,530,413	33,309,151	28,067,072	29,918,254
Total primary government program revenue	<u>\$ 49,582,979</u>	<u>\$ 58,290,983</u>	<u>\$ 54,077,544</u>	<u>\$ 55,161,956</u>
Net (Expense) Revenue				
Governmental activities	\$ (66,693,640)	\$ (60,604,803)	\$ (61,742,034)	\$ (69,309,474)
Business-type activities	(612,021)	5,202,716	(2,223,314)	(2,865,866)
Total primary government net expense	<u>\$ (67,305,661)</u>	<u>\$ (55,402,087)</u>	<u>\$ (63,965,348)</u>	<u>\$ (72,175,340)</u>
General Revenue and Other Changes in Net Position				
Governmental activities:				
Property taxes	\$ 50,357,630	\$ 52,574,000	\$ 55,624,617	\$ 58,331,682
State-shared revenue	11,127,156	11,003,347	10,675,667	10,675,667
Investment income	1,155,124	2,034,936	3,383,824	3,075,919
Gain on disposal of capital assets	105,454	256,994	227,321	-
Insurance proceeds	-	18,763,736	-	-
Other nonprogram revenue	1,319,937	1,371,831	1,527,988	1,093,203
Extraordinary item	-	-	-	-
Total governmental activities expenses	64,065,301	86,004,844	71,439,417	73,176,471
Business-type activities - Investment income	615,574	1,150,182	1,812,012	1,455,323
Total primary government	<u>\$ 64,680,875</u>	<u>\$ 87,155,026</u>	<u>\$ 73,251,429</u>	<u>\$ 74,631,794</u>
Change in Net Position				
Governmental activities	\$ (2,628,339)	\$ 25,400,041	\$ 9,697,383	\$ 3,866,997
Business-type activities	3,553	6,352,898	(411,302)	(1,410,543)
Total primary government	<u>\$ (2,624,786)</u>	<u>\$ 31,752,939</u>	<u>\$ 9,286,081</u>	<u>\$ 2,456,454</u>

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

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ 8,877,803	\$ 8,804,497	\$ 8,011,940	\$ 6,543,937	\$ 5,918,474	\$ 5,467,242
3,251,224	3,470,065	3,523,447	3,379,925	3,334,854	3,288,275
49,201,944	52,695,852	53,740,479	54,994,001	51,345,058	52,851,304
24,904,207	25,269,096	26,062,500	23,959,824	22,852,033	24,439,731
6,112,129	5,695,827	5,617,090	5,291,332	4,891,039	4,640,609
1,956,286	1,086,571	1,192,797	1,081,347	1,099,714	718,646
94,303,593	97,021,908	98,148,253	95,250,366	89,441,172	91,405,807
32,292,608	30,901,624	33,562,610	37,438,961	38,788,850	41,790,235
\$ 126,596,201	\$ 127,923,532	\$ 131,710,863	\$ 132,689,327	\$ 128,230,022	\$ 133,196,042
\$ 2,229,296	\$ 3,020,737	\$ 2,906,715	\$ 3,513,053	\$ 3,634,419	\$ 3,272,341
2,426,813	2,985,409	2,888,076	2,570,621	2,336,662	2,227,523
1,571,100	1,629,846	1,695,612	1,519,175	1,558,701	1,445,007
2,869,634	2,545,211	2,295,345	3,563,445	2,533,213	2,768,235
733,598	948,463	982,981	807,387	677,068	724,114
8,957,951	9,676,314	9,091,234	8,565,267	5,136,968	2,747,213
478,767	1,090,732	1,809,917	2,546,378	4,547,019	8,552,754
19,267,159	21,896,712	21,669,880	23,085,326	20,424,050	21,737,187
24,495,066	25,057,683	28,222,756	31,028,424	35,282,896	32,097,323
-	-	-	-	-	-
867,991	2,912,917	1,459,851	2,721,482	601,903	338,004
25,363,057	27,970,600	29,682,607	33,749,906	35,884,799	32,435,327
\$ 44,630,216	\$ 49,867,312	\$ 51,352,487	\$ 56,835,232	\$ 56,308,849	\$ 54,172,514
\$ (75,036,434)	\$ (75,125,196)	\$ (76,478,373)	\$ (72,165,040)	\$ (69,017,122)	\$ (69,668,620)
(6,929,551)	(2,931,024)	(3,880,003)	(3,689,055)	(2,904,051)	(9,354,908)
\$ (81,965,985)	\$ (78,056,220)	\$ (80,358,376)	\$ (75,854,095)	\$ (71,921,173)	\$ (79,023,528)
\$ 57,875,942	\$ 56,801,307	\$ 59,196,747	\$ 53,247,883	\$ 51,643,869	\$ 51,344,025
10,183,758	9,057,434	9,057,434	10,094,387	10,342,983	10,606,230
2,278,601	1,098,458	707,426	1,159,709	118,280	596,654
-	-	-	-	-	-
-	16,318,640	-	-	-	-
1,751,947	1,786,782	1,950,435	2,033,751	2,292,537	2,342,953
72,090,248	85,062,621	70,912,042	66,535,730	64,397,669	64,889,862
1,388,380	920,857	502,048	751,685	(457,850)	581,104
\$ 73,478,628	\$ 85,983,478	\$ 71,414,090	\$ 67,287,415	\$ 63,939,819	\$ 65,470,966
\$ (2,946,186)	\$ 9,937,425	\$ (5,566,331)	\$ (5,629,310)	\$ (4,619,453)	\$ (4,778,758)
(5,541,171)	(2,010,167)	(3,377,955)	(2,937,370)	(3,361,901)	(8,773,804)
\$ (8,487,357)	\$ 7,927,258	\$ (8,944,286)	\$ (8,566,680)	\$ (7,981,354)	\$ (13,552,562)

City of Sterling Heights, Michigan

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

	2005	2006	2007	2008	2009	2010	2011 (1)	2012	2013	2014
General Fund:										
Reserved	\$ 655,400	\$ 662,581	\$ 679,962	\$ 643,564	\$ 767,986	\$ 1,005,948	\$ -	\$ -	\$ -	\$ -
Unreserved	13,345,638	14,387,663	15,037,933	14,649,346	14,439,075	11,522,975	-	-	-	-
Nonspendable	-	-	-	-	-	-	861,449	823,640	821,876	538,644
Assigned	-	-	-	-	-	-	5,500,280	973,137	691,319	3,668,787
Unassigned	-	-	-	-	-	-	4,629,487	3,451,703	3,735,285	1,021,961
Total General Fund	<u>\$ 14,001,038</u>	<u>\$ 15,050,244</u>	<u>\$ 15,717,895</u>	<u>\$ 15,292,910</u>	<u>\$ 15,207,061</u>	<u>\$ 12,528,923</u>	<u>\$ 10,991,216</u>	<u>\$ 5,248,480</u>	<u>\$ 5,248,480</u>	<u>\$ 5,229,392</u>
All other governmental funds:										
Reserved	\$ 735,565	\$ 1,536,063	\$ 534,266	\$ 5,321,181	\$ 468,719	\$ 596,419	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	5,168,955	2,547,940	5,810,853	6,950,614	4,665,274	5,168,942	-	-	-	-
Debt service funds	236,999	284,417	118,705	92,441	488,981	379,377	-	-	-	-
Capital projects funds	3,446,888	3,756,197	2,662,224	2,011,345	2,720,603	3,021,463	-	-	-	-
Nonspendable	-	-	-	-	-	-	463,096	219,826	175,383	24,079
Restricted	-	-	-	-	-	-	4,730,650	6,366,964	7,014,780	4,739,133
Committed	-	-	-	-	-	-	733,573	623,578	605,390	528,412
Assigned	-	-	-	-	-	-	2,113,709	1,181,275	1,012,786	657,869
Total all other governmental funds	<u>\$ 9,588,407</u>	<u>\$ 8,124,617</u>	<u>\$ 9,126,048</u>	<u>\$ 14,375,581</u>	<u>\$ 8,343,577</u>	<u>\$ 9,166,201</u>	<u>\$ 8,041,028</u>	<u>\$ 8,391,643</u>	<u>\$ 8,808,339</u>	<u>\$ 5,949,493</u>

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

City of Sterling Heights, Michigan

	2005	2006	2007	2008
Revenue				
Property taxes	\$ 50,357,630	\$ 52,574,000	\$ 55,624,617	\$ 58,331,682
Fees and permits	2,012,360	1,986,333	1,784,156	1,352,594
Federal sources	2,069,321	3,198,148	2,755,145	1,001,641
State and local sources	19,607,043	19,721,028	19,894,287	18,939,977
Fines and forfeitures	2,995,613	2,890,745	2,563,520	2,755,701
Charges for services	6,695,039	7,795,120	8,038,601	7,988,183
Interest income	977,664	1,788,092	2,511,234	2,316,653
Special assessments	73,776	28,017	130,082	92,745
Rental income	1,566,845	1,357,037	1,443,651	1,727,929
Cable revenue	1,319,937	1,371,831	1,527,988	1,671,094
Reimbursement of advance road construction	-	-	-	2,440,414
Other	1,980,022	1,731,700	1,511,396	1,755,645
Total revenue	89,655,250	94,442,051	97,784,677	100,374,258
Expenditures				
Current:				
General government	10,042,438	10,109,764	10,562,158	11,244,018
41A District Court	2,472,160	2,660,587	2,847,111	2,974,001
Public safety	38,346,169	39,440,275	41,610,977	44,435,670
Public works	21,418,948	18,545,503	18,734,562	20,134,496
Recreation and culture	4,669,116	4,868,429	5,180,497	5,358,825
General expenditures	2,651,054	3,555,955	3,791,084	2,945,761
Capital outlay	12,476,405	10,576,821	14,756,585	7,402,019
Debt service:				
Principal	5,056,539	5,030,000	14,000,000	5,685,000
Interest	2,334,584	2,479,375	2,336,756	1,938,403
Total expenditures	99,467,413	97,266,709	113,819,730	102,118,193
Excess of Expenditures Over Revenue	(9,812,163)	(2,824,658)	(16,035,053)	(1,743,935)
Other Financing Sources (Uses)				
Long-term financing	13,720,000	-	7,900,000	5,000,000
Proceeds from sale of fixed assets	476,081	550,074	-	-
Bond premium	91,759	-	26,815	50,143
Net payments to refunded bond escrow agent and bond issuance costs	(8,511,067)	-	-	-
Transfers in	8,354,684	9,931,683	18,458,535	9,716,170
Transfers out	(6,639,684)	(8,071,683)	(8,681,215)	(8,197,830)
Total other financing sources	7,491,773	2,410,074	17,704,135	6,568,483
Net Change in Fund Balances - Before extraordinary items	(2,320,390)	(414,584)	1,669,082	4,824,548
Extraordinary Items - Lawsuit settlement payments	(6,000,000)	-	-	-
Net Change in Fund Balances	\$ (8,320,390)	\$ (414,584)	\$ 1,669,082	\$ 4,824,548
Debt Service as a Percentage of Noncapital Expenditures	8.50%	8.66%	16.49%	8.06%

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

2009	2010	2011	2012	2013	2014
\$ 57,875,942	\$ 56,801,306	\$ 59,045,208	\$ 53,149,713	\$ 51,665,928	\$ 51,344,025
960,683	1,194,707	1,438,197	2,271,967	1,789,803	1,735,413
1,419,052	2,789,569	3,085,016	2,661,338	1,126,423	1,921,050
18,505,491	17,114,177	17,184,734	18,065,838	18,825,672	19,920,337
2,836,556	3,618,574	3,353,875	2,770,160	2,489,252	2,326,870
7,896,549	8,598,054	8,583,882	8,443,205	8,306,458	9,048,012
1,580,754	582,435	308,422	672,239	58,534	257,632
243,123	215,118	203,298	254,977	206,501	314,871
1,798,484	1,429,222	1,685,041	1,508,954	1,536,939	1,951,540
1,771,978	1,799,495	1,950,435	2,033,751	2,292,537	2,342,953
-	-	-	-	-	-
2,007,807	1,898,739	1,526,205	2,044,415	1,700,076	1,619,427
96,896,419	96,041,396	98,364,313	93,876,557	89,998,123	92,782,130
9,534,712	9,000,797	8,613,941	8,571,928	7,700,466	7,175,604
3,150,155	3,221,815	3,246,811	3,252,852	3,258,362	3,078,766
46,327,145	49,130,527	50,929,421	52,297,573	48,644,125	48,807,450
21,273,705	20,321,669	21,034,821	18,680,870	18,062,177	20,790,973
5,321,281	4,747,596	4,603,108	4,489,169	4,339,952	4,002,476
2,793,240	2,814,058	2,540,873	2,766,125	2,294,184	2,171,473
13,212,947	4,694,663	4,867,162	4,275,883	3,115,621	7,026,982
5,730,000	15,235,000	3,970,000	3,940,000	3,895,000	3,235,000
1,987,533	1,628,030	1,221,055	1,098,474	1,114,056	744,170
109,330,718	110,794,155	101,027,192	99,372,874	92,423,943	97,032,894
(12,434,299)	(14,752,759)	(2,662,879)	(5,496,317)	(2,425,820)	(4,250,764)
3,260,000	3,810,000	-	3,780,000	3,275,000	-
149,466	115,724	-	-	-	-
-	33,935	-	274,196	9,311	-
-	(2,200,000)	-	(3,950,000)	(3,100,000)	-
11,319,369	16,194,395	3,953,940	3,526,740	6,158,405	5,639,290
(8,412,389)	(5,056,810)	(3,953,940)	(3,526,740)	(3,500,200)	(4,266,460)
6,316,446	12,897,244	-	104,196	2,842,516	1,372,830
(6,117,853)	(1,855,515)	(2,662,879)	(5,392,121)	416,696	(2,877,934)
-	-	-	-	-	-
\$ (6,117,853)	\$ (1,855,515)	\$ (2,662,879)	\$ (5,392,121)	\$ 416,696	\$ (2,877,934)
8.05%	15.91%	5.41%	5.31%	5.63%	4.44%

City of Sterling Heights, Michigan

General Government Tax Revenue by Source Last Ten Fiscal Years

Fiscal Year Ended June 30	General Fund Property Taxes				Debt Service Funds Property Taxes			Total All Property Taxes
	Operating	Refuse	Police and Fire Retirement System	Total	General Drain	Voted Tax General Obligation	Total	
2005	\$ 38,420,002	\$ 5,203,504	\$ 4,204,831	\$ 47,828,337	\$ 1,429,947	\$ 1,099,346	\$ 2,529,293	\$ 50,357,630
2006	43,370,304	4,070,410	2,993,592	50,434,306	1,202,642	937,052	2,139,694	52,574,000
2007	46,585,168	4,205,469	2,646,459	53,437,096	1,214,130	973,391	2,187,521	55,624,617
2008	50,198,476	4,359,680	1,707,910	56,266,066	1,089,261	976,355	2,065,616	58,331,682
2009	49,275,429	4,476,793	2,594,194	56,346,416	1,169,602	359,924	1,529,526	57,875,942
2010	45,954,154	4,561,110	4,925,570	55,440,834	1,178,018	182,454	1,360,472	56,801,306
2011	47,431,652	4,377,125	5,753,668	57,562,445	1,164,592	318,171	1,482,763	59,045,208
2012	40,120,585	4,376,626	7,157,201	51,654,412	1,150,140	345,161	1,495,301	53,149,713
2013	37,142,292	4,403,288	8,529,892	50,075,472	1,224,522	365,934	1,590,456	51,665,928
2014	38,262,436	4,400,850	7,444,408	50,107,694	823,757	412,574	1,236,331	51,344,025

City of Sterling Heights, Michigan

Property Tax Levies and Collections Last Ten Fiscal Years

Tax Year	Fiscal Year Ended June 30	Total Tax Levy (1)	Collected Within the Fiscal Year of the Levy		Subsequent Collection of Delinquent Taxes	Total Collections to Date Amount	Percentage of Levy
			Amount	Percentage of Levy			
2005	2006	\$ 52,325,289	\$ 51,316,165	98.07	\$ 962,656	\$ 52,278,821	99.91
2006	2007	55,485,078	54,001,323	97.33	1,329,962	55,331,285	99.72
2007	2008	58,015,198	56,193,561	96.86	1,735,471	57,929,032	99.85
2008	2009	57,729,407	56,018,807	97.04	1,666,768	57,685,575	99.92
2009	2010	56,676,434	54,863,230	96.80	1,746,957	56,610,187	99.88
2010	2011	59,971,190	57,008,661	95.06	1,609,784	58,618,445	97.74
2011	2012	55,243,869	53,881,497	97.53	1,250,043	55,131,540	99.80
2012	2013	51,798,243	50,578,919	97.65	1,099,333	51,678,252	99.77
2013	2014	51,490,018	50,356,033	97.80	1,049,632	51,405,665	99.84
2014	2015	62,674,928 (2)					

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

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

Source: City Treasurer's Office

City of Sterling Heights, Michigan

City Direct Rates							Overlapping Rates						
Fiscal Year (Tax Year)	Operating (1)	Refuse	Police and Fire Retirement System	Drain Debt Service	Public Improvement Debt Service	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.
2005 (2004)													
Homestead	8.0957	1.1055	0.8905	0.3016	0.2317	10.6250	2.9615	1.5002	0.2154	0.5949	0.0000	0.0000	0.0000
Non-homestead	8.0957	1.1055	0.8905	0.3016	0.2317	10.6250	2.9615	1.5002	0.2154	0.5949	0.0000	0.0000	0.0000
2006 (2005)													
Homestead	8.7642	0.8266	0.6049	0.2413	0.1880	10.6250	2.9430	1.4212	0.2146	0.5912	0.0000	0.0000	0.0000
Non-homestead	8.7642	0.8266	0.6049	0.2413	0.1880	10.6250	2.9430	1.4212	0.2146	0.5912	0.0000	0.0000	0.0000
2007 (2006)													
Homestead	8.9776	0.8142	0.5118	0.2339	0.1875	10.7250	2.9430	1.4212	0.2146	0.5900	0.0000	0.0000	0.0000
Non-homestead	8.9776	0.8142	0.5118	0.2339	0.1875	10.7250	2.9430	1.4212	0.2146	0.5900	0.0000	0.0000	0.0000
2008 (2007)													
Homestead	9.2256	0.8057	0.3147	0.1998	0.1792	10.7250	2.9430	1.4212	0.2146	0.5900	0.0000	0.0000	0.0000
Non-homestead	9.2256	0.8057	0.3147	0.1998	0.1792	10.7250	2.9430	1.4212	0.2146	0.5900	0.0000	0.0000	0.0000
2009 (2008)													
Homestead	9.1777	0.8381	0.4853	0.2180	0.0667	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	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	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	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	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	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	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	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	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	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	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	12.6858	2.9430	1.5312	0.2146	0.5900	0.1000	0.0400	0.2000

(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, 2013.

Source: Municipal Advisory Council of Michigan

Property Tax Rates Direct and Overlapping Governments Last Ten Fiscal Years

Overlapping Rates										Total Direct and Overlapping Rates by Resident's School District	
Macomb County		Utica Community School District (2)			Warren Consolidated School District (2)						
Operating	Drain Debt Service	State Education Tax	Operating/ Local	Debt	State Education Tax	Operating/ Local	Supplemental	Sinking	Debt	Utica Community	Warren Consolidated
4.2000	0.0058	6.0000	0.0000	3.5000	6.0000	0.0000	6.7662	0.9964	2.2800	29.6028	36.1454
4.2000	0.0058	6.0000	18.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.6028	47.3792
4.2000	0.0058	6.0000	0.0000	3.5000	6.0000	0.0000	6.7166	0.9964	2.2800	29.5008	35.9938
4.2000	0.0058	6.0000	17.9316	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.4324	47.2772
4.2000	0.0055	6.0000	0.0000	3.5000	6.0000	0.0000	6.5530	0.9964	2.2800	29.5993	35.9287
4.2000	0.0055	6.0000	17.9316	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.5309	47.3757
4.2000	0.0055	6.0000	0.0000	3.5000	6.0000	0.0000	5.9594	0.9964	2.2800	29.5993	35.3351
4.2000	0.0055	6.0000	17.9316	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.5309	47.3757
4.2000	0.0055	6.0000	0.0000	3.5000	6.0000	0.0000	5.2688	0.9964	2.1500	29.8001	34.7153
4.2000	0.0055	6.0000	17.9316	3.5000	6.0000	18.0000	0.0000	0.9964	2.1500	47.7317	47.4465
4.5685	0.0050	6.0000	0.0000	3.5000	6.0000	0.0000	5.7814	0.9964	2.1500	30.1681	35.5959
4.5685	0.0050	6.0000	17.9316	3.5000	6.0000	18.0000	0.0000	0.9964	2.1500	48.0997	47.8145
4.5685	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	7.4057	0.9964	2.4400	32.5681	39.5602
4.5685	0.0050	6.0000	17.9316	3.8500	6.0000	18.0000	0.0000	0.9964	2.4400	50.4997	50.1545
4.5685	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	7.4057	0.9964	2.4400	32.5681	39.5602
4.5685	0.0050	6.0000	17.9316	3.8500	6.0000	18.0000	0.0000	0.9964	2.4400	50.4997	50.1545
4.5685	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	7.5024	0.0000	3.8600	32.7681	40.2805
4.5685	0.0050	6.0000	17.9316	3.8500	6.0000	18.0000	0.0000	0.0000	3.8600	50.6997	50.7781
4.5685	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	7.4629	0.0000	3.9200	32.7281	40.2610
4.5685	0.0050	6.0000	17.9316	3.8500	6.0000	18.0000	0.0000	0.0000	3.9200	50.6597	50.7981

City of Sterling Heights, Michigan

	2005	2006	2007	2008	2009
State Equalized Value					
SEV equivalent	\$ 5,754,101,500	\$ 5,997,740,400	\$ 6,230,684,225	\$ 6,380,752,375	\$ 5,940,796,525
IFT exemption	<u>221,346,700</u>	<u>225,091,700</u>	<u>223,376,725</u>	<u>290,426,725</u>	<u>255,549,975</u>
Total SEV	<u>\$ 5,975,448,200</u>	<u>\$ 6,222,832,100</u>	<u>\$ 6,454,060,950</u>	<u>\$ 6,671,179,100</u>	<u>\$ 6,196,346,500</u>
Taxable Value					
By Class:					
Real property	\$ 3,970,808,500	\$ 4,195,815,400	\$ 4,451,151,600	\$ 4,645,291,550	\$ 4,599,077,850
Personal property	<u>968,119,700</u>	<u>949,766,100</u>	<u>944,127,850</u>	<u>1,053,774,300</u>	<u>1,007,788,550</u>
Total value	<u>\$ 4,938,928,200</u>	<u>\$ 5,145,581,500</u>	<u>\$ 5,395,279,450</u>	<u>\$ 5,699,065,850</u>	<u>\$ 5,606,866,400</u>
By Type:					
Residential	\$ 2,990,452,700	\$ 3,151,356,400	\$ 3,327,952,350	\$ 3,480,892,950	\$ 3,451,602,900
Commercial	548,866,900	588,205,000	638,272,700	692,716,600	706,330,000
Industrial	397,910,200	416,252,900	445,399,650	430,477,050	405,605,650
Personal property	567,204,500	548,022,100	540,032,000	515,469,150	532,258,650
IFT real and personal property	<u>434,493,900</u>	<u>441,745,100</u>	<u>443,622,750</u>	<u>579,510,100</u>	<u>511,069,200</u>
Total	4,938,928,200	5,145,581,500	5,395,279,450	5,699,065,850	5,606,866,400
Less exempt property	<u>(217,246,950)</u>	<u>(220,872,550)</u>	<u>(221,811,375)</u>	<u>(289,755,050)</u>	<u>(255,534,600)</u>
Total taxable value	<u>\$ 4,721,681,250</u>	<u>\$ 4,924,708,950</u>	<u>\$ 5,173,468,075</u>	<u>\$ 5,409,310,800</u>	<u>\$ 5,351,331,800</u>
Total direct tax rate (1)	<u>\$ 10.6250</u>	<u>\$ 10.6250</u>	<u>\$ 10.7250</u>	<u>\$ 10.7250</u>	<u>\$ 10.7858</u>
Total taxable value as					
a percentage of SEV equivalent	82.06%	82.11%	83.03%	84.78%	90.08%
Total taxable value as					
a percentage of total value	95.60%	95.71%	95.89%	94.92%	95.44%

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

Source: City of Sterling Heights, Assessor's Office

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

2010	2011	2012	2013	2014
\$ 5,555,163,580	\$ 4,879,206,305	\$ 4,488,430,900	\$ 4,154,032,625	\$ 4,201,961,947
<u>239,402,825</u>	<u>223,651,575</u>	<u>204,669,200</u>	<u>150,866,925</u>	<u>147,523,025</u>
<u>\$ 5,794,566,405</u>	<u>\$ 5,102,857,880</u>	<u>\$ 4,693,100,100</u>	<u>\$ 4,304,899,550</u>	<u>\$ 4,349,484,972</u>
\$ 4,508,088,655	\$ 4,046,809,230	\$ 3,743,670,800	\$ 3,503,196,250	\$ 3,526,557,005
<u>986,259,050</u>	<u>917,612,350</u>	<u>874,496,200</u>	<u>755,514,350</u>	<u>724,659,700</u>
<u>\$ 5,494,347,705</u>	<u>\$ 4,964,421,580</u>	<u>\$ 4,618,167,000</u>	<u>\$ 4,258,710,600</u>	<u>\$ 4,251,216,705</u>
\$ 3,328,660,655	\$ 2,920,197,630	\$ 2,714,198,550	\$ 2,527,262,250	\$ 2,584,362,566
726,513,650	704,190,150	651,408,200	609,340,350	564,052,015
416,847,650	388,756,200	348,879,800	314,238,500	305,334,016
545,007,250	504,729,350	494,463,050	506,194,400	502,509,250
<u>477,318,500</u>	<u>446,548,250</u>	<u>409,217,400</u>	<u>301,675,100</u>	<u>294,958,858</u>
5,494,347,705	4,964,421,580	4,618,167,000	4,258,710,600	4,251,216,705
<u>(238,659,250)</u>	<u>(223,274,125)</u>	<u>(204,608,700)</u>	<u>(150,837,550)</u>	<u>(147,479,429)</u>
<u>\$ 5,255,688,455</u>	<u>\$ 4,741,147,455</u>	<u>\$ 4,413,558,300</u>	<u>\$ 4,107,873,050</u>	<u>\$ 4,103,737,276</u>
<u>\$ 10.7858</u>	<u>\$ 12.6858</u>	<u>\$ 12.6858</u>	<u>\$ 12.6858</u>	<u>\$ 12.6858</u>
94.61%	97.17%	98.33%	98.89%	97.66%
95.66%	95.50%	95.57%	96.46%	96.53%

City of Sterling Heights, Michigan

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

Company Name	Product/Service	Year Ended June 30, 2014			Year Ended June 30, 2005		
		Taxable Value	Rank	Percent of Total City Taxable Value	Taxable Value	Rank	Percent of Total City Taxable Value
Chrysler Group LLC	Automotive assembly and stamping	\$ 223,610,703	1	5.45	\$ 239,096,100	1	5.06
Ford Motor Company	Automotive manufacturing and drive shafts	155,279,281	2	3.78	100,752,100	3	2.13
DTE Energy	Public electric utility	35,263,600	3	0.86	36,546,400	4	0.77
General Dynamics	Administrative engineering and design	25,893,725	4	0.63	27,823,000	6	0.59
Detroit Media Partnership	Printing plant - Newspapers	24,758,485	5	0.60	25,848,700	7	0.55
Lakeside Associates	Retail shopping center	23,369,844	6	0.57	31,968,600	5	0.68
Comcast Communications	Cable communications	14,535,350	7	0.35	-	-	-
Consumers Energy	Public utility for gas	13,994,865	8	0.34	-	-	-
NJT Enterprises	Retail shopping center	13,127,950	9	0.32	-	-	-
MNP Corporation	Nut, bolt, and wire manufacturer	10,984,000	10	0.27	-	-	-
Visteon Corporation	Automotive axles and shafts	-	-	-	149,754,550	2	3.17
T.R.W.	Auto sub-component assembly	-	-	-	16,669,050	8	0.35
Laurel/Shoal Creek	Office and apartment complex	-	-	-	16,199,100	9	0.34
Ledd's Development	Office/business complex	-	-	-	14,944,700	10	0.32
	Ten largest taxpayers	540,817,803		13.17	659,602,300		13.96
	Other taxpayers	3,562,919,473			4,062,078,950		
	Total taxable value	\$ 4,103,737,276			\$ 4,721,681,250		

Source: City of Sterling Heights, Assessing Office

City of Sterling Heights, Michigan

Ratios of General Bonded Debt Outstanding Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities			Business-type Activities	Total Primary Government	Percentage of Estimated Total Taxable Value of Property (1)	Population	Per Capita
	General Obligation Bonds	County Issued Bonds	Amounts Available in Debt Service Funds	County Issued Bonds				
2005	\$ 31,735,000	\$ 9,060,000	\$ (61,570)	\$ -	\$ 40,733,430	0.8627	128,026	\$ 318.17
2006	29,705,000	8,230,000	(88,166)	-	37,846,834	0.7685	128,692	294.09
2007	21,590,000	7,325,000	(66,116)	-	28,848,884	0.5576	128,914	223.78
2008	23,635,000	6,495,000	(68,694)	-	30,061,306	0.5557	128,500	233.94
2009	20,985,000	5,590,000	(150,053)	-	26,424,947	0.4938	128,500	205.64
2010	11,060,000	4,635,000	(9,821)	3,702,531	19,387,710	0.3263	128,500	150.88
2011	9,595,000	3,655,000	(11,873)	27,799,300	41,037,427	0.8294	129,699	316.41
2012	8,455,000	2,630,000	(22,232)	36,565,773	47,628,541	1.0440	129,699	367.22
2013	7,690,000	1,525,000	(19,201)	35,428,997	44,624,796	1.0863	129,699	344.06
2014	5,700,000	775,000	(20,308)	34,264,780	40,719,472	0.9923	129,699	313.95

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

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

City of Sterling Heights, Michigan

Ratios of Outstanding Debt by Type Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities				Business-type Activities			Total Primary Government	Percentage of Personal Income (1)	Population	Per Capita
	General Obligation Bonds	Michigan Transportation Bonds	Special Assessment Bonds	County- issued Bonds	County Issued						
					General Obligation Bonds	Special Assessment Bonds	County State Revolving Loan Funds				
2005	\$ 31,735,000	\$ 19,735,000	\$ 125,000	\$ 9,060,000	\$ -	\$ -	\$ -	\$ 60,655,000	1.77%	128,026	\$ 473.77
2006	29,705,000	17,690,000	-	8,230,000	-	-	-	55,625,000	1.57%	128,692	432.23
2007	21,590,000	20,610,000	-	7,325,000	-	-	-	49,525,000	1.35%	128,914	384.17
2008	23,635,000	18,710,000	-	6,495,000	-	-	-	48,840,000	1.30%	128,500	380.08
2009	20,985,000	16,535,000	3,260,000	5,590,000	-	-	-	46,370,000	1.26%	128,500	360.86
2010	8,820,000	16,130,000	3,160,000	4,635,000	3,702,531	-	-	36,447,531	0.96%	128,500	283.64
2011	7,880,000	14,180,000	3,060,000	3,655,000	30,584,068	-	3,314,862	62,673,930	2.00%	129,699	483.23
2012	6,905,000	12,170,000	2,960,000	2,630,000	36,565,773	2,716,185	4,931,838	68,878,796	2.19%	129,699	531.07
2013	6,165,000	10,405,000	2,850,000	1,525,000	35,428,997	2,647,602	6,825,826	65,847,425	2.10%	129,699	507.69
2014	5,700,000	8,535,000	2,700,000	775,000	34,264,780	2,548,452	11,703,389	66,226,621	2.11%	129,699	510.62

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

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

City of Sterling Heights, Michigan

Direct and Overlapping Governmental Activities Debt June 30, 2014

Direct Debt

General Obligation Bonds

04/27/05	Limited Tax	\$ 1,700,000	
06/09/08	Fire Stations, Unlimited tax	<u>4,000,000</u>	\$ 5,700,000

Michigan Transportation Fund Bonds

04/05/05	Refunding Bonds, Series 2005	500,000	
04/01/07	Bonds, Series 2007	300,000	
06/22/10	Recovery Zone Bonds, Series 2010	1,475,000	
02/07/12	Refunding Bonds, Series 2012	3,015,000	
02/14/13	Refunding Bonds, Series 2013	<u>3,245,000</u>	8,535,000

Special Assessment Bonds

08/03/08	Improvements		2,700,000
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Share of County-issued Drain Bonds

Macomb County utility drains	<u>775,000</u>
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Total direct debt outstanding 17,710,000

Indirect Debt

Share of County-issued Drain Bonds

Macomb County - Series A MID	24,196,319	
MID District - 2008 North Gratiot	2,323,933	
MID District - 2010 North Gratiot	224,519	
MID District - 2011 Clintondale Pump	9,109,562	
Oakland County (OMID)	<u>958,899</u>	36,813,232

Total direct and indirect debt outstanding 54,523,232

Less:

MTF Bonds	8,535,000	
Special Assessment Bonds	2,700,000	
MID District Special Assessments	<u>2,548,452</u>	13,783,452

Net direct and indirect debt outstanding 40,739,780

Overlapping Debt

39.10% Utica Community School District	62,196,370
45.81% Warren Consolidated School District	66,300,813
16.40% Macomb County at large	7,968,027
16.40% Macomb Community College	<u>2,562,500</u>

Total overlapping debt 139,027,710

Net direct and indirect debt outstanding and overlapping debt \$ 179,767,490

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

City of Sterling Heights, Michigan

Legal Debt Margin June 30, 2014

Valuation for debt limit:

2013 state equalized value (2014 fiscal year)	\$ 4,054,438,922
Addback of assessed value equivalent - 2013 SEV of Act 198 exemptions	<u>295,046,050</u>

Total valuation for debt limit **\$ 4,349,484,972**

Debt limit (10 percent of state equalized valuation and equivalent) (1) \$ 434,948,497

Debt applicable to limit:

Amount of total direct outstanding debt	\$ 54,523,232
Less: Michigan Transportation Fund Bonds	8,535,000
Special Assessment Bonds	2,700,000
MID District Special Assessments	<u>2,548,452</u>

Net debt applicable limit 40,739,780

Legal debt margin **\$ 394,208,717**

(1) Debt limit set forth in Section 4a, Act 279 of 1909 and Act 202, P.A. 1943, as amended by Act 42, P.A. 1960

City of Sterling Heights, Michigan

Legal Debt Margin Information Last Ten Fiscal Years

	Fiscal Year				
	2005	2006	2007	2008	2009
Debt limit	\$ 597,544,820	\$ 622,283,210	\$ 645,406,095	\$ 667,117,910	\$ 619,634,650
Total net debt applicable to limit	<u>(40,795,000)</u>	<u>(37,935,000)</u>	<u>(28,915,000)</u>	<u>(30,130,000)</u>	<u>(26,575,000)</u>
Legal debt margin	<u>\$ 556,749,820</u>	<u>\$ 584,348,210</u>	<u>\$ 616,491,095</u>	<u>\$ 636,987,910</u>	<u>\$ 593,059,650</u>
Total net debt applicable to the limit as a percentage of debt limit	6.83%	6.10%	4.48%	4.52%	4.29%

	Fiscal Year				
	2010	2011	2012	2013	2014
Debt limit	\$ 579,456,641	\$ 510,285,788	\$ 469,310,010	\$ 430,489,955	\$ 434,948,497
Total net debt applicable to limit	<u>(17,157,531)</u>	<u>(39,334,300)</u>	<u>(46,100,773)</u>	<u>(44,643,997)</u>	<u>(40,739,780)</u>
Legal debt margin	<u>\$ 562,299,110</u>	<u>\$ 470,951,488</u>	<u>\$ 423,209,237</u>	<u>\$ 385,845,958</u>	<u>\$ 394,208,717</u>
Total net debt applicable to the limit as a percentage of debt limit	2.96%	7.71%	9.82%	10.37%	9.37%

City of Sterling Heights, Michigan

Pledged Revenue Coverage Last Ten Fiscal Years

Limited Tax Obligation Bonds						
Fiscal Year			Debt Service			
Ended	Collections	Principal	Interest	Total	Coverage	
2005	\$ 640,723	\$ 415,000	\$ 226,639	\$ 641,639	0.999	
2006	652,798	475,000	177,366	652,366	1.001	
2007	681,050	485,000	170,614	655,614	1.039	
2008	1,339,073	1,075,000	263,348	1,338,348	1.001	
2009	1,389,151	1,155,000	233,238	1,388,238	1.001	
2010	1,047,761	890,000	157,097	1,047,097	1.001	
2011	647,941	485,000	132,554	617,554	1.049	
2012	608,680	495,000	113,291	608,291	1.001	
2013	528,740	540,000	96,951	636,951	0.830	
2014	297,080	215,000	81,850	296,850	1.001	
Michigan Transportation Fund Bonds						
Fiscal Year			Debt Service			
Ended	Collections	Principal	Interest	Total	Coverage	
2005	\$ 3,530,329	\$ 1,885,000	\$ 636,159	\$ 2,521,159	1.400	
2006	3,488,938	2,045,000	677,163	2,722,163	1.282	
2007	3,450,943	1,730,000	626,665	2,356,665	1.464	
2008	3,398,754	1,900,000	735,012	2,635,012	1.290	
2009	3,281,889	2,175,000	754,573	2,929,573	1.120	
2010	3,241,801	2,115,000	611,907	2,726,907	1.189	
2011	3,289,715	1,950,000	559,979	2,509,979	1.311	
2012	3,559,189	1,840,000	517,614	2,357,614	1.510	
2013	3,628,067	1,940,000	430,950	2,370,950	1.530	
2014	3,970,676	1,870,000	314,858	2,184,858	1.817	
Special Assessment Bonds						
Fiscal Year			Debt Service			
Ended	Collections (1)	Principal	Interest	Total	Coverage (1)	
2005	\$ 27,200	\$ 225,000	\$ 12,338	\$ 237,338	0.115	
2006	-	125,000	3,125	128,125	-	
2007	-	-	-	-	-	
2008	-	-	-	-	-	
2009	331,654	-	-	-	-	
2010	298,947	100,000	127,000	227,000	1.317	
2011	311,450	100,000	123,400	223,400	1.394	
2012	319,122	100,000	120,400	220,400	1.448	
2013	267,645	110,000	117,250	227,250	1.178	
2014	271,069	150,000	113,162	263,162	1.030	

(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

City of Sterling Heights, Michigan

Demographic and Economic Statistics Last Ten Fiscal Years

Fiscal Year Ended June 30	Estimated Population (1)	Median Age (2)	Education Age 25 or Older (2)		Per Capita Income (2)/(4)	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					
2005	128,026	35-39	84.0%	22.9%	\$ 26,717	\$ 3,420,471	49,405	\$ 60,494	5.6%
2006	128,692	35-39	84.0%	22.9%	27,519	3,541,475	49,871	60,494	6.3%
2007	128,914	35-39	84.0%	22.9%	28,399	3,661,029	50,761	60,494	7.3%
2008	128,500	35-39	84.0%	22.9%	29,308	3,766,078	50,375	60,494	8.8%
2009	128,500	35-39	84.0%	22.9%	28,546	3,668,161	49,735	60,494	14.1%
2010	128,500	35-39	84.0%	22.9%	29,430	3,781,755	49,339	60,494	13.6%
2011	129,699	40-44	84.0%	22.9%	24,213	3,140,402	49,508	53,390	9.8%
2012	129,699	40-44	86.4%	22.9%	25,194	3,140,402	49,576	53,390	9.0%
2013	129,699	40-44	86.4%	22.9%	25,194	3,140,402	49,576	53,390	9.0%
2014	129,699	40-44	86.4%	22.9%	25,194	3,140,402	49,576	53,390	9.0%

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 Treasury, Management & Budget

City of Sterling Heights, Michigan

Miscellaneous Demographics

Population			Income Characteristics	
			Household Income	Number of Households
2010 U.S. Census	129,699		Less than \$14,999	4,731
2000 U.S. Census	124,471		\$15,000 - \$34,999	10,015
1990 U.S. Census	117,810		\$35,000 - \$49,999	6,946
1980 U.S. Census	108,999		\$50,000 - \$74,999	9,518
			\$75,000 - \$99,999	7,036
			\$100,000 or more	11,240
Housing Tenure			Labor Characteristics	
Types	2010	2000	By Occupation:	Number of Employees
Owner occupied	37,685	36,584	Management, professional, and related	21,537
Renter occupied	11,766	9,735	Service	10,061
Vacant:			Sales and office	16,612
Seasonal/migrant	128	148	Natural resources, construction, and maintenance	4,056
Other vacant units	2,611	1,080	Production, transportation, and material moving	7,931
Total	52,190	47,547	Total	60,197
Household Characteristics			By Industry:	
Types	2010	2000	Agriculture, forestry, fishing and hunting, and mining	98
With seniors 65 +	14,229	10,252	Construction	2,463
Without seniors	35,222	36,067	Manufacturing	12,109
			Wholesale trade	1,530
Two or more without children	21,007	19,041	Retail trade	8,117
Live alone, over 65	5,316	3,915	Transportation, warehousing, and utilities	2,383
Live alone, under 65	7,791	7,245	Information	1,012
With children	15,337	16,118	Finance, insurance, real estate, rental, and leasing	3,024
Total households	49,451	46,319	Professional, scientific, management, administrative, and waste management services	6,237
			Educational, health, and social services	12,451
			Arts, entertainment, recreation, accommodation, and food services	5,257
			Other professional and related services	3,174
			Public administration	2,342
			Total	60,197
Age Statistics			Educational Characteristics	
Years	2010	2000	Households:	Number
Under 5	5.5%	6.2%	With earnings	38,272
5 to 19	18.7%	20.3%	With Social Security income	15,634
20 to 24	6.3%	6.1%	With retirement income	12,176
25 to 44	25.8%	30.4%	With supplemental security income	1,845
45 to 64	28.5%	25.2%	With cash public assistance income	1,283
Over 64	15.2%	11.8%	With food stamps/SNAP benefits	5,649

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

City of Sterling Heights, Michigan

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

Company Name	Product/Service	Year Ended June 30, 2014			Year Ended June 30, 2005		
		Employees	Rank	Total City Employment	Employees	Rank	Total City Employment
Chrysler Group LLC	Automotive assembly and stamping	3,000	1	4.88%	6,875	1	12.49%
Ford Motor Company	Automotive axles and transmissions	2,300	2	3.74%	1,250	7	2.27%
Lakeside Associates	Retail shopping center	2,000	3	3.26%	2,500	4	4.54%
General Dynamics	Defense-related manufacturing	1,900	4	3.09%	1,425	6	2.59%
Utica Community Schools	Education (1)	1,150	5	1.87%	4,150	2	7.54%
Detroit Media Partnership	Printing plant - Newspapers (3)	1,000	6	1.63%	1,200	8	2.18%
Warren Consolidated Schools	Education (1)	790	7	1.29%	2,200	5	4.00%
Henry Ford Health System	Healthcare provider (3)	600	8	0.98%	-	-	-
Kuka Systems Corporation	Metalworking machinery and robotic systems	600	9	0.98%	-	-	-
U.S. Farathane Corporation	Paints and finishes	580	10	0.94%	-	-	0.00%
Miliken Millwork, Inc.	Wooden and stainless steel doors and stairs	500	11	0.81%	-	-	-
City of Sterling Heights	Government	496	12	0.81%	630	12	1.14%
Visteon Corporation	Automotive axles and drive shafts	-	-	-	2,800	3	5.09%
MNP	Nut, bolt, and wire manufacturer	-	-	-	1,200	9	2.18%
Cadillac Products, Inc.	Plastic bags, sheets, paper	-	-	-	750	10	1.36%
T.R.W.	Auto-sub component assembly	-	-	-	720	11	1.31%
	Twelve largest employers	14,916		24.28%	25,700		46.68%
	Other employers	46,521		75.72%	29,357		53.32%
	Total employment (2)	61,437			55,057		

(1) Effective June 30, 2008, employees reported include those working at locations within City boundaries in place of district wide.

(2) State of Michigan, Department of Technology, Management and Budget

(3) Analyst Resource Center Employer Database Infogroup Inc.

Source: City of Sterling Heights, Economic Development Office

City of Sterling Heights, Michigan

Operating Indicators by Function Last Ten Fiscal Years

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government										
Election Data										
Registered voters	83,461	83,910	83,639	84,082	88,258	85,345	85,953	86,231	85,436	88,164
Voters at polls	45,608	7,654	34,405	3,842	44,074	10,138	39,285	13,020	42,504	21,322
Absentee ballots	14,801	7,605	11,904	7,556	16,972	7,963	11,037	8,299	16,205	8,966
Percent voting	72.38%	18.18%	55.37%	13.56%	69.17%	21.00%	46.00%	25.00%	66.00%	24.00%
41A District Court										
Court Cases										
Civil	2,709	2,862	3,239	3,867	3,947	3,816	4,037	3,760	3,546	2,550
Criminal	3,994	4,211	4,533	5,677	4,922	4,818	4,254	3,654	3,408	3,813
Landlord and tenant	2,203	2,226	2,433	2,471	2,653	2,407	2,442	2,610	2,265	2,491
Small claims	513	488	432	425	524	448	451	404	313	400
Traffic	25,338	24,256	27,143	27,709	30,422	35,540	31,074	22,924	22,889	22,550
Public Safety										
Police Protection										
Adult arrests	2,406	2,560	3,326	3,747	3,079	3,000	2,691	2,686	3,083	3,113
Civil infractions	23,627	23,819	26,582	27,596	29,855	32,724	29,315	20,670	21,788	20,535
Group A offenses (2)	6,474	7,926	7,873	7,361	6,686	6,484	5,769	3,890	3,216	2,926
Group B offenses (3)	4,170	4,609	4,491	3,433	2,632	2,370	1,960	1,652	2,030	2,306
Injury accidents	862	810	806	1,004	824	704	752	616	598	860
Juvenile arrests	183	239	251	174	156	173	159	143	195	190
OUIL arrests	361	375	328	340	414	394	297	199	220	183
Parking violations	1,713	1,730	2,016	1,706	1,702	1,992	1,125	585	1,116	1,298
Property damage	3,669	3,663	3,415	4,353	3,191	3,071	3,408	2,849	2,974	3,488
Private property damage	1,439	1,304	1,322	1,133	1,037	944	846	820	712	741
Total traffic violations	26,972	25,379	29,166	30,484	32,154	37,022	32,752	24,109	22,428	24,142
Fire Protection										
Emergency alarms answered	9,292	9,573	10,261	10,500	10,480	10,383	11,062	11,589	11,653	12,451
Fire inspections conducted	3,832	4,204	4,624	3,767	3,874	2,859	2,288	1,029	882	878
Inspection violations issued	3,697	6,020	10,292	9,391	7,495	5,831	4,397	2,067	1,670	745
Medical emergencies	6,719	6,927	7,493	7,691	7,745	7,693	8,617	8,948	8,969	9,435
Training hours completed	35,809	34,124	33,538	33,857	31,121	30,955	29,986	23,230	22,790	24,994
Recreation and Culture										
Parks and Recreation										
Adult athletics attendance	15,825	19,480	18,782	20,135	15,360	25,477	21,301	21,221	24,357	21,967
Instructional rec. attendance	24,970	28,070	26,567	25,666	24,795	23,999	23,933	27,132	22,666	20,344
Nature program attendance	29,362	22,748	24,582	24,399	23,321	27,708	23,374	21,318	14,582	17,170
Senior program attendance	111,020	111,610	109,528	109,970	116,564	117,570	102,577	103,663	103,667	100,026
Special event attendance	71,930	72,725	73,000	73,100	74,449	65,551	72,321	62,015	53,734	46,379
Special recreation program attendance	15,895	16,870	14,878	16,060	15,679	11,351	10,803	10,766	9,895	8,395
Summer playground attendance	11,646	9,992	11,025	14,094	11,370	7,565	12,160	11,144	12,613	13,053
Library										
Book van deliveries	12,844	12,820	11,242	9,318	8,818	7,909	7,367	4,547	3,788	3,253
Community meeting room reservations	150	299	341	384	1,200	1,289	1,209	1,463	1,325	1,183
In-house materials usage	139,897	140,033	144,698	139,973	121,907	93,714	107,155	133,539	132,298	82,304
Interlibrary loan requests	99,078	109,995	120,393	123,142	125,167	110,778	97,588	93,068	90,764	86,950
Interlibrary loans - Lent	89,405	100,260	109,814	113,947	117,671	105,692	87,255	82,094	82,832	79,360
Items circulated	641,730	648,967	635,425	616,323	625,688	627,496	614,905	600,445	577,448	536,485
Library visits	388,706	417,601	420,716	442,768	581,046	560,035	484,259	453,690	412,656	384,063
Online computer uses	441,111	456,752	492,979	514,794	552,503	583,260	610,054	768,815	1,050,062	1,659,105
Program attendance	22,780	21,275	25,470	36,204	37,639	31,664	23,184	22,168	15,310	15,196
Reference transactions	141,056	133,617	132,557	141,610	148,978	131,039	120,873	93,243	83,000	68,052
Registered borrowers	57,050	50,390	50,599	51,098	52,043	53,114	53,181	52,733	51,248	49,863

City of Sterling Heights, Michigan

Operating Indicators by Function (Continued) Last Ten Fiscal Years

	Fiscal Year									
	2005	2006 (4)	2007	2008	2009	2010	2011	2012	2013	2014
Water and Sewer Services										
Customers: (5)										
Residential	34,535	34,850	35,021	35,048	34,811	34,846	34,869	34,995	35,077	35,155
Commercial/Industrial	4,185	4,272	4,477	4,539	4,233	4,234	4,126	4,262	4,280	4,280
Water (in thousand cubic feet):										
Purchased from Detroit	867,931	803,969	775,817	786,726	716,384	659,817	683,223	695,711	678,000	614,039
Sold to residents	811,252	852,661	789,033	827,893	711,126	667,792	692,621	677,554	698,650	618,799
Rates (per thousand): (4)										
1,000 CU. FT.	\$ 25.42	\$ 27.13	\$ 28.64	\$ 30.74	\$ 31.94	\$ 37.22	\$ 40.59	\$ 42.07	\$ 43.97	\$ 48.52
Next 2,000 CU.FT.	(1)	27.13	28.64	30.74	31.94	37.22	40.59	42.07	43.97	48.52
Over 3,000 CU.FT.	(1)	27.96	29.50	31.67	32.90	38.32	41.77	46.18	48.24	53.13
Sewer only - Per billing	15.00	15.00	25.00	30.00	35.00	45.00	50.00	55.00	60.00	65.00

(1) During July 1, 2004 - June 30, 2005, the City used a single-tier rate structure.

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

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

(4) Effective July 1, 2005, the City implemented a two-tier rate structure.

(5) 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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
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	49	49	49	54	54	54	54	51	50	50
Vehicles - Unmarked	68	80	82	79	77	64	63	65	57	54
Fire Protection										
Stations	5	5	5	5	5	5	5	5	5	5
Vehicles - Extinguishment	14	14	15	16	16	16	16	16	16	16
Public Works										
Streets and Sidewalks										
Miles of City:										
Primary streets	60	60	60	60	63	63	63	63	63	63
Secondary streets	286	287	289	289	286	286	286	286	286	286
Sidewalks	566	605	607	608	609	609	610	610	611	612
Bridges	11	11	11	11	11	11	11	11	11	11
Buildings	2	2	2	2	2	2	2	2	2	2
Street lights	2,472	2,508	2,513	2,520	2,520	2,520	2,520	2,530	2,530	2,530
Vehicles - Snow plows	21	20	21	22	22	23	22	22	22	21
Water and Sewer Services										
Fire hydrants	6,796	6,932	7,015	7,050	7,162	7,203	7,221	7,238	7,261	7,270
Miles of water mains	558	563	569	570	573	574	575	576	576	576
Miles of sanitary sewers	422	424	428	429	430	430	430	430	430	430
Recreation and Culture										
Parks and Recreation										
Acres	820	820	820	820	820	820	820	820	820	820
Developed parks	28	28	28	28	28	28	28	28	28	28
Buildings	3	3	3	3	3	3	3	3	3	3
Library										
Book collections	189,822	190,791	188,365	197,412	199,968	203,593	204,977	208,102	209,040	195,656
Other collections (1)	23,937	23,776	35,619	36,619	37,344	37,051	37,603	42,507	46,306	37,848
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

Fiscal Year Ended June 30	Residential						Total Residential	
	New Construction			Additions/Improvements				
	Number	Value		Number	Value			
2005	546	\$	54,325,044	876	\$	1,830,299	\$	56,155,343
2006	269		48,957,415	734		1,601,036		50,558,451
2007	152		25,895,984	598		2,454,254		28,350,238
2008	37		8,034,365	536		1,503,824		9,538,189
2009	14		3,481,198	429		1,261,884		4,743,082
2010	70		12,386,830	360		839,587		13,226,417
2011	87		15,494,221	402		1,147,729		16,641,950
2012	96		19,872,576	405		1,291,986		21,164,562
2013	89		20,919,441	442		2,528,899		23,448,340
2014	134		31,286,101	537		1,191,570		32,477,671

Fiscal Year Ended June 30	Commercial						Total Commercial	
	New Construction			Additions/Improvements				
	Number	Value		Number	Value			
2005	31	\$	34,143,253	271	\$	26,257,489	\$	60,400,742
2006	24		25,096,450	302		26,567,543		51,663,993
2007	24		44,813,309	254		40,418,973		85,232,282
2008	17		38,153,479	239		26,322,149		64,475,628
2009	16		5,148,379	160		23,119,046		28,267,425
2010	27		31,115,804	165		28,194,133		59,309,937
2011	20		91,661,691	122		21,444,771		113,106,462
2012	46		97,795,253	114		16,137,512		113,932,765
2013	8		15,546,849	141		37,063,864		52,610,713
2014	8		6,077,060	129		25,288,174		31,365,234

Source: City of Sterling Heights Office of Building Services

City of Sterling Heights, Michigan

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

Function	Full-time and Part-time Employees as of June 30									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General government	95	94	95	83	78	71	74	60	56	57
41A District Court	38	40	40	40	39	40	40	39	38	37
Public safety:										
Police	259	260	260	261	259	251	243	228	222	222
Fire	107	108	108	106	106	104	101	91	86	86
Public works:										
City development (2)	50	32	32	37	32	32	24	19	24	26
Public works	43	43	43	42	40	37	34	26	29	31
Street services	23	23	23	23	21	21	21	21	18	21
Engineering (1)	-	19	19	17	14	13	11	9	8	9
Recreation and culture:										
Parks and recreation	16	16	16	16	13	12	11	10	10	10
Library	41	41	41	42	42	42	41	38	36	37
Water and sewer	41	41	41	41	40	39	39	37	35	35
Total	713	717	718	708	684	662	639	578	562	571

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

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

(3) Prior to 2013, Facilities Maintenance employees were included in general government.

Source: City of Sterling Heights, Office of City Management

Continuing Disclosure

City of Sterling Heights, Michigan

State-shared Revenue Last Ten Fiscal Years

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Modified Accrual</u> <u>Basis of Accounting</u>	<u>Accrual Basis of</u> <u>Accounting</u>
2005	\$ 11,072,350	\$ 11,127,156
2006	10,999,284	11,003,347
2007	10,861,805	10,675,667
2008	10,683,045	10,675,667
2009	10,487,825	10,183,758
2010	9,136,700	9,057,434
2011	9,368,599	9,057,434
2012	9,615,531	10,094,387
2013	10,268,109	10,342,983
2014	10,541,415	10,606,230

Gas and Weight Taxes Last Ten Fiscal Years

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Type of Street</u>		<u>Total</u> <u>Gas and Weight Tax</u> <u>(Act 51) Receipts</u>
	<u>Major Roads</u>	<u>Local Roads</u>	
2005	\$ 5,124,980	\$ 1,935,678	\$ 7,060,658
2006	5,063,169	1,914,706	6,977,875
2007	5,006,831	1,895,054	6,901,885
2008	4,933,090	1,864,418	6,797,508
2009	4,763,221	1,800,557	6,563,778
2010	4,719,496	1,764,105	6,483,601
2011	4,788,874	1,790,555	6,579,429
2012	5,194,602	1,923,776	7,118,378
2013	5,297,645	1,958,488	7,256,133
2014	5,461,373	2,020,459	7,481,832

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Labor Agreements

Name	Contract	Actual Number of	
	Expiration Date	Employees Covered	
Union Employees		Full Time	Part Time
Police Officers Michigan Association of Police (MAP)	6/30/2017	115	-
Firefighters International Association of Firefighters, Local 1557	6/30/2015	82	-
Technical/Office Employees Michigan Association of Public Employees (MAPE)	6/30/2015	57	22*
Department of Public Works Field Employees Teamsters, Local 214	6/30/2017	51	-
Police Command Officers Sterling Heights Police Command Officers Association	6/30/2015	33	-
Professional and Technical Employees United Auto Workers, Unit 40, Local 412	6/30/2016	22	15
Court Clerical AFSCME, Local 1884, Council 25	6/30/2015	17	5
Police Clerical Employees Michigan Association of Police (MAP)	6/30/2016	20	-
Emergency Dispatchers Police Officers Association of Michigan (POAM)	6/30/2015	20	-
Supervisory Employees United Auto Workers, Unit 41, Local 412	6/30/2015	11	2
Executive Employees Michigan Association of Public Employees (MAPE)	6/30/2015	7	-
Department of Public Works Supervisors AFSCME, Local 1917, Council 25	6/30/2017	7	-
Nonunion Employees			
41A District Court Administration	N/A	10	-
41A District Court Judges	N/A	3	-
Ordinance Employees	N/A	1	-

Source: City of Sterling Heights, Office of City Management

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