



Comprehensive Annual Financial Report

Richard J. Notte
Mayor

Michael C. Taylor
Mayor Pro Tem

Deanna Koski
Councilwoman

Joseph V. Romano
Councilman

Maria G. Schmidt
Councilwoman

Paul Smith
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, 2012

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

City of Sterling Heights, Michigan

Contents

Introductory Section

Letter of Transmittal	i-vi
GFOA Certificate of Achievement	vii
City Organization Chart	viii
List of Principal Officials	ix
Fund Organization Chart	x

Financial Section

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-13
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15-16
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	17-18
Reconciliation of Fund Balances to the Statement of Net Assets	19
Statement of Revenue, Expenditures, and Changes in Fund Balances	20-21
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	22
Proprietary Funds:	
Statement of Net Assets	23
Statement of Revenue, Expenses, and Changes in Net Assets	24
Statement of Cash Flows	25-26
Fiduciary Funds:	
Statement of Fiduciary Net Assets	27
Statement of Changes in Fiduciary Net Assets	28

City of Sterling Heights, Michigan

Contents (Continued)

Financial Section (Continued)

Component Units:	
Statement of Net Assets	29
Statement of Activities	30
Notes to Financial Statements	31-72
 <u>Supplemental Information</u>	
Required Supplemental Information	73
Budgetary Comparison Schedule - General Fund	74
Budgetary Comparison Schedule - Major Roads Fund	75
Budgetary Comparison Schedule - Community Development Block Grant Fund	76
Pension Systems Schedule of Funding Progress	77-79
Note to Required Supplemental Information	80-81
Other Financial and Supplemental Information	82
Nonmajor Governmental Funds:	83
Combining Balance Sheet	84-85
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	86-87
Budgetary Comparison Schedule	88-92
Major Funds - Budgetary Comparison Schedule - Major Debt Service and Capital Projects Funds	93-95
Fiduciary and Agency Funds:	96
Combining Statement of Fiduciary Net Assets - Trust Funds	97
Combining Statement of Changes in Fiduciary Net Assets - Trust Funds	98
Combining Statement of Fiduciary Assets and Liabilities - Agency Funds	99
Combining Statement of Changes in Assets and Liabilities - Agency Funds	100

City of Sterling Heights, Michigan

Contents (Continued)

Statistical and Continuing Disclosure Section

Statistical Information and Continuing Disclosure Contents	101-102
<u>Statistical Information</u>	103
Financial Trends	
Net Assets by Component	104
Changes in Net Assets	105-106
Fund Balances of Governmental Funds	107
Changes in Fund Balances of Governmental Funds	108-109
General Governmental Tax Revenue by Source	110
Revenue Capacity	
Property Tax Levies and Collections	111
Property Tax Rates - Direct and Overlapping Governments	112-113
Assessed Taxable Values (History of Property Values)	114-115
Principal Property Taxpayers (Major Taxpayers)	116
Debt Capacity	
Ratios of General Bonded Debt Outstanding	117
Ratios of Outstanding Debt by Type	118
Direct and Overlapping Governmental Activities Debt	119
Legal Debt Margin	120
Legal Debt Margin Information	121
Pledged Revenue Coverage	122
Demographic and Economic Information	
Demographic and Economic Statistics	123
Miscellaneous Demographics	124
Principal Employers (Major Employers)	125
Operating Information	
Operating Indicators by Function	126-127
Capital Asset Statistics by Function	128
Building Permits at Market Value	129
Full-time Equivalent City Government Employees by Function	130
<u>Continuing Disclosure</u>	131
State-shared Revenue	132
Gas and Weight Taxes	132
Labor Agreements	133

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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
Paul Smith
Barbara A. Ziarko

CITY MANAGER

Mark D. Vanderpool

November 21, 2012

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, 2012 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 unqualified opinion follows this letter of transmittal. An unqualified 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 49,576 households and 4,262 commercial and industrial businesses. The 2012 estimated population for the City stands at 129,699, making Sterling Heights the fourth largest populated city in Michigan. As of August, the City currently has an 8.2 percent unemployment rate as compared to a Macomb county rate of 10.6 percent, a statewide rate of 9.4 percent, and a national average of 8.1 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

There is no question that future years will continue to be challenging. The City is using \$4.7 million of Self-Insurance Fund reserves to balance the current General Fund budget (fiscal year 2013). Further property assessment declines and the expected State elimination of certain personal property taxes will cause revenues to further fall short of expenditures. Despite labor contract savings and a reduction in full-time staffing levels, funding for long-term retirement liabilities is expected to continue to rise primarily due to the continued recognition of prior stock market losses. As a result, without continued savings or a recovery of a portion of lost revenue, a larger use of reserves will occur. It is management's goal to maintain quality core services, while continuing to achieve further cost containment. Ultimately, it will be up to the voters to decide the service and tax mix that is acceptable to them. In the meantime, the City has adopted prudent and conservative financial policies, which will help guide us through the upcoming 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 165 positions since 2002 and labor contract savings totaling 15 percent. Going forward, the plan will allow the City to further refine and implement its labor strategy and plan for future staffing levels. This long-term labor strategy will allow the City to eliminate the present structural deficit caused by falling revenue. It will also allow 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 2011-2012:

1. The City developed a 2013 budget that reflected a \$4.0 million decrease from the prior year, as spending will fall to its lowest level in nine years due to a fifth year of falling property assessments and continued State funding cuts. All long-term retirement liabilities have again been funded.
2. The City continued to review employee positions resulting in the elimination of an additional 59 full-time positions, including 27 layoffs. City staffing is now at its lowest level since the 1970s. The City has successfully negotiated 15 percent wage and benefit concessions from nine of its 12 union contracts. The City also continued contract negotiations with its three remaining open labor contracts.
3. The City implemented a number of programmatic changes to reduce expenditures including privatizing building custodial services, adjusting new hire wage ranges, lower fixed pensions, and utilizing part-time employees to replace full-time employees in nearly all departments. The City also reorganized departments and staffing for enhanced property maintenance and city development initiatives.

4. The City continued to lead the Macomb Area Communities for Regional Opportunities (MACRO) group to explore further service sharing arrangements with the County and surrounding communities.
5. By continuing to follow its long-term financial plan, the City maintained its superior AAA, Aa1, and AA+ bond ratings, which saves hundreds of thousands of dollars annually.

Major Initiatives for July 1, 2012 and Thereafter

1. The City will continue to seek ways to lessen long-term retirement liabilities in order to achieve the financial goal of maintaining long-term financial stability due to the continued loss of property tax revenues.
2. The City will continue to encourage and incentivize new investments in the community, while also ensuring replacement funding for personal property tax revenue that the State will likely drastically reduce.
3. The City will continue to review the consolidation, contracting out, and reduction of non-core City services to ensure the continuation of core, vital services.
4. The City will continue to evaluate service-sharing agreements with surrounding communities and other entities, including countywide consolidated dispatch.
5. The City will survey the community to determine the desire for continued reductions in public safety or if the City should seek to recover a portion of lost property tax revenue with a possible November 2013 ballot question.

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 xvi 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.

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, 2011. 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 24 consecutive years (fiscal years 1988-2011). 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.

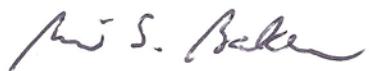
Acknowledgments

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

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, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Danison

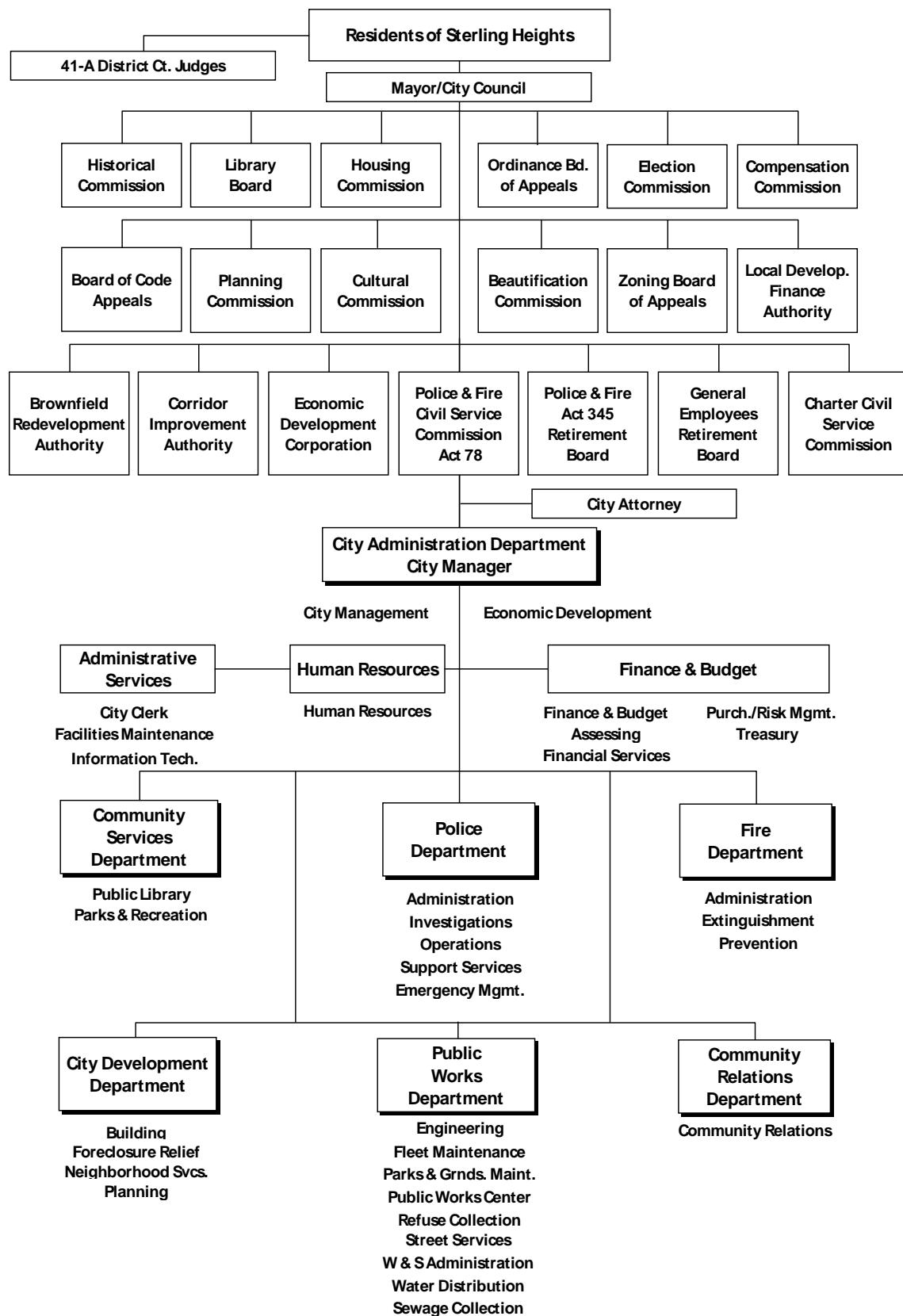
President

Jeffrey P. Evans

Executive Director

City of Sterling Heights, Michigan

City Organization Chart



City of Sterling Heights, Michigan

List of Principal Officials

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

City of Sterling Heights, Michigan

Fund Organization Chart

Governmental Funds	
General *	Special Revenue
	Major Roads *
	Local Roads
	Energy Efficiency Community Block Grant
	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 *
Settlement Bond	Land and Water Conservation
Road Bond Debt Retirement*	
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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit information, 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, 2012, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules for the General Fund and each major special revenue fund on pages 74-76 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 management's discussion and analysis and the retirement system schedules of funding progress 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.

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

The other budgetary comparison schedules and combining statements, as identified in the table of contents as other supplemental information, are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. These schedules, along with the budgetary comparison schedules for the General Fund and each major special revenue fund on pages 74-76, have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory section and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 opinions 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* and should be considered in assessing the results of our audit.



Sterling Heights, MI
November 21, 2012

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' financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. This narrative should be considered in conjunction with the additional information presented in the letter of transmittal found on pages v-x and is intended to serve as an introduction to the City of Sterling Heights' basic financial statements which begin on page 14.

Financial Highlights

- As a result of this year's operations, the City's overall net assets decreased by \$8.7 million, or 2.4 percent. Net assets of our governmental activities decreased by \$5.7 million or 2.7 percent; net assets of our business-type activities decreased by \$3.0 million or 1.9 percent.
- Net assets for governmental activities decreased primarily due to depreciation exceeding capital asset additions resulting from a lack of funding available for investment in building and road improvements.
- The General Fund reported a decrease in revenue of \$4.4 million or 5.2 percent due to a fourth year of lower property tax assessments due to a statewide housing decline and the recognition of estimated property tax appeal refunds. Furthermore, 41A District Court revenues declined by \$0.5 million primarily due to lower ordinance fines, while Building Authority revenues increased by \$1.0 million primarily due to a one-time Chrysler building project. Total General Fund revenue in 2012 is now at its lowest level since 2006. General Fund revenues have now fallen short of expenditures for the past five years.
- General Fund expenditures decreased by \$0.3 million due to continued employee labor savings and the contracting of certain services. However, increased actuarially required funding for long-term retirement liabilities due to the continued recognition of prior years' stock market declines, offset much of the savings. Absent increased funding for pensions, expenditures would have decreased by \$2.0 million or 2.3 percent.
- Despite continued employee labor contract savings, a further decrease in City staffing (including layoffs), and privatizing services, future use of reserves will occur due to lower property assessments, the anticipated loss of personal property taxes, and increasing retirement funding. To avoid a deficit, the City is conducting a survey to determine if the community wants further staffing and service reductions or if a portion of lost property tax revenues should be recovered through a dedicated public safety millage.
- Despite stabilizing State gas tax revenues and savings achieved from delaying new construction projects and lower snow removal costs this past year, funds are still lacking to adequately make necessary major and neighborhood road repairs. Today, state road funds are still lower than amounts received back in 2004, even without adjusting for inflation.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

- The City continues to fully fund its retirement systems. And despite cutting future retirement benefits, in the short term, retirement costs will continue 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 most 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 assets 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 assets and how they have changed. Net assets, the difference between the City's assets and liabilities, are 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 Brownfield Redevelopment Authority, the Corridor Improvement Authority, the Economic Development Corporation, and the Local Development Finance Authority, for which the City is financially accountable. Although legally separate, these "component units" are important because the City exercises control over them. 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.

The City as a Whole

The City's combined net assets decreased 2.4 percent from a year ago, falling from \$369.7 million to \$361.0 million. A review of the governmental activities, separate from the business-type activities, shows a decrease of \$5.7 million in net assets, or 2.7 percent, during fiscal year 2012. This decrease was largely attributable to a \$6.0 million decrease in property tax revenues due to lower property assessments and increased tax appeals, as well as increased actuarially required police and fire pension retirement contributions, which rose by \$1.2 million or 20.1 percent.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

As of June 30, 2012, unrestricted net assets for governmental activities, which is the part of net assets available to finance day-to-day operations and future growth, was \$27.7 million. This represents a \$4.0 million decrease as compared to June 30, 2011. The major factor contributing to this decrease was the continued housing decline, resulting in a \$5.7 million use of reserves in the General Fund, partially offset by a \$1.4 million contribution to net assets in the road funds.

The business-type activities experienced a decrease in net assets of \$3.0 million, which is a \$0.3 million improvement from the previous year. The improvement was primarily due to \$1.0 million in higher contributions from developers and \$0.2 million in higher investment earnings, partially offset by \$0.9 million in new interest expense from district-wide sewer projects. On an operating basis, the fund was within \$0.5 million of breaking even, excluding depreciation expense, as the City does not use its operating rates to fund depreciation expense. The decrease in net assets flowed through the balance sheet of the business-type activities as an increase in restricted net assets of \$1.0 million, which was offset by a decrease in capital assets net of debt of \$1.8 million, and the \$2.1 million use of unrestricted net assets.

In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of June 30, 2012 to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current assets	\$ 47.9	\$ 50.6	\$ 27.2	\$ 28.9	\$ 75.1	\$ 79.5
Noncurrent assets:						
Restricted assets and other assets	6.5	6.5	9.4	8.4	15.9	14.9
Capital assets	<u>188.8</u>	<u>195.7</u>	<u>171.3</u>	<u>162.8</u>	<u>360.1</u>	<u>358.5</u>
Total assets	243.2	252.8	207.9	200.1	451.1	452.9
Liabilities						
Current liabilities	9.7	9.3	4.8	4.3	14.5	13.6
Long-term liabilities	<u>31.2</u>	<u>35.5</u>	<u>44.4</u>	<u>34.1</u>	<u>75.6</u>	<u>69.6</u>
Total liabilities	<u>40.9</u>	<u>44.8</u>	<u>49.2</u>	<u>38.4</u>	<u>90.1</u>	<u>83.2</u>
Net Assets						
Invested in capital assets - Net of related debt	163.7	166.9	127.1	128.9	290.8	295.8
Restricted	10.9	9.4	9.4	8.4	20.3	17.8
Unrestricted	<u>27.7</u>	<u>31.7</u>	<u>22.2</u>	<u>24.4</u>	<u>49.9</u>	<u>56.1</u>
Total net assets	<u>\$202.3</u>	<u>\$208.0</u>	<u>\$158.7</u>	<u>\$161.7</u>	<u>\$361.0</u>	<u>\$369.7</u>

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets (in millions of dollars) as of June 30, 2012 and the prior year:

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue						
Charges for services	\$ 12.0	\$ 10.8	\$ 31.0	\$ 28.2	\$ 43.0	\$ 39.0
Operating grants and contributions	8.6	9.1	-	-	8.6	9.1
Capital grants and contributions	2.5	1.8	2.7	1.5	5.2	3.3
Property taxes	53.2	59.2	-	-	53.2	59.2
State-shared revenue	10.1	9.0	-	-	10.1	9.0
Interest	1.2	0.7	0.8	0.5	2.0	1.2
Other nonprogram revenue	2.0	2.0	-	-	2.0	2.0
Total revenue	89.6	92.6	34.5	30.2	124.1	122.8
Program Expenses						
General government	6.5	8.0	-	-	6.5	8.0
41A District Court	3.5	3.5	-	-	3.5	3.5
Public safety	55.0	53.7	-	-	55.0	53.7
Public works	23.9	26.1	-	-	23.9	26.1
Recreation and culture	5.3	5.6	-	-	5.3	5.6
Interest on long-term debt	1.1	1.2	-	-	1.1	1.2
Water and sewer	-	-	37.5	33.5	37.5	33.5
Total program expenses	95.3	98.1	37.5	33.5	132.8	131.6
Decrease in Net Assets						
	(5.7)	(5.5)	(3.0)	(3.3)	(8.7)	(8.8)
Net Assets - Beginning of year	208.0	213.5	161.7	165.0	369.7	378.5
Net Assets - End of year	\$202.3	\$208.0	\$158.7	\$161.7	\$361.0	\$369.7

Governmental Activities

During fiscal year 2012, the City's total governmental revenue decreased by \$3.0 million or 3.2 percent. This decrease was due to a decline in property tax and Court revenues, partially offset by higher one-time building permit fees, State gas tax, and revenue-sharing payments.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Expenses decreased by \$2.8 million or 2.9 percent from the previous fiscal year. Contributing to the decrease in expenses were savings from the reduction of 31 full-time positions through attrition and continued employee wage and benefit concessions. These savings were partially offset by higher required contributions to the police and fire retirement system of \$1.2 million and the general employees pension system of \$0.6 million, as well as the cost of contracting out police detention and park maintenance services, and the one-time leave time buyouts due to retirements and layoffs that occurred at the end of the fiscal year.

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 success and is working to further lower future retirement pension and health care liabilities as labor contracts expire.

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 2012 increased by 8.8 percent. The City only passed on a 7.9 percent water increase to its customers. The City provides sewage treatment to 99 percent of its residents through the Macomb County Sewage District. The City only passed a 9.9 percent sewage rate adjustment to its customers, compared to a 17.3 percent sewage increase from Macomb County. Sewer costs have risen as a result of debt from the City's new sewer rehabilitation projects.

During fiscal year 2012, the water and sewer system experienced a 1.8 percent increase in water purchased from the City of Detroit. However, volumes are still down 19.8 percent since 2005, which is consistent with Michigan's overall economy. In 2012, water and sewer lines contributed by developers to the City increased by \$1.0 million and investment earnings increased by \$0.2 million. Interest expense for sewer rehabilitation projects rose by \$0.9 million, which led to an overall lower use of net assets.

Capital Assets and Debt Administration

At the end of fiscal year 2012, the City had \$290.8 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 \$252.8 million and \$253.9 million for fiscal years 2012 and 2011, respectively (see Note 4 of the notes to the basic financial statements for additional information).

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The City's general obligation bonds maintained their ratings from Standard & Poor's (AA+), Fitch (AAA), and Moody's (Aa1). The \$4.3 million 2005 Michigan Transportation Fund (MTF) bond, with a remaining balance of \$3.9 million, was refinanced during the fiscal year saving \$330,000 of future interest costs. The 2012 MTF Refunding bond totaled \$3.8 million. No additional direct debt was issued by the City during the year; however, Macomb County issued indirect debt for various multi-community sewer maintenance and repairs, which the City will finance through water and sewer rates. Debt service for all outstanding direct debt during fiscal year 2012 consisted of \$3.9 million in principal and \$1.1 million in interest after adjustments for recognition of amortized premiums (see Note 7 of the notes to the basic financial statements for additional information).

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

	2011	2012
Net debt outstanding (direct and indirect)	\$ 39,334,300	\$ 46,100,773
Ratio of net debt outstanding to total taxable value	0.8294%	1.0440%
Net debt outstanding per capita	\$ 303.18	\$ 355.27

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.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

- **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 17-18 and provide detailed information on the most significant funds - not the City as a whole. The City's major funds for 2012 include the General Fund, Major Roads Fund, Community Development Block Grant Fund, Road Bond Debt Retirement Fund, General Improvement Fund, and Road Bond Construction Fund.

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. Expenditures (including transfers) exceeded revenue in these funds by \$5.4 million. In the General Fund, revenue decreased by \$4.4 million due to a \$5.9 million decrease in property tax revenue. Expenditures decreased by \$0.2 million as most of the operational savings were offset by higher actuarial required pension funding. The Major Roads Fund net increase was \$1.0 million, which will be used for future road maintenance. The Road Bond Debt Retirement Fund net change was nearly flat. The General Improvement Fund net decrease was a \$0.9 million use of fund balance. The Road Bond Construction Fund net decrease was \$0.2 million based on the use of prior year's proceeds from bond sales. The Community Development Block Grant Fund is a reimbursement-based grant fund.

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 2012. Final budgeted expenditures were \$1.3 million or 1.6 percent higher than the original budget due primarily to the one-time charge for banked leave time for 59 full-time positions eliminated by year end, the receipt of federal funds related to funding early retiree medical costs, and as three labor groups did not agree to budgeted wage concessions. Final budgeted revenue was \$0.6 million higher than the original budget due primarily to increased state revenue sharing and building permit revenue.

At year end, actual General Fund expenditures came in at nearly 100.0 percent of the budget or \$0.04 million over budget due to several unanticipated retirements at year end. General Fund revenue came in at 99.4 percent or \$0.5 million under budget primarily as a result of lower tax revenues.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Current Economic Conditions

While the City continues to carry out its long-term financial plan, there remains a structural funding problem facing communities in Michigan. The three major funding sources for cities are property taxes, state-shared revenue, and state road funding. All three revenue sources have shown significant declines over the past five to ten years with no increases in funding expected for at least the next several years. Despite a reduction of 165 positions since 2002, continued expenditure reductions will be needed to offset the revenue shortfall. The City government is a service to the City residents and therefore, its primary costs are personnel related. Through the use of long-term planning, the City will continue to avoid a deficit. However, amid the steeply declining revenue affecting all communities, the City will continue to review all possible expenditure savings and revenue recovery options as it prepares future budgets and in negotiating current and future labor contracts.

Assessments Causing Lower Property Tax Bills and Related Revenue

The City's property tax assessments have declined in the past five years and continued decreases are anticipated for 2013 and beyond. As a result, property taxes, which account for 60.0 percent of the City's General Fund budget, have shown a dramatic decrease. For 2013, tax revenue has fallen to its lowest level in eight years. Residential property taxable values have decreased by 27.5 percent over the past five years. The City's total taxable value has now dropped to its lowest level since 2001, resulting in a cumulative \$44.8 million loss of property tax revenue when compared to historic inflationary increases.

The average property tax bill is now \$529 or 19.1 percent lower than five years ago and the lowest since 2001. In other words, the average property tax bill for a resident residing in either the Utica Community or the Warren Consolidated School District is now lower than it was 12 years ago. The City has continued to maintain one of the lowest tax rates in the state with 90 percent of cities having a higher tax rate. In Macomb County alone, the City's tax rate is the lowest of any city and is 8.2 mills or 65 percent below the average of all cities in the county.

While residential assessments appear to have begun to stabilize, further declines will occur in 2013 for businesses, resulting in a continued declining revenue to the City. Even as property values do fully stabilize, Proposal A will detrimentally limit increases to the rate of inflation such that the City will permanently lose property tax dollars. In addition, the State's plan to reduce personal property taxes paid by businesses could result in a \$1.7 million annual loss to the City even if the State upholds its promise to partially replace lost revenues.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

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 by 27 percent since 2002, resulting in a cumulative \$30.8 million reduction back to 1994 levels, despite a growing City population and inflationary cost factors.

Road Funding

Gas tax receipts from the State remain lower than 2004 levels due to higher gas prices and the use of more fuel-efficient vehicles, which have lessened gas consumption and the corresponding tax revenue. The State's gas tax of 19 cents per gallon has increased once in the past 28 years. As a result, the City has cumulatively lost \$3.9 million in State gas tax revenue over the past eight years. As the General Fund no longer has the ability to subsidize the road funds and as federal stimulus funds are no longer available, the City's ability to fund new road construction projects remains limited.

Expenditure Savings

In 2012, General Fund expenditures decreased by \$0.3 million or 0.3 percent - compared to a \$1.1 million or 1.3 percent increase in the prior year. Excluding increased funding of retiree pension contributions, expenditures would have decreased by \$2.0 million or 2.2 percent. The City has now achieved 15 percent wage and benefit concessions from nine of 12 labor groups with three labor contracts currently under negotiation.

As a result of the declining revenue, the City developed a proactive multi-faceted 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 165 full-time budgeted positions or 25.4 percent of its full-time workforce since 2002, saving \$12.6 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 those that still have fixed pensions, closed the police deferred retirement option plan, eliminated retiree medical for new general employees, and reduced future retiree health care benefits. The City has dramatically reduced overtime costs, and 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)

Reducing City Staffing

Given that 82.3 percent of the City budget is personnel costs, the City has had to eliminate lower priority positions. The City is now budgeted to have 484 full-time employees - the lowest number since the 1970s. The City's employee per resident ratio has decreased by 41.0 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. Staffing will fall further over the next fiscal year. Over the years, staffing reductions have primarily occurred at City Hall and public works, as fewer cuts have been made to public safety.

Use of Fund Balance

Despite expenditure savings, the City has needed to use its fund balance. General Fund reserves have now fallen for the past five fiscal years and currently total only \$5.2 million. The City is now utilizing its Self-Insurance Fund reserves to balance the General Fund budget. A \$4.7 million use of Self-Insurance Fund reserves is budgeted for 2013 in the General Fund. So far, the City has avoided reducing fund balance to a level that would compromise its superior AAA bond rating, which saves hundreds of thousands of dollars in annual interest costs. However, continued use of reserves over the long run will not be possible.

Future Actions Needed for 2013 and Beyond

Due to the City's cost-cutting efforts, the City is better positioned than most communities. Regularly updating the City's financial forecast allowed the City to take corrective action early on. The City has low debt levels, high bond ratings, and excellent services funded by very low property taxes and water and sewer rates.

The City does have fewer fund balance reserves than many communities, as the City has not levied higher taxes unnecessarily to build up excess reserves. The City continues to have one of the lowest property tax bills and tax rates of any Detroit-area city. Most other cities not only have higher tax rates, but also have increased their rates over the years. The City's property tax millage rate has fallen from 13.38 mills in 1988 to 12.68 mills currently - a decrease of 5.2 percent. The millage rate is down 0.7 mills since 1988, saving the average resident \$3,258 in taxes over the 25-year period. 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.

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

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City's Management

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

City of Sterling Heights, Michigan

Statement of Net Assets

June 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 19,091,889	\$ -	\$ 19,091,889	\$ 81,187
Investments - At fair value (Note 3)	22,790,954	15,573,790	38,364,744	-
Receivables:				
Customers	-	6,374,293	6,374,293	11,933
Special assessments - Current	208,728	-	208,728	-
Accrued interest	222,686	80,798	303,484	-
Other	905,758	-	905,758	-
Internal balances	(4,977,520)	4,977,520	-	-
Due from other governmental units	4,192,606	-	4,192,606	401,666
Prepaid costs and other assets	4,735,322	-	4,735,322	-
Inventories	701,018	179,266	880,284	-
Special assessments (Note 6)	2,551,753	-	2,551,753	-
Restricted assets (Note 8)	2,128,308	9,424,998	11,553,306	-
Loans receivable (Note 9)	1,858,253	-	1,858,253	-
Capital assets:				
Nondepreciable (Note 4)	49,437,088	12,017,710	61,454,798	1,209,203
Depreciable - Net (Note 4)	139,357,019	159,318,125	298,675,144	2,037,786
Total assets	243,203,862	207,946,500	451,150,362	3,741,775
Liabilities				
Accounts payable	2,423,801	4,494,654	6,918,455	20,766
Accrued and other liabilities	4,878,744	248,485	5,127,229	48,730
Due to other governmental units	170,732	-	170,732	321,081
Unearned revenue (Note 6)	2,161,287	54,525	2,215,812	11,933
Noncurrent liabilities (Note 7):				
Provision for uninsured losses and liabilities (Note 10)	570,573	-	570,573	-
Due within one year	4,557,574	1,448,828	6,006,402	-
Due in more than one year	26,107,404	42,982,845	69,090,249	-
Total liabilities	40,870,115	49,229,337	90,099,452	402,510
Net Assets				
Invested in capital assets - Net of related debt	163,744,453	127,122,039	290,866,492	3,246,989
Restricted:				
Roads	5,399,650	-	5,399,650	-
Public safety	598,175	-	598,175	-
Debt service	2,875,394	-	2,875,394	-
County drains (Note 8)	2,003,285	534,863	2,538,148	-
Ordinance requirements (Note 8)	-	8,890,135	8,890,135	-
Unrestricted	27,712,790	22,170,126	49,882,916	92,276
Total net assets	\$ 202,333,747	\$ 158,717,163	\$ 361,050,910	\$ 3,339,265

City of Sterling Heights, Michigan

	Program Revenue			
	Expenses	Operating Grants		Capital Grants
		Charges for Services	and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 6,543,937	\$ 3,513,053	\$ 18,510	\$ 1,110,878
41A District Court	3,379,925	2,570,621	137,172	-
Public safety	54,994,001	1,519,175	735,424	6,028
Public works	23,959,824	3,563,445	7,272,488	1,429,472
Recreation and culture	5,291,332	807,387	401,673	-
Interest on long-term debt	1,081,347	-	-	-
Total governmental activities	95,250,366	11,973,681	8,565,267	2,546,378
Business-type activities - Water and sewer	37,438,961	31,028,424	-	2,721,482
Total primary government	\$ 132,689,327	\$ 43,002,105	\$ 8,565,267	\$ 5,267,860
Component units:				
Economic Development Corporation	\$ 8,425	\$ -	\$ 21,000	\$ -
Brownfield Redevelopment Authority	69,804	-	70,499	-
Corridor Improvement Authority	8,467	-	-	-
Local Development Finance Authority	194,350	-	207,995	384,822
Total component units	\$ 281,046	\$ -	\$ 299,494	\$ 384,822
General revenue:				
Property taxes				
Unrestricted state revenue-sharing program				
Interest				
Other nonprogram generated revenue				
Total general revenue				

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended June 30, 2012

Net (Expenses) Revenue and Changes in Net Assets				
Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	
\$ (1,901,496)	\$ -	\$ (1,901,496)	\$ -	-
(672,132)	-	(672,132)	-	
(52,733,374)	-	(52,733,374)	-	
(11,694,419)	-	(11,694,419)	-	
(4,082,272)	-	(4,082,272)	-	
<u>(1,081,347)</u>	<u>-</u>	<u>(1,081,347)</u>	<u>-</u>	
(72,165,040)	-	(72,165,040)	-	
<u>-</u>	<u>(3,689,055)</u>	<u>(3,689,055)</u>	<u>-</u>	
(72,165,040)	(3,689,055)	(75,854,095)	-	
 -	 -	 -	 12,575	
 -	 -	 -	 695	
 -	 -	 -	 (8,467)	
<u> -</u>	<u> -</u>	<u> -</u>	<u> 398,467</u>	
 -	 -	 -	 403,270	
 53,247,883	 -	 53,247,883	 -	
 10,094,387	 -	 10,094,387	 -	
 1,159,709	 751,685	 1,911,394	 55	
 2,033,751	 -	 2,033,751	 -	
<u> 66,535,730</u>	<u> 751,685</u>	<u> 67,287,415</u>	<u> 55</u>	
 (5,629,310)	 (2,937,370)	 (8,566,680)	 403,325	
<u> 207,963,057</u>	<u> 161,654,533</u>	<u> 369,617,590</u>	<u> 2,935,940</u>	
<u>\$ 202,333,747</u>	<u>\$ 158,717,163</u>	<u>\$ 361,050,910</u>	<u>\$ 3,339,265</u>	

City of Sterling Heights, Michigan

	General Fund	Major Roads	Community Development Block Grant
Assets			
Cash and cash equivalents (Note 3)	\$ 12,734,120	\$ 2,601,450	\$ -
Investments - At fair value (Note 3)	6,581,623	500,000	-
Receivables:			
Special assessments:			
Current	-	-	-
Deferred	-	-	-
Accrued interest	45,646	3,100	-
Other	859,438	-	-
Prepaid costs and other assets	142,167	4,098	-
Due from other funds (Note 5)	696,682	-	-
Due from other governmental units	797,387	909,773	99,390
Inventories	681,473	-	-
Restricted assets (Note 8)	-	-	-
Rehabilitation loans (Note 9)	-	-	1,858,253
Total assets	\$ 22,538,536	\$ 4,018,421	\$ 1,957,643
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 1,407,276	\$ 162,123	\$ 29,784
Accrued and other liabilities	4,792,449	18,116	-
Due to other funds (Note 5)	10,651,819	109,062	69,606
Due to other governmental units	45,709	-	-
Deferred revenue (Note 6)	392,803	-	1,858,253
Total liabilities	17,290,056	289,301	1,957,643
Fund Balances			
Nonspendable:			
Inventory	681,473	-	-
Prepaid costs	142,167	4,098	-
Restricted for:			
Road improvements	-	3,725,022	-
Public safety	-	-	-
Debt service	-	-	-
Committed - Park acquisitions and improvements	-	-	-
Assigned to:			
Debt service	528,740	-	-
Economic development	19,000	-	-
Other capital projects	406,350	-	-
Significant encumbrances	19,047	-	-
Use of next year's fund balance	-	-	-
Unassigned	3,451,703	-	-
Total fund balances	5,248,480	3,729,120	-
Total liabilities and fund balances	\$ 22,538,536	\$ 4,018,421	\$ 1,957,643

Governmental Funds
Balance Sheet
June 30, 2012

Road Bond Debt Retirement	General Improvements	Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 232,385	\$ 1,076,495	\$ 467,742	\$ 1,925,377	\$ 19,037,569
-	-	-	200,000	7,281,623
146,630	27,963	-	34,135	208,728
2,346,073	69,141	-	136,539	2,551,753
128,074	2,304	-	10,593	189,717
-	-	-	-	859,438
-	-	171,183	25,000	342,448
-	141,956	-	61,591	900,229
-	48,265	32,000	633,478	2,520,293
-	-	-	19,545	701,018
-	2,128,308	-	-	2,128,308
-	-	-	-	1,858,253
\$ 2,853,162	\$ 3,494,432	\$ 670,925	\$ 3,046,258	\$ 38,579,377
\$ -	\$ 68,803	\$ 26	\$ 67,171	\$ 1,735,183
-	21,905	6,995	39,279	4,878,744
-	-	63,904	454,110	11,348,501
-	125,023	-	-	170,732
2,346,073	2,072,426	-	136,539	6,806,094
2,346,073	2,288,157	70,925	697,099	24,939,254
-	-	-	19,545	701,018
-	-	171,183	-	317,448
-	-	428,817	1,105,174	5,259,013
-	-	-	578,630	578,630
507,089	-	-	22,232	529,321
-	-	-	623,578	623,578
-	-	-	-	528,740
-	-	-	-	19,000
-	1,135,345	-	-	1,541,695
-	-	-	-	19,047
-	70,930	-	-	70,930
-	-	-	-	3,451,703
507,089	1,206,275	600,000	2,349,159	13,640,123
\$ 2,853,162	\$ 3,494,432	\$ 670,925	\$ 3,046,258	\$ 38,579,377

City of Sterling Heights, Michigan

Governmental Funds **Reconciliation of Fund Balances to the Statement of Net Assets** **June 30, 2012**

Total Fund Balances of Governmental Funds	\$ 13,640,123
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
Certain receivables are expected to be collected over several years in the General Fund, special revenue funds, and debt service funds	2,641,522
Receivables related to state-shared revenue are reported in the statement of net assets at the time they are earned, without regard to timeliness of remittance by the State	1,672,313
Restricted assets held by Macomb County to be used over several years and which are not available to pay for current year expenditures	2,003,285
Capital assets used in governmental activities are not financial resources and are not reported in the funds	188,794,107
Long-term liabilities not due and payable in the current period are not reported in the funds	(24,665,000)
Compensated absences that are not requested prior to fiscal year end are not payable in the current period and are not included in the funds	(3,949,742)
Bond premiums are amortized over the life of the bonds, while recognized as an other financing source in the funds when received	(384,654)
Internal service fund is included as part of governmental activities	<u>22,581,793</u>
Net Assets of Governmental Activities	<u>\$ 202,333,747</u>

City of Sterling Heights, Michigan

	General Fund	Major Roads	Community Development Block Grant	Road Bond Retirement	Debt
Revenue					
Property taxes	\$ 51,654,412	\$ -	\$ -	\$ -	\$ -
Fees and permits	2,271,967	-	-	-	-
Federal sources	123,367	-	789,368	-	-
State and local sources	10,461,632	5,446,718	-	-	-
Fines and forfeitures	2,770,160	-	-	-	-
Charges for services	8,443,205	-	-	-	-
Interest income	648,191	8,813	-	839	-
Special assessments	-	-	-	190,249	-
Rental income	1,508,954	-	-	-	-
Cable revenue	2,033,751	-	-	-	-
Other	1,578,164	142,551	-	165,328	-
Total revenue	81,493,803	5,598,082	789,368	356,416	-
Expenditures					
Current:					
General government	8,571,928	-	-	-	-
41A District Court	3,252,852	-	-	-	-
Public safety	52,096,304	-	-	-	-
Public works	15,192,033	1,661,386	333,486	-	-
Recreation and culture	4,489,169	-	-	-	-
General expenditures	2,657,513	-	-	101,816	-
Capital outlay	-	347,662	140,523	-	-
Debt service	-	-	315,359	2,578,014	-
Total expenditures	86,259,799	2,009,048	789,368	2,679,830	-
Excess of Revenue (Under) Over Expenditures	(4,765,996)	3,589,034	-	(2,323,414)	-
Other Financing Sources (Uses)					
Issuance of debt	-	-	-	3,780,000	-
Bond premium	-	-	-	274,196	-
Payments to refunded bond escrow agents	-	-	-	(3,950,000)	-
Interfund transfers in	-	-	-	2,300,000	-
Interfund transfers out	(976,740)	(2,550,000)	-	-	-
Total other financing (uses) sources	(976,740)	(2,550,000)	-	2,404,196	-
Net Change in Fund Balances	(5,742,736)	1,039,034	-	80,782	-
Fund Balances - Beginning of year	10,991,216	2,690,086	-	426,307	-
Fund Balances - End of year	\$ 5,248,480	\$ 3,729,120	\$ -	\$ 507,089	-

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2012

General Improvements	Road Construction	Bond Construction	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 1,495,301	\$ 53,149,713	
-	-	-	-	2,271,967
589,712	32,000	1,126,891	2,661,338	
18,510	-	2,138,978	18,065,838	
-	-	-	-	2,770,160
-	-	-	-	8,443,205
5,153	1,484	7,759	672,239	
30,593	-	34,135	254,977	
-	-	-	-	1,508,954
-	-	-	-	2,033,751
84,001	-	74,371	2,044,415	
727,969	33,484	4,877,435	93,876,557	
-	-	-	-	8,571,928
-	-	-	-	3,252,852
-	-	201,269	52,297,573	
-	-	1,493,965	18,680,870	
-	-	-	-	4,489,169
-	-	6,796	2,766,125	
1,952,463	190,712	1,644,523	4,275,883	
-	-	2,145,101	5,038,474	
1,952,463	190,712	5,491,654	99,372,874	
(1,224,494)	(157,228)	(614,219)	(5,496,317)	
-	-	-	-	3,780,000
-	-	-	-	274,196
-	-	-	-	(3,950,000)
317,060	-	909,680	3,526,740	
-	-	-	-	(3,526,740)
317,060	-	909,680	104,196	
(907,434)	(157,228)	295,461	(5,392,121)	
2,113,709	757,228	2,053,698	19,032,244	
\$ 1,206,275	\$ 600,000	\$ 2,349,159	\$ 13,640,123	

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, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ (5,392,121)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; 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	4,519,069
Depreciation expense	(11,299,572)
Net book value of assets disposed of	(82,552)

Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection 487,257

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 (182,658)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 3,940,000

Payments to an escrow agent on refunding bonds are not reported as an other financing use in the statement of activities 3,950,000

Debt issuance is not reported as an other financing source on the statement of activities (3,780,000)

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 (257,069)

Accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities. In the current year, more was earned than was paid out 1,377,001

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 1,091,335

Change in Net Assets of Governmental Activities	<u>\$ (5,629,310)</u>
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City of Sterling Heights, Michigan

Proprietary Funds Statement of Net Assets June 30, 2012

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ -	\$ 54,320
Investments - At fair value (Note 3)	15,573,790	15,509,331
Receivables:		
Customers	6,374,293	-
Accrued interest	80,798	32,969
Other	-	46,320
Prepaid costs and other assets	-	4,392,874
Due from other funds (Note 5)	4,977,520	5,470,752
Inventories	179,266	-
Total current assets	27,185,667	25,506,566
Noncurrent assets:		
Restricted assets (including \$2,000,000 of cash and cash equivalents) (Note 8)	9,424,998	-
Capital assets - Net (Note 4)	171,335,835	-
Total noncurrent assets	180,760,833	-
Total assets	207,946,500	25,506,566
Liabilities		
Current liabilities:		
Accounts payable	4,494,654	688,618
Accrued and other liabilities	248,485	-
Compensated absences (Note 7)	71,147	-
Current portion of long-term debt (Note 7)	1,377,681	-
Provision for uninsured losses and liabilities (Note 10)	-	570,573
Unearned revenue	54,525	-
Total current liabilities	6,246,492	1,259,191
Noncurrent liabilities:		
Compensated absences (Note 7)	146,730	-
Long-term debt (Note 7)	42,836,115	-
Provision for uninsured losses and liabilities (Note 10)	-	1,665,582
Total noncurrent liabilities	42,982,845	1,665,582
Total liabilities	49,229,337	2,924,773
Net Assets		
Investment in capital assets - Net of related debt	127,122,039	-
Restricted for county drains	534,863	-
Restricted for ordinance requirements	8,890,135	-
Unrestricted	22,170,126	22,581,793
Total net assets	\$ 158,717,163	\$ 22,581,793

City of Sterling Heights, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2012

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Operating Revenue		
Water sales	\$ 12,185,036	\$ -
Sewage treatment	16,183,616	-
Service charges	704,549	-
City contributions	-	7,551,343
Other	1,955,223	153,980
 Total operating revenue	 31,028,424	 7,705,323
Operating Expenses		
Wages and fringe benefits	3,463,285	-
Contractual services	207,322	-
Water purchases	11,073,367	-
Sewage disposal charges	12,959,446	-
Materials and supplies	291,512	-
Repairs and maintenance	543,316	-
Building and equipment rental	145,974	-
Insurance	270,260	-
Depreciation	5,151,774	-
Administration expenses	1,696,800	303,709
Reinsurance charges and claims	-	6,548,621
Other	179,099	249,128
 Total operating expenses	 35,982,155	 7,101,458
Operating (Loss) Income		
	(4,953,731)	603,865
Nonoperating Revenue (Expenses)		
Investment earnings	751,685	487,470
Interest expense	(1,456,806)	-
 Total nonoperating (expenses) revenue	 (705,121)	 487,470
(Loss) Income - Before contributions and operating transfers		
	(5,658,852)	1,091,335
Capital Contributions		
Contributions from developers	1,585,191	-
Other capital contributions	1,136,291	-
 Total capital contributions	 2,721,482	 -
Change in Net Assets		
Net Assets - Beginning of year	(2,937,370)	1,091,335
Net Assets - End of year	\$ 158,717,163	\$ 22,581,793

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2012

	Business-type Activities	Governmental Activity
	Internal Service	
Enterprise Fund - Water and Sewer	Fund - Self- insurance	
Cash Flows from Operating Activities		
Receipts from customers	\$ 27,620,504	\$ 6,030,773
Payments to suppliers for goods and services	(26,646,820)	-
Payments to employees for services	(3,483,326)	-
Payments connected with interfund services	(228,732)	(1,288,085)
Receipts connected with interfund services	-	-
Claims paid	-	(6,366,385)
Other receipts	1,783,479	(95,148)
Net cash used in operating activities	(954,895)	(1,718,845)
Cash Flows from Capital and Related Financing Activities		
Collection of customer assessments (principal and interest)	1,136,291	-
Principal paid for long-term debt	(1,331,670)	-
Interest paid for long-term debt	(1,456,806)	-
Purchase of capital assets	(786,492)	-
Net cash used in capital and related financing activities	(2,438,677)	-
Cash Flows from Investing Activities		
Interest received on investments	670,887	487,470
Purchase of investment securities	(48,920,902)	(49,571,935)
Proceeds from sales and maturities of investment securities	50,056,362	43,342,876
Net cash provided by (used in) investing activities	1,806,347	(5,741,589)
Net Decrease in Cash and Cash Equivalents		
Cash and Cash Equivalents - Beginning of year		
Cash and Cash Equivalents - End of year	<u>\$ 2,000,000</u>	<u>\$ 54,320</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, 2012

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

Reconciliation of operating (loss) income to net cash from operating activities:

Operating (loss) income	\$ (4,953,731)	\$ 603,865
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation and amortization	5,151,774	-
Changes in assets and liabilities:		
Receivables	(1,452,697)	54,186
Prepaid costs and other assets	-	(1,574,756)
Due from other funds	(228,732)	(1,288,085)
Inventory	74,523	-
Accounts payable	447,520	290,599
Accrued and other liabilities	19,134	-
Provision for compensated absences	(20,041)	-
Provision for uninsured losses and liabilities	-	195,346
Deferred revenue	7,355	-
Net cash used in operating activities	<u>\$ (954,895)</u>	<u>\$ (1,718,845)</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2012, developers constructed water and sewer lines with an estimated value of \$566,014 and donated them to the City's Water and Sewer Enterprise Fund. The Oakland-Macomb Interceptor Drainage District (OMID) completed and contributed Segment I drainage system improvements totaling \$422,232, which was funded through County assigned debt. Also, the OMID completed and contributed Segment II drainage system improvements totaling \$2,001,592 and assigned the related debt of which the City's portion is \$982,415. Also during the year, the Macomb County Waste Water Disposal District contributed drainage system improvements and assigned the related debt to the City totaling \$9,862,021.

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2012

	Trust Funds -	
	Pensions and	
	Other Retirement	
	Benefits	<u>Agency Funds</u>
Assets		
Cash and cash equivalents (Note 3)	\$ 12,381,467	\$ 1,685,127
Investments - At fair value (Note 3):		
Government securities	46,004,170	-
Short-term investment fund	-	1,578,687
Mutual funds	27,994,460	-
Corporate bonds	15,853,893	-
Common and preferred stocks	205,439,505	-
Pooled investments	7,742,733	-
Receivables - Accrued interest	246,476	-
Due from other governmental units	-	6,301
 Total assets	 315,662,704	 <u>\$ 3,270,115</u>
Liabilities		
Accounts payable	228,761	\$ -
Accrued and other liabilities	256,285	1,387,243
Due to other governmental units	177,912	30,475
Provision for uninsured losses and liabilities (Note 10)	527,599	-
Deferred revenue	9,152	-
Cash bonds and deposits	-	1,852,397
 Total liabilities	 1,199,709	 <u>\$ 3,270,115</u>
Net Assets - Held in trust for pensions and other retirement benefits	 <u>\$ 314,462,995</u>	

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2012

	Trust Funds - Pensions and Other Retirement Benefits
Additions	
Investment income (loss):	
Interest and dividends	\$ 7,360,173
Net adjustment to fair value of investments	(5,467,663)
Less investment expenses	<u>(1,942,687)</u>
Net investment income	(50,177)
Securities lending income:	
Interest and fees	6,126
Less borrower rebates and bank fees	<u>(3,490)</u>
Net securities lending income	2,636
Contributions:	
Employer	19,982,176
Employee	1,655,546
On-behalf payments - Federal government	438,180
Purchase of prior year's service credits	489,035
Insurance recovery	<u>143,237</u>
Total additions - Net	22,660,633
Deductions	
Benefit payments	30,219,456
Withdrawals and refunds of contributions	<u>2,984,186</u>
Total deductions	<u>33,203,642</u>
Change in Net Assets	(10,543,009)
Net Assets - Beginning of year	<u>325,006,004</u>
Net Assets - End of year	<u>\$ 314,462,995</u>

City of Sterling Heights, Michigan

Component Units Statement of Net Assets June 30, 2012

	Economic Development Corporation	Brownfield Redevelopment Authority	Corridor Improvement Authority	Local Development Finance Authority	Total
Assets					
Cash and cash equivalents	\$ 17,596	\$ 37,604	\$ 25,951	\$ 36	\$ 81,187
Receivables	-	-	-	11,933	11,933
Due from other governmental units	-	-	-	401,666	401,666
Capital assets:					
Nondepreciable (Note 4)	-	-	-	1,209,203	1,209,203
Depreciable - Net (Note 4)	-	-	-	2,037,786	2,037,786
Total assets	17,596	37,604	25,951	3,660,624	3,741,775
Liabilities					
Accounts payable	3,425	-	-	17,341	20,766
Accrued and other liabilities	-	27,373	-	21,357	48,730
Due to other governmental units	-	-	-	321,081	321,081
Deferred revenue	-	-	-	11,933	11,933
Total liabilities	3,425	27,373	-	371,712	402,510
Net Assets					
Net investment in capital assets -					
Net of related debt	-	-	-	3,246,989	3,246,989
Unrestricted	14,171	10,231	25,951	41,923	92,276
Total net assets	\$ 14,171	\$ 10,231	\$ 25,951	\$ 3,288,912	\$ 3,339,265

City of Sterling Heights, Michigan

Component Units Statement of Activities Year Ended June 30, 2012

	Program Revenue						Net (Expenses) Revenue and Changes in Net Assets				
	Operating Expenses	Capital Grants and Contributions	Economic Development Corporation	Brownfield Redevelop- ment Authority	Corridor Improvement Authority	Local Develop- ment Finance Authority					
											Total
Economic Development Corporation - Public works	\$ 8,425	\$ 21,000	\$ -	\$ 12,575	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,575
Brownfield Redevelopment Authority - Public works	69,804	70,499	-	-	695	-	-	-	-	-	695
Corridor Improvement Authority - Public works	8,467	-	-	-	-	-	(8,467)	-	-	-	(8,467)
Local Development Finance Authority - Public works	194,350	207,995	384,822	-	-	-	-	398,467	398,467	398,467	
Total component units	\$ 281,046	\$ 299,494	\$ 384,822	12,575	695	(8,467)	398,467	403,270			
General Revenue - Interest				11	19	22	3	55			
Change in Net Assets				12,586	714	(8,445)	398,470	403,325			
Net Assets - Beginning of year				1,585	9,517	34,396	2,890,442	2,935,940			
Net Assets - End of year				\$ 14,171	\$ 10,231	\$ 25,951	\$ 3,288,912	\$ 3,339,265			

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2012

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Sterling Heights, Michigan (the “City”) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

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

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. Financial statements for each of the individual component units are available at the City’s office.

- 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.
- 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.

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2012

Note I - Summary of Significant Accounting Policies (Continued)

d. The Local Development Finance Authority (the “LDFA”) was created to encourage development to prevent conditions of unemployment and promote economic growth. The LDFA’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 LDFA. The LDFA is presented as a governmental activity.

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.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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.

Separate financial statements are provided within the report 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 enterprise fund are reported as separate columns in the fund financial statements.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

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

The City reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- 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, 2012**

Note I - 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 major proprietary fund:

- The Water and Sewer Fund accounts for the activity of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

- The Internal Service Fund accounts for risk management services provided to other departments of the government on a cost reimbursement basis.
- The Pension Trust Funds and the Retiree Medical Benefits Trust Fund account for the activities of the general employee and police and fire employees' retirement systems, which accumulate resources for pension benefit payments to qualified general and police and fire employees and for medical benefits provided to employees during retirement, respectively.
- 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 the general Agency Fund (District Court activity).

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note I - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classification could be used, it is the policy to spend funds in this order: committed, assigned, and unassigned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The Self-Insurance Fund also recognizes cost recovered as operating revenue. All revenue and expenses not meeting these definitions are reported as nonoperating revenue and expenses.

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2012

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

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.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to" or "due from" other funds. Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to" or "advances from" other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Properties are assessed as of December 31 and the related property taxes become a lien and are billed on July 1 of the following year. These taxes are due on September 1 with the final collection date of February 28 before they are added to the county tax rolls.

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. Prepayments are recorded as expenditures proportionately over the periods that services are provided (consumption method.)

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.

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, 2012

Note I - Summary of Significant Accounting Policies (Continued)

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

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

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).

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 assets. Bond premiums and discounts, as well as issuance costs, 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 reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as expenditures.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, 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, 2012**

Note I - Summary of Significant Accounting Policies (Continued)

Pension and Other Postemployment Benefit 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.

Upcoming Reporting Change - In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses financial reporting related to service concession arrangements which are a type of public private or public partnership. An SCA is an agreement between a transferor (a government) and an operator (whether a government or nongovernment) in which the transferor conveys to an operator the right and relation obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2013 fiscal year.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2013 fiscal year.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2013 fiscal year.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 2 - Stewardship, Compliance, and Accountability

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement will be in effect for the City's 2013 fiscal year. The statement incorporates deferred outflows of sources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the funds basis level.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement will be in effect for the City's 2014 fiscal year. This statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. Once implemented, this statement will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections - 2012* (Statement No. 10 - *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* and Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*). This statement will be in effect for the City's 2014 fiscal year. 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.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. This statement will be in effect for the City's 2014 fiscal year. This statement will improve financial reporting by state and local governmental pension plans through enhanced note disclosures and schedules of required supplemental information that will be presented by the pension plans that are within its scope. New information will enhance the decision-usefulness of the financial reports of these pension plans, their value for assessing accountability, and their transparency by providing information about measure of net pension liabilities and explanations of how and why those liabilities changed from year to year.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 2 - Stewardship, Compliance, and Accountability (Continued)

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 nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

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, 2011	\$ (8,989,921)
Current year building permit revenue	2,442,372
Related expenses:	
Direct costs	\$ 1,002,514
Estimated indirect costs	<u>1,115,700</u>
Total construction code expenses	<u>(2,118,214)</u>
Net recovery for the year ended June 30, 2012	324,158
Cumulative shortfall at June 30, 2012	<u>\$ (8,665,763)</u>

Note 3 - Deposits and Investments

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

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 3 - Deposits and Investments (Continued)

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

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

The pension trust funds and the Retiree Medical Benefits Trust Fund are also authorized to invest in certain reverse purchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (limited to 5 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.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2012

Note 3 - Deposits and Investments (Continued)

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 \$4,150,000 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.

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	Maturity Maximum
U.S. treasuries	10 years
U.S. agencies and instrumentalities (date specific maturities only)	10 years
CDs (non-negotiable)	20% to 1 year, 20% to 270 days
Commercial paper (rated A1 or equivalent)	270 days
Bankers' acceptances	184 days
Repurchase agreements	60 days (collateral 10 years for treasuries, seven years for instrumentalities)

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

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	\$ 17,672,506	0.18 years
Municipal obligations	5,817,639	4.10 years
U.S. government agencies	19,551,480	8.10 years
General Employees' Retirement System		
Corporate bonds	5,166,583	5.10 years
Foreign bonds	649,233	5.59 years
U.S. government agencies	5,661,905	2.72 years
U.S. government obligations	11,650,223	4.94 years
Municipal obligations	727,243	9.21 years
Police and Fire Retirement System		
Corporate bonds	8,226,647	5.93 years
Foreign bonds	675,112	5.96 years
U.S. government agencies	8,569,885	3.22 years
U.S. government obligations	13,259,874	5.65 years
Municipal obligations	709,347	8.27 years
Retiree Medical Benefits		
Corporate bonds	1,136,318	7.13 years
U.S. government agencies	3,341,891	3.11 years
U.S. government obligations	2,083,802	7.85 years

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2012

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	\$ 5,512,768	AI	S&P
Pooled funds	1,659,800	AAA	S&P
Commercial paper	17,672,506	AI to A2	S&P
Municipal obligations	3,745,907	AA- to A-	S&P
Municipal obligations	2,071,732	SPI	S&P
U.S. government agencies	19,551,480	AA+	S&P
General Employees' Retirement System			
U.S. government agencies	5,661,905	AA+	S&P
U.S. government obligations	11,650,223	AA+	S&P
Municipal obligations	189,408	Aaa	S&P
Municipal obligations	172,368	AA+	S&P
Municipal obligations	201,515	AI to A3	S&P
Municipal obligations	163,952	Aa2 to Aa3	S&P
Corporate bonds	1,161,654	AAA to Aaa	S&P
Corporate bonds	371,091	Aa2	S&P
Corporate bonds	1,851,785	AI to A3	S&P
Corporate bonds	1,581,663	Baa1 to Baa3	S&P
Corporate bonds	200,390	BB+	S&P
Foreign bonds	85,193	Aa3	S&P
Foreign bonds	335,223	AI to A3	S&P
Foreign bonds	228,817	Baa1 to Baa2	S&P
Police and Fire Retirement System			
U.S. government agencies	8,569,885	AA+	S&P
U.S. government obligations	13,259,874	AA+	S&P
Municipal obligations	183,094	Aaa	S&P
Municipal obligations	218,926	Aa2	S&P
Municipal obligations	307,327	AI to A3	S&P
Corporate bonds	1,306,025	Aaa	S&P
Corporate bonds	374,522	Aa2 to Aa3	S&P
Corporate bonds	1,826,982	AI to A3	S&P
Corporate bonds	1,663,981	Baa1 to Baa3	S&P
Corporate bonds	1,445,386	A to A-	S&P
Corporate bonds	335,277	AA+ to AA-	S&P
Corporate bonds	950,667	BBB+ to BBB-	S&P
Corporate bonds	159,097	AA3	S&P
Corporate bonds	164,710	A3	S&P
Foreign bonds	80,182	Aa3	S&P
Foreign bonds	354,765	AI to A3	S&P
Foreign bonds	240,165	Baa1 to Baa2	S&P

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 3 - Deposits and Investments (Continued)

Investment	Fair Value	Rating	Organization
Retiree Medical Benefits			
Pooled funds	\$ 62,987	A-1	S&P
Pooled funds	1,688,119	AAA	S&P
U.S. government agencies	3,341,891	AA+	S&P
U.S. government obligations	2,083,802	AA+	S&P
Corporate bonds	121,679	AA+ to AA-	S&P
Corporate bonds	594,777	A+ - A-	S&P
Corporate bonds	358,931	BBB+ to BBB-	S&P
Corporate bonds	60,931	AA3	Moody's

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.

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 Depository Receipts).

Retirement Investments

Securities Lending Transactions - The General Employees' Retirement System and the Police and Fire Retirement System (collectively referred to as the "Systems") have entered into securities lending transactions whereby loans of securities are made to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. State statutes permit participation in securities lending transactions and the Systems have authorized the custodians of their securities to lend securities to broker-dealers and banks pursuant to a formal loan agreement. At June 30, 2012, the Systems have no credit risk exposure to the borrowers because the amounts the Systems owe the borrowers exceed the amount the borrowers owe the Systems.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 3 - Deposits and Investments (Continued)

During the year, security loans were made at the discretion of the Systems' custodial bank and United States currency was received as collateral. Borrowers were required to deliver collateral for each loan equal to but not less than 100 percent of the market value of the loaned securities. The Systems did not impose any restrictions during the past year on the amount of loans that the lending agents could make on their behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon. In addition, there were no losses during the past year resulting from default of the borrowers. Contracts with the lending agents require them to indemnify the Systems if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Systems for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand by either the Systems or the borrower. The cash collateral received on each loan was invested, together with the cash collateral of the other lenders, in a pool. The average duration of such investment pools as of June 30, 2012 was overnight. Their duration did not generally match the duration of the loans because the loans could be terminated on demand. The total amount of collateral received and the fair values of the underlying securities for the Systems as of June 30, 2012 and 2011 were \$1,397,000 and \$1,402,348, respectively.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2012

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, 2011	Additions	Disposals and Adjustments	Balance June 30, 2012
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 45,414,228	\$ -	\$ -	\$ 45,414,228
Construction in progress	3,052,412	1,850,062	(1,216,365)	3,686,109
Works of art	336,751	-	-	336,751
Net capital assets - Nondepreciable	48,803,391	1,850,062	(1,216,365)	49,437,088
Capital assets being depreciated:				
Building and building improvements	38,018,178	963,563	-	38,981,741
Improvements other than buildings	9,702,604	110,282	(26,720)	9,786,166
Equipment	38,163,575	1,885,258	(2,267,447)	37,781,386
Furnishings and fixtures	1,293,219	8,772	(57,074)	1,244,917
Infrastructure	238,416,144	917,497	-	239,333,641
Subtotal	325,593,720	3,885,372	(2,351,241)	327,127,851
Accumulated depreciation:				
Building and building improvements	12,499,841	816,183	-	13,316,024
Improvements other than buildings	2,358,779	315,577	(7,126)	2,667,230
Equipment	26,527,484	2,373,919	(2,205,535)	26,695,868
Furnishings and fixtures	1,068,267	39,095	(56,028)	1,051,334
Infrastructure	136,285,578	7,754,798	-	144,040,376
Subtotal	178,739,949	11,299,572	(2,268,689)	187,770,832
Net capital assets being depreciated	146,853,771	(7,414,200)	(82,552)	139,357,019
Net governmental capital assets	\$ 195,657,162	\$ (5,564,138)	\$ (1,298,917)	\$ 188,794,107

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2012

Note 4 - Capital Assets (Continued)

	Balance June 30, 2011	Additions	Disposals and Adjustments	Balance June 30, 2012
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 64,871	\$ -	\$ -	\$ 64,871
Construction in progress	8,985,675	2,967,164	-	11,952,839
Net capital assets - Nondepreciable	9,050,546	2,967,164	-	12,017,710
Capital assets being depreciated:				
Building and building improvements	520,745	-	(157,139)	363,606
Improvements other than buildings	11,391	-	-	11,391
Equipment	3,862,330	79,466	(48,696)	3,893,100
Furnishings and fixtures	28,230	-	-	28,230
Water and sewer mains	255,178,177	10,591,721	-	265,769,898
Subtotal	259,600,873	10,671,187	(205,835)	270,066,225
Accumulated depreciation:				
Building and building improvements	233,198	10,910	(157,139)	86,969
Improvements other than buildings	11,391	-	-	11,391
Equipment	2,140,931	244,896	(48,696)	2,337,131
Furnishings and fixtures	23,421	985	-	24,406
Water and sewer mains	103,393,220	4,894,983	-	108,288,203
Subtotal	105,802,161	5,151,774	(205,835)	110,748,100
Net capital assets being depreciated	153,798,712	5,519,413	-	159,318,125
Net business-type capital assets	\$ 162,849,258	\$ 8,486,577	\$ -	\$ 171,335,835

Construction in progress includes \$9,324,305 (of which the current year amount is \$2,423,824) of drain improvements constructed by the Oakland-Macomb Interceptor Drainage District (OMID), which is the City's portion of total OMID improvements in the amount of \$67,376,220. These improvements will be completed by OMID using state revolving loan funds and bonded debt. See Note 7 for additional information.

Water and sewer mains includes the Clintondale Pump Station Improvements by the Macomb County Waste Water District from the City of Detroit for \$30,800,000. The City's portion of the improvements is in the amount of \$9,862,021. See Note 7 for additional information.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2012

Note 4 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 701,298
Public safety	1,534,713
Public works	8,372,450
Recreation and culture	680,461
41A District Court	<u>10,650</u>
 Total governmental activities	 <u>\$ 11,299,572</u>
 Business-type activities - Water and sewer	 <u>\$ 5,151,774</u>

Discretely Presented Component Units

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

	Balance June 30, 2011	Additions	Disposals and Adjustments	Balance June 30, 2012
Local Development Finance Authority				
Capital assets not being depreciated:				
Land	\$ 1,209,203	\$ -	\$ -	\$ 1,209,203
Construction in progress	<u>131</u>	<u>-</u>	<u>(131)</u>	<u>-</u>
Net capital assets -				
Nondepreciable	1,209,334	-	(131)	1,209,203
Capital assets being depreciated -				
Building and building improvements	1,712,709	412,086	-	2,124,795
Less accumulated depreciation	<u>51,381</u>	<u>35,628</u>	<u>-</u>	<u>87,009</u>
Net capital assets being depreciated	<u>1,661,328</u>	<u>376,458</u>	<u>-</u>	<u>2,037,786</u>
Net component units capital assets	<u>\$ 2,870,662</u>	<u>\$ 376,458</u>	<u>\$ (131)</u>	<u>\$ 3,246,989</u>

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

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	\$ 3,805,538	\$ 986,943

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	\$ 109,062
	CDBG Fund	69,606
	Road Bond Construction Fund	63,904
	Nonmajor governmental funds	<u>454,110</u>
	Total General Fund	696,682
Nonmajor governmental funds	General Fund	61,591
General Improvements Fund	General Fund	141,956
Proprietary Fund	General Fund	5,470,752
Self-insurance Fund	General Fund	<u>4,977,520</u>
	Total	<u>\$ 11,348,501</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, 2012**

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	\$ 317,060
	Nonmajor governmental funds	<u>659,680</u>
	Total	976,740
Major Roads Fund	Road Bond Debt Retirement Fund	2,300,000
	Nonmajor governmental funds	<u>250,000</u>
	Total	<u>2,550,000</u>
	Total	\$ <u>3,526,740</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 buildings; 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 funding of current debt service; and the transfers from the Major Roads Fund to the nonmajor governmental funds represent unrestricted resources for current local road repair and replacement programs.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 6 - Deferred Revenue

Governmental funds report unearned revenue in connection with receivables and deposits for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Due from Macomb County (Note 8)	\$ 2,003,285	\$ -
Loans receivable - Rehabilitation	- -	1,858,253
Special assessments	2,415,214	- -
Other deposits	<u>226,308</u>	<u>303,034</u>
 Total	 <u>\$ 4,644,807</u>	 <u>\$ 2,161,287</u>

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, 2012

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:					
2003 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$3,050,000					
Maturing through 2012					
Interest Rate Ranges 3.05% - 3.60%					
Principal Maturity Range \$245,000 - \$500,000	\$ 495,000	\$ -	\$ (250,000)	\$ 245,000	\$ 245,000
2005 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$3,285,000					
Maturing through 2014					
Interest Rate Ranges 3.45% - 4.125%					
Principal Maturity Range \$425,000 - \$1,000,000	2,000,000	-	(500,000)	1,500,000	500,000
2005 Limited Tax Refunding Bonds:					
Amount of Issue - \$2,820,000					
Maturing through 2019					
Interest Rate Ranges 3.75% - 5.00%					
Principal Maturity Range \$190,000 - \$600,000	2,330,000	-	(200,000)	2,130,000	215,000
2005 Michigan Transportation Fund Bonds:					
Amount of Issue - \$5,300,000					
Maturing through 2019					
Interest Rate Ranges 3.50% - 4.25%					
Principal Maturity Range \$300,000 - \$625,000	4,300,000	-	(4,300,000)	-	-
2007 Michigan Transportation Fund Bonds:					
Amount of Issue - \$4,650,000					
Maturing through 2021					
Interest Rate Ranges 3.70% - 4.00%					
Principal Maturity Range \$300,000 - \$1,000,000	4,100,000	-	(200,000)	3,900,000	200,000
2007 Limited Tax Capital Improvement Bonds:					
Amount of Issue - \$3,250,000					
Maturing through 2012					
Interest Rate 4.00%					
Principal Maturity Range \$325,000 - \$600,000	925,000	-	(600,000)	325,000	325,000
2008 Unlimited Tax Fire Station Improvements:					
Amount of Issue - \$5,000,000					
Maturing through 2023					
Interest Rate Ranges 3.00% - 4.00%					
Principal Maturity Range \$150,000 - \$600,000	4,625,000	-	(175,000)	4,450,000	200,000
2010 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$2,240,000					
Maturing through 2014					
Interest Rate 2.00%					
Principal Maturity Range \$520,000 - \$605,000	1,715,000	-	(520,000)	1,195,000	605,000
2010 Michigan Transportation Recovery Zone Bonds:					
Amount of Issue - \$1,570,000					
Maturing through 2025					
Interest Rate Ranges 1.50% - 6.05%					
Principal Maturity Range \$20,000 - \$200,000	1,570,000	-	(20,000)	1,550,000	25,000

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2012

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
General obligation bonds (Continued):					
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 \$365,000 - \$585,000	\$	-	\$ 3,780,000	\$ -	\$ 3,780,000
County Drain contract obligations:					
Busch Drain Drainage District:					
Amount of Issue - \$1,250,000					
Maturing through 2014					
Interest Rate Ranges 4.40% - 4.55%					
Principal Maturity Range \$100,000 - \$125,000	350,000	-	(100,000)	250,000	125,000
Hawken Drain Drainage District:					
Amount of Issue - \$795,000					
Maturing through 2015					
Interest Rate Ranges 5.00% - 5.25%					
Principal Maturity Range \$50,000 - \$150,000	250,000	-	(50,000)	200,000	50,000
Hayes Drain Drainage District:					
Amount of Issue - \$1,095,000					
Maturing through 2015					
Interest Rate Ranges 4.80% - 5.20%					
Principal Maturity Range \$100,000 - \$125,000	475,000	-	(100,000)	375,000	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 Range \$225,000 - \$500,000	1,050,000	-	(250,000)	800,000	250,000
17 Mile Extension Drain Drainage District:					
Amount of Issue - \$1,725,000					
Maturing through 2016					
Interest Rate Ranges 4.00% - 4.50%					
Principal Maturity Range \$125,000 - \$150,000	750,000	-	(150,000)	600,000	150,000
Sterling Relief Lateral 12B Drainage District:					
Amount of Issue - \$885,000					
Maturing through 2012					
Interest Rate Ranges 3.40% - 3.90%					
Principal Maturity Range \$100,000 - \$115,000	220,000	-	(105,000)	115,000	115,000
17 Mile Road Drain and Branches Refunding Bonds:					
Amount of Issue - \$2,315,000					
Maturing through 2013					
Interest Rate Ranges 3.45% - 3.70%					
Principal Maturity Range \$270,000 - \$290,000	560,000	-	(270,000)	290,000	290,000

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2012

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
Special Assessment Bonds:					
2008 Special Assessment Limited Tax Bonds:					
Amount of Issue - \$3,260,000	\$ 3,060,000	\$ -	\$ (100,000)	\$ 2,960,000	\$ 110,000
Maturing through 2028					
Interest Rate Ranges 3.00% - 4.50%					
Principal Maturity Range \$110,000 - \$450,000					
Total bond obligations	\$ 28,775,000	\$ 3,780,000	\$ (7,890,000)	\$ 24,665,000	\$ 3,895,000
Other long-term obligations:					
Provision for uninsured losses and other liabilities	2,040,809	5,514,344	(5,318,998)	2,236,155	570,573
Compensated absences - General Fund obligations	5,326,743	1,034,793	(2,411,794)	3,949,742	648,232
Total other long-term obligations	7,367,552	6,549,137	(7,730,792)	6,185,897	1,218,805
Unamortized premium on refunding	127,585	274,196	(17,127)	384,654	14,342
Total governmental activities	36,270,137	10,603,333	(15,637,919)	31,235,551	5,128,147
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					
2010A MID Drainage District:	1,073,505	-	(37,103)	1,036,402	37,927
Amount of Issue - \$26,725,795					
Maturing through 2035					
Interest Rate Ranges 1.25% - 5.50%					
Principal Maturity Range \$834,308 - \$1,573,586					
2011 Clintondale Pump Station Improvements Drainage District:	26,725,795	-	(834,308)	25,891,487	842,693
Amount of Issue - \$9,862,021					
Maturing through 2032					
Interest Rate Ranges 5.00%					
Principal Maturity Range \$224,137 - \$800,489					
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					
2010 North Gratiot Interceptor Drainage District:	2,536,859	-	(60,836)	2,476,023	60,836
Amount of Issue - \$252,751					
Maturing through 2035					
Interest Rate Ranges 1.00% - 6.35%					
Principal Maturity Range \$4,842 - \$14,526					
Total bond obligations	247,909	-	(7,747)	240,162	7,747
Other long-term obligations - Compensated absences - Water and Sewer Fund	30,584,068	9,862,021	(1,164,131)	39,281,958	1,205,359
Total business-type activities	237,918	37,174	(57,215)	217,877	71,147
Total	\$ 67,092,123	\$ 20,502,528	\$ (16,859,265)	\$ 70,735,386	\$ 6,404,653

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 7 - Long-term Debt (Continued)

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

	Governmental Activities		
	Principal	Interest	Total
2013	\$ 3,895,000	\$ 932,406	\$ 4,827,406
2014	3,205,000	789,673	3,994,673
2015	2,580,000	683,550	3,263,550
2016	1,690,000	598,538	2,288,538
2017	1,730,000	534,650	2,264,650
2018 - 2022	8,765,000	1,583,995	10,348,995
2023 - 2027	2,400,000	316,900	2,716,900
2028 - 2029	400,000	18,000	418,000
 Total	 \$ 24,665,000	 \$ 5,457,712	 \$ 30,122,712

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

	Business-type Activities		
	Principal	Interest	Total
2013	\$ 1,205,359	\$ 1,354,201	\$ 2,559,560
2014	1,263,367	1,513,176	2,776,543
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 - 2022	7,932,667	7,344,821	15,277,488
2023 - 2027	9,532,947	5,354,107	14,887,054
2028 - 2032	10,573,670	2,818,516	13,392,186
2033 - 2035	4,749,535	507,068	5,256,603
 Total	 \$ 39,281,958	 \$ 23,962,725	 \$ 63,244,683

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 7 - Long-term Debt (Continued)

In 2010, the Oakland Macomb Interceptor Drainage District (OMID) was approved for \$42,000,000 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 are, in part, supported by grant funding from the American Recovery and Reinvestment Act of 2010 (ARRA) and includes loan principal forgiveness which will equal 40 percent of final allowable project costs. The ARRA amounts are recognized as contributed capital when construction costs are incurred. The City's portion of the forgiven principal has been recognized in prior years as contributed capital in the Water and Sewer Fund totaling \$2,635,777. The City's share of SRF funds drawn and payable at June 30, 2012 is \$3,949,423, of which \$172,322 is the current portion due. This amount is not included in the debt schedule or the debt maturity schedule.

In 2011, the OMID was approved for \$25,530,000 of loans through the Michigan State Revolving Loan Fund Program (SRF), of which approximately \$5,169,000 is anticipated as the City's share. The City's share of SRF funds drawn and payable at June 30, 2012 is \$982,415.

During the year, the Macomb Interceptor Drainage District (MID) issued the 2011 Clintondale Pump Station Improvements drainage district bonds in the amount of \$30,800,000. Debt was allocated based on a three-year average flow calculation, of which \$9,862,021 is the City's share. The debt was issued for the purpose of improving the Clintondale Pump Station for the benefit of several communities.

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 for which the bonds were issued or the repayment of the bonds. The following is the detail of restricted assets at June 30, 2012:

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 8 - Restricted Assets (Continued)

Water and Sewer Fund:

Cash and cash equivalents	\$ 2,000,000
Investments	3,964,716
Accounts receivable	2,925,419
Due from Oakland County*	<u>534,863</u>
Total Water and Sewer Fund	9,424,998

General Improvements Fund - Due from Macomb County**

(Note 6)	<u>2,128,308</u>

Total restricted assets \$ 11,553,306

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

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

There are \$125,023 of liabilities payable from Macomb 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 Special Revenue Community Development Block Grant Fund. Loans receivable of \$1,858,253 at June 30, 2012 have been reflected in the accompanying fund financial statements as rehabilitation loans receivable with an offsetting deferred 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.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 10 - Risk Management (Continued)

The City participates in the Michigan Municipal Risk Management Authority (the "Authority") risk pool program for claims relating to liability, auto, and property loss. The program operates as a 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 workers' compensation and medical benefits up to a retention amount, at which time the City's reinsurance coverage begins.

Property Liability

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

It is estimated, based on past experience, that \$985,387 will be paid for all claims reported to date and \$465,248 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:

	2012	2011
Estimated liability - Beginning of year	\$ 1,315,010	\$ 1,422,600
Estimated claims incurred, including changes in estimates	415,163	189,624
Claim payments	(279,538)	(297,214)
Estimated liability - End of year	<u>\$ 1,450,635</u>	<u>\$ 1,315,010</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 \$200,000 per active and retired employee (including dependents) for the contract year ended June 30, 2012. For the contract year beginning July 1, 2012, the City's retention amount is \$250,000. At January 1, 1990, the City became self-insured for short-term disability.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 10 - Risk Management (Continued)

It is estimated, based on past experience, that \$41,657 will be paid for all claims reported to date and \$945,995 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	
	2012	2011
Estimated liability - Beginning of year	\$ 434,087	\$ 421,950
Estimated claims incurred, including changes in estimates	4,764,804	5,454,778
Claim payments	(4,738,838)	(5,442,641)
Estimated liability - End of year	<u>\$ 460,053</u>	<u>\$ 434,087</u>

	Retiree Medical Benefits Trust Fund	
	2012	2011
Estimated liability - Beginning of year	\$ 608,034	\$ 651,878
Estimated claims incurred, including changes in estimates	6,764,018	6,211,607
Claim payments	(6,844,453)	(6,255,451)
Estimated liability - End of year	<u>\$ 527,599</u>	<u>\$ 608,034</u>

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 10 - Risk Management (Continued)

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 \$150,000 of any occurrence for the contract year ended June 30, 2012. The City has purchased excess insurance to cover claims greater than \$150,000. For the contract year beginning July 1, 2012, the City is liable for the first \$300,000. At June 30, 2012, it was estimated, based on past experience, that \$325,467 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:

	<u>2012</u>	<u>2011</u>
Estimated liability - Beginning of year	\$ 291,712	\$ 389,310
Estimated claims incurred, including changes in estimates	334,377	342,374
Claim payments	<u>(300,622)</u>	<u>(439,972)</u>
Estimated liability - End of year	<u>\$ 325,467</u>	<u>\$ 291,712</u>

Note 11 - Defined Benefit Pension Plans

Plan Description

The City participates in two retirement plans, the General Employees' Retirement System and the Police and Fire Retirement System. The General Employees' Retirement System and the Police and Fire Retirement Boards are the administrators of single-employer defined benefit public employee retirement systems that cover approximately 70 percent all general employees and substantially all police and fire employees, respectively. The plans do not issue separate financial statements.

General Employees' Retirement System - This system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2011, the date of the most recent actuary report, membership consisted of 298 retirees, beneficiaries, alternative payees currently receiving benefits, 13 terminated employees entitled to benefits but not yet receiving them, and 190 current active employees. The retirement system remains closed to new members.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 11 - Defined Benefit Pension Plans (Continued)

Police and Fire Retirement System - This system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2011, the date of the most recent actuary report, membership consisted of 284 retirees, beneficiaries, alternate payees and terminated drop members currently receiving benefits, three terminated employees entitled to benefits but not yet receiving them, 206 current active employees, and 46 drop participants.

Contributions and Funding Policy

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Please refer to Note 1 for further significant accounting policies.

General Employees' Retirement System - The obligation to contribute to and maintain this system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from substantially all employees ranging from 5.0 percent to 8.0 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings and the General Fund.

Police and Fire Retirement System - The obligation to contribute to and maintain this system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from substantially all employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2012

Note 11 - Defined Benefit Pension Plans (Continued)

Annual Pension Costs

General Employees' Retirement System - For the fiscal year ended June 30, 2012, the City's annual pension cost of \$1,089,481 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, 2010, 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 4.5 to 13.0 percent per year long-term. Both (a) and (b) include an inflation component of 4.0 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 19 years.

Police and Fire Retirement System - For the fiscal year ended June 30, 2012, the City's annual pension cost of \$7,368,876 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, 2010, 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.

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

	Year Ended		
	2012	2011	2010
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 1,089,481	\$ 486,096	\$ 204,054
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ 7,368,876	\$ 6,135,053	\$ 4,925,570
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 11 - Defined Benefit Pension Plans (Continued)

Funded Status and Funding Progress

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

General Employees' Retirement System - As of December 31, 2011, the most recent actuarial valuation date, the plan was 90.9 percent funded.

The actuarial accrued liability for benefits was \$124.6 million, and the actuarial value of assets was \$113.3 million, resulting in an unfunded actuarial accrued liability of \$11.3 million. The covered payroll (annual payroll for active employees covered by the plan) was \$12.4 million, and the ratio for the unfunded actuarial accrued liability to the covered payroll was 91.2 percent.

As of June 30, 2012, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 7,533,172
Reserve for retired benefit payments	80,558,200

Police and Fire Retirement System - As of December 31, 2011, the most recent actuarial valuation date, the plan was 66.5 percent funded. The actuarial accrued liability for benefits was \$260.3 million, and the actuarial value of assets was \$173.0 million, resulting in an unfunded actuarial accrued liability of \$87.3 million. The covered payroll (annual payroll for active employees covered by the plan) was \$19.2 million, and the ratio for the unfunded actuarial accrued liability to the covered payroll was 454.3 percent.

As of June 30, 2012, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 23,742,562
Reserve for retired benefit payments	164,827,328

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 11 - Defined Benefit Pension Plans (Continued)

Statement of Net Assets

	General	
	Employees' Retirement System	Police and Fire Retirement System
Assets		
Cash and cash equivalents	\$ 4,411,787	\$ 6,218,574
Investments - At fair value:		
Government securities	18,039,371	22,539,106
Mutual funds	7,527,294	15,482,529
Corporate bonds	5,815,816	8,901,759
Common and preferred stocks	68,939,970	102,242,273
Pooled investments	-	7,742,733
Receivables - Accrued interest	116,486	129,990
Total assets	104,850,724	163,256,964
Liabilities		
Accounts payable	18,586	91,991
Accrued and other liabilities	97,565	142,995
Deferred revenue	9,152	-
Total liabilities	125,303	234,986
Net Assets - Held in trust for pensions	<u>\$ 104,725,421</u>	<u>\$ 163,021,978</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2012

Note 11 - Defined Benefit Pension Plans (Continued)

Statement of Changes in Net Assets

	General Employees' Retirement System	Police and Fire Retirement System
Additions		
Investment income (loss):		
Interest and dividends	\$ 2,568,503	\$ 3,808,678
Net adjustment to fair value of investments	(1,832,506)	(3,196,866)
Less investment expenses	<u>(620,209)</u>	<u>(1,016,724)</u>
Net investment income (loss)	115,788	(404,912)
Securities lending income:		
Interest and fees	2,493	3,633
Less borrower rebates and bank fees	<u>(1,484)</u>	<u>(2,006)</u>
Net securities lending income	1,009	1,627
Contributions:		
Employer	1,089,480	7,368,876
Employee	637,100	1,018,446
Purchase of prior year's service credits	<u>19,221</u>	<u>469,814</u>
Total additions - Net	1,862,598	8,453,851
Deductions		
Benefit payments	8,090,516	14,794,852
Refunds of contributions	<u>767,424</u>	<u>2,216,762</u>
Total deductions	<u>8,857,940</u>	<u>17,011,614</u>
Change in Net Assets	(6,995,342)	(8,557,763)
Net Assets - Beginning of year	111,720,763	171,579,741
Net Assets - End of year	\$ 104,725,421	\$ 163,021,978

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

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 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 \$202,855 during the current year and employees contributed \$272,417.

Note 13 - Postemployment Benefits

Plan Description - The City provides other postemployment benefits (OPEB) to eligible employees and their spouses through the Sterling Heights Retiree Medical Benefits Trust plan. Health and life insurance benefits are provided to all public safety and general employees and their spouses. Additionally, public safety employees and their spouses are provided with dental benefits. At December 31, 2010, the date of the most recent actuary report, the plan has 1,033 members (including employees in active service and retirees or beneficiaries currently receiving benefits). Of those members, 238 general and 242 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 - For current employees, the City includes pre-Medicare retirees and their spouses in its healthcare plan, with no contribution required by participants. As of June 30, 2008, labor contracts include a clause that requires new employees to contribute 50 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 percent and for employees hired after July 1, 2008 to contribute 60 percent of the monthly retiree premium. General employees hired after June 30, 2012 are not eligible for retiree health benefits.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 13 - Postemployment Benefits (Continued)

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 these benefits. During the current year, the contribution amounted to \$11,523,820, which was funded by the General Fund and the Water and Sewer Fund, and healthcare benefits paid totaled \$7,303,520.

Funding Progress - For the year ended June 30, 2012, the City estimated the cost of providing postemployment benefits through an actuarial valuation as of December 31, 2010. The valuation computes an annual required contribution 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, 2012, the City's annual contribution of \$11,523,820 for 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		
	2012	2011	2010
Annual OPEB costs (AOC)	\$ 11,523,820	\$ 12,070,700	\$ 11,604,200
Percentage of AOC contributed	100%	100%	100%
Net OPEB obligation	\$ -	\$ -	\$ -

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

Valuation as of December 31, 2010:

Actuarial value of assets	\$ 38,675,481
Actuarial value of liability (AAL)	178,487,654
Unfunded AAL (UAAL)	139,812,173
Funded ratio	21.7%
Annual covered payroll	43,400,000
Ratio of UAAL to covered payroll	322.1%

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 13 - Postemployment Benefits (Continued)

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 multiyear 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.

The annual required contribution was determined as part of an actuarial valuation at December 31, 2010 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 5.0 percent was used in fiscal 2010, grading to 4.5 percent in fiscal year 2019 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.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 13 - Postemployment Benefits (Continued)

Statement of Net Assets

	Retiree Medical Benefits
Assets	
Cash and cash equivalents	\$ 1,751,106
Investments - At fair value:	
Government securities	5,425,693
Mutual funds	4,984,637
Corporate bonds	1,136,318
Common and preferred stocks	<u>34,257,262</u>
Total assets	47,555,016
Liabilities	
Accounts payable	118,184
Accrued and other liabilities	15,725
Due to other governmental units	177,912
Provision for uninsured losses and liabilities	<u>527,599</u>
Total liabilities	<u>839,420</u>
Net Assets - Held in trust for other retirement benefits	<u>\$ 46,715,596</u>

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2012**

Note 13 - Postemployment Benefits (Continued)

Statement of Changes in Net Assets

	Retiree Medical Benefits
Additions	
Investment income (loss):	
Interest and dividends	\$ 982,992
Net adjustment to fair value of investments	(438,291)
Less investment expenses	<u>(305,754)</u>
Net investment income	238,947
Contributions - Employer	11,523,820
On-behalf payments - Federal government	438,180
Insurance recovery	<u>143,237</u>
Total additions	12,344,184
Deductions - Benefit payments	
	<u>7,334,088</u>
Net Change in Net Assets	5,010,096
Net Assets - Beginning of year	<u>41,705,500</u>
Net Assets - End of year	<u>\$ 46,715,596</u>

Note 14 - Unrestricted Net Assets

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

Designated for	Enterprise Fund - Water and Sewer
Capital improvement	\$ 2,540,000
Undesignated	19,630,126

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2012

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.

Required Supplemental Information

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2012

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 10,991,216	\$ 10,991,216	\$ 10,991,216	\$ -
Resources (Inflows)				
Property taxes	42,069,820	40,238,720	40,120,585	(118,135)
Refuse taxes	4,413,730	4,413,730	4,376,626	(37,104)
Police and fire pension taxes	7,368,880	7,368,880	7,157,201	(211,679)
Federal, state, and local returns	9,451,490	10,586,770	10,584,999	(1,771)
Licenses and permits	1,437,000	2,284,000	2,271,967	(12,033)
Fines and forfeitures	3,487,100	2,870,100	2,770,160	(99,940)
Charges for services	8,470,400	8,550,450	8,443,205	(107,245)
Cable revenue	1,825,000	1,975,000	2,033,751	58,751
Other revenue	2,820,220	3,680,750	3,735,309	54,559
Total resources (inflows)	81,343,640	81,968,400	81,493,803	(474,597)
Charges to Appropriations (Outflows)				
41A District Court	3,273,330	3,255,590	3,252,852	2,738
City administration	8,508,970	8,506,380	8,495,371	11,009
Community relations	995,610	1,041,920	1,034,232	7,688
Police department	32,587,870	33,317,260	32,980,743	336,517
Fire department	18,402,370	18,988,060	19,115,561	(127,501)
City development	2,390,360	2,288,950	2,284,062	4,888
Public works department	7,273,600	7,258,270	7,344,411	(86,141)
Refuse collection	4,444,730	4,435,710	4,605,885	(170,175)
Community services department	4,497,860	4,470,760	4,489,169	(18,409)
General expenditures	2,563,580	2,656,980	2,657,513	(533)
Transfers to other funds	925,740	976,740	976,740	-
Total charges to appropriations (outflows)	85,864,020	87,196,620	87,236,539	(39,919)
Fund Balance - End of year	\$ 6,470,836	\$ 5,762,996	\$ 5,248,480	\$ (514,516)

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Roads Fund Year Ended June 30, 2012

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance With Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 2,690,086	\$ 2,690,086	\$ 2,690,086	\$ -
Resources (Inflows)				
Federal sources	- -	169,200	- -	(169,200)
State sources	4,740,000	5,140,000	5,446,718	306,718
Other	160,500	168,100	151,364	(16,736)
Total resources (inflows)	4,900,500	5,477,300	5,598,082	120,782
Charges to Appropriations (Outflows)				
Public works:				
Administration	120,380	110,380	103,137	7,243
Routine maintenance	1,684,500	1,539,500	1,558,249	(18,749)
Improvements	415,150	373,780	347,662	26,118
Transfers to other funds	2,550,000	2,550,000	2,550,000	- -
Total charges to appropriations (outflows)	4,770,030	4,573,660	4,559,048	14,612
Fund Balance - End of year	\$ 2,820,556	\$ 3,593,726	\$ 3,729,120	\$ 135,394

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Community Development Block Grant Fund Year Ended June 30, 2012

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal sources	1,276,970	970,530	789,368	(181,162)
Charges to Appropriations (Outflows)				
Administrative expenses	153,200	117,540	100,744	16,796
Books	7,380	6,120	6,058	62
Senior citizens home chore	25,870	21,460	18,339	3,121
Handicapped recreation program	22,900	19,000	18,995	5
Single parent education program	29,960	24,850	24,602	248
Housing rehabilitation program	373,600	227,240	131,789	95,451
Minor home repair	24,000	59,650	18,508	41,142
Awards to nonprofit organizations	25,920	21,990	20,509	1,481
Capital improvements	190,180	157,320	134,465	22,855
Principal	411,470	305,000	305,000	-
Interest	12,490	10,360	10,359	1
Total charges to appropriations (outflows)	1,276,970	970,530	789,368	181,162
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress June 30, 2012

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 Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)	Underfunded/ (Overfunded)
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General Employees' Retirement System

12/31/06	\$ 118,968,737	\$ 95,810,183	\$ (23,158,554)	124.2	\$ 15,382,785	(150.5)
12/31/07	127,671,503	102,000,980	(25,670,523)	125.2	15,406,591	(166.6)
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

Police and Fire Retirement System

12/31/06	\$ 204,756,058	\$ 156,707,512	\$ (48,048,546)	130.7	\$ 19,837,496	(242.2)
12/31/07	212,365,515	170,201,230	(42,164,285)	124.8	20,979,120	(201.0)
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	152.7
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

Retiree Medical Benefits Trust

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

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress (Continued) June 30, 2012

General Employees' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
06/30/07	12/31/05	\$ -	100.0
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

Police and Fire Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
06/30/07	12/31/05	\$ 2,646,459	100.0
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

Retiree Medical Benefits Trust

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
06/30/09	12/31/06	\$ 11,265,740	100.0
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

* The required contribution is expressed to the City as a percentage of payroll.

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress (Continued) June 30, 2012

The information presented was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuations, December 31, 2011 for the General Employees' Retirement and the Police and Fire Retirement Systems and as of December 31, 2010 for the Retiree Medical Benefits Trust, is as follows:

General Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	Level dollar
Amortization period (perpetual)	18 years (closed)
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	3.75% - 11.75%
*Includes inflation at	4.0%
Cost-of-living adjustments	None

Police and Fire Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	25 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	17.0% - 4.0%
*Includes inflation at	3.0%
Cost-of-living adjustments	None

Retiree Medical Benefits Trust

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	30 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.0% - 20.0%
*Includes inflation at	4.0%
Cost-of-living adjustments	None

City of Sterling Heights, Michigan

Note to Required Supplemental Information

June 30, 2012

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 is 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 reappropriated and honored during the subsequent year.

City of Sterling Heights, Michigan

Note to Required Supplemental Information **June 30, 2012**

Note - Stewardship, Compliance, and Accountability (Continued)

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

	<u>Budget</u>	<u>Actual</u>
General Fund:		
Fire department	\$ 18,988,060	\$ 19,115,561
Public works department	7,258,270	7,344,411
Refuse collection	4,435,710	4,605,885
Community services department	4,470,760	4,489,169
Total General Fund	<u>\$ 35,152,800</u>	<u>\$ 35,555,026</u>

The General Fund had unfavorable variances in the activity of:

- Fire department was the result of higher personnel costs due to unanticipated retirements, layoffs, and drop elections.
- Public works was attributable to higher personnel costs due to unanticipated retirements, water costs higher than anticipated due to severe weather temperatures, and other contracted services due to increased park maintenance and sprinkler repair activity.
- Refuse collection was attributable to higher than anticipated hauling costs due to the timing of the vendors' billing cycle.
- Community services was the result of higher personnel costs due to unanticipated retirements.

Other Financial and Supplemental Information

Nonmajor Governmental Funds

City of Sterling Heights, Michigan

Nonmajor Special Revenue Funds						
	Energy		Neighborhood		Total Nonmajor	
	Local Roads	Efficiency Block Grant	Public Safety Forfeiture	Stabilization Fund	Special Revenue Funds	
Assets						
Cash and cash equivalents	\$ 803,951	\$ -	\$ 583,244	\$ -	\$ 1,387,195	
Investments	100,000	-	-	-	100,000	
Receivables:						
Special assessments:						
Current	34,135	-	-	-	34,135	
Deferred	136,539	-	-	-	136,539	
Accrued interest	10,417	-	-	-	10,417	
Prepaid costs and other assets	-	-	-	25,000	25,000	
Due from other funds	-	-	22,252	-	22,252	
Due from other governmental units	320,399	-	-	313,079	633,478	
Inventories	-	-	19,545	-	19,545	
Total assets	\$ 1,405,441	\$ -	\$ 625,041	\$ 338,079	\$ 2,368,561	
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 27,135	\$ -	\$ 26,866	\$ 7,607	\$ 61,608	
Accrued and other liabilities	12,955	-	-	-	12,955	
Due to other funds	123,638	-	-	330,472	454,110	
Deferred revenue	136,539	-	-	-	136,539	
Total liabilities	300,267	-	26,866	338,079	665,212	
Fund Balances						
Nonspendable - Inventory	-	-	19,545	-	19,545	
Restricted for:						
Road improvements	1,105,174	-	-	-	1,105,174	
Public safety	-	-	578,630	-	578,630	
Debt service	-	-	-	-	-	
Committed - Park acquisitions and improvements	-	-	-	-	-	
Total fund balances	1,105,174	-	598,175	-	1,703,349	
Total liabilities and fund balances	\$ 1,405,441	\$ -	\$ 625,041	\$ 338,079	\$ 2,368,561	

Other Financial and Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

Nonmajor Debt Service Funds

General Drain	Voted Tax General Obligation	Limited Tax General Obligation	Total Nonmajor Debt Service Funds	Nonmajor Capital		Total Nonmajor Governmental Funds
	Projects - Land and Water Conservation					
\$ 86	\$ 9,345	\$ 249	\$ 9,680	\$ 528,502	\$ 1,925,377	
-	-	-	-	100,000	200,000	
-	-	-	-	-	34,135	
-	-	-	-	-	136,539	
-	-	-	-	176	10,593	
-	-	-	-	-	25,000	
32,339	7,000	-	39,339	-	61,591	
-	-	-	-	-	633,478	
-	-	-	-	-	19,545	
\$ 32,425	\$ 16,345	\$ 249	\$ 49,019	\$ 628,678	\$ 3,046,258	
\$ 364	\$ 99	\$ -	\$ 463	\$ 5,100	\$ 67,171	
21,148	5,176	-	26,324	-	39,279	
-	-	-	-	-	454,110	
-	-	-	-	-	136,539	
21,512	5,275	-	26,787	5,100	697,099	
-	-	-	-	-	19,545	
-	-	-	-	-	1,105,174	
-	-	-	-	-	578,630	
10,913	11,070	249	22,232	-	22,232	
-	-	-	-	623,578	623,578	
10,913	11,070	249	22,232	623,578	2,349,159	
\$ 32,425	\$ 16,345	\$ 249	\$ 49,019	\$ 628,678	\$ 3,046,258	

City of Sterling Heights, Michigan

Nonmajor Special Revenue Funds						
	Local Roads	Community Block Grant	Public Safety Forfeiture	Neighborhood Stabilization Fund	Total Nonmajor Special Revenue Funds	
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	525,300	189,065	412,526	1,126,891	
State sources	2,017,214	-	121,764	-	2,138,978	
Interest income	1,666	-	-	-	1,666	
Special assessments	34,135	-	-	-	34,135	
Other	71,871	-	-	-	71,871	
Total revenue	2,124,886	525,300	310,829	412,526	3,373,541	
Expenditures						
Current:						
Public safety	-	-	201,269	-	201,269	
Public works	1,381,523	-	-	112,442	1,493,965	
Other	-	4,134	-	-	4,134	
Capital outlay	614,452	521,166	93,374	300,084	1,529,076	
Debt service	-	-	-	-	-	
Total expenditures	1,995,975	525,300	294,643	412,526	3,228,444	
Excess of Expenditures Over (Under)						
Revenue	128,911	-	16,186	-	145,097	
Other Financing Sources -						
Interfund transfers in	250,000	-	-	-	250,000	
Change in Fund Balances						
Fund Balances - Beginning of year	378,911	-	16,186	-	395,097	
Fund Balances - End of year	726,263	-	581,989	-	1,308,252	
	\$ 1,105,174	\$ -	\$ 598,175	\$ -	\$ 1,703,349	

**Other Financial and Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2012**

Nonmajor Debt Service Funds							Nonmajor Capital Projects - Land and Water Conservation	Total Nonmajor Governmental Funds
General Drain	Voted Tax General Obligation	Limited Tax General Obligation	Total Nonmajor Debt Service Funds					
\$ 1,150,140	\$ 345,161	\$ -	\$ 1,495,301	\$ -	\$ -	\$ 1,495,301		
-	-	-	-	-	-	-	1,126,891	
-	-	-	-	-	-	-	2,138,978	
2,445	696	-	3,141	2,952		7,759		
-	-	-	-	-	-	34,135		
-	-	-	-	2,500		74,371		
<u>1,152,585</u>	<u>345,857</u>	<u>-</u>	<u>1,498,442</u>	<u>5,452</u>		<u>4,877,435</u>		
							201,269	
							1,493,965	
1,925	350	387	2,662	-		6,796		
-	-	-	-	115,447		1,644,523		
<u>1,186,810</u>	<u>350,000</u>	<u>608,291</u>	<u>2,145,101</u>	<u>-</u>		<u>2,145,101</u>		
<u>1,188,735</u>	<u>350,350</u>	<u>608,678</u>	<u>2,147,763</u>	<u>115,447</u>		<u>5,491,654</u>		
(36,150)	(4,493)	(608,678)	(649,321)	(109,995)		(614,219)		
<u>44,000</u>	<u>7,000</u>	<u>608,680</u>	<u>659,680</u>	<u>-</u>		<u>909,680</u>		
7,850	2,507	2	10,359	(109,995)		295,461		
3,063	8,563	247	11,873	733,573		2,053,698		
<u>\$ 10,913</u>	<u>\$ 11,070</u>	<u>\$ 249</u>	<u>\$ 22,232</u>	<u>\$ 623,578</u>		<u>\$ 2,349,159</u>		

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds Year Ended June 30, 2012

Special Revenue Fund - Local Roads

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 726,263	\$ 726,263	\$ 726,263	\$ -
Resources (Inflows)				
State sources	1,790,000	1,940,000	2,017,214	77,214
Charges for services	40,000	52,000	54,169	2,169
Other	47,020	53,320	53,503	183
Transfer from other funds	250,000	250,000	250,000	-
Total resources (inflows)	2,127,020	2,295,320	2,374,886	79,566
Charges to Appropriations (Outflows)				
Administration	139,350	110,190	98,940	11,250
Local street maintenance	1,442,000	1,326,000	1,282,583	43,417
Local street improvements	650,000	638,000	614,452	23,548
Total charges to appropriations (outflows)	2,231,350	2,074,190	1,995,975	78,215
Fund Balance - End of year	<u>\$ 621,933</u>	<u>\$ 947,393</u>	<u>\$ 1,105,174</u>	<u>\$ 157,781</u>

Special Revenue Fund - Energy Efficiency Block Grant Fund

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal sources				
	505,000	525,300	525,300	-
Charges to Appropriations (Outflows) -				
Administration and improvements	505,000	525,300	525,300	-
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2012

Special Revenue Fund - Public Safety Forfeiture Fund

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 581,989	\$ 581,989	\$ 581,989	\$ -
Resources (Inflows)				
Federal forfeitures	-	140,710	188,760	48,050
State forfeitures	-	81,160	96,262	15,102
OWI forfeitures	-	8,970	25,287	16,317
Interest income	750	450	520	70
Total resources (inflows)	750	231,290	310,829	79,539
Charges to Appropriations (Outflows)				
Federal forfeiture expenditures	40,800	122,460	78,125	44,335
State forfeiture expenditures	157,800	218,810	185,663	33,147
OWI forfeiture expenditures	5,500	24,800	30,855	(6,055)
Total charges to appropriations (outflows)	204,100	366,070	294,643	71,427
Fund Balance - End of year	\$ 378,639	\$ 447,209	\$ 598,175	\$ 150,966

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2012

Special Revenue Fund - Neighborhood Stabilization Fund

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal sources	658,230	577,170	412,526	(164,644)
Charges to Appropriations (Outflows)				
Downpayment and rehabilitation assistance	11,390	23,280	24,320	(1,040)
Acquisition, rehabilitation, and resale	75,610	78,000	79,145	(1,145)
Acquisition and redevelopment	488,790	464,390	300,084	164,306
Demolition	6,300	-	-	-
Administration costs	76,140	11,500	8,977	2,523
Total charges to appropriations (outflows)	658,230	577,170	412,526	164,644
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Debt Service Fund - General Drain

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 3,063	\$ 3,063	\$ 3,063	\$ -
Resources (Inflows)				
Property taxes	1,187,150	1,136,540	1,137,489	949
Delinquents and penalties	4,800	4,800	12,651	7,851
Other revenue	3,000	3,000	2,445	(555)
Transfer from other funds	-	44,000	44,000	-
Total resources (inflows)	1,194,950	1,188,340	1,196,585	8,245
Charges to Appropriations (Outflows)				
Other charges	8,140	1,930	1,925	5
Principal	1,025,000	1,025,000	1,025,000	-
Interest	161,810	161,810	161,810	-
Total charges to appropriations (outflows)	1,194,950	1,188,740	1,188,735	5
Fund Balance - End of year	<u>\$ 3,063</u>	<u>\$ 2,663</u>	<u>\$ 10,913</u>	<u>\$ 8,250</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2012

Debt Service Fund - Voted Tax General Obligation

	Original Budget	Final Budget	Actual	Variance with Final Budget
				Positive (Negative)
Fund Balance - Beginning of year	\$ 8,563	\$ 8,563	\$ 8,563	\$ -
Resources (Inflows)				
Property taxes	352,050	338,380	341,613	3,233
Delinquents and penalties	1,300	1,300	3,548	2,248
Other revenue	1,000	1,000	696	(304)
Transfers from other funds	- - 7,000	7,000	7,000	-
Total resources (inflows)	354,350	347,680	352,857	5,177
Charges to Appropriations (Outflows) -				
Proposal F	- - 350,350	350,350	350,350	-
Fund Balance - End of year	\$ 362,913	\$ 5,893	\$ 11,070	\$ 5,177

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	\$ 247	\$ 247	\$ 247	\$ -
Resources (Inflows)				
Other revenue	- - 608,680	- - 608,680	- - 608,680	- - -
Total resources (inflows)	608,680	608,680	608,680	-
Charges to Appropriations (Outflows)				
Other charges	390	390	387	3
Principal	495,000	495,000	495,000	-
Interest	113,290	113,290	113,291	(1)
Total charges to appropriations (outflows)	608,680	608,680	608,678	2
Fund Balance - End of year	\$ 247	\$ 247	\$ 249	\$ 2

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2012

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	\$ 733,573	\$ 733,573	\$ 733,573	\$ -
Resources (Inflows) - Other	5,000	3,500	5,452	1,952
Charges to Appropriations (Outflows) -				
Land improvements	166,810	166,810	115,447	51,363
Fund Balance - End of year	\$ 571,763	\$ 570,263	\$ 623,578	\$ 53,315

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, 2012

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	\$ 426,307	\$ 426,307	\$ 426,307	\$ -
Resources (Inflows)				
Other revenue	170,850	165,620	166,167	547
Special assessments	149,200	146,630	190,249	43,619
Bond proceeds - Refinancing	-	4,054,200	4,054,196	4
Transfer from other funds	<u>2,300,000</u>	<u>2,300,000</u>	<u>2,300,000</u>	<u>-</u>
Total resources (inflows)	2,620,050	6,666,450	6,710,612	44,162
Charges to Appropriations (Outflows)				
Other	1,850	101,820	101,816	4
Principal	1,940,000	5,890,000	5,890,000	-
Interest	<u>638,010</u>	<u>638,010</u>	<u>638,014</u>	<u>(4)</u>
Total charges to appropriations (outflows)	2,579,860	6,629,830	6,629,830	-
Fund Balance - End of year	<u>\$ 466,497</u>	<u>\$ 462,927</u>	<u>\$ 507,089</u>	<u>\$ 44,162</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, 2012

Capital Projects Fund - General Improvements

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 2,113,709	\$ 2,113,709	\$ 2,113,709	\$ -
Resources (Inflows)				
Federal, state, and local sources	- -	623,930	608,222	(15,708)
Penalties and interest	- -	- -	358	358
Other revenue	471,520	400,050	119,389	(280,661)
Transfer from other funds	<u>317,060</u>	<u>317,060</u>	<u>317,060</u>	<u>-</u>
Total resources (inflows)	788,580	1,341,040	1,045,029	(296,011)
Charges to Appropriations (Outflows)				
Capital equipment	110,500	756,250	498,505	257,745
Capital vehicles	736,560	736,560	727,088	9,472
Capital projects	<u>550,000</u>	<u>696,630</u>	<u>726,870</u>	<u>(30,240)</u>
Total charges to appropriations (outflows)	<u>1,397,060</u>	<u>2,189,440</u>	<u>1,952,463</u>	<u>236,977</u>
Fund Balance - End of year	<u>\$ 1,505,229</u>	<u>\$ 1,265,309</u>	<u>\$ 1,206,275</u>	<u>\$ (59,034)</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	\$ 757,228	\$ 757,228	\$ 757,228	\$ -
Resources (Inflows)				
Federal, state, and local sources	- -	- -	32,000	32,000
Other revenue	<u>1,000</u>	<u>1,400</u>	<u>1,484</u>	<u>84</u>
Total resources (inflows)	1,000	1,400	33,484	32,084
Charges to Appropriations (Outflows) -				
Capital outlay	<u>325,000</u>	<u>258,910</u>	<u>190,712</u>	<u>68,198</u>
Fund Balance - End of year	<u>\$ 433,228</u>	<u>\$ 499,718</u>	<u>\$ 600,000</u>	<u>\$ 100,282</u>

Fiduciary and Agency Funds

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Fiduciary Net Assets Trust Funds June 30, 2012

	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	\$ 4,411,787	\$ 6,218,574	\$ 1,751,106	\$ 12,381,467
Investments - At fair value:				
Government securities	18,039,371	22,539,106	5,425,693	46,004,170
Mutual funds	7,527,294	15,482,529	4,984,637	27,994,460
Corporate bonds	5,815,816	8,901,759	1,136,318	15,853,893
Common and preferred stocks	68,939,970	102,242,273	34,257,262	205,439,505
Pooled investments	-	7,742,733	-	7,742,733
Receivables - Accrued interest	116,486	129,990	-	246,476
Total assets	104,850,724	163,256,964	47,555,016	315,662,704
Liabilities				
Accounts payable	18,586	91,991	118,184	228,761
Accrued and other liabilities	97,565	142,995	15,725	256,285
Due to other governmental units	-	-	177,912	177,912
Provision for uninsured losses and liabilities	-	-	527,599	527,599
Deferred revenue	9,152	-	-	9,152
Total liabilities	125,303	234,986	839,420	1,199,709
Net Assets - Held in trust for pension and other retirement benefits	<u>\$ 104,725,421</u>	<u>\$ 163,021,978</u>	<u>\$ 46,715,596</u>	<u>\$ 314,462,995</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Fiduciary Net Assets Trust Funds Year Ended June 30, 2012

	General Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Total
Additions				
Investment income (loss):				
Interest and dividends	\$ 2,568,503	\$ 3,808,678	\$ 982,992	\$ 7,360,173
Net adjustment to fair value of investments	(1,832,506)	(3,196,866)	(438,291)	(5,467,663)
Less investment expenses	<u>(620,209)</u>	<u>(1,016,724)</u>	<u>(305,754)</u>	<u>(1,942,687)</u>
Net investment income (loss)	115,788	(404,912)	238,947	(50,177)
Securities lending income:				
Interest and fees	2,493	3,633	-	6,126
Less borrower rebates and bank fees	<u>(1,484)</u>	<u>(2,006)</u>	<u>-</u>	<u>(3,490)</u>
Net securities lending income	1,009	1,627	-	2,636
Contributions:				
Employer	1,089,480	7,368,876	11,523,820	19,982,176
Employee	637,100	1,018,446	-	1,655,546
On-behalf payments - Federal government	-	-	438,180	438,180
Purchase of prior year's service credits	19,221	469,814	-	489,035
Insurance recovery	<u>-</u>	<u>-</u>	<u>143,237</u>	<u>143,237</u>
Total additions - Net	1,862,598	8,453,851	12,344,184	22,660,633
Deductions				
Benefit payments	8,090,516	14,794,852	7,334,088	30,219,456
Withdrawals and refunds of contributions	<u>767,424</u>	<u>2,216,762</u>	<u>-</u>	<u>2,984,186</u>
Total deductions	8,857,940	17,011,614	7,334,088	33,203,642
Net Change in Net Assets	(6,995,342)	(8,557,763)	5,010,096	(10,543,009)
Net Assets - Beginning of year	111,720,763	171,579,741	41,705,500	325,006,004
Net Assets - End of year	<u>\$ 104,725,421</u>	<u>\$ 163,021,978</u>	<u>\$ 46,715,596</u>	<u>\$ 314,462,995</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Fiduciary Assets and Liabilities Agency Funds June 30, 2012

	Agency Funds		
	Tax	General Agency	Total
Assets			
Cash and cash equivalents	\$ 7,810	\$ 1,677,317	\$ 1,685,127
Investments - At fair value -			
Short-term investment funds	-	1,578,687	1,578,687
Due from other governmental units	-	6,301	6,301
Total assets	\$ 7,810	\$ 3,262,305	\$ 3,270,115
Liabilities			
Accrued and other liabilities	\$ -	\$ 1,387,243	\$ 1,387,243
Due to other governmental units	7,810	22,665	30,475
Cash bonds and deposits	-	1,852,397	1,852,397
Total liabilities	\$ 7,810	\$ 3,262,305	\$ 3,270,115

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Assets and Liabilities Agency Funds Year Ended June 30, 2012

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
<u>Tax Collection</u>				
Assets - Cash and cash equivalents	\$ 19,575	\$ 133,470,792	\$ 133,482,557	\$ 7,810
Liabilities				
Accrued and other liabilities	\$ -	\$ 397,879	\$ 397,879	\$ -
Due to other governmental units	19,575	171,278,417	171,290,182	7,810
Total liabilities	\$ 19,575	\$ 171,676,296	\$ 171,688,061	\$ 7,810
<u>General Agency</u>				
Assets				
Cash and cash equivalents	\$ 1,510,649	\$ 8,849,213	\$ 8,682,545	\$ 1,677,317
Investments - At fair value	1,602,216	6,972,544	6,996,073	1,578,687
Accrued interest	1,879	-	1,879	-
Due from other governmental units	12,030	-	5,729	6,301
Total assets	\$ 3,126,774	\$ 15,821,757	\$ 15,686,226	\$ 3,262,305
Liabilities				
Accrued and other liabilities	\$ 1,316,033	\$ 322,407	\$ 251,197	\$ 1,387,243
Due to other governmental units	17,403	22,665	17,403	22,665
Cash and bond deposits	1,793,338	1,287,594	1,228,535	1,852,397
Total liabilities	\$ 3,126,774	\$ 1,632,666	\$ 1,497,135	\$ 3,262,305
<u>Totals - All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 1,530,224	\$ 142,320,005	\$ 142,165,102	\$ 1,685,127
Investments - At fair value	1,602,216	6,972,544	6,996,073	1,578,687
Accrued interest	1,879	-	1,879	-
Due from other governmental units	12,030	-	5,729	6,301
Total assets	\$ 3,146,349	\$ 149,292,549	\$ 149,168,783	\$ 3,270,115
Liabilities				
Accrued and other liabilities	\$ 1,316,033	\$ 720,286	\$ 649,076	\$ 1,387,243
Due to other governmental units	36,978	171,301,082	171,307,585	30,475
Cash and bond deposits	1,793,338	1,287,594	1,228,535	1,852,397
Total liabilities	\$ 3,146,349	\$ 173,308,962	\$ 173,185,196	\$ 3,270,115

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 Assets by Component	104
Changes in Net Assets	105-106
Fund Balances of Governmental Funds	107
Changes in Fund Balances of Governmental Funds	108-109*
General Governmental Tax Revenue by Source	110

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	111*
Property Tax Rates - Direct and Overlapping Governments	112-113*
Assessed Taxable Values (History of Property Values)	114-115*
Principal Property Taxpayers (Major Taxpayers)	116*

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	117
Ratios of Outstanding Debt by Type	118
Direct and Overlapping Governmental Activities Debt	119*
Legal Debt Margin	120*
Legal Debt Margin Information	121
Pledged Revenue Coverage	122

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	123
Miscellaneous Demographics	124
Principal Employers (Major Employers)	125*

* 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	126-127
Capital Asset Statistics by Function	128
Building Permits at Market Value	129
Full-time Equivalent City Government Employees by Function	130

CONTINUING DISCLOSURE 131

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	132
Gas and Weight Taxes	132
Labor Agreements	133

Statistical Information

City of Sterling Heights, Michigan

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities:										
Invested in capital assets -										
Net of related debt	\$ 157,319,066	\$ 164,071,091	\$ 165,784,014	\$ 171,697,125	\$ 175,544,446	\$ 175,084,518	\$ 173,670,878	\$ 169,230,936	\$ 166,882,162	\$ 163,744,453
Restricted	13,918,356	8,845,442	5,537,300	13,956,025	6,601,883	12,015,678	10,040,331	9,733,081	9,413,052	10,876,504
Unrestricted	29,284,871	(2,714,472)	(3,747,590)	7,320,525	20,524,819	19,437,952	19,880,753	34,565,371	31,667,843	27,712,790
Total governmental activities -										
Net assets	<u>\$ 200,522,293</u>	<u>\$ 170,202,061</u>	<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>
Business-type activities:										
Invested in capital assets -										
Net of related debt	\$ 131,088,312	\$ 135,546,803	\$ 135,416,064	\$ 139,088,895	\$ 137,413,059	\$ 135,723,619	\$ 133,050,974	\$ 130,990,910	\$ 128,950,328	\$ 127,122,039
Restricted	9,286,673	8,525,469	9,029,341	7,050,855	7,418,300	7,522,330	7,605,803	8,308,749	8,369,375	9,424,998
Unrestricted	24,155,268	23,976,948	23,607,368	28,265,921	29,163,010	29,337,877	26,385,878	25,732,829	24,334,830	22,170,126
Total business-type activities -										
Net assets	<u>\$ 164,530,253</u>	<u>\$ 168,049,220</u>	<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>
Primary government:										
Invested in capital assets -										
Net of related debt	\$ 288,407,378	\$ 299,617,894	\$ 301,200,078	\$ 310,786,020	\$ 312,957,505	\$ 310,808,137	\$ 306,721,852	\$ 300,221,846	\$ 295,832,490	\$ 290,866,492
Restricted	23,205,029	17,370,911	14,566,641	21,006,880	14,020,183	19,538,008	17,646,134	18,041,830	17,782,427	20,301,502
Unrestricted	53,440,139	21,262,476	19,859,778	35,586,446	49,687,829	48,775,829	46,266,631	60,298,200	56,002,673	49,902,461
Total primary government -										
Net assets	<u>\$ 365,052,546</u>	<u>\$ 338,251,281</u>	<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>

City of Sterling Heights, Michigan

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
General government	\$ 8,710,448	\$ 9,499,251	\$ 9,873,718	\$ 8,760,970
41A District Court	2,480,824	2,690,360	2,852,812	2,864,422
Public safety	37,066,435	39,815,539	42,253,545	41,327,439
Public works	22,555,042	22,838,480	25,464,111	24,181,418
Recreation and culture	5,476,196	6,047,819	5,716,243	5,989,344
Interest on long-term debt	2,266,350	2,022,258	2,585,777	2,463,042
Total governmental activities expenses	78,555,295	82,913,707	88,746,206	85,586,635
Business-type activities - Water and sewer	23,267,170	25,829,284	28,142,434	28,106,435
Total primary government expenses	\$ 101,822,465	\$ 108,742,991	\$ 116,888,640	\$ 113,693,070
Program Revenue				
Governmental activities:				
Charges for services:				
General government	\$ 709,161	\$ 714,601	\$ 844,263	\$ 1,829,127
41A District Court	1,831,676	2,136,354	2,320,411	2,424,477
Public safety	728,790	1,114,300	1,249,154	1,394,981
Public works	3,566,606	3,855,774	6,241,366	6,813,150
Recreation and culture	425,400	465,391	513,241	583,627
Operating grants and contributions	8,811,085	10,284,432	9,547,201	9,184,599
Capital grants and contributions	1,777,966	3,142,226	1,336,930	2,751,871
Total governmental activities program revenue	17,850,684	21,713,078	22,052,566	24,981,832
Business-type activities - Water and sewer:				
Charges for services	20,563,318	20,385,299	22,619,205	24,944,170
Operating grants and contributions	30,806	-	-	-
Capital grants and contributions	6,847,385	8,430,400	4,911,208	8,364,981
Total business-type activities program revenue	27,441,509	28,815,699	27,530,413	33,309,151
Total primary government program revenue	\$ 45,292,193	\$ 50,528,777	\$ 49,582,979	\$ 58,290,983
Net (Expense) Revenue				
Governmental activities	\$ (60,704,611)	\$ (61,200,629)	\$ (66,693,640)	\$ (60,604,803)
Business-type activities	4,174,339	2,986,415	(612,021)	5,202,716
Total primary government net expense	\$ (56,530,272)	\$ (58,214,214)	\$ (67,305,661)	\$ (55,402,087)
General Revenue and Other Changes in Net Assets				
Governmental activities:				
Property taxes	\$ 46,791,310	\$ 48,495,510	\$ 50,357,630	\$ 52,574,000
State-shared revenue	14,431,298	11,249,778	11,127,156	11,003,347
Interest	2,058,855	709,149	1,155,124	2,034,936
Gain on disposal of capital assets	-	-	105,454	256,994
Insurance proceeds	-	-	-	18,763,736
Other nonprogram revenue	3,039,809	1,425,963	1,319,937	1,371,831
Extraordinary item	-	(31,000,000)	-	-
Total governmental activities expenses	66,321,272	30,880,400	64,065,301	86,004,844
Business-type activities - Interest	1,229,875	532,552	615,574	1,150,182
Total primary government	\$ 67,551,147	\$ 31,412,952	\$ 64,680,875	\$ 87,155,026
Change in Net Assets				
Governmental activities	\$ 5,616,661	\$ (30,320,229)	\$ (2,628,339)	\$ 25,400,041
Business-type activities	5,404,214	3,518,967	3,553	6,352,898
Total primary government	\$ 11,020,875	\$ (26,801,262)	\$ (2,624,786)	\$ 31,752,939

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

Fiscal Year							
	2007	2008	2009	2010	2011	2012	
\$	10,348,927	\$ 11,017,399	\$ 8,877,803	\$ 8,804,497	\$ 8,011,940	\$ 6,543,937	
	2,992,184	3,164,448	3,251,224	3,470,065	3,523,447	3,379,925	
43,995,464	48,044,223	49,201,944	52,695,852	53,740,479	54,994,001		
22,603,155	24,083,515	24,904,207	25,269,096	26,062,500	23,959,824		
5,890,651	6,322,163	6,112,129	5,695,827	5,617,090	5,291,332		
1,922,125	1,921,428	1,956,286	1,086,571	1,192,797	1,081,347		
	87,752,506	94,553,176	94,303,593	97,021,908	98,148,253	95,250,366	
	30,290,386	32,784,120	32,292,608	30,901,624	33,562,610	37,438,961	
\$ 118,042,892	\$ 127,337,296	\$ 126,596,201	\$ 127,923,532	\$ 131,710,863	\$ 132,689,327		
\$	2,022,680	\$ 2,216,008	\$ 2,229,296	\$ 3,020,737	\$ 2,906,715	\$ 3,513,053	
	2,185,724	2,351,225	2,426,813	2,985,409	2,888,076	2,570,621	
1,326,061	1,984,318	1,571,100	1,629,846	1,695,612	1,519,175		
8,125,228	6,363,346	2,869,634	2,545,211	2,295,345	3,563,445		
563,152	629,818	733,598	948,463	982,981	807,387		
9,148,913	8,525,230	8,957,951	9,676,314	9,091,234	8,565,267		
2,638,714	3,173,757	478,767	1,090,732	1,809,917	2,546,378		
	26,010,472	25,243,702	19,267,159	21,896,712	21,669,880	23,085,326	
	25,404,755	27,456,965	24,495,066	25,057,683	28,222,756	31,028,424	
	2,662,317	2,461,289	867,991	2,912,917	1,459,851	2,721,482	
	28,067,072	29,918,254	25,363,057	27,970,600	29,682,607	33,749,906	
\$ 54,077,544	\$ 55,161,956	\$ 44,630,216	\$ 49,867,312	\$ 51,352,487	\$ 56,835,232		
\$	(61,742,034)	\$ (69,309,474)	\$ (75,036,434)	\$ (75,125,196)	\$ (76,478,373)	\$ (72,165,040)	
	(2,223,314)	(2,865,866)	(6,929,551)	(2,931,024)	(3,880,003)	(3,689,055)	
\$ (63,965,348)	\$ (72,175,340)	\$ (81,965,985)	\$ (78,056,220)	\$ (80,358,376)	\$ (75,854,095)		
\$	55,624,617	\$ 58,331,682	\$ 57,875,942	\$ 56,801,307	\$ 59,196,747	\$ 53,247,883	
	10,675,667	10,675,667	10,183,758	9,057,434	9,057,434	10,094,387	
3,383,824	3,075,919	2,278,601	1,098,458	707,426		1,159,709	
227,321	-	-	-	-	-	-	
-	-	-	16,318,640	-	-	-	
1,527,988	1,093,203	1,751,947	1,786,782	1,950,435	2,033,751		
-	-	-	-	-	-	-	
	71,439,417	73,176,471	72,090,248	85,062,621	70,912,042	66,535,730	
	1,812,012	1,455,323	1,388,380	920,857	502,048	751,685	
\$ 73,251,429	\$ 74,631,794	\$ 73,478,628	\$ 85,983,478	\$ 71,414,090	\$ 67,287,415		
\$	9,697,383	\$ 3,866,997	\$ (2,946,186)	\$ 9,937,425	\$ (5,566,331)	\$ (5,629,310)	
	(411,302)	(1,410,543)	(5,541,171)	(2,010,167)	(3,377,955)	(2,937,370)	
\$ 9,286,081	\$ 2,456,454	\$ (8,487,357)	\$ 7,927,258	\$ (8,944,286)	\$ (8,566,680)		

City of Sterling Heights, Michigan

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011 (I)	2012
General Fund:										
Reserved	\$ 580,930	\$ 593,593	\$ 655,400	\$ 662,581	\$ 679,962	\$ 643,564	\$ 767,986	\$ 1,005,948	\$ -	\$ -
Unreserved	17,641,156	19,057,927	13,345,638	14,387,663	15,037,933	14,649,346	14,439,075	11,522,975	-	-
Nonspendable	-	-	-	-	-	-	-	-	861,449	823,640
Assigned	-	-	-	-	-	-	-	-	5,500,280	973,137
Unassigned	-	-	-	-	-	-	-	-	4,629,487	3,451,703
Total General Fund	<u>\$ 18,222,086</u>	<u>\$ 19,651,520</u>	<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>
All other governmental funds:										
Reserved	\$ 1,060,623	\$ 1,027,906	\$ 735,565	\$ 1,536,063	\$ 534,266	\$ 5,321,181	\$ 468,719	\$ 596,419	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	15,588,126	10,981,941	5,168,955	2,547,940	5,810,853	6,950,614	4,665,274	5,168,942	-	-
Debt service funds	277,483	248,467	236,999	284,417	118,705	92,441	488,981	379,377	-	-
Capital projects funds	3,866,901	2,861,154	3,446,888	3,756,197	2,662,224	2,011,345	2,720,603	3,021,463	-	-
Nonspendable	-	-	-	-	-	-	-	-	463,096	219,826
Restricted	-	-	-	-	-	-	-	-	4,730,650	6,366,964
Committed	-	-	-	-	-	-	-	-	733,573	623,578
Assigned	-	-	-	-	-	-	-	-	2,113,709	1,181,275
Total all other governmental funds	<u>\$ 20,793,133</u>	<u>\$ 15,119,468</u>	<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>

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

City of Sterling Heights, Michigan

	2003	2004	2005	2006
Revenue				
Property taxes	\$ 46,791,310	\$ 48,495,510	\$ 50,357,630	\$ 52,574,000
Fees and permits	2,036,864	2,318,120	2,012,360	1,986,333
Federal sources	752,977	1,629,936	2,069,321	3,198,148
State and local sources	20,161,887	20,176,008	19,607,043	19,721,028
Fines and forfeitures	2,587,756	3,069,824	2,995,613	2,890,745
Charges for services	5,875,269	6,334,722	6,695,039	7,795,120
Interest income	1,760,354	567,049	977,664	1,788,092
Special assessments	68,497	372,917	73,776	28,017
Rental income	1,253,148	1,298,796	1,566,845	1,357,037
Cable revenue	1,120,768	1,224,778	1,319,937	1,371,831
Reimbursement of advance road construction	-	-	-	-
Other	1,927,055	2,758,591	1,980,022	1,731,700
 Total revenue	 84,335,885	 88,246,251	 89,655,250	 94,442,051
Expenditures				
Current:				
General government	8,733,703	9,091,026	10,042,438	10,109,764
41A District Court	2,173,817	2,342,220	2,472,160	2,660,587
Public safety	33,857,315	35,779,556	38,346,169	39,440,275
Public works	18,334,751	18,280,775	21,418,948	18,545,503
Recreation and culture	4,447,809	4,553,035	4,669,116	4,868,429
General expenditures	2,771,249	3,388,336	2,651,054	3,555,955
Capital outlay	11,763,846	13,041,634	12,476,405	10,576,821
Debt service:				
Principal	4,466,382	4,436,681	5,056,539	5,030,000
Interest	1,968,669	1,827,203	2,334,584	2,479,375
 Total expenditures	 88,517,541	 92,740,466	 99,467,413	 97,266,709
Excess of Expenditures Over Revenue				
	(4,181,656)	(4,494,215)	(9,812,163)	(2,824,658)
Other Financing Sources (Uses)				
Long-term financing	4,916,772	30,355,000	13,720,000	-
Proceeds from sale of fixed assets	-	-	476,081	550,074
Bond premium	-	975,374	91,759	-
Net payments to refunded bond escrow				
agent and bond issuance costs	(4,916,772)	(5,075,000)	(8,511,067)	-
Transfers in	8,807,280	6,462,170	8,354,684	9,931,683
Transfers out	(8,807,280)	(6,462,170)	(6,639,684)	(8,071,683)
 Total other financing sources	 -	 26,255,374	 7,491,773	 2,410,074
Net Change in Fund Balances - Before extraordinary items				
	(4,181,656)	21,761,159	(2,320,390)	(414,584)
Extraordinary Items - Lawsuit settlement payments				
	-	(25,000,000)	(6,000,000)	-
Net Change in Fund Balances				
	\$ (4,181,656)	\$ (3,238,841)	\$ (8,320,390)	\$ (414,584)
Debt Service as a Percentage of Noncapital Expenditures				
	8.38%	7.86%	8.50%	8.66%

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

2007	2008	2009	2010	2011	2012
\$ 55,624,617	\$ 58,331,682	\$ 57,875,942	\$ 56,801,306	\$ 59,045,208	\$ 53,149,713
1,784,156	1,352,594	960,683	1,194,707	1,438,197	2,271,967
2,755,145	1,001,641	1,419,052	2,789,569	3,085,016	2,661,338
19,894,287	18,939,977	18,505,491	17,114,177	17,184,734	18,065,838
2,563,520	2,755,701	2,836,556	3,618,574	3,353,875	2,770,160
8,038,601	7,988,183	7,896,549	8,598,054	8,583,882	8,443,205
2,511,234	2,316,653	1,580,754	582,435	308,422	672,239
130,082	92,745	243,123	215,118	203,298	254,977
1,443,651	1,727,929	1,798,484	1,429,222	1,685,041	1,508,954
1,527,988	1,671,094	1,771,978	1,799,495	1,950,435	2,033,751
	2,440,414				
1,511,396	1,755,645	2,007,807	1,898,739	1,526,205	2,044,415
97,784,677	100,374,258	96,896,419	96,041,396	98,364,313	93,876,557
10,562,158	11,244,018	9,534,712	9,000,797	8,613,941	8,571,928
2,847,111	2,974,001	3,150,155	3,221,815	3,246,811	3,252,852
41,610,977	44,435,670	46,327,145	49,130,527	50,929,421	52,297,573
18,734,562	20,134,496	21,273,705	20,321,669	21,034,821	18,680,870
5,180,497	5,358,825	5,321,281	4,747,596	4,603,108	4,489,169
3,791,084	2,945,761	2,793,240	2,814,058	2,540,873	2,766,125
14,756,585	7,402,019	13,212,947	4,694,663	4,867,162	4,275,883
14,000,000	5,685,000	5,730,000	15,235,000	3,970,000	3,940,000
2,336,756	1,938,403	1,987,533	1,628,030	1,221,055	1,098,474
113,819,730	102,118,193	109,330,718	110,794,155	101,027,192	99,372,874
(16,035,053)	(1,743,935)	(12,434,299)	(14,752,759)	(2,662,879)	(5,496,317)
7,900,000	5,000,000	3,260,000	3,810,000	-	3,780,000
-	-	149,466	115,724	-	-
26,815	50,143	-	33,935	-	274,196
-	-	-	(2,200,000)	-	(3,950,000)
18,458,535	9,716,170	11,319,369	16,194,395	3,953,940	3,526,740
(8,681,215)	(8,197,830)	(8,412,389)	(5,056,810)	(3,953,940)	(3,526,740)
17,704,135	6,568,483	6,316,446	12,897,244	-	104,196
1,669,082	4,824,548	(6,117,853)	(1,855,515)	(2,662,879)	(5,392,121)
\$ 1,669,082	\$ 4,824,548	\$ (6,117,853)	\$ (1,855,515)	\$ (2,662,879)	\$ (5,392,121)
16.49%	8.06%	8.05%	15.91%	5.41%	5.34%

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	
	Police and Fire Retirement System		Total	General Drain	Voted Tax		General Obligation	Total		
	Operating	Refuse			General Obligation	Total				
2003	\$ 36,500,172	\$ 4,660,074	\$ 2,746,657	\$ 43,906,903	\$ 1,435,644	\$ 1,448,763	\$ 2,884,407	\$ 46,791,310		
2004	37,409,166	4,881,818	3,564,147	45,855,131	1,536,014	1,104,365	2,640,379	48,495,510		
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		

City of Sterling Heights, Michigan

Property Tax Levies and Collections Last Ten Fiscal Years

Tax Year	Fiscal Year Ended June 30	Total Tax Levy (1)	Collected Within the Fiscal Year of the Levy		Subsequent Collection of Delinquent Taxes	Total Collections	
			Amount	Percentage of Levy		to Date Amount	Percentage of Levy
2003	2004	\$ 48,561,542	\$ 47,590,646	98.00	\$ 680,399	\$ 48,271,045	99.40
2004	2005	50,166,920	49,462,142	98.60	679,140	50,141,282	99.95
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	99.93
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 (2)	53,881,497	97.53	1,250,043	55,131,540	99.80
2012	2013	52,040,352					

(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

Fiscal Year (Tax Year)	City Direct Rates							Overlapping Rates						
	Operating		Police and Fire Retirement System			Public Drain Debt Service		Macomb	Macomb	Huron/ Clinton	County	Veterans	Macomb County	
	(I)	Refuse	Drain	Debt	Improvement	Total	Intermediate School District	Community College	Metro Authority	S.M.A.R.T.	Zoo Authority	Operations	Operating	Drain Debt Service
2003 (2002)														
Homestead	8.2923	1.0587	0.6240	0.3264	0.3286	10.6300	2.9863	1.6925	0.2170	0.6000	0.0000	0.0000	4.2000	0.0058
Non-homestead	8.2923	1.0587	0.6240	0.3264	0.3286	10.6300	2.9863	1.6925	0.2170	0.6000	0.0000	0.0000	4.2000	0.0058
2004 (2003)														
Homestead	8.1963	1.0696	0.7809	0.3366	0.2416	10.6250	2.9729	1.5859	0.2161	0.5973	0.0000	0.0000	4.2000	0.0058
Non-homestead	8.1963	1.0696	0.7809	0.3366	0.2416	10.6250	2.9729	1.5859	0.2161	0.5973	0.0000	0.0000	4.2000	0.0058
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	4.2000	0.0058
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	4.2000	0.0058
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	4.2000	0.0058
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	4.2000	0.0058
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	4.2000	0.0055
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	4.2000	0.0055
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	4.2000	0.0055
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	4.2000	0.0055
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	4.2000	0.0055
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	4.2000	0.0055
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	4.5685	0.0050
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	4.5685	0.0050
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	4.5685	0.0050
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	4.5685	0.0050
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	4.5685	0.0050
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	4.5685	0.0050

(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, 2010.

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	
Utica Community School District (2)				Warren Consolidated School District (2)				District			
State Education Tax	State			Education Tax	State			Utica Community	Warren Consolidated		
	Operating/ Local	Supplemental	Debt		Operating/ Local	Supplemental	Sinking				
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	7.4662	0.9964	2.5000	29.8316	37.2942	
6.0000	18.0000	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.5000	47.8316	47.8280	
5.0000	0.0000	0.0000	3.5000	5.0000	0.0000	7.3342	0.9964	2.3500	28.7030	35.8836	
5.0000	18.0000	0.0000	3.5000	5.0000	18.0000	0.0000	0.9964	2.3500	46.7030	46.5494	
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	6.7662	0.9964	2.2800	29.6028	36.1454	
6.0000	18.0000	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.6028	47.3792	
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	6.7166	0.9964	2.2800	29.5008	35.9938	
6.0000	17.9316	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.4324	47.2772	
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	6.5530	0.9964	2.2800	29.5993	35.9287	
6.0000	17.9316	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.5309	47.3757	
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	5.9594	0.9964	2.2800	29.5993	35.3351	
6.0000	17.9316	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.5309	47.3757	
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	5.2688	0.9964	2.1500	29.8001	34.7153	
6.0000	17.9316	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.1500	47.7317	47.4465	
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	5.7814	0.9964	2.1500	30.1681	35.5959	
6.0000	17.9316	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.1500	48.0997	47.8145	
6.0000	0.0000	0.0000	3.7500	6.0000	0.0000	6.8226	0.9964	2.4400	32.3181	39.5602	
6.0000	17.9316	0.0000	3.7500	6.0000	18.0000	0.0000	0.9964	2.4400	50.2497	50.1545	
6.0000	0.0000	0.0000	3.8500	6.0000	0.0000	7.4057	0.9964	2.4400	32.5681	39.5602	
6.0000	17.9316	0.0000	3.8500	6.0000	18.0000	0.0000	0.9964	2.4400	50.4997	50.1545	

City of Sterling Heights, Michigan

	2003	2004	2005	2006	2007
State Equalized Value					
SEV equivalent	\$ 5,272,934,560	\$ 5,553,761,050	\$ 5,754,101,500	\$ 5,997,740,400	\$ 6,230,684,225
IFT exemption	259,867,600	226,175,750	221,346,700	225,091,700	223,376,725
Total SEV	\$ 5,532,802,160	\$ 5,779,936,800	\$ 5,975,448,200	\$ 6,222,832,100	\$ 6,454,060,950
Taxable Value					
By Class:					
Real property	\$ 3,587,248,700	\$ 3,764,758,000	\$ 3,970,808,500	\$ 4,195,815,400	\$ 4,451,151,600
Personal property	1,071,358,000	1,025,224,600	968,119,700	949,766,100	944,127,850
Total value	\$ 4,658,606,700	\$ 4,789,982,600	\$ 4,938,928,200	\$ 5,145,581,500	\$ 5,395,279,450
By Type:					
Residential	\$ 2,685,708,600	\$ 2,820,357,100	\$ 2,990,452,700	\$ 3,151,356,400	\$ 3,327,952,350
Commercial	496,719,500	529,584,800	548,866,900	588,205,000	638,272,700
Industrial	373,247,900	383,343,100	397,910,200	416,252,900	445,399,650
Personal property	583,195,500	607,793,500	567,204,500	548,022,100	540,032,000
IFT real and personal property	519,735,200	448,904,100	434,493,900	441,745,100	443,622,750
Total	4,658,606,700	4,789,982,600	4,938,928,200	5,145,581,500	5,395,279,450
Less exempt property	(259,867,600)	(224,452,050)	(217,246,950)	(220,872,550)	(221,811,375)
Total taxable value	\$ 4,398,739,100	\$ 4,565,530,550	\$ 4,721,681,250	\$ 4,924,708,950	\$ 5,173,468,075
Total direct tax rate (I)	\$ 10.63000	\$ 10.62500	\$ 10.62500	\$ 10.62500	\$ 10.72500
Total taxable value as a percentage of SEV equivalent	83.42%	82.21%	82.06%	82.11%	83.03%
Total taxable value as a percentage of total value	94.42%	95.31%	95.60%	95.71%	95.89%

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

Source: City of Sterling Heights, Assessor's Office

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

2008	2009	2010	2011	2012
\$ 6,380,752,375	\$ 5,940,796,525	\$ 5,555,163,580	\$ 4,879,206,305	\$ 4,488,430,900
<u>290,426,725</u>	<u>255,549,975</u>	<u>239,402,825</u>	<u>223,651,575</u>	<u>204,669,200</u>
<u>\$ 6,671,179,100</u>	<u>\$ 6,196,346,500</u>	<u>\$ 5,794,566,405</u>	<u>\$ 5,102,857,880</u>	<u>\$ 4,693,100,100</u>
\$ 4,645,291,550	\$ 4,599,077,850	\$ 4,508,088,655	\$ 4,046,809,230	\$ 3,743,670,800
<u>1,053,774,300</u>	<u>1,007,788,550</u>	<u>986,259,050</u>	<u>917,612,350</u>	<u>874,496,200</u>
<u>\$ 5,699,065,850</u>	<u>\$ 5,606,866,400</u>	<u>\$ 5,494,347,705</u>	<u>\$ 4,964,421,580</u>	<u>\$ 4,618,167,000</u>
\$ 3,480,892,950	\$ 3,451,602,900	\$ 3,328,660,655	\$ 2,920,197,630	\$ 2,714,198,550
<u>692,716,600</u>	<u>706,330,000</u>	<u>726,513,650</u>	<u>704,190,150</u>	<u>651,408,200</u>
<u>430,477,050</u>	<u>405,605,650</u>	<u>416,847,650</u>	<u>388,756,200</u>	<u>348,879,800</u>
<u>515,469,150</u>	<u>532,258,650</u>	<u>545,007,250</u>	<u>504,729,350</u>	<u>494,463,050</u>
<u>579,510,100</u>	<u>511,069,200</u>	<u>477,318,500</u>	<u>446,548,250</u>	<u>409,217,400</u>
<u>5,699,065,850</u>	<u>5,606,866,400</u>	<u>5,494,347,705</u>	<u>4,964,421,580</u>	<u>4,618,167,000</u>
<u>(289,755,050)</u>	<u>(255,534,600)</u>	<u>(238,659,250)</u>	<u>(223,274,125)</u>	<u>(204,608,700)</u>
<u>\$ 5,409,310,800</u>	<u>\$ 5,351,331,800</u>	<u>\$ 5,255,688,455</u>	<u>\$ 4,741,147,455</u>	<u>\$ 4,413,558,300</u>
<u>\$ 10.72500</u>	<u>\$ 10.78580</u>	<u>\$ 10.78580</u>	<u>\$ 12.68580</u>	<u>\$ 12.68580</u>
84.78%	90.08%	94.61%	97.17%	98.33%
94.92%	95.44%	95.66%	95.50%	95.57%

City of Sterling Heights, Michigan

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

Company Name	Product/Service	Year Ended June 30, 2012			Year Ended June 30, 2003		
		Taxable Value	Rank	Percent of Total City Taxable Value	Taxable Value	Rank	Percent of Total City Taxable Value
				Value			Value
Ford Motor Company	Automotive manufacturing and drive shafts	\$ 220,045,725	1	4.99	\$ 118,638,950	3	2.70
Chrysler Group LLC	Automotive assembly and stamping	216,686,200	2	4.91	264,000,350	1	6.00
DTE Energy	Public electric utility	35,122,950	3	0.80	46,075,200	4	1.05
General Dynamics	Administrative engineering and design	31,434,775	4	0.71	27,700,800	6	0.63
Lakeside Associates	Retail shopping center	28,722,150	5	0.65	31,765,800	5	0.72
Detroit Media Partnership	Printing plant - Newspapers	28,494,950	6	0.65	16,861,700	8	0.38
Laurel/Shoal Creek	Office and apartment complex	18,361,300	7	0.42	15,449,500	10	0.35
Comcast Communications	Cable communications	15,807,850	8	0.36	11,784,300	15	0.27
Ledd's Development	Office and business complex	12,708,000	9	0.29	15,891,000	9	0.36
NJT Enterprises	Retail shopping center	12,609,775	10	0.29	-	-	-
Visteon Corporation	Automotive axles and shafts	-	-	-	167,464,850	2	3.81
Consumers Energy	Public utility for gas	-	-	-	19,074,000	7	0.43
	Ten largest taxpayers	619,993,675	<u>14.07</u>		734,706,450		<u>16.70</u>
	Other taxpayers	<u>3,793,564,625</u>			<u>3,664,032,650</u>		
	Total taxable value	<u>\$ 4,413,558,300</u>			<u>\$ 4,398,739,100</u>		

Source: City of Sterling Heights Assessor's 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			Percentage of Estimated Total Taxable Value of Property (I)			Per Capita
	General Obligation Bonds	County Issued Bonds	Amounts Available in Debt Service Funds	County Issued Bonds	Total Primary Government	Population				
2003	\$ 9,125,000	\$10,403,220	\$ (15,300)	\$ -	\$ 19,512,920	0.4436	126,470	\$154.29		
2004	33,745,000	9,936,539	(8,007)	-	43,673,532	0.9566	127,270	343.16		
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	8,820,000	4,635,000	(9,821)	3,702,531	17,147,710	0.3263	128,500	133.45		
2011	7,880,000	3,655,000	(11,873)	27,799,300	39,322,427	0.8294	129,699	303.18		
2012	6,905,000	2,630,000	(22,232)	36,565,773	46,078,541	1.0440	129,699	355.27		

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

(I) 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 (I)	Population	Per Capita
	General Obligation Bonds	Michigan Transportation Bonds	Special Assessment Bonds	County- issued Bonds	County- issued Bonds						
2003	\$ 9,125,000	\$ 18,995,000	\$ 575,000	\$ 10,403,220	\$ -	\$ 39,098,220	1.24%	126,470	\$ 309.15		
2004	33,745,000	15,910,000	350,000	9,936,539	-	59,941,539	1.80%	127,270	470.98		
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	59,359,068	1.89%	129,699	457.67		
2012	6,905,000	12,170,000	2,960,000	2,630,000	39,281,958	63,946,958	2.04%	129,699	493.04		

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

(I) 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, 2012

Direct Debt

General Obligation Bonds

04/27/05	Limited Tax	\$ 2,130,000
04/01/07	Limited Tax	325,000
06/09/08	Fire Stations, UT	<u>4,450,000</u> \$ 6,905,000

Michigan Transportation Fund Bonds

12/09/03	Refunding Bonds, Series 2003	245,000
04/05/05	Refunding Bonds, Series 2005	1,500,000
04/01/07	Bonds	3,900,000
03/02/10	Refunding Bonds, Series 2010	1,195,000
06/22/10	Recovery Zone Bonds, Series 2010	1,550,000
02/07/12	Refunding Bonds, Series 2012	<u>3,780,000</u> 12,170,000

Special Assessment Bonds

08/03/08	Improvements	2,960,000
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Share of County-issued Drain Bonds

	Macomb County utility drains	<u>2,630,000</u>
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Total direct debt outstanding 24,665,000

Indirect Debt

Share of County-issued Drain Bonds

Macomb County - Series A MID	25,891,487
MID District - 2008 North Gratiot	2,476,023
MID District - 2010 North Gratiot	240,162
Oakland County (OMID)	1,036,402
MID District - Clintondale Pump Station	<u>9,637,884</u> 39,281,958

Total direct and indirect debt outstanding 63,946,958

Less:

MTF Bonds	12,170,000
Special Assessment Bonds	2,960,000
MID District Special Assessments	<u>2,716,185</u> 17,846,185

Net direct and indirect debt outstanding 46,100,773

Overlapping Debt

40.25% Utica Community School District	188,200,000	75,750,500
44.50% Warren Consolidated School District	167,315,000	74,455,175
16.28% Macomb County at large	48,123,069	7,834,436
16.28% Macomb Community College	11,720,000	<u>1,908,016</u>

Total overlapping debt 159,948,127

Net direct and indirect debt outstanding and overlapping debt \$ 206,048,900

Source: Municipal Advisory Council of Michigan, Detroit, Michigan

City of Sterling Heights, Michigan

Legal Debt Margin
June 30, 2012

Valuation for debt limit:

2011 state equalized value (2012 fiscal year)	\$ 4,283,761,700
Addback of assessed value equivalent - 2011 SEV of Act 198 exemptions	<u>409,338,400</u>

Total valuation for debt limit	<u>\$ 4,693,100,100</u>
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Debt limit (10 percent of state equalized valuation and equivalent) (1)	\$ 469,310,010
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Debt applicable to limit:

Amount of total direct outstanding debt	\$ 63,946,958
Less: Michigan Transportation Fund Bonds	12,170,000
Special Assessment Bonds	2,960,000
MID District Special Assessments	<u>2,716,185</u>

Net debt applicable limit	<u>46,100,773</u>
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Legal debt margin	<u>\$ 423,209,237</u>
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(1) Debt limit set forth in Section 4a, Act 279 of 1909 and Act 202, P.A. 1943, as amended by Act 42, P.A. 1960

City of Sterling Heights, Michigan

Legal Debt Margin Information Last Ten Fiscal Years

	Fiscal Year				
	2003	2004	2005	2006	2007
Debt limit	\$ 553,280,216	\$ 577,993,680	\$ 597,544,820	\$ 622,283,210	\$ 645,406,095
Total net debt applicable to limit	<u>(19,528,220)</u>	<u>(43,681,539)</u>	<u>(40,795,000)</u>	<u>(37,935,000)</u>	<u>(28,915,000)</u>
Legal debt margin	<u>\$ 533,751,996</u>	<u>\$ 534,312,141</u>	<u>\$ 556,749,820</u>	<u>\$ 584,348,210</u>	<u>\$ 616,491,095</u>
Total net debt applicable to the limit as a percentage of debt limit	3.53%	7.56%	6.83%	6.10%	4.48%

	Fiscal Year				
	2008	2009	2010	2011	2012
Debt limit	\$ 667,117,910	\$ 619,634,650	\$ 579,456,641	\$ 510,285,788	\$ 469,310,010
Total net debt applicable to limit	<u>(30,130,000)</u>	<u>(26,575,000)</u>	<u>(17,157,531)</u>	<u>(39,334,300)</u>	<u>(46,100,773)</u>
Legal debt margin	<u>\$ 636,987,910</u>	<u>\$ 593,059,650</u>	<u>\$ 562,299,110</u>	<u>\$ 470,951,488</u>	<u>\$ 423,209,237</u>
Total net debt applicable to the limit as a percentage of debt limit	4.52%	4.29%	2.96%	7.71%	9.82%

City of Sterling Heights, Michigan

Pledged Revenue Coverage Last Ten Fiscal Years

Limited Tax Obligation Bonds						
Fiscal Year Ended	Collections	Debt Service			Total	Coverage
		Principal	Interest			
2003	\$ 683,173	\$ 375,000	\$ 306,723	\$ 681,723		1.002
2004	668,476	305,000	288,102	593,102		1.127
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	608,678	495,000	113,291	608,291		1.001
Michigan Transportation Fund Bonds						
Fiscal Year Ended	Collections	Debt Service			Total	Coverage
		Principal	Interest			
2003	\$ 3,397,164	\$ 1,758,227	\$ 1,060,828	\$ 2,819,055		1.205
2004	3,655,236	1,855,000	837,354	2,692,354		1.358
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
Special Assessment Bonds						
Fiscal Year Ended	Collections (I)	Debt Service			Total	Coverage (I)
		Principal	Interest			
2003	\$ 120,853	\$ 200,000	\$ 33,188	\$ 233,188		0.518
2004	105,391	225,000	22,875	247,875		0.425
2005	27,200	225,000	12,338	237,338		0.115
2006	-	125,000	3,125	128,125		-
2007	-	-	-	-		-
2008	-	-	-	-		-
2009	331,654	-	-	-		-
2010	629,640	100,000	127,000	227,000		3
2011	608,980	100,000	123,400	223,400		2.726
2012	626,541	100,000	120,400	220,400		2.843

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

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Demographic and Economic Statistics Last Ten Fiscal Years

Fiscal Year Ended June 30	Estimated Population (1)	Median Age (2)	Education Age 25 or Older (2)			Per Capita Income (2)/(4)	Income (in thousands)	Number of Households (2)	Median	
			High School Graduate or Higher	Bachelor's Degree or Higher					Household Income (1)	Unemployment Rate (3)/(4)
2003	126,470	35-39	84.0%	22.9%	\$ 25,806	\$ 3,263,685	48,990	\$ 60,494	5.3%	
2004	127,270	35-39	84.0%	22.9%	26,193	3,333,583	49,260	60,494	5.4%	
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%	

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

Income Characteristics	
Household Income	Number of Households
Less than \$14,999	4,947
\$15,000 - \$34,999	10,260
\$35,000 - \$49,999	7,827
\$50,000 - \$74,999	9,638
\$75,000 - \$99,999	7,914
\$100,000 or more	8,732

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

Labor Characteristics	
By Occupation:	Number of Employees
Management, professional, and related	19,876
Service	8,217
Sales and office	17,730
Natural resources, construction, and maintenance	3,472
Production, transportation, and material moving	7,805
Total	57,100

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

By Industry:	
Construction	2,606
Manufacturing	10,765
Wholesale trade	1,523
Retail trade	8,382
Transportation, warehousing, and utilities	2,899
Information	1,040
Finance, insurance, real estate, rental, and leasing	2,775
Professional, scientific, management, administrative, and waste management services	5,000
Educational, health, and social services	12,155
Arts, entertainment, recreation, accomodation, and food services	4,020
Other professional and related services	3,046
Public administration	2,889
Total	57,100

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

Educational Characteristics	
Households:	Number
With earnings	39,074
With Social Security income	14,105
With retirement income	11,047
With supplemental security income	2,208
With cash public assistance income	1,457
With food stamps/SNAP benefits	5,826

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, 2012			Year Ended June 30, 2003		
		Employees	Rank	Total City Employment	Employees	Rank	Total City Employment
General Dynamics	Defense-related manufacturing	2,700	1	4.65%	1,425	6	2.12%
Chrysler Group LLC	Automotive assembly and stamping	2,500	2	4.31%	6,875	1	10.24%
Lakeside Associates	Retail shopping center	2,000	3	3.44%	2,500	4	3.72%
Ford Motor Company	Automotive axles and chassis components	1,500	4	2.58%	1,250	7	1.86%
Utica Community Schools	Education (1)	1,150	5	1.98%	4,150	2	6.18%
Detroit Media Partnership	Printing plant - Newspapers (3)	1,000	6	1.72%	1,200	8	1.79%
Warren Consolidated Schools	Education (1)	790	7	1.36%	2,200	5	3.28%
Henry Ford Health System	Healthcare provider (3)	600	8	1.03%			
City of Sterling Heights	Local government	458	9	0.79%	643	12	0.96%
Miliken Millwork, Inc.	Wooden and stainless steel doors and stairs	500	10	0.86%	-		
Kuka Flexible Production Systems, Inc.	Automotive interior	450	11	0.78%	-		
U.S. Farathane Corporation	Paints and finishes	450	12	0.78%	550	14	0.82%
Faurecia	Interior systems	400	13	0.69%	-		
Mayco Plastics	Plastic injection moldings	400	14	-	-		
Key Safety Systems	Safety systems	400	15	-	-		
Cadillac Products, Inc.	Plastic bags, sheets, paper	-			750	10	1.12%
MNP	Nut, bolt, and wire manufacturer	-			1,200	9	1.79%
T.R.W.	Auto subcomponent assembly	-			720	11	1.07%
Visteon Corporation	Automotive axles and drive shafts	-			2,800	3	4.17%
Collins & Aikman	Automotive interiors	-			580	13	0.86%
Lamar Modular & Plastics Division	Plastic injections	-			389	15	0.58%
	Fifteen largest employers	15,298		26.35%	27,232		40.56%
	Other employers	42,759		73.65%	39,900		59.44%
	Total employment (2)	58,057			67,132		

(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 Energy, Labor & Economic Growth, Department of Labor and Statistics

(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									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government										
Election Data										
Registered voters	79,100	79,221	83,461	83,910	83,639	84,082	88,258	85,345	85,953	86,231
Voters at polls	30,309	10,445	45,608	7,654	34,405	3,842	44,074	10,138	39,285	13,020
Absentee ballots	8,908	7,113	14,801	7,605	11,904	7,556	16,972	7,963	11,037	8,299
Percent voting	49.58%	22.16%	72.38%	18.18%	55.37%	13.56%	69.17%	21.00%	46.00%	25.00%
41A District Court										
Court Cases										
Civil	2,300	2,508	2,709	2,862	3,239	3,867	3,947	3,816	4,037	3,760
Criminal	5,920	4,782	3,994	4,211	4,533	5,677	4,922	4,818	4,254	3,654
Landlord and tenant	2,200	2,285	2,203	2,226	2,433	2,471	2,653	2,407	2,442	2,610
Small claims	612	610	513	488	432	425	524	448	451	404
Traffic	25,044	27,282	25,338	24,256	27,143	27,709	30,422	35,540	31,074	22,924
Public Safety										
Police Protection										
Adult arrests	2,988	2,707	2,406	2,560	3,326	3,747	3,079	3,000	2,691	2,686
Civil infractions	18,450	18,605	23,627	23,819	26,582	27,596	29,855	32,724	29,315	20,670
Group A offenses (2)	6,897	6,260	6,474	7,926	7,873	7,361	6,686	6,484	5,769	3,890
Group B offenses (3)	2,424	3,623	4,170	4,609	4,491	3,433	2,632	2,370	1,960	1,652
Injury accidents	766	884	862	810	806	1,004	824	704	752	616
Juvenile arrests	225	246	183	239	251	174	156	173	159	143
OUIL arrests	405	412	361	375	328	340	414	394	297	199
Parking violations	2,293	1,696	1,713	1,730	2,016	1,706	1,702	1,992	1,125	585
Property damage	3,317	3,637	3,669	3,663	3,415	4,353	3,191	3,071	3,408	2,849
Private property damage	1,419	1,426	1,439	1,304	1,322	1,133	1,037	944	846	820
Total traffic violations	27,012	24,208	26,972	25,379	29,166	30,484	32,154	37,022	32,752	24,109
Fire Protection										
Emergency alarms answered	5,966	9,215	9,292	9,573	10,261	10,500	10,480	10,383	11,062	11,589
Fire inspections conducted	3,871	4,427	3,832	4,204	4,624	3,767	3,874	2,859	2,288	1,029
Inspection violations issued	3,225	4,451	3,697	6,020	10,292	9,391	7,495	5,831	4,397	2,067
Medical emergencies	5,888	6,551	6,719	6,927	7,493	7,691	7,745	7,693	8,617	8,948
Training hours completed	32,839	34,583	35,809	34,124	33,538	33,857	31,121	30,955	29,986	23,230
Recreation and Culture										
Parks and Recreation										
Adult athletics attendance	14,150	13,980	15,825	19,480	18,782	20,135	15,360	25,477	21,301	21,221
Instructional rec. attendance	24,330	24,285	24,970	28,070	26,567	25,666	24,795	23,999	23,933	27,132
Nature program attendance	27,290	28,350	29,362	22,748	24,582	24,399	23,321	27,708	23,374	21,318
Senior program attendance	121,990	126,280	111,020	111,610	109,528	109,970	116,564	117,570	102,577	103,663
Special event attendance	68,480	68,500	71,930	72,725	73,000	73,100	74,449	65,551	72,321	62,015
Special recreation program attendance	15,700	15,870	15,895	16,870	14,878	16,060	15,679	11,351	10,803	10,766
Summer playground attendance	19,120	15,600	11,646	9,992	11,025	14,094	11,370	7,565	12,160	11,144
Library										
Book van deliveries	9,759	12,623	12,844	12,820	11,242	9,318	8,818	7,909	7,367	4,547
Community meeting room reservations	N/A	295	150	299	341	384	1,200	1,289	1,209	1,463
In-house materials usage	190,771	159,897	139,897	140,033	144,698	139,973	121,907	93,714	107,155	133,539
Interlibrary loan requests	86,855	88,657	99,078	109,995	120,393	123,142	125,167	110,778	97,588	93,068
Interlibrary loans - Lent	70,782	75,931	89,405	100,260	109,814	113,947	117,671	105,692	87,255	82,094
Items circulated	687,070	662,579	641,730	648,967	635,425	616,323	625,688	627,496	614,905	600,445
Library visits	309,531	371,398	388,706	417,601	420,716	442,768	581,046	560,035	484,259	453,690
Online computer uses	296,414	357,869	441,111	456,752	492,979	514,794	552,503	583,260	610,054	768,815
Program attendance	23,046	22,034	22,780	21,275	25,470	36,204	37,639	31,664	23,184	22,168
Reference transactions	137,941	132,104	141,056	133,617	132,557	141,610	148,978	131,039	120,873	93,243
Registered borrowers	53,435	53,476	57,050	50,390	50,599	51,098	52,043	53,114	53,181	52,733

City of Sterling Heights, Michigan

Operating Indicators by Function (Continued) Last Ten Fiscal Years

	Fiscal Year									
	2003	2004	2005	2006 (4)	2007	2008	2009	2010	2011	2012
Water and Sewer Services										
Customers: (5)										
Residential	34,302	34,529	34,535	34,850	35,021	35,048	34,811	34,846	34,869	34,995
Commercial/Industrial	3,582	3,741	4,185	4,272	4,477	4,539	4,233	4,234	4,126	4,262
Water (in thousand cubic feet):										
Purchased from Detroit	885,283	828,398	867,931	803,969	775,817	786,726	716,384	659,817	683,223	695,711
Sold to residents	881,780	815,645	811,252	852,661	789,033	827,893	711,126	667,792	692,621	677,554
Rates (per thousand): (4)										
1,000 CU. FT.	\$ 22.77	\$ 22.72	\$ 25.42	\$ 27.13	\$ 28.64	\$ 30.74	\$ 31.94	\$ 37.22	\$ 40.59	\$ 42.07
Next 2,000 CU.FT.	21.28	(1)	(1)	27.13	28.64	30.74	31.94	37.22	40.59	42.07
Over 3,000 CU.FT.	20.57	(1)	(1)	27.96	29.50	31.67	32.90	38.32	41.77	46.18
Sewer only - Per billing	15.00	15.00	15.00	15.00	25.00	30.00	35.00	45.00	50.00	55.00

(1) During July 1, 2003 - 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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government										
Buildings										
City Center Commons										
41A District Court										
Public Safety										
Police Protection										
Stations										
Vehicles - Marked	48	48	49	49	49	54	54	54	54	51
Vehicles - Unmarked	68	68	68	80	82	79	77	64	63	65
Fire Protection										
Stations	5	5	5	5	5	5	5	5	5	5
Vehicles - Extinguishment	13	14	14	14	15	16	16	16	16	16
Public Works										
Streets and Sidewalks										
Miles of City:										
Primary streets	60	60	60	60	60	60	63	63	63	63
Secondary streets	285	285	286	287	289	289	286	286	286	286
Sidewalks	565	565	566	605	607	608	609	609	610	610
Bridges	11	11	11	11	11	11	11	11	11	11
Buildings	2	2	2	2	2	2	2	2	2	2
Street lights	2,495	2,475	2,472	2,508	2,513	2,520	2,520	2,520	2,520	2,530
Vehicles - Snow plows	21	21	21	20	21	22	22	23	22	22
Water and Sewer Services										
Fire hydrants	6,597	6,633	6,796	6,932	7,015	7,050	7,162	7,203	7,221	7,238
Miles of water mains	544	554	558	563	569	570	573	574	575	576
Miles of sanitary sewers	415	415	422	424	428	429	430	430	430	430
Recreation and Culture										
Parks and Recreation										
Acres	820	820	820	820	820	820	820	820	820	820
Developed parks	28	28	28	28	28	28	28	28	28	28
Buildings	3	3	3	3	3	3	3	3	3	3
Library										
Book collections	197,472	186,992	189,822	190,791	188,365	197,412	199,968	203,593	204,977	208,102
Other collections (I)	28,250	24,622	23,937	23,776	35,619	36,619	37,344	37,051	37,603	42,507
Buildings										
Vehicles - Library van										

(I) 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	
2003	763	\$ 76,609,958	1,078	\$ 3,017,213	\$ 79,627,171
2004	631	59,756,113	787	2,218,100	61,974,213
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

Fiscal Year Ended June 30	Commercial				Total Commercial
	New Construction		Additions/Improvements		
	Number	Value	Number	Value	
2003	19	\$ 17,228,169	265	\$ 18,095,804	\$ 35,323,973
2004	29	28,123,162	272	59,264,545	87,387,707
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

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

<u>Function</u>	Full-time and Part-time Employees as of June 30									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government	97	95	95	94	95	83	78	71	74	60
41A District Court	36	38	38	40	40	40	39	40	40	39
Public safety:										
Police	259	258	259	260	260	261	259	251	243	228
Fire	107	107	107	108	108	106	106	104	101	91
Public works:										
City development (2)	50	50	50	32	32	37	32	32	24	19
Public works	43	43	43	43	43	42	40	37	34	26
Street services	23	23	23	23	23	23	21	21	21	21
Engineering (1)	-	-	-	19	19	17	14	13	11	9
Recreation and culture:										
Parks and recreation	16	16	16	16	16	16	13	12	11	10
Library	41	41	41	41	41	42	42	42	41	38
Water and sewer	41	41	41	41	41	41	40	39	39	37
Total	713	712	713	717	718	708	684	662	639	578

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

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

Source: City of Sterling Heights

Continuing Disclosure

City of Sterling Heights, Michigan

State-shared Revenue Last Ten Fiscal Years

Fiscal Year Ended June 30	Modified Accrual Basis of Accounting	Accrual Basis of Accounting
2003	\$ 12,253,193	\$ 13,114,050
2004	11,405,282	11,249,778
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

Gas and Weight Taxes Last Ten Fiscal Years

Fiscal Year Ended June 30	Type of Street		Total Gas and Weight Tax (Act 51) Receipts
	Major Roads	Local Roads	
2003	\$ 4,937,259	\$ 1,857,068	\$ 6,794,327
2004	5,308,588	2,001,883	7,310,471
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

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Labor Agreements

Name	Contract Expiration Date	Actual Number of Employees Covered
Union Employees		
Technical/Office Employees Michigan Association of Public Employees (MAPE)	6/30/2014	66
Police Clerical Employees Michigan Association of Police (MAP)	6/30/2013	21
Emergency Dispatchers Police Officers Association of Michigan (POAM)	6/30/2012	24
Department of Public Works Field Employees Teamsters, Local 214	6/30/2014	52
Department of Public Works Supervisors AFSCME, Local 1917, Council 25	6/30/2014	6
Firefighters International Association of Firefighters, Local 1557	6/30/2012	86
Police Officers Michigan Association of Police (MAP)	6/30/2013	115
Police Command Officers Sterling Heights Police Command Officers Association	6/30/2012	34
Court Clerical AFSCME, Local 1884, Council 25	6/30/2013	22
Professional and Technical Employees United Auto Workers, Unit 40, Local 412	6/30/2013	42
Supervisory Employees United Auto Workers, Unit 41, Local 412	6/30/2014	12
Executive Employees Michigan Association of Public Employees (MAPE)	6/30/2014	6
Nonunion Employees		
City Manager	N/A	1
41A District Court Judges	N/A	3
41A District Court Administration	N/A	10
Human Resource Director	N/A	1