



Comprehensive Annual Financial Report

Richard J. Notte
Mayor

Joseph V. Romano
Mayor Pro Tem

Yvonne D. Kniaz
Councilwoman

Deanna Koski
Councilwoman

Maria G. Schmidt
Councilwoman

Michael C. Taylor
Councilman

Barbara A. Ziarko
Councilwoman

Mark D. Vanderpool
City Manager

Brian S. Baker
Finance and Budget Director

Leslie D. Reinhart, CPA
Controller

Rick J. Sanborn, CPA
City Treasurer

For the Fiscal Year Ended June 30, 2010

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

City of Sterling Heights, Michigan

Contents

Introductory Section

City Manager's Comprehensive Summary of Fiscal Year 2009/2010 and a Prospective Look at the Future of the City of Sterling Heights	i-iv
Letter of Transmittal	v-xi
GFOA Certificate of Achievement	xii
City Organization Chart	xiii
List of Principal Officials	xiv
Fund Organization Chart	xv

Financial Section

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-16
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities	18-19
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	20-21
Reconciliation of Fund Balances to the Statement of Net Assets	22
Statement of Revenue, Expenditures, and Changes in Fund Balances	23-24
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25
Proprietary Funds:	
Statement of Net Assets	26
Statement of Revenue, Expenses, and Changes in Net Assets	27
Statement of Cash Flows	28-29
Fiduciary Funds:	
Statement of Fiduciary Net Assets	30
Statement of Changes in Fiduciary Net Assets	31

City of Sterling Heights, Michigan

Contents (Continued)

Financial Section (Continued)

Component Units:	
Statement of Net Assets	32
Statement of Activities	33
Notes to Financial Statements	34-74
 <u>Supplemental Information</u>	
Required Supplemental Information	75
Budgetary Comparison Schedule - General Fund	76
Budgetary Comparison Schedule - Major Roads Fund	77
Budgetary Comparison Schedule - Community Development Block Grant Fund	78
Pension Systems Schedule of Funding Progress	79-81
Note to Required Supplemental Information	82-83
Other Financial and Supplemental Information	84
Nonmajor Governmental Funds:	85
Combining Balance Sheet	86-87
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	88-89
Budgetary Comparison Schedule	90-95
Major Funds:	96
Budgetary Comparison Schedule - Major Debt Service and Capital Projects Funds	97-98
Fiduciary and Agency Funds:	99
Combining Statement of Fiduciary Net Assets - Trust Funds	100
Combining Statement of Changes in Fiduciary Net Assets - Trust Funds	101
Combining Statement of Fiduciary Assets and Liabilities - Agency Funds	102
Combining Statement of Changes in Assets and Liabilities - Agency Funds	103

City of Sterling Heights, Michigan

Contents (Continued)

Statistical and Continuing Disclosure Section

Statistical Information and Continuing Disclosure Contents	104-105
Statistical Information	106
Financial Trends	
Net Assets by Component	107
Changes in Net Assets	108-109
Fund Balances of Governmental Funds	110
Changes in Fund Balances of Governmental Funds	111-112
General Governmental Tax Revenue by Source	113
Revenue Capacity	
Property Tax Levies and Collections	114
Property Tax Rates - Direct and Overlapping Governments	115-116
Assessed Taxable Values (History of Property Values)	117-118
Principal Property Taxpayers (Major Taxpayers)	119
Debt Capacity	
Ratios of General Bonded Debt Outstanding	120
Ratios of Outstanding Debt by Type	121
Direct and Overlapping Governmental Activities Debt	122
Legal Debt Margin	123
Legal Debt Margin Information	124
Pledged Revenue Coverage	125
Demographic and Economic Information	
Demographic and Economic Statistics	126
Miscellaneous Demographics	127
Principal Employers (Major Employers)	128
Operating Information	
Operating Indicators by Function	129-130
Capital Asset Statistics by Function	131
Building Permits at Market Value	132
Full-time Equivalent City Government Employees by Function	133
Continuing Disclosure	134
State-shared Revenue	135
Gas and Weight Taxes	135
Labor Agreements	136



Administration Building
40555 Utica Rd. / P.O. Box 8009
Sterling Heights, MI / 48311-8009

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

CITY COUNCIL
Mayor
Mayor Pro Tem
Councilwoman
Councilwoman
Councilwoman
Councilman
Councilwoman

Richard J. Notte
Joseph V. Romano
Yvonne D. Kniaz
Deanna Koski
Maria G. Schmidt
Michael C. Taylor
Barbara A. Ziarko

CITY MANAGER
Mark D. Vanderpool

CITY MANAGER'S SUMMARY OF FISCAL YEAR 2009/2010 AND A PROSPECTIVE LOOK AT THE FUTURE OF THE CITY OF STERLING HEIGHTS

Honorable Mayor, City Council, and Community Residents:

This executive summary for the City of Sterling Heights (the "City") serves as an overview of the City. Contained within this report is pertinent information about the City's community and economy during the past year, as well as a look to the future.

AN ESTABLISHED AND RESPECTED COMMUNITY

The City of Sterling Heights was incorporated July 1, 1968 operating under a Council-Manager form of government. The City is governed by a mayor and six-member City Council, who individually serve two-year terms. Under the Council-Manager form of government, the mayor and City Council appoint two officials: the city manager and the city attorney. The city manager is the chief administrative officer of the City and is responsible for its daily operations, while the City Attorney provides legal counsel to the City Council. The mayor and City Council also appoint residents to the boards and commissions to assist in implementing initiatives set forth by the Sterling Heights City Council. More than 170 volunteers dedicate their time and talents to the City's 28 boards, commissions, authorities, committees, as well as the Sterling Heights Community Foundation.

TO STRIVE ON BEHALF OF ALL

Recognized as a progressive city, Sterling Heights' elected officials and professional staff are committed to providing outstanding services to City residents. The City's elected and administrative officials occupy leadership roles in state, regional, and national organizations such as the Michigan Municipal League, Michigan Government Finance Officers' Association, and the International City/County Management Association.

Sterling Heights has pursued a policy dedicated to attracting and retaining highly qualified personnel at all levels to provide quality services. The City provides a level of compensation sufficient to attract and retain the talent and expertise necessary to properly serve the community. A majority of our supervisory personnel hold graduate degrees in their respective fields with over 95.0 percent of our City department heads holding post-graduate degrees. In addition to these credentials, several of our employees have received special recognition for their abilities from their peers via election to state or national offices of professional associations and as instructors at professional seminars.

The City's current administration has been in place for several years and has taken many steps toward improved budgeting, controlled costs, and improved efficiency which has helped in dealing with the current economic conditions. The City has developed a proactive economic strategy that is multi-faceted consisting in large part of the following:

- ▶ The City is striving to protect property values in the City by pursuing proactive economic development strategies to preserve a comparatively speaking strong local economy.
- ▶ The City remains vigilant with property maintenance enforcement to ensure properties are maintained and do not fall into a state of disrepair. Maintaining property values and minimizing the decline through an effective property maintenance inspection program is an important component to our overall financial plan. An important component of government, the Board of Ordinance Appeals has been effective in promoting and enforcing quality community appearance standards which directly affect property values.
- ▶ The City, operationally speaking, must continue reducing expenditures as reflected in the budget approved by City Council this year which includes an overall reduction of \$16.8 million.
- ▶ The City has eliminated 75 vacant full-time positions (or 12 percent of its workforce) since 2002, saving over \$5.5 million annually. The City's current staffing level is at its lowest level since the 1970s.
- ▶ The City has implemented significant labor concessions resulting in healthcare savings of \$1 million annually and \$20 million actuarially (over a number of years) by reducing retiree healthcare benefits.
- ▶ The City no longer offers fixed pensions for general employees beginning with those hired after 1997 and additional personnel savings were achieved by City employees agreeing to an equivalent 3 percent wage concession for the 2010/2011 fiscal year.
- ▶ The City continues to pursue service-sharing agreements with surrounding communities and other entities.

A VIABLE AND DIVERSIFIED COMMUNITY

Sterling Heights has developed into one of Macomb County's leading cities, offering a rich combination of commercial and residential life. This successful development results largely from the *Master Land Use Plan*, created by the City in the early 1970s, which provides direction for the community's growth and development. The *Master Land Use Plan* was updated recently to address maximum usage of all property within the City, including residential, multi-family, office, commercial, industrial, and public facilities and roads. The City has enjoyed a solid reputation for municipal planning and growth management. The City has implemented a *Manufacturing Master Plan* whereby an administrative Manufacturing Strategy Team has been created to promote business retention and recruitment in non-automotive high-tech industries. An *Industrial Facilities Tax Abatement Program* was also enhanced to encourage the high-tech firms to incorporate "green" initiatives into their building projects and businesses. Employment in the City has also become more diversified in terms of new industry and trained workers.

The City's tax base has now dropped back to 2004 levels, due to a 33 percent three-year decline in residential property assessments. Even with a 1.9 mill adjustment, the average homeowner's total tax bill declined by \$190 or 7 percent. Since 2008, the average tax bill has declined by \$260 or 9.4 percent.

Sterling Heights is a vibrant community with homeowners choosing to reinvest and renovate existing homes as evidenced by the 360 permits issued for residential home additions and/or improvements. Despite the tough economic climate, the City has seen an increase in the number of new residential construction permits (70) as compared to 2009 (14) and 2008 (37). The total number of residential permits in 2009/2010 represents an investment of over \$13.2 million.

The combination of established neighborhoods and contemporary subdivisions in the community provides housing options ranging from modest to upscale with values over \$500,000. The typical home in Sterling Heights for 2010/2011 has a taxable value of \$71,330, which equates to a market value of \$145,000. Last year, the total tax for that home in the Utica Community School District was \$2,473, while the total tax for that same home in the Warren Consolidated School District was \$2,917. Of the total tax dollars collected, the City only received \$875 from the average homeowner for a full line of city services. It is estimated that the total average tax for 2010/2011 will be \$2,310 and \$2,701, respectively.

Currently, more than 2,400 commercial and industrial businesses are located in Sterling Heights. Major principal taxpayers include Chrysler Group LLC, Ford Motor Company, Detroit News Agency, and General Dynamics. The existing economic development and redevelopment efforts have been aggressively enhanced as Sterling Heights continues to attract and retain business and industry.

Redevelopment opportunities have been actively pursued throughout the City, including the following initiatives:

- ▶ The City continues to actively participate in the Mayor's Automotive Coalition (MAC), a national organization whose goal is to support stabilizing the domestic automotive industry and seek federal economic redevelopment tools for redeveloping closed facilities expeditiously.
- ▶ The Sterling Heights Automotive Task Force continues to do its part to preserve the strong auto industry within the City. Most recent efforts involved the Sterling Heights Assembly Plant (SHAP) which will now remain open well past the original closing date of December 2010.
- ▶ A plan was developed to secure \$25 million in various road improvements funded mostly through federal stimulus funding.
- ▶ Redevelopment of the old TRW site was facilitated with BAE Systems, which is a \$50 million plus project creating over 500 new jobs.
- ▶ The City has worked closely with the U.S. Department of Housing and Urban Development (HUD) regarding its *Neighborhood Stabilization Program* (NSP), which provides targeted emergency assistance to state and local governments to acquire and redevelop foreclosed properties to prevent abandonment and blight within the community.
- ▶ The City has continued development of the newly established SmartZone business incubator in partnership with the Michigan Economic Development Corporation, Macomb County, and Oakland University to foster growth in startup companies in new emerging markets in the areas of defense, medical, life sciences, aerospace, and alternative fuels.

Sterling Heights continues to benefit from the expansion of current local employers, as well as additional retail and commercial developments. It is this impressive mix of commercial and industrial businesses that has created the City's enviable economic base and low millage rate.

PERFORMANCE MATTERS

The City's strengths continue to be exceptional strategic planning and benchmarking, as well as strong financial management, sound finances, moderately low tax rates, and low debt levels. It is with this goal of strong financial management in mind that several of this year's awards were received. Sterling Heights has earned nationwide recognition from the Government Finance Officers' Association (GFOA) for several city financial documents, including the *Distinguished Budget Award* for the 23rd consecutive year and the *Certificate of Achievement for Excellence in Financial Reporting* for the 22nd consecutive year.

The City of Sterling Heights enjoys outstanding bond ratings from the following ratings agencies: "Aa2" from Moody's, "AAA" from Fitch, and "AA+" from Standard & Poor's. We are proud to report that these ratings are among the highest in the state.

We are working together to preserve and enhance our community during the State's worst economic climate in recent history. I would like to thank the mayor and City Council, department directors, and employees for contributing to the success and sound financial position of the City. Finance & Budget Director Brian Baker, City Controller Leslie Reinhart, City Treasurer Rick Sanborn, and staff are especially recognized for their teamwork, cooperation, and commitment to the principles of fiscal management and propriety. Special recognition is also extended to Management Services Specialist Mary Jo Dombrowski for her assistance with this report. Our mission is to do all that is possible to provide courteous and superior services through teamwork and innovation. We will also continue our efforts to balance high quality of life with low property taxes while maintaining the tradition of excellence on behalf of all.

Respectfully submitted,



Mark D. Vanderpool
City Manager



Administration Building
40555 Utica Rd. / P.O. Box 8009
Sterling Heights, MI / 48311-8009

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

CITY COUNCIL
<i>Mayor</i>
Richard J. Notte
<i>Mayor Pro Tem</i>
Joseph V. Romano
<i>Councilwoman</i>
Yvonne D. Kniaz
<i>Councilwoman</i>
Deanna Koski
<i>Councilwoman</i>
Maria G. Schmidt
<i>Councilman</i>
Michael C. Taylor
<i>Councilwoman</i>
Barbara A. Ziarko
CITY MANAGER
Mark D. Vanderpool

November 23, 2010

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") for the year ended June 30, 2010 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.

The Comprehensive Annual Financial Report was prepared to meet the needs of a broad spectrum of financial statement readers and is divided into three major sections: introductory, financial, and statistical information with continuing disclosure.

The introductory section, which is unaudited, introduces the reader to the City of Sterling Heights and to this report. Included are this letter of transmittal, the City's organizational chart, a list of principal officials, and a fund organization chart.

The financial section includes the management's discussion and analysis; the basic financial statements, which are comprised of the entity-wide financial statements, fund financial statements, footnotes, and schedules, as well as the independent auditor's report on these financial statements and schedules; and the required and other supplemental information on the budgetary comparison schedules, pension plans, and combining financial statements for nonmajor funds.

The statistical information with continuing disclosure section, also unaudited, includes selected financial and demographic information, generally presented on a multi-year basis, as well as information required by Securities and Exchange Commission Rule 15c2-12 that issuers of municipal securities undertake in written contract for the benefit of the holders of such securities to provide certain annual financial information to various information repositories.

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 more than 392 miles of roadway in Sterling Heights, of which 346 miles are maintained by the City. City services are provided to 33,865 houses, 9,682 apartments, 6,687 condominiums, 1,691 mobile homes, and 2,437 commercial and industrial businesses. The 2010 estimated population for the City stands at 128,500, making Sterling Heights the fourth largest populated city in Michigan. As of July, the City currently has a 13.6 percent unemployment rate as compared to a statewide rate of 13.1 percent and a national average of 9.5 percent.

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

The City has grown over the years to the point where less than 5 percent of its total land area is vacant. 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.

There is no question that future years will be very challenging. Management and the City Council have designated \$3.0 million of General Fund reserves to be used for the current budget (fiscal year 2011). Despite a 1.9 mill adjustment, continued property assessment declines will cause revenue to fall short of expenditures. Without significant labor savings, which account for the vast majority of our costs, future use of reserves will occur. It is management's goal to maintain quality services at the current tax rate, while continuing to achieve further cost containment. The City has adopted prudent and conservative financial policies, which will help guide us through the upcoming years.

Long-term Financial Planning

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 allowed the City to reduce its workforce by 75 positions since 2002 without any layoffs of personnel. Going forward, the plan will allow the City to further refine and implement its labor strategy. 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 2009-2010:

1. The City held four City Summits in January and February to discuss the City's financial condition. Information was shared, including the effect of falling property assessments resulting in lower tax bills, decreased property tax revenue, continued State funding cuts, the decline in city staffing, and how the City compares to its other benchmark communities.
2. The City continued to review all open positions resulting in the elimination of an additional 21 full-time positions. City staffing is now at its lowest level since 1978. In addition, the City was able to successfully negotiate the equivalent of a 3 percent wage concession from all unions, saving \$1.25 million.
3. Due to an agreement with emergency dispatchers, the General Employees' Retirement System pension fund was closed to all new employees, as the City no longer offers fixed pensions (defined benefit) to all general employees.
4. The City maintained its superior AAA and AA+ bond ratings, which saves hundreds of thousands of dollars annually.

Major Initiatives for July 1, 2010 and Thereafter

1. With the recent hiring of a labor attorney, the City will continue to seek labor savings in order to achieve its financial goal of maintaining long-term financial stability due to further expected declining tax revenue.
2. The City will continue to encourage new automotive investments in the community, while also determining the proper depreciation multiplier values to use on automotive personal property.
3. The City will continue to review the consolidation and contracting out of additional city services to ensure the continuation of core services.
4. The City will continue to pursue service-sharing agreements with surrounding communities and other entities.

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.

Pension and Other Postemployment Benefits

The City has two Pension Trust Funds: the General Employees' Retirement System (GERS) created by City Charter and the Police and Fire Retirement System (PFRS) created under Public Act 345 and collective bargaining agreements. An actuarial study determines the funding required by the City to meet its future benefit obligations. The actuarially determined value of assets available for benefits as of December 31, 2009 (the date of the most recent actuarial valuation) was \$121.5 million for GERS and \$193.2 million for PFRS. One method of assessing the financial strength of a pension fund is to compute the percentage of liabilities that have been funded. This percentage at December 31, 2009 was 106.2 percent for GERS compared to 110.2 percent at December 31, 2008; and 84.9 percent for PFRS compared to 95.0 percent at December 31, 2008. A separate tax is levied to provide for the City's police and fire annual pension contribution. In both pension systems, the valuation of assets decreased due to market declines. The City also provides postretirement healthcare benefits for retirees and their dependents. As of the end of the current year, there were a total of 448 retirees receiving these benefits. This fiscal year, we have made our actuarially recommended contribution to the trust fund, which was established to provide these benefits in the future. The City has also budgeted to fund 100 percent of the actuarially recommended contribution for retiree health care in the fiscal year 2011 budget as well.

Cash Management

It is the policy of the City to invest public dollars in a manner that will provide maximum security with the highest investment return, while meeting the City's daily cash flow demands and conforming to Public Act 20 of 1943 (as amended) and local ordinances. Idle cash in all funds, exclusive of the pension systems and the Retiree Medical Benefits Trust Fund, are invested in certificates of deposit, governmental obligations, pooled accounts, commercial paper, and bank trust accounts.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. In the state of Michigan, municipalities are not required to insure or collateralize bank deposits; however, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Risk Management

The City's risk management program is designed to protect financial and human resources in the most cost-effective manner possible. This is accomplished through exposure identification, risk evaluation, risk control, risk funding, and risk management administration. For Sterling Heights, there are six areas of risk management that receive the majority of attention: loss control and safety, property, liability, workers' compensation, employee benefits, and self-insurance administration.

The City of Sterling Heights is a member of the Michigan Municipal Risk Management Authority (MMRMA). The MMRMA is a self-insured association with a membership of more than 300 local government units in Michigan. It provides risk management, claims administration, legal defense, and reinsurance services for its members.

Although the City self-insures many risks, excess insurance is purchased to protect against the financial effects of a catastrophic loss. Liability excess coverage provides up to \$15,000,000 of limits. Property coverage insures \$112.0 million of property values. All buildings and contents are insured at replacement cost value. Liability and property self-insured retentions are \$500,000 and \$50,000, respectively. Excess insurance of workers' compensation is purchased at statutory levels, with a \$250,000 per occurrence self-insured retention. Reinsurance for the self-insured healthcare risk is purchased to limit City liability to \$200,000 per employee/contract per year. Healthcare expenditures account for 76.2 percent of all self-insurance expenditures (excluding transfer to the Settlement Bonds Debt Service Fund) during fiscal year 2010. The short-term disability risk is fully self-insured and self-administered. Through a combination of self-insurance and insurance, the City has been able to provide the financial resources required to manage the various risks associated with a large 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, 2009. 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 22 consecutive years (fiscal years 1988-2009). 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. I wish to express my 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 and city manager for their consistent support throughout the year in matters pertaining to the financial affairs of the City.

Respectfully submitted,



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, 2009

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.



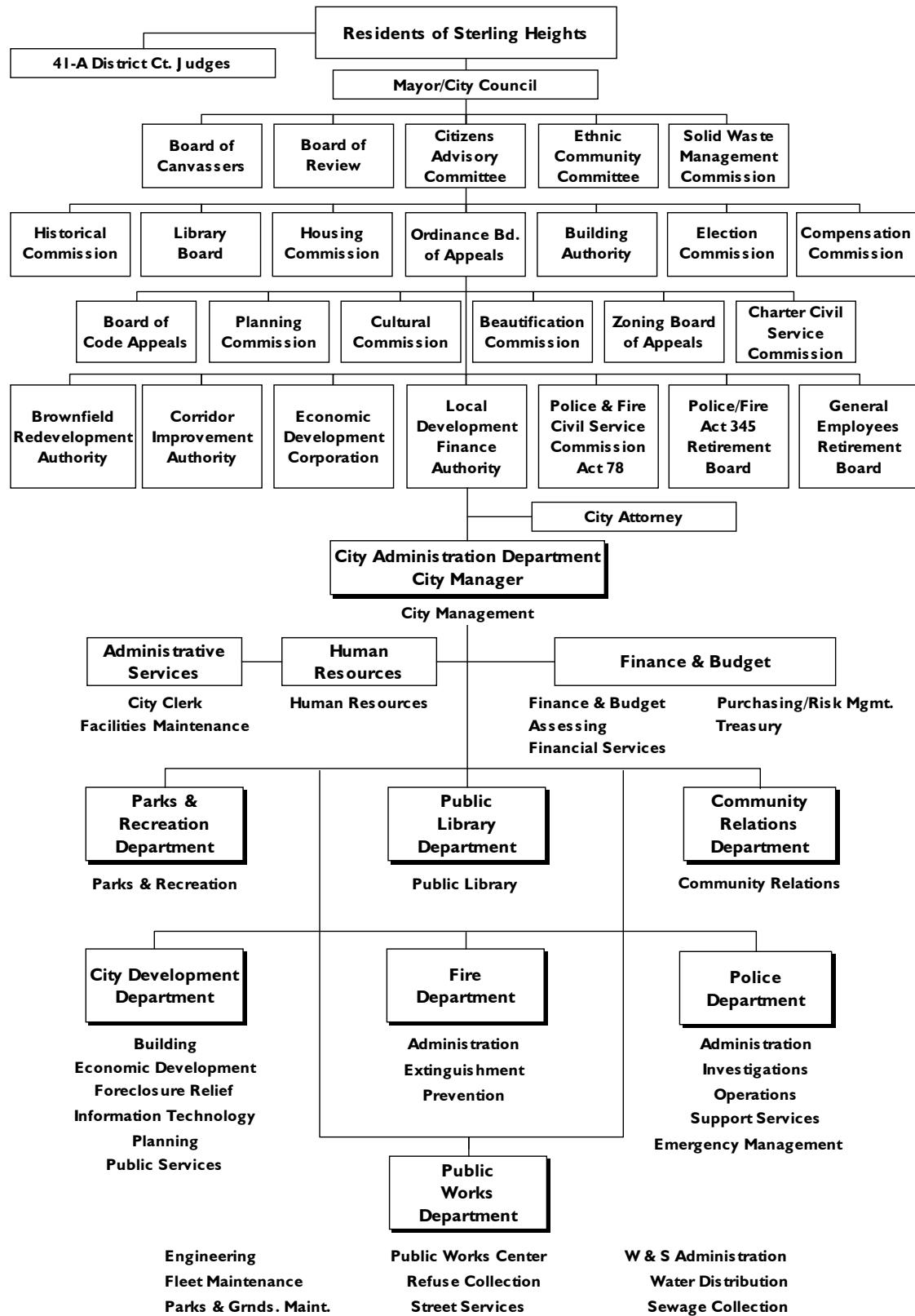
President



Executive Director

City of Sterling Heights, Michigan

City Organization Chart



City of Sterling Heights, Michigan

List of Principal Officers

Title	Name
City Manager	Mark D. Vanderpool
Broadcast Services Manager	Michael Crimmins
City Assessor	Matthew J. Schmidt
City Attorney	Jeffery A. Bahorski
City Clerk/Assistant City Manager	Walter C. Blessed
City Development Director/Assistant City Manager	Michael G. Bartholomew
City Engineer	Brent S. Bashaw
City Planner	Donald A. Mende
City Treasurer	Rick J. Sanborn
Communications Manager	Patricia Brockway
Community Relations Director	Steve Guitar
Controller	Leslie D. Reinhart
Economic Development Manager	Lukas Bonner
Emergency Manager	Nicole Miller
Facilities Maintenance Manager	Gary Schamehorn
Finance and Budget Director	Brian S. Baker
Fire Chief	Stephen Kovalcik
Human Resources Director	Dawn L. Demick
Information Technology Manager	Lois J. Gates
Network Administrator	Steve Deon
Parks and Recreation Manager	Kyle Langlois
Police Chief	Michael Reese
Public Library Director	Tammy L. Turgeon
Public Services Manager	Denice A. Gerstenberg
Public Works Director	Salvatore Conigliaro
Public Works Manager	James P. Buhlinger
Purchasing/Risk Manager	Mark Carufel

City of Sterling Heights, Michigan

Fund Organization Chart

Governmental Funds	
General *	Special Revenue
	Major Roads *
	Local Roads
	Land and Water Conservation
	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	
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, 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, 2010, 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, business-type activities, the aggregate discretely presented component unit information, each major fund, and the aggregate remaining fund information of the City as of June 30, 2010 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, statistical, and continuing disclosure sections, 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. The budgetary comparison schedules, combining balance sheets, and combining statements of revenue, expenditures, and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis and retirement systems schedules of funding progress, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical and continuing disclosure sections have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2010 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.

Plante & Moran, PLLC

November 23, 2010

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, 2010. This narrative should be considered in conjunction with the additional information presented in the letter of transmittal found on pages v-xii and is intended to serve as an introduction to the City of Sterling Heights' basic financial statements which begin on page 16.

Financial Highlights

- The City's overall net assets increased by \$7.9 million or 2.1 percent as a result of this year's operations. Net assets of our governmental activities increased by \$9.9 million or 4.9 percent; net assets of our business-type activities decreased by \$2.0 million or 1.2 percent.
- Net assets for governmental activities increased primarily due to the one-time receipt of insurance proceeds which was used to advance pay the settlement bond debt, significantly lowering the City's debt per capita ratio.
- The General Fund reported a decline in revenue of \$3.4 million or 3.9 percent due to lower State revenue-sharing payments, property tax revenue, and interest on investments. This is the first decrease in 25 years. General Fund revenue has fallen short of expenditures for the past three years.
- As the result of the City continuing the implementation of its long-term financial plan by partially offsetting tax revenue losses with the elimination of vacant positions, as well as seeking continued labor contract savings, the City has maintained its excellent bond ratings.
- Continued decline of state road funds and the loss of federal stimulus funds are impacting the City's ability to fund needed road repairs.
- The City continues to fully fund its retirement systems and maintain a diversified tax base with low tax and water and sewer rates while continuing to provide effective 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.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

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 increased 2.3 percent from a year ago, increasing from \$370.6 million to \$378.5 million. A review of the governmental activities, separate from the business-type activities, shows an increase of \$9.9 million in net assets, or 4.9 percent, during fiscal year 2010. This increase was largely attributable to the receipt of insurance proceeds, offset by lower revenue and slightly higher program expenses, which rose by \$2.7 million or 2.9 percent.

Unrestricted net assets for governmental activities, which is the part of net assets available to finance day-to-day operations and future growth, was \$34.6 million as of June 30, 2010. This represents a \$14.7 million increase as compared to June 30, 2009. The major factors contributing to this increase were the \$13.3 million decrease in long-term liabilities due to early retirement of the 2004 settlement bond debt.

The business-type activities experienced a decrease in net assets of \$2.0 million. This decrease was primarily due to lower water and sewer consumption as a result of the economy and weather conditions that lowered the overall demand for irrigation. Operating revenue was nearly flat, despite a decline in investment interest income. The \$2.0 million decrease in net assets is expected 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 \$0.7 million, which was offset by a net decrease in capital assets of \$1.7 million (increased capital assets of \$6.2 million), increase in capital asset related debt of \$3.7 million, and \$0.7 million use of unrestricted net assets.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of June 30, 2010 to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets						
Current assets	\$ 52.9	\$ 49.5	\$ 30.2	\$ 30.6	\$ 83.1	\$ 80.1
Noncurrent assets:						
Restricted assets and other assets	6.8	7.2	8.3	7.6	15.1	14.8
Capital assets	202.0	209.2	134.7	133.0	336.7	342.2
Total assets	261.7	265.9	173.2	171.2	434.9	437.1
Liabilities						
Current liabilities	8.3	9.1	4.2	4.0	12.5	13.1
Long-term liabilities	39.9	53.2	4.0	0.2	43.9	53.4
Total liabilities	48.2	62.3	8.2	4.2	56.4	66.5
Net Assets						
Invested in capital assets - Net of related debt	169.2	173.7	131.0	133.0	300.2	306.7
Restricted	9.7	10.0	8.3	7.6	18.0	17.6
Unrestricted	34.6	19.9	25.7	26.4	60.3	46.3
Total net assets	<u>\$213.5</u>	<u>\$203.6</u>	<u>\$165.0</u>	<u>\$167.0</u>	<u>\$378.5</u>	<u>\$370.6</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, 2010 and the prior year:

	Governmental		Business-type		Total	
	Activities	2010	Activities	2009	2010	2009
Revenue						
Charges for services	\$ 11.1	\$ 9.8	\$ 25.1	\$ 24.4	\$ 36.2	\$ 34.2
Operating grants and contributions	9.7	8.9	-	-	9.7	8.9
Capital grants and contributions	1.1	0.5	2.9	0.9	4.0	1.4
Property taxes	56.8	57.9	-	-	56.8	57.9
State-shared revenue	9.0	10.2	-	-	9.0	10.2
Interest	1.1	2.3	0.9	1.4	2.0	3.7
Insurance proceeds	16.3	-	-	-	16.3	-
Other nonprogram revenue	1.8	1.8	-	-	1.8	1.8
Total revenue	106.9	91.4	28.9	26.7	135.8	118.1
Program Expenses						
General government	8.8	8.9	-	-	8.8	8.9
41A District Court	3.4	3.2	-	-	3.4	3.2
Public safety	52.7	49.2	-	-	52.7	49.2
Public works	25.3	24.9	-	-	25.3	24.9
Recreation and culture	5.7	6.1	-	-	5.7	6.1
Interest on long-term debt	1.1	2.0	-	-	1.1	2.0
Water and sewer	-	-	30.9	32.3	30.9	32.3
Total program expenses	97.0	94.3	30.9	32.3	127.9	126.6
Increase (Decrease) in Net Assets	9.9	(2.9)	(2.0)	(5.6)	7.9	(8.5)
Net Assets - Beginning of year	203.6	206.5	167.0	172.6	370.6	379.1
Net Assets - End of year	\$213.5	\$203.6	\$165.0	\$167.0	\$378.5	\$370.6

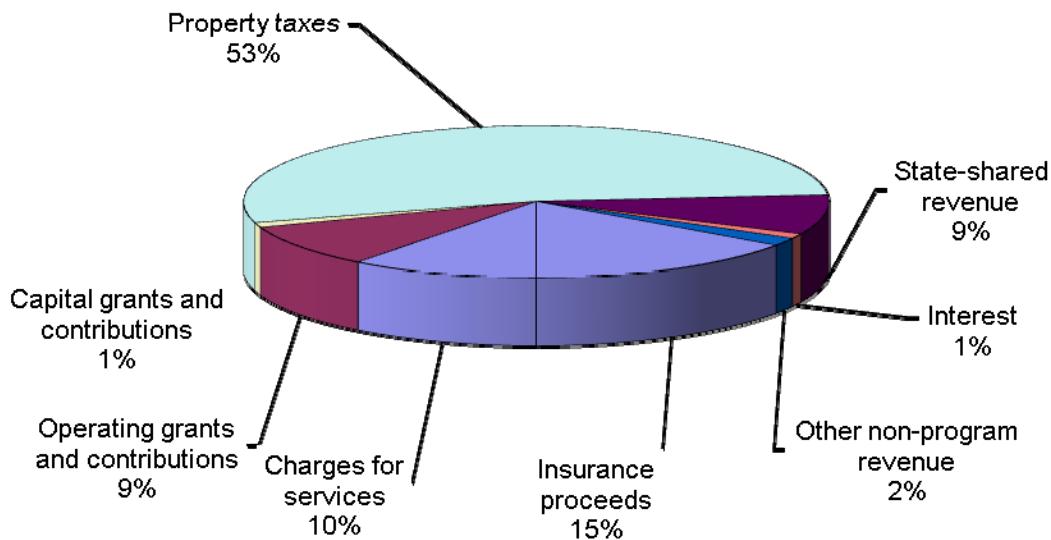
Governmental Activities

During fiscal year 2010, the City's total governmental revenue increased by \$15.5 million. This increase was due to the receipt of \$16.3 million in one-time insurance proceeds, offset by a decrease in property tax revenue of \$1.1 million, interest on investments of \$1.2 million, and a \$1.2 million state funding cut to revenue-sharing payments. Charges for services increased by \$1.3 million due to higher court revenue, building permits, and other fees.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Revenues by Source - Governmental Activities

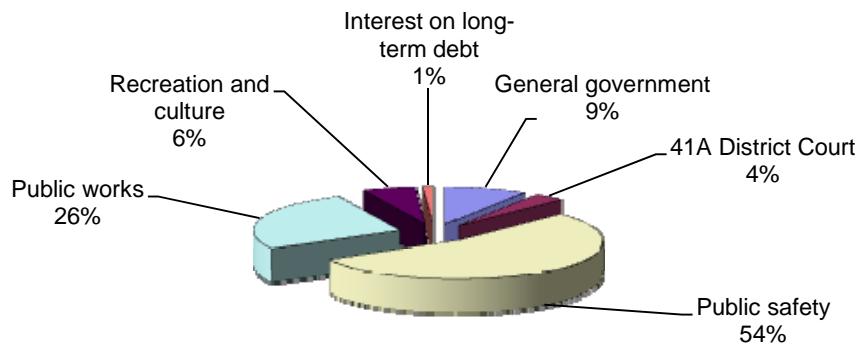


Expenses increased by \$2.7 million or 2.9 percent over the previous fiscal year. Contributing to the increase in expenses were higher required contributions to the police and fire retirement system of \$2.3 million, increased self-insurance medical claims of \$1.3 million, higher uncompensated absences, increased retiree medical costs of \$0.3 million, and \$0.9 million of expenses related to the new federally funded Neighborhood Stabilization Program. These increases were partially offset by savings from the reduction of 27 full-time staff positions through attrition, a decrease in overtime costs, and lower interest payments on long-term debt as a road bond was refinanced and the settlement bond was fully paid off.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Program Expenses - Governmental Activities



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.

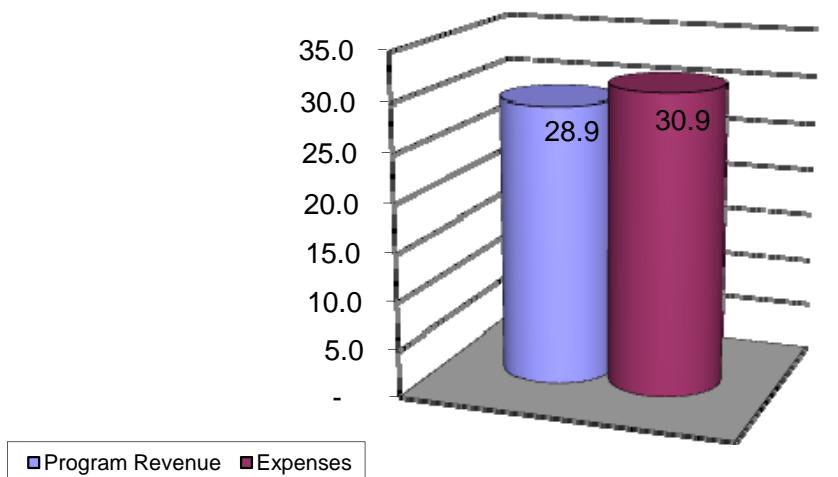
Business-type Activities

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 2010 increased by 8.7 percent, which was higher than the City's increase of 4.9 percent for its customers. The City provides sewage treatment to 99 percent of its residents through the Macomb County Sewage District. The City passed on a 6.9 percent sewage rate adjustment to its customers, which was slightly higher than the increased rates charged by Macomb County. During fiscal 2010, the water and sewer system experienced a 7.9 percent decrease in water purchased from the City of Detroit. This decrease is consistent with weather conditions over the fiscal year and Michigan's overall economy. In addition, one full-time vacant position was eliminated in the fund, which saved \$62,000. As in prior years, a source of growth in the system came from water and sewer lines contributed by developers to the City of approximately \$2.6 million. This contribution, plus tap fees and frontage charges paid by residents (\$0.3 million) combined with interest income (\$0.9 million), offset the \$5.8 million operating loss and resulted in a \$2.0 million reduction in net assets during fiscal year 2010.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Revenue and Expenses - Business-type Activities



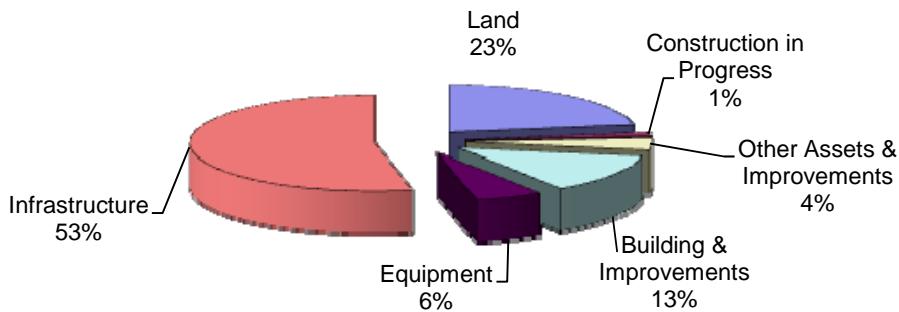
Capital Assets and Debt Administration

At the end of fiscal year 2010, the City had \$300.2 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 (including water and sewer lines), net of depreciation, contained in this report is \$234.5 million and \$243.1 million for fiscal years 2010 and 2009, 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)

Capital Assets (Net of Depreciation) - Governmental

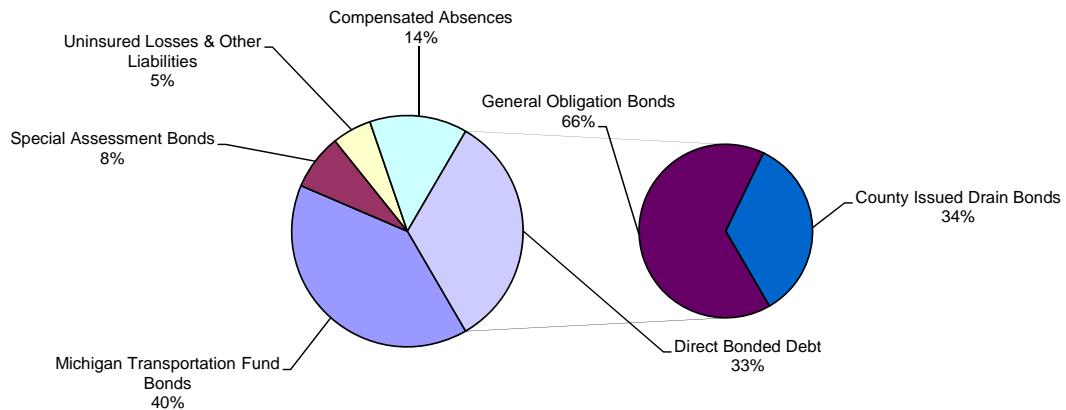


The City's general obligation bonds maintained their ratings from Standard & Poor's (AA+), and Moody's (Aa2), while Fitch increased the City's bond rating from AA+ to AAA. During the fiscal year, the City issued \$1.6 million in Michigan Transportation Recovery Zone bonds. The proceeds from this bond issue were used to finance various improvements to roads. The City issued \$2.2 million in refunding bonds to refinance a 1999 Michigan Transportation Fund bond, which saved the City nearly \$70,000 in interest costs. In addition, the City paid off and fully retired the \$10.9 million in outstanding Settlement Bonds due to the final receipt of insurance proceeds. Debt service for all outstanding debt during fiscal year 2010 consisted of \$15.2 million in principal and \$1.6 million in interest after adjustments for recognition of amortized premiums (see Note 7 of the notes to the basic financial statements for additional information).

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Long-term Obligations - Governmental



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

	2010	2009
Net direct debt outstanding	\$ 17,157,531	\$ 26,575,000
Ratio of debt to total taxable value	0.2886%	0.4141%
Debt per capita	\$ 133.45	\$ 205.64

Fund Financial Statements

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

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

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

The fund financial statements begin on pages 19-20 and provide detailed information on the most significant funds - not the City as a whole. The City's major funds for 2010 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 exceeded revenue in these funds by \$1.5 million. In the General Fund, revenue decreased by \$1.3 million with property tax revenue providing \$0.9 million of the decrease. Expenditures decreased by \$0.6 million with all expenditures other than public safety providing a decrease of \$2.0 million which was offset by increased public safety expenditures of \$2.6 million attributable to increased pension costs. The Major Roads Fund net increase was \$0.4 million, which will be used to maintain roads. The Road Bond Debt Retirement Fund net change was nearly flat. The General Improvement Fund net decrease was \$0.2 million use of fund balance. The Road Bond Construction Fund net increase was \$0.8 million, which will be used on future road projects. The Community Development Block Grant Fund is a reimbursement-based grant fund.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

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 2010. Final budgeted expenditures were \$1.9 million or 2.2 percent lower than the original budget due primarily to personnel savings from the 21 full-time positions that were held vacant during the fiscal year. The total General Fund revenue budget decreased \$1.7 million or 2.0 percent due to lower than anticipated interest on investments, and a decline in state-shared revenue, partially offset by increased Court revenue.

At year end, actual General Fund expenditures came in at 99.2 percent or \$0.7 million under budget due to continued department operational efficiencies. General Fund revenue came in at 99.6 percent or \$0.3 million under budget as a result of lower tax revenue and DPW cross charges.

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 several years with no increases in funding expected for the next several years. Despite a reduction of 75 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 balance its budget. Amid the steeply declining revenue affecting all communities, the City continues to review all possible expenditure savings options as it begins to prepare future budgets and in negotiating current and future labor contracts.

Assessments Causing Lower Property Tax Bills and Related Revenue

Property assessments have declined in the past three years and continued decreases are anticipated for 2011 and beyond. As a result, property taxes, which account for 68.7 percent of the City's General Fund budget, have shown a dramatic decrease. As a result of a decline in home prices, residential property assessments have decreased by 33 percent over the past three years. The City's tax base has now fallen back to 2004 levels, resulting in a cumulative \$14.3 million loss of property tax revenue when compared to historic inflationary increases.

Even with the recent 1.9 mill adjustment, the vast majority of property owners are paying less in taxes. The average total property tax bill for a resident residing in either the Utica Community or the Warren Consolidated School District is now lower than it was five years ago.

Further assessment declines will occur in 2011 and beyond, resulting in continued declining revenue to the City with even greater tax savings to residents. Even when future property values stabilize, Proposal A will detrimentally limit increases to the rate of inflation such that the City will permanently lose property tax dollars.

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. The State has cut the City's revenue sharing for nine consecutive years. Revenue sharing previously represented 20.0 percent of the City's budget while it currently represents 10.9 percent. In 2010, the State cut revenue sharing by \$1.4 million or 13 percent. The City now receives less from the State than it did 16 years ago (1994) despite a growing population and inflationary increases. The City anticipates that State budget deficits will cause additional reductions in revenue sharing to occur.

Road Funding

Gas tax receipts from the State have fallen 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 26 years. As a result, the City has cumulatively lost \$3.1 million in State gas tax revenue since 2004. Since the General Fund no longer has the ability to subsidize the road funds and once federal stimulus funds are no longer available, the City's road funds will have less funds available for road construction and maintenance.

Expenditure Savings

In 2010, General Fund expenditures declined by \$0.8 million or 0.9 percent - compared to the \$0.6 million or 0.7 percent increase in the prior year. Excluding increased pre-funding of retiree medical obligations and higher police and fire pension fund contributions, expenditures would have decreased by \$3.5 million or 4.0 percent. Total employee wages declined by 1.2 percent, overtime costs dropped by 14.3 percent, and capital purchases decreased by \$0.9 million.

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 75 vacant full-time budgeted positions or 12 percent of its workforce since 2002, saving \$5.5 million annually.

The City no longer offers fixed pensions for general employees. Based on employee and resident suggestions, the City has saved money by limiting take-home vehicles, eliminating memberships, training, cell phones, subscriptions, overtime, and building energy usage. The City continues to downsize, pursue service-sharing agreements with surrounding communities, and outsource services where possible. Today, over 70.0 percent of the budget is directed toward only the City's largest departments including police, fire, and public works.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Reducing City Staffing

Given that nearly 83.0 percent of the City budget is personnel costs, the City has had to eliminate lower priority positions. The City is now budgeted to have 574 full-time employees - the lowest number in 33 years or since 1978. The City's employee per resident ratio has decreased by nearly 30 percent. Our ratio of full-time employees per 1,000 residents is well below any comparable city in Michigan and is lower than 85 percent of cities across the country. Staffing could fall further over the next fiscal year. Over the years, staffing has primarily decreased in city administration and public works as resources have been redirected to public safety.

The City has also achieved significant labor concessions resulting in healthcare savings of \$1.0 million annually and \$20.0 million actuarially over a number of years by reducing retiree healthcare benefits. In addition, during the past year, all labor groups voluntarily agreed to the equivalent of 3 percent wage savings effective July 1, 2010. However, due to continued revenue declines, the City will be seeking additional labor savings from its collective bargaining units in order to lessen the use of fund balance reserves and to maintain core services while continuing to maintain lower tax bills for all taxpayers. So far, the City has been able to avoid layoffs; however, it is no longer known if this strategy can continue.

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 three fiscal years. With a budgeted \$3.0 million use of reserves for 2011, without additional savings, reserves will total \$9.5 million or the equivalent of 1.3 months of operations at fiscal year end. 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.

Future Actions Needed for 2011 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 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 5.4 percent. The millage rate is down 0.7 mills since 1988, saving the average resident \$3,171 in taxes over the 23-year period.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The City continues to have one of the lowest property tax bills of any Detroit area city. 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.

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, 2010

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 13,663,068	\$ -	\$ 13,663,068	\$ 236,825
Investments - At fair value (Note 3)	30,801,599	22,354,283	53,155,882	-
Receivables:				
Customers	-	7,468,841	7,468,841	-
Special assessments - Current	210,168	-	210,168	-
Accrued interest	225,982	45,638	271,620	-
Other	1,023,989	-	1,023,989	-
Internal balances	(15,729)	15,729	-	-
Due from other governmental units	3,993,646	-	3,993,646	27,717
Prepaid costs and other assets	1,996,349	-	1,996,349	-
Inventories	1,019,202	290,501	1,309,703	-
Special assessments (Note 6)	3,038,410	-	3,038,410	-
Restricted assets (Note 8)	1,966,016	8,308,749	10,274,765	-
Loans receivable (Note 9)	1,789,037	-	1,789,037	-
Capital assets:				
Nondepreciable (Note 4)	48,342,507	3,170,346	51,512,853	1,209,203
Depreciable - Net (Note 4)	153,633,429	131,523,095	285,156,524	1,695,582
Total assets	261,687,673	173,177,182	434,864,855	3,169,327
Liabilities				
Accounts payable	2,422,955	3,917,288	6,340,243	1,180
Accrued and other liabilities	2,984,560	210,354	3,194,914	-
Provision for uninsured losses and liabilities (Note 10)	565,522	-	565,522	-
Due to other governmental units	49,835	-	49,835	27,717
Unearned revenue (Note 6)	2,199,907	49,850	2,249,757	-
Noncurrent liabilities (Note 7):				
Due within one year	4,905,439	215,054	5,120,493	-
Due in more than one year	35,030,067	3,752,148	38,782,215	-
Total liabilities	48,158,285	8,144,694	56,302,979	28,897
Net Assets				
Invested in capital assets - Net of related debt	169,230,936	130,990,910	300,221,846	2,904,785
Restricted:				
Roads	3,824,419	-	3,824,419	-
Public safety	773,462	-	773,462	-
Debt service	3,169,184	-	3,169,184	-
County drains (Note 8)	1,966,016	612,246	2,578,262	-
Ordinance requirements (Note 8)	-	7,696,503	7,696,503	-
Unrestricted	34,565,371	25,732,829	60,298,200	235,645
Total net assets	\$ 213,529,388	\$ 165,032,488	\$ 378,561,876	\$ 3,140,430

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	\$ 8,804,497	\$ 3,020,737	\$ -	\$ 235,027
41A District Court	3,470,065	2,985,409	155,563	-
Public safety	52,695,852	1,629,846	593,969	829,832
Public works	25,269,096	2,545,211	8,499,727	25,873
Recreation and culture	5,695,827	948,463	427,055	-
Interest on long-term debt	1,086,571	-	-	-
Total governmental activities	97,021,908	11,129,666	9,676,314	1,090,732
Business-type activities - Water and sewer	30,901,624	25,057,683	-	2,912,917
Total primary government	\$ 127,923,532	\$ 36,187,349	\$ 9,676,314	\$ 4,003,649
Component units:				
Economic Development Corporation	\$ 15,242	\$ -	\$ 17,000	\$ -
Brownfield Redevelopment Authority	81,107	-	48,917	-
Corridor Improvement Authority	15,628	-	20,477	-
Local Development Finance Authority	84,772	-	89,557	2,900,000
Total component units	\$ 196,749	\$ -	\$ 175,951	\$ 2,900,000

General revenue:

- Property taxes
- Unrestricted state revenue-sharing program
- Interest
- Insurance proceeds
- 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, 2010

Net (Expenses) Revenue and Changes in Net Assets				
Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	
\$ (5,548,733)	\$ (5,548,733)	\$ -		
(329,093)	-	\$ (329,093)		-
(49,642,205)	-	\$ (49,642,205)		-
(14,198,285)	-	\$ (14,198,285)		-
(4,320,309)	-	\$ (4,320,309)		-
(1,086,571)	-	\$ (1,086,571)		-
(75,125,196)	-	\$ (75,125,196)		-
-	(2,931,024)	\$ (2,931,024)		-
(75,125,196)	(2,931,024)	\$ (78,056,220)		-
-	-	-		1,758
-	-	-		(32,190)
-	-	-		4,849
-	-	-		2,904,785
-	-	-		2,879,202
56,801,307	-	\$ 56,801,307		-
9,057,434	-	\$ 9,057,434		-
1,098,458	920,857	\$ 2,019,315		1,424
16,318,640	-	\$ 16,318,640		-
1,786,782	-	\$ 1,786,782		-
85,062,621	920,857	\$ 85,983,478		1,424
9,937,425	(2,010,167)	\$ 7,927,258		2,880,626
203,591,963	167,042,655	\$ 370,634,618		259,804
\$ 213,529,388	\$ 165,032,488	\$ 378,561,876	\$ 3,140,430	

City of Sterling Heights, Michigan

	General Fund	Major Roads	Community Development Block Grant	Road Bond Debt Retirement
Assets				
Cash and cash equivalents (Note 3)	\$ 6,665,894	\$ 665,117	\$ 100	\$ 13,328
Investments - At fair value (Note 3)	8,308,125	1,048,378	-	49,935
Receivables:				
Special assessments:				
Current	-	-	-	154,989
Deferred	-	-	-	2,789,806
Accrued interest	20,938	-	-	151,304
Other	1,023,989	-	-	-
Prepaid costs and other assets	130,322	83,695	-	-
Due from other funds (Note 5)	203,425	-	-	-
Due from other governmental units	949,627	809,789	125,380	-
Inventories	854,308	-	-	-
Restricted assets (Note 8)	-	-	-	-
Rehabilitation loans (Note 9)	-	-	1,789,037	-
Total assets	\$ 18,156,628	\$ 2,606,979	\$ 1,914,517	\$ 3,159,362
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,402,474	\$ 118,616	\$ 75,723	\$ -
Accrued and other liabilities	2,715,886	-	-	-
Due to other funds (Note 5)	973,045	58,130	49,757	-
Due to other governmental units	49,835	-	-	-
Deferred revenue (Note 6)	486,465	-	1,789,037	2,789,806
Total liabilities	5,627,705	176,746	1,914,517	2,789,806
Fund Balances				
Reserved for:				
Encumbrances	21,318	-	-	-
Inventory	854,308	-	-	-
Prepaid costs	130,322	83,695	-	-
Unreserved - Reported in (Note 14):				
General Fund	11,522,975	-	-	-
Special Revenue Funds	-	2,346,538	-	-
Capital Projects Funds	-	-	-	-
Debt Service Funds	-	-	-	369,556
Total fund balances	12,528,923	2,430,233	-	369,556
Total liabilities and fund balances	\$ 18,156,628	\$ 2,606,979	\$ 1,914,517	\$ 3,159,362

Governmental Funds
Balance Sheet
June 30, 2010

General Improvements	Road Construction	Bond Construction	Other	Total Governmental Funds
			Nonmajor Governmental Funds	
\$ 835,760	\$ 304,171	\$ 1,737,123	\$ 10,221,493	
1,597,206	798,243	748,241	12,550,128	
21,044	-	34,135	210,168	
43,795	-	204,809	3,038,410	
3,541	-	14,337	190,120	
-	-	-	1,023,989	
-	41,751	28,257	284,025	
-	-	-	203,425	
113,517	-	490,711	2,489,024	
-	-	164,894	1,019,202	
1,966,016	-	-	1,966,016	
-	-	-	1,789,037	
\$ 4,580,879	\$ 1,144,165	\$ 3,422,507	\$ 34,985,037	
\$ 53,954	\$ 43,598	\$ 259,848	\$ 1,954,213	
8,620	104,211	-	2,828,717	
5,141	-	90,397	1,176,470	
-	-	-	49,835	
2,009,811	-	205,559	7,280,678	
2,077,526	147,809	555,804	13,289,913	
436,495	-	34,478	492,291	
-	-	164,894	1,019,202	
-	41,751	-	255,768	
-	-	-	11,522,975	
-	-	2,657,510	5,004,048	
2,066,858	954,605	-	3,021,463	
-	-	9,821	379,377	
2,503,353	996,356	2,866,703	21,695,124	
\$ 4,580,879	\$ 1,144,165	\$ 3,422,507	\$ 34,985,037	

City of Sterling Heights, Michigan

Governmental Funds

Reconciliation of Fund Balances to the Statement of Net Assets

June 30, 2010

Total Fund Balances for Governmental Funds	\$ 21,695,124
<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	3,114,755
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	1,504,623
Restricted assets held by Macomb County to be used over several years and which are not available to pay for current year expenditures	1,966,016
Capital assets used in governmental activities are not financial resources and are not reported in the funds	201,975,936
Long-term liabilities not due and payable in the current period are not reported in the funds	(32,745,000)
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	(5,522,168)
Bond premiums are amortized over the life of the bonds, while recognized as an other financing source in the funds when received	(155,843)
Internal Service Fund is included as part of governmental activities	<u>21,695,945</u>
Net Assets of Governmental Activities	<u>\$ 213,529,388</u>

City of Sterling Heights, Michigan

	General Fund	Major Roads	Community Development Block Grant	Road Bond Debt Retirement
Revenue				
Property taxes	\$ 55,440,834	\$ -	\$ -	\$ -
Fees and permits	1,194,707	-	-	-
Federal sources	173,705	-	793,046	-
State and local sources	9,817,535	4,962,129	-	-
Fines and forfeitures	3,618,574	-	-	-
Charges for services	8,598,054	-	-	-
Interest income	537,564	5,165	-	1,417
Special assessments	-	-	-	153,981
Rental income	1,429,222	-	-	-
Cable revenue	1,799,495	-	-	-
Other	1,050,015	278,841	-	143,549
Total revenue	83,659,705	5,246,135	793,046	298,947
Expenditures				
Current:				
General government	9,000,797	-	-	-
41A District Court	3,221,815	-	-	-
Public safety	48,833,303	-	-	-
Public works	15,911,998	1,636,382	269,016	-
Recreation and culture	4,747,596	-	-	-
General expenditures	2,700,525	-	-	73,697
Capital outlay	-	667,157	209,771	-
Debt service	-	-	314,259	2,853,557
Total expenditures	84,416,034	2,303,539	793,046	2,927,254
Excess of Revenue Over (Under) Expenditures	(756,329)	2,942,596	-	(2,628,307)
Other Financing Sources (Uses)				
Issuance of debt	-	-	-	2,240,000
Bond premium	-	-	-	33,935
Proceeds from sale of assets	-	-	-	-
Payments to refunded bond escrow agents	-	-	-	(2,200,000)
Interfund transfers in	-	300,000	-	2,585,000
Interfund transfers out	(1,921,810)	(2,835,000)	-	-
Total other financing sources (uses)	(1,921,810)	(2,535,000)	-	2,658,935
Net Change in Fund Balances	(2,678,139)	407,596	-	30,628
Fund Balances - Beginning of year	15,207,062	2,022,637	-	338,928
Fund Balances - End of year	\$ 12,528,923	\$ 2,430,233	\$ -	\$ 369,556

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2010

General Improvements	Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 1,360,472	\$ 56,801,306
-	-	-	1,194,707
500,713	-	1,322,105	2,789,569
263,423	-	2,071,090	17,114,177
-	-	-	3,618,574
-	-	-	8,598,054
20,106	645	17,538	582,435
27,002	-	34,135	215,118
-	-	-	1,429,222
-	-	-	1,799,495
350,955	-	75,379	1,898,739
 1,162,199	 645	 4,880,719	 96,041,396
 - -	 - -	 - -	 9,000,797
- -	- -	- -	3,221,815
- -	- -	297,224	49,130,527
- -	- -	2,504,273	20,321,669
- -	- -	-	4,747,596
- -	- -	39,836	2,814,058
1,720,165	508,015	1,589,555	4,694,663
 - -	 - -	 13,695,214	 16,863,030
 1,720,165	 508,015	 18,126,102	 110,794,155
 (557,966)	 (507,370)	 (13,245,383)	 (14,752,759)
 - -	 1,570,000	 - -	 3,810,000
- -	- -	- -	33,935
- -	- -	115,724	115,724
- -	- -	-	(2,200,000)
349,000	-	12,960,395	16,194,395
 - -	 (300,000)	 - -	 (5,056,810)
 349,000	 1,270,000	 13,076,119	 12,897,244
 (208,966)	 762,630	 (169,264)	 (1,855,515)
 2,712,319	 233,726	 3,035,967	 23,550,639
 \$ 2,503,353	 \$ 996,356	 \$ 2,866,703	 \$ 21,695,124

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, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (1,855,515)

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	4,790,416
Depreciation expense	(11,777,282)
Net book value of assets disposed of	(208,076)

Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection (152,255)

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 (358,108)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 15,235,000

Payments to an escrow agent on refunding bonds are not reported as an other financing use in the statement of activities 2,200,000

Debt issuance is not reported as an other financing source on the statement of activities (3,810,000)

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 507,524

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 (389,170)

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 5,754,891

Change in Net Assets of Governmental Activities \$ 9,937,425

City of Sterling Heights, Michigan

Proprietary Funds Statement of Net Assets June 30, 2010

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ -	\$ 3,441,575
Investments - At fair value (Note 3)	22,354,283	18,251,471
Receivables:		
Customers	7,468,841	-
Accrued interest	45,638	35,862
Prepaid costs and other assets	-	1,712,324
Due from other funds (Note 5)	15,729	957,316
Inventories	290,501	-
Total current assets	30,174,992	24,398,548
Noncurrent assets:		
Restricted assets (Note 8)	8,308,749	-
Capital assets - Net (Note 4)	134,693,441	-
Total noncurrent assets	143,002,190	-
Total assets	173,177,182	24,398,548
Liabilities		
Current liabilities:		
Accounts payable	3,917,288	468,743
Accrued and other liabilities	210,354	-
Compensated absences (Note 7)	122,887	-
Current portion of long-term debt (Note 7)	92,167	-
Provision for uninsured losses and liabilities (Note 10)	-	565,522
Unearned revenue	49,850	-
Total current liabilities	4,392,546	1,034,265
Noncurrent liabilities:		
Compensated absences (Note 7)	141,784	-
Long-term debt (Note 7)	3,610,364	-
Provision for uninsured losses and liabilities (Note 10)	-	1,668,338
Total noncurrent liabilities	3,752,148	1,668,338
Total liabilities	8,144,694	2,702,603
Net Assets		
Investment in capital assets - Net of related debt	130,990,910	-
Restricted for county drains	612,246	-
Restricted for ordinance requirements	7,696,503	-
Unrestricted	25,732,829	21,695,945
Total net assets	<u>\$ 165,032,488</u>	<u>\$ 21,695,945</u>

City of Sterling Heights, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2010

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Operating Revenue		
Water sales	\$ 10,010,959	\$ -
Sewage treatment	13,043,730	-
Service charges	664,399	-
City contributions	-	7,240,049
Other	<u>1,338,595</u>	<u>16,358,360</u>
Total operating revenue	25,057,683	23,598,409
Operating Expenses		
Wages and fringe benefits	3,564,088	-
Contractual services	174,052	-
Water purchases	8,683,183	-
Sewage disposal charges	10,766,047	-
Materials and supplies	189,888	-
Repairs and maintenance	488,510	-
Building and equipment rental	186,257	-
Insurance	270,260	-
Depreciation	4,700,089	-
Administration expenses	1,683,600	261,486
Reinsurance charges and claims	-	6,452,533
Other	<u>195,650</u>	<u>507,937</u>
Total operating expenses	30,901,624	7,221,956
Operating (Loss) Income		
	(5,843,941)	16,376,453
Nonoperating Revenue		
Interest income	920,857	516,023
Tap fees and frontage charges	<u>280,817</u>	-
Total nonoperating revenue	1,201,674	516,023
(Loss) Income - Before contributions and operating transfers	(4,642,267)	16,892,476
Contributions from Developers		
	2,632,100	-
Interfund Transfer Out	-	(11,137,585)
Change in Net Assets		
Net Assets - Beginning of year	(2,010,167)	5,754,891
Net Assets - End of year	<u>167,042,655</u>	<u>15,941,054</u>
	<u>\$ 165,032,488</u>	<u>\$ 21,695,945</u>

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2010

	Business-type Activities	Governmental Activity
	Internal Service	
Enterprise Fund - Water and Sewer		Fund - Self- insurance
Cash Flows from Operating Activities		
Receipts from customers	\$ 23,594,438	\$ 7,317,043
Payments to suppliers for goods and services	(19,560,216)	-
Payments to employees for services	(3,530,970)	-
Payments connected with interfund services	(1,953,860)	(744,901)
Receipts connected with interfund services	(23,073)	-
Claims paid	-	(6,236,103)
Other receipts	436,428	15,850,424
Net cash (used in) provided by operating activities	(1,037,253)	16,186,463
Cash Flows from Noncapital Financing Activities - Transfer to governmental funds		
	-	(11,137,585)
Cash Flows from Capital and Related Financing Activities		
Collection of customer assessments (principal and interest)	280,817	-
Purchase of capital assets	(620,171)	-
Net cash used in capital and related financing activities	(339,354)	-
Cash Flows from Investing Activities		
Interest received on investments	920,857	516,023
Purchase of investment securities	(61,492,159)	(57,095,428)
Proceeds from sales and maturities of investment securities	63,694,365	52,615,530
Net cash provided by (used in) investing activities	3,123,063	(3,963,875)
Net Increase in Cash and Cash Equivalents	1,746,456	1,085,003
Cash and Cash Equivalents - Beginning of year	3,433,484	2,356,572
Cash and Cash Equivalents - End of year	<u>\$ 5,179,940</u>	<u>\$ 3,441,575</u>
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ -	\$ 3,441,575
Restricted cash and cash equivalents (Note 8)	5,179,940	-
Total	<u>\$ 5,179,940</u>	<u>\$ 3,441,575</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, 2010

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	\$ (5,843,941)	\$ 16,376,453
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation and amortization	4,700,089	-
Changes in assets and liabilities:		
Receivables	(124,650)	73,745
Prepaid costs and other assets	-	3,249
Due from other funds	(15,729)	(483,415)
Inventory	(13,754)	-
Accounts payable	215,892	261,365
Accrued and other liabilities	50,816	-
Provision for compensated absences	33,118	-
Provision for uninsured losses and liabilities	-	(44,934)
Deferred revenue	(31,750)	-
Due to other funds	(7,344)	-
Net cash (used in) provided by operating activities	<u>\$ (1,037,253)</u>	<u>\$ 16,186,463</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2010, developers constructed water and sewer lines with an estimated value of \$537,817 and donated them to the City's Water and Sewer Enterprise Fund. Also, during the year, the Oakland-Macomb Interceptor Drainage District (OMID) had completed and contributed drainage system improvements totaling \$2,586,873, of which \$2,094,283 was funded through a principal forgiveness program. In addition, the City's portion of OMID-issued county drain bonds totaled \$1,104,836. Also, during the year, the Macomb County Waste Water Disposal District contributed drainage system improvements and assigned the related debt to the City totaling \$2,597,695.

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2010

	Trust Funds -	
	Pensions and	
	Other Retirement	
	Benefits	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 29,445,324	\$ 1,968,347
Investments - At fair value (Note 3):		
Government securities	47,198,036	-
Short-term investment fund	-	1,348,220
Corporate bonds	28,903,126	-
Common and preferred stocks	159,333,876	-
Mutual funds	8,589,121	-
Pooled investments	6,041,728	-
Receivables - Accrued interest	816,739	1,879
Due from other governmental units	110	9,608
 Total assets	 280,328,060	 \$ 3,328,054
Liabilities		
Accounts payable	2,030,380	\$ -
Accrued and other liabilities	828,512	1,283,309
Due to other governmental units	491,452	34,265
Provision for uninsured losses and liabilities (Note 10)	651,878	-
Deferred revenue	11,493	-
Cash bonds and deposits	-	2,010,480
 Total liabilities	 4,013,715	 \$ 3,328,054
Net Assets - Held in trust for pensions and other retirement benefits	 \$ 276,314,345	

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2010

	Trust Funds - Pensions and Other Retirement Benefits
Additions	
Investment income (loss):	
Interest and dividends	\$ 7,648,958
Net adjustment to fair value of investments	19,154,835
Less investment expenses	<u>(1,614,373)</u>
Net investment income	25,189,420
Securities lending income:	
Interest and fees	43,921
Less borrower rebates and bank fees	<u>(31,827)</u>
Net securities lending income	12,094
Contributions:	
Employer	16,733,824
Employee	2,310,010
Purchase of prior year's service credits	536,240
Insurance recovery	<u>202,752</u>
Total additions - Net	44,984,340
Deductions	
Benefit payments	25,216,745
Refunds of contributions	<u>498,197</u>
Total deductions	<u>25,714,942</u>
Change in Net Assets	19,269,398
Net Assets - Beginning of year	<u>257,044,947</u>
Net Assets - End of year	<u>\$ 276,314,345</u>

City of Sterling Heights, Michigan

Component Units Statement of Net Assets June 30, 2010

	Economic Development Corporation	Brownfield Redevelopment Authority	Corridor Improvement Authority	Local Development Finance Authority	Total
Assets					
Cash and cash equivalents	\$ 8,016	\$ 4,176	\$ 224,619	\$ 14	\$ 236,825
Due from other governmental units	-	-	-	27,717	27,717
Capital assets:					
Nondepreciable (Note 4)	-	-	-	1,209,203	1,209,203
Depreciable - Net (Note 4)	-	-	-	1,695,582	1,695,582
Total assets	8,016	4,176	224,619	2,932,516	3,169,327
Liabilities					
Accounts payable	1,180	-	-	-	1,180
Due to other governmental units	-	-	-	27,717	27,717
Total liabilities	1,180	-	-	27,717	28,897
Net Assets					
Net investment in capital assets -					
Net of related debt	-	-	-	2,904,785	2,904,785
Unrestricted	6,836	4,176	224,619	14	235,645
Total net assets	\$ 6,836	\$ 4,176	\$ 224,619	\$ 2,904,799	\$ 3,140,430

City of Sterling Heights, Michigan

Component Units Statement of Activities Year Ended June 30, 2010

	Program Revenue						Net (Expenses) Revenue and Changes in Net Assets			
	Operating Grants and Contributions		Capital Grants and Contributions		Economic Develop- ment Corporation	Brownfield Redevelop- ment Authority	Corridor Improve- ment Authority	Local Develop- ment Finance Authority	Total	
	Expenses									
Economic Development Corporation - Public works	\$ 15,242	\$ 17,000	\$ -	\$ 1,758	\$ -	\$ -	\$ -	\$ -	\$ 1,758	
Brownfield Redevelopment Authority - Public works	81,107	48,917	-	-	(32,190)	-	-	-	(32,190)	
Corridor Improvement Authority - Public works	15,628	20,477	-	-	-	4,849	-	-	4,849	
Local Development Finance Authority - Public works	84,772	89,557	\$ 2,900,000	-	-	-	2,904,785	2,904,785		
Total component units	\$ 196,749	\$ 175,951	\$ 2,900,000	1,758	(32,190)	4,849	2,904,785	2,879,202		
General Revenue - Interest				19	21	1,370	14	1,424		
Change in Net Assets				1,777	(32,169)	6,219	2,904,799	2,880,626		
Net Assets - Beginning of year				5,059	36,345	218,400	-	259,804		
Net Assets - End of year				\$ 6,836	\$ 4,176	\$ 224,619	\$ 2,904,799	\$ 3,140,430		

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

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 fund type.
- 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 fund type.
- 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 fund type.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

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 fund type.

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, 2010**

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

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

Note I - Summary of Significant Accounting Policies (Continued)

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

The City reports the following 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).

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.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

Note I - Summary of Significant Accounting Policies (Continued)

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 policy is to first apply restricted resources.

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 Self-Insurance Fund also recognizes cost recovered 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. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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."

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

Note I - Summary of Significant Accounting Policies (Continued)

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 fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The City Charter requires amounts in the Enterprise Fund to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve, when applicable. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for construction, maintenance, or debt service.

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.

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

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

Note I - Summary of Significant Accounting Policies (Continued)

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.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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, 2010**

Note 1 - 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 March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The City will implement Statement No. 54 beginning with the fiscal year ending June 30, 2011.

Note 2 - Stewardship, Compliance, and Accountability

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

Shortfall at July 1, 2009	\$ (7,228,033)
Current year building permit revenue	1,292,751
Related expenses:	
Direct costs	\$ 1,213,848
Estimated indirect costs	<u>1,093,232</u>
Total construction code expenses	<u>(2,307,080)</u>
Net shortfall for the year ended June 30, 2010	<u>(1,014,329)</u>
Cumulative shortfall at June 30, 2010	<u>\$ (8,242,362)</u>

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

Note 3 - Deposits and Investments

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

The investment policy adopted by the City Council in accordance with Public Act 20 of 1948, as amended, authorizes investments in U.S. 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, 2010

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 \$682,776 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
Banker's 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, 2010**

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	\$ 24,769,861	0.18 years
U.S. government agencies	43,446,724	6.02 years
General Employees' Retirement System		
Corporate bonds	5,271,698	4.79 years
Foreign bonds	579,415	5.77 years
U.S. government agencies	6,863,106	5.31 years
U.S. government obligations	12,212,494	3.70 years
Municipal obligations	338,589	10.19 years
Police and Fire Retirement System		
Corporate bonds	19,130,955	5.50 years
Foreign bonds	1,712,198	5.91 years
U.S. government agencies	2,034,280	4.42 years
U.S. government obligations	20,933,297	3.67 years
Municipal obligations	790,561	9.00 years
Retiree Medical Benefits		
Corporate bonds	2,208,860	4.58 years
U.S. government agencies	1,956,599	3.91 years
U.S. government obligations	2,069,110	2.77 years

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2010

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	\$ 5,921,280	AI	S&P
Pooled funds	1,763,787	AAA	S&P
Pooled funds	1,026,941	AAAm	S&P
Commercial paper	24,769,861	AI	S&P
U.S. government agencies	43,446,724	AAA	S&P
General Employees' Retirement System			
U.S. government agencies	6,863,106	AAA	S&P
U.S. government obligations	12,212,494	AAA	S&P
Municipal obligations	162,758	Aaa	S&P
Municipal obligations	51,834	AI to A2	S&P
Municipal obligations	123,997	Aa2	S&P
Corporate bonds	1,656,390	AAA to Aaa	S&P
Corporate bonds	458,615	AI to A3	S&P
Corporate bonds	1,529,415	A+ to A-	S&P
Corporate bonds	1,456,019	Baa1 to Baa3	S&P
Corporate bonds	171,259	BBB	S&P
Foreign bonds	79,688	Aa2	S&P
Foreign bonds	242,811	AI to A3	S&P
Foreign bonds	256,916	Baa1 to Baa2	S&P
Police and Fire Retirement System			
U.S. government agencies	2,034,280	Aaa	S&P
U.S. government obligations	20,933,297	Aaa/Tsy/Agy	S&P
Municipal obligations	238,711	Aaa	S&P
Municipal obligations	295,734	Aa2	S&P
Municipal obligations	256,116	AI to A3	S&P
Corporate bonds	782,456	Aaa	S&P
Corporate bonds	977,007	Aa2 to Aa3	S&P
Corporate bonds	8,525,534	AI to A3	S&P
Corporate bonds	8,845,958	Baa1 to Baa3	S&P
Foreign bonds	94,629	Aa2	S&P
Foreign bonds	263,767	AI to A3	S&P
Foreign bonds	1,353,802	Baa1 to Baa2	S&P
Retiree Medical Benefits			
Pooled funds	41,660	NR	
Pooled funds	1,578,632	AAA	S&P
U.S. government agencies	1,956,599	AAA	S&P
U.S. government obligations	2,069,110	AAA	S&P
Corporate bonds	121,245	AAA	S&P
Corporate bonds	514,841	AA+ to AA-	S&P
Corporate bonds	1,087,470	A+ to A-	S&P
Corporate bonds	485,304	BBB+ to BBB-	S&P

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk

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

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, 2010, 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.

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.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2010

Note 3 - Deposits and Investments (Continued)

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, 2010 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, 2010 were \$7,253,794 and \$7,063,724, respectively.

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, 2009	Additions	Disposals and Adjustments	Balance June 30, 2010
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 45,414,228	\$ -	\$ -	\$ 45,414,228
Construction in progress	10,446,141	1,919,598	(9,774,211)	2,591,528
Works of art	336,751	-	-	336,751
Net capital assets -				
Nondepreciable	56,197,120	1,919,598	(9,774,211)	48,342,507
Capital assets being depreciated:				
Building and building improvements	33,649,270	5,003,421	(687,838)	37,964,853
Improvements other than buildings	6,300,581	3,403,365	(1,342)	9,702,604
Equipment	37,379,027	1,510,290	(2,397,634)	36,491,683
Furnishings and fixtures	1,351,376	45,438	(104,835)	1,291,979
Infrastructure	233,415,824	2,682,515	-	236,098,339
Subtotal	312,096,078	12,645,029	(3,191,649)	321,549,458
Accumulated depreciation:				
Building and building improvements	11,448,975	809,780	(573,718)	11,685,037
Improvements other than buildings	1,737,625	301,624	(536)	2,038,713
Equipment	24,412,771	2,646,216	(2,305,563)	24,753,424
Furnishings and fixtures	1,092,148	40,510	(103,758)	1,028,900
Infrastructure	120,430,801	7,979,152	2	128,409,955
Subtotal	159,122,320	11,777,282	(2,983,573)	167,916,029
Net capital assets being depreciated	152,973,758	867,747	(208,076)	153,633,429
Net governmental capital assets	\$ 209,170,878	\$ 2,787,345	\$ (9,982,287)	\$ 201,975,936

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2010

Note 4 - Capital Assets (Continued)

	Balance June 30, 2009	Additions	Disposals and Adjustments	Balance June 30, 2010
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 64,871	\$ -	\$ -	\$ 64,871
Construction in progress	1,270,771	3,007,363	(1,172,659)	3,105,475
Net capital assets - Nondepreciable	1,335,642	3,007,363	(1,172,659)	3,170,346
Capital assets being depreciated:				
Building and building improvements	422,633	-	(1)	422,632
Improvements other than buildings	11,391	-	-	11,391
Equipment	3,200,320	739,342	(41,472)	3,898,190
Furnishings and fixtures	28,230	-	-	28,230
Water and sewer mains	224,413,333	3,669,461	-	228,082,794
Subtotal	228,075,907	4,408,803	(41,473)	232,443,237
Accumulated depreciation:				
Building and building improvements	213,344	8,944	-	222,288
Improvements other than buildings	11,391	-	-	11,391
Equipment	1,804,495	232,424	(41,440)	1,995,479
Furnishings and fixtures	21,307	1,129	-	22,436
Water and sewer mains	94,310,038	4,457,592	(99,082)	98,668,548
Subtotal	96,360,575	4,700,089	(140,522)	100,920,142
Net capital assets being depreciated	131,715,332	(291,286)	99,049	131,523,095
Net business-type capital assets	\$ 133,050,974	\$ 2,716,077	\$ (1,073,610)	\$ 134,693,441

Construction in progress includes \$2,586,873 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 \$15,687,438. 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 include \$2,597,695 of drain improvements constructed by the Macomb County Waste Water District for the North Gratiot Interceptor, which is the City's portion of total improvements in the amount of \$22,340,000. See Note 7 for additional information.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2010

Note 4 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 353,496
Public safety	2,095,138
Public works	8,529,795
Recreation and culture	760,607
41A District Court	<u>38,246</u>
 Total governmental activities	 <u>\$ 11,777,282</u>
 Business-type activities - Water and sewer	 <u>\$ 4,700,089</u>

Discretely Presented Component Units

On December 30, 2009, the Local Development Finance Authority received donated land and building valued at \$2,900,000. The property will be used to foster the development of the City's incubator project. Capital asset activity of the discretely presented component units was as follows:

	Balance June 30, 2009	Additions	Disposals and Adjustments	Balance June 30, 2010
Local Development Finance Authority				
Capital assets not being depreciated -				
Land	\$ -	\$ 1,209,203	\$ -	\$ 1,209,203
Capital assets being depreciated -				
Building and building improvements	-	1,712,709	-	1,712,709
Less accumulated depreciation	-	17,127	-	17,127
Net capital assets being depreciated	-	1,695,582	-	1,695,582
Net component units capital assets	<u>\$ -</u>	<u>\$ 2,904,785</u>	<u>\$ -</u>	<u>\$ 2,904,785</u>

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

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	\$ 3,891,135	\$ 2,885,053

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	\$ 58,130
	CDBG Fund	49,757
	General Improvements Fund	5,141
	Nonmajor governmental funds	<u>90,397</u>
	Total General Fund	203,425
Proprietary Fund	General Fund	15,729
Self-insurance Fund	General Fund	<u>957,316</u>
	Total	\$ <u>1,176,470</u>

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

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

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	\$ 349,000
	Nonmajor governmental funds	<u>1,572,810</u>
	Total	1,921,810
Major Roads Fund	Road Bond Debt Retirement Fund	2,585,000
	Nonmajor governmental funds	<u>250,000</u>
	Total	2,835,000
Road Bond Construction Fund	Major Roads Fund	300,000
Proprietary funds -		
Governmental activity	Nonmajor governmental funds	<u>11,137,585</u>
	Total	<u>\$ 16,194,395</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 current local road repair and replacement programs and debt service payments.

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

The transfer from the Road Bond Construction Fund to the Major Roads Fund represents the unrestricted resources for various current repair and replacement programs.

Transfers from the Proprietary Funds - governmental activity to the nonmajor governmental funds represent the transfer of unrestricted resources for debt service payments.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

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)	\$ 1,966,016	\$ -
Loans receivable - Rehabilitation	- -	1,789,037
Special assessments	3,039,160	- -
Other deposits	<u>75,595</u>	<u>410,870</u>
 Total	 <u>\$ 5,080,771</u>	 <u>\$ 2,199,907</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, 2010

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:					
1999 Michigan Transportation Fund Bonds:					
Amount of Issue - \$5,250,000					
Maturing through 2013					
Interest Rate Ranges 4.35% - 4.65%					
Principal Maturity Range \$400,000 - \$600,000	\$ 2,600,000	\$ -	\$ (2,600,000)	\$ -	\$ -
2002 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$4,840,000					
Maturing through 2009					
Interest Rate 3.50%					
Principal Maturity	330,000	-	(330,000)	-	-
2003 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$3,050,000					
Maturing through 2013					
Interest Rate Ranges 2.75% - 3.60%					
Principal Maturity Range \$245,000 - \$500,000	1,455,000	-	(460,000)	995,000	500,000
2003 Building Authority Refunding Bonds:					
Amount of Issue - \$2,025,000					
Maturing through 2010					
Interest Rate 2.75%					
Principal Maturity	395,000	-	(395,000)	-	-
2004 Judgment Bonds:					
Amount of Issue - \$24,395,000					
Maturing through 2015					
Interest Rate Ranges 3.625% - 5.375%					
Principal Maturity Range \$1,085,000 - \$2,260,000	10,870,000	-	(10,870,000)	-	-
2005 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$3,285,000					
Maturing through 2014					
Interest Rate Ranges 3.5% - 4.125%					
Principal Maturity Range \$425,000 - \$1,000,000	2,850,000	-	(425,000)	2,425,000	425,000
2005 Limited Tax Refunding Bonds:					
Amount of Issue - \$2,820,000					
Maturing through 2019					
Interest Rate Ranges 3.50% - 5.00%					
Principal Maturity Range \$25,000 - \$600,000	2,720,000	-	(200,000)	2,520,000	190,000
2005 Michigan Transportation Fund Bonds:					
Amount of Issue - \$5,300,000					
Maturing through 2019					
Interest Rate Ranges 3.25% - 4.25%					
Principal Maturity Range \$125,000 - \$625,000	4,850,000	-	(250,000)	4,600,000	300,000

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2010

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):					
2007 Michigan Transportation Fund Bonds:					
Amount of Issue - \$4,650,000					
Maturing through 2021					
Interest Rate Ranges 3.70% - 4.00%					
Principal Maturity Range \$100,000 - \$1,000,000	\$ 4,450,000	\$ -	\$ (150,000)	\$ 4,300,000	\$ 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	2,100,000	-	(575,000)	1,525,000	600,000
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 \$100,000 - \$600,000	4,900,000	-	(125,000)	4,775,000	150,000
2010 Michigan Transportation Refunding Bonds					
Amount of Issue - \$2,240,000					
Maturing through 2014					
Interest Rate 2.0%					
Principal Maturity Range \$520,000 - \$605,000	-	2,240,000	-	2,240,000	525,000
2010 Michigan Transportation Recovery Zone Bonds					
Amount of Issue - \$1,570,000					
Maturing through 2026					
Interest Rate Ranges 1.50% - 6.05%					
Principal Maturity Range \$20,000 - \$200,000	-	1,570,000	-	1,570,000	-
County Drain contract obligations:					
Busch Drain Drainage District:					
Amount of Issue - \$1,250,000					
Maturing through 2014					
Interest Rate Ranges 4.35% - 4.55%					
Principal Maturity Range \$100,000 - \$125,000	550,000	-	(100,000)	450,000	100,000
Hawken Drain Drainage District:					
Amount of Issue - \$795,000					
Maturing through 2015					
Interest Rate Ranges 4.90% - 5.25%					
Principal Maturity Range \$50,000 - \$75,000	350,000	-	(50,000)	300,000	50,000
Hayes Drain Drainage District:					
Amount of Issue - \$1,095,000					
Maturing through 2015					
Interest Rate Ranges 4.75% - 5.20%					
Principal Maturity Range \$75,000 - \$125,000	650,000	-	(75,000)	575,000	100,000

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2010

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
County Drain contract obligations (Continued):					
Sterling Relief Lateral 12B Drainage District:					
Amount of Issue - \$885,000					
Maturing through 2013					
Interest Rate Ranges 3.05% - 3.90%					
Principal Maturity Range \$90,000 - \$115,000	\$ 415,000	\$ -	\$ (95,000)	\$ 320,000	\$ 100,000
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 - \$275,000	1,500,000	-	(225,000)	1,275,000	225,000
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	1,000,000	-	(125,000)	875,000	125,000
17 Mile Road Drain and Branches Refunding Bonds:					
Amount of Issue - \$2,315,000					
Maturing through 2013					
Interest Rate Ranges 3.25% - 3.70%					
Principal Maturity Range \$270,000 - \$290,000	1,125,000	-	(285,000)	840,000	280,000
Special Assessment Bonds:					
2008 Special Assessment Limited Tax Bonds:					
Amount of Issue - \$3,260,000					
Maturing through 2028					
Interest Rate Ranges 3.00% - 4.50%					
Principal Maturity Range \$100,000 - \$400,000	3,260,000	-	(100,000)	3,160,000	100,000
Total bond obligations	46,370,000	3,810,000	(17,435,000)	32,745,000	3,970,000
Other long-term obligations:					
Provision for uninsured losses and other liabilities	2,278,794	5,527,699	(5,572,633)	2,233,860	565,522
Compensated absences - General Fund obligations	5,132,998	2,372,141	(1,982,971)	5,522,168	935,439
Total other long-term obligations	7,411,792	7,899,840	(7,555,604)	7,756,028	1,500,961
Total governmental activities	53,781,792	11,709,840	(24,990,604)	40,501,028	5,470,961

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2010

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Business-type Activities - Water and Sewer					
County Drain Contract Obligations:					
2008 North Gratiot Interceptor Drainage District:					
Amount of Issue - \$2,597,695	\$	-	\$ 2,597,695	\$ -	\$ 2,597,695
Maturing through 2033					
Interest Rate Ranges 3.50% -5.00%					
Principal Maturity Range \$60,836 - \$146,006					
2010B OMID Drainage District:					
Amount of Issue - \$1,104,836					
Maturing through 2030					
Interest Rate Ranges 1.15% -5.90%					
Principal Maturity Range \$31,331 - \$85,748					
Total bond obligations					
Other long-term obligations - Compensated absences - Water and Sewer Fund					
Total business-type activities					
Total	\$ 54,013,345	\$ 15,551,137	\$ (25,096,252)	\$ 44,468,230	\$ 5,686,015

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

	Governmental Activities		
	Principal	Interest	Total
2011	\$ 3,970,000	\$ 1,221,054	\$ 5,191,054
2012	3,940,000	1,098,472	5,038,472
2013	3,905,000	961,066	4,866,066
2014	3,205,000	829,435	4,034,435
2015	2,590,000	715,313	3,305,313
2016-2020	9,535,000	2,374,577	11,909,577
2021-2025	4,600,000	659,769	5,259,769
2026-2030	1,000,000	77,450	1,077,450
Total	\$ 32,745,000	\$ 7,937,136	\$ 40,682,136

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

Note 7 - Long-term Debt (Continued)

During the year, the City issued \$2,240,000 in Michigan Transportation Fund Refunding bonds with a coupon (interest) rate of 2.00 percent. The proceeds were used to advance refund \$2,200,000 of the outstanding 1999 Michigan Transportation Fund bonds with an average coupon (interest) rate of 4.50 percent. The net proceeds of \$2,251,535 from the Michigan Transportation Fund Refunding bonds (after payment of \$74,008 for underwriter fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide future debt service payments on the 1999 Michigan Transportation Fund bonds. As a result, the bond issue listed mentioned is considered defeased and the liability for the bonds has been removed from the long-term obligations of the governmental activities. The advanced refunding reduced the total debt service over the next four years by \$74,141, which represents an economic gain of \$2,236.

Additionally, the City issued \$1,570,000 in new Michigan Transportation Fund limited tax general obligation bonds with an average coupon (interest) rate of 5.42 percent. The bonds mature from 2012 to 2026 and carry coupons ranging from 1.50 percent to 6.05 percent. The true interest cost of these bonds is 5.4 percent; however, these bonds were issued as taxable Recovery Zone Economic Development Bonds (RZEDBs). RZEDBs are eligible to recover tax credit payments from the United States Treasury equal to 45 percent of the interest payable on the bonds, on or about each interest payment date. Bond proceeds of \$31,400 were used to pay underwriter fees and other issuance costs. The net proceeds of the bond issue are being used to pay the costs associated with road improvements and repairs.

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the bonds. Accordingly, trust account assets and the related liability for defeased bonds are not included in the basic financial statements. At June 30, 2010, the City's portion of bonds outstanding considered defeased has been redeemed.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

Note 7 - Long-term Debt (Continued)

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
2011	\$ 92,167	\$ 166,483	\$ 258,650
2012	97,939	168,414	266,353
2013	98,763	165,669	264,432
2014	130,830	162,553	293,383
2015	132,479	157,934	290,413
2016-2020	750,440	704,839	1,455,279
2021-2025	906,007	512,833	1,418,840
2026-2030	1,055,888	269,460	1,325,348
2031-2033	438,018	41,612	479,630
 Total	 <u>\$ 3,702,531</u>	 <u>\$ 2,349,797</u>	 <u>\$ 6,052,328</u>

During the year, the Oakland-Macomb Interceptor Drainage District (OMID) issued \$6,700,000 of county drain bonds, of which \$1,104,836 is the City's share. The proceeds are being used to improve and repair the OMID Interceptor which is a multi-jurisdictional drainage system. These bonds were issued as taxable Recovery Zone Economic Development Bonds (RZEDBs). RZEDBs are eligible to recover tax credit payments from the United States Treasury equal to 45 percent of the interest payable on the bonds. This City anticipates receiving credits in the future for its proportionate share of recovered interest costs.

Also during the year, the OMID was approved for \$42,000,000 of loans through the Michigan State Revolving Loan Fund Program (SRF), of which approximately \$6,900,000 is the City's share. The SRF loans are, in part, supported by grant funding from the American Recovery and Reinvestment Act of 2009 (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. For the year ended June 30, 2010, approximately \$12,700,000 of costs were incurred by OMID, resulting in approximately \$2,100,000 of contributed capital recognized as the City's share. No amounts were drawn on the SRF loan at that time.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

Note 7 - Long-term Debt (Continued)

During the year, the North Gratiot Interceptor Drainage District (NGID) allocated a percent of the Drainage District Drain Bonds Phase 1, Series 2008 bonds totaling \$22,340,000 to participating communities. Debt was allocated based on a three-year average flow calculation, of which \$2,597,695 is the City's share.

Subsequent Event

Subsequent to year end, the Macomb Interceptor Drainage District (MID) issued debt in the amount of \$95,620,000 of which approximately \$26.8 million is the City's share. The debt was issued for the purpose of acquiring the Macomb Interceptor Drain from the City of Detroit.

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, 2010:

Water and Sewer Fund:

Cash and cash equivalents	\$ 5,179,940
Investments	2,516,563
Due from Oakland County*	<u>612,246</u>
Total Water and Sewer Fund	8,308,749

General Improvements Fund - Due from Macomb County**

(Note 6)	<u>1,966,016</u>
Total restricted assets	<u>\$ 10,274,765</u>

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

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

There are no current liabilities payable from county restricted assets.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

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 \$1,789,037 at June 30, 2010 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.

During 2010, the City began participating 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 \$924,157 will be paid for all claims reported to date and \$498,443 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:

	<u>2010</u>	<u>2009</u>
Estimated liability - Beginning of year	\$ 1,655,666	\$ 2,137,607
Estimated claims incurred, including		
changes in estimates	361,106	(216,283)
Claim payments	<u>(594,172)</u>	<u>(265,658)</u>
Estimated liability - End of year	\$ 1,422,600	\$ 1,655,666

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

Note 10 - Risk Management (Continued)

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 is 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, 2010. At January 1, 1990, the City became self-insured for short-term disability.

It is estimated, based on past experience, that \$25,757 will be paid for all claims reported to date and \$1,048,071 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	
	2010	2009
Estimated liability - Beginning of year	\$ 440,113	\$ 638,475
Estimated claims incurred, including changes in estimates	4,718,434	4,348,712
Claim payments	(4,736,597)	(4,547,074)
Estimated liability - End of year	<u>\$ 421,950</u>	<u>\$ 440,113</u>

	Retiree Medical Benefits Trust Fund	
	2010	2009
Estimated liability - Beginning of year	\$ 636,953	\$ 627,461
Estimated claims incurred, including changes in estimates	5,389,394	5,105,123
Claim payments	(5,374,469)	(5,095,631)
Estimated liability - End of year	<u>\$ 651,878</u>	<u>\$ 636,953</u>

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

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 is liable for the first \$150,000 of any occurrence. The City has purchased excess insurance to cover claims greater than \$150,000. At June 30, 2010, it was estimated, based on past experience, that \$389,310 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:

	2010	2009
Estimated liability - Beginning of year	\$ 183,015	\$ 330,141
Estimated claims incurred, including changes in estimates	448,159	144,947
Claim payments	<u>(241,864)</u>	<u>(292,073)</u>
Estimated liability - End of year	<u><u>\$ 389,310</u></u>	<u><u>\$ 183,015</u></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 substantially all general employees and 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, 2009, the date of the most recent actuary report, membership consisted of 260 retirees, beneficiaries, alternative payees currently receiving benefits, 11 terminated employees entitled to benefits but not yet receiving them, and 235 current active employees. During the fiscal year, the Retirement System was effectively closed to new members.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

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, 2009, the date of the most recent actuary report, membership consisted of 264 retirees, beneficiaries, alternate payees currently receiving benefits, no terminated employees entitled to benefits but not yet receiving them, and 247 current active employees including 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 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 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.

Annual Pension Costs

General Employees' Retirement System - For the fiscal year ended June 30, 2010, the City's annual pension cost of \$204,054 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, 2008, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return and (b) projected salary increases of 5.0 percent to 13.5 percent per year. Both (a) and (b) include an inflation component of 4.5 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 16 years.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2010

Note 11 - Defined Benefit Pension Plans (Continued)

Police and Fire Retirement System - For the fiscal year ended June 30, 2010, the City's annual pension cost of \$4,925,570 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, 2008, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return and (b) projected salary increases of 1.0 percent to 17.0 percent per year. 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 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 20 years.

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

	Year Ended		
	2008	2009	2010
General Employees' Retirement System:			
Annual pension costs (APC)	\$ -	\$ -	\$ 204,054
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ 1,707,910	\$ 2,594,194	\$ 4,925,570
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Funded Status and Funding Progress

The schedules of funding progress, presented as required supplemental information following the notes to the financial statements, present 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, 2009, the most recent actuarial valuation date, the plan was 106.2 percent funded. The actuarial accrued liability for benefits was \$114.4 million, and the actuarial value of assets was \$121.5 million, resulting in an over-funded actuarial accrued liability of \$7.1 million. The covered payroll (annual payroll for active employees covered by the plan) was \$15.0 million, and the ratio for the over-funded actuarial accrued liability to the covered payroll was 47.6 percent.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

Note 11 - Defined Benefit Pension Plans (Continued)

As of June 30, 2010, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 9,074,569
Reserve for retired benefit payments	61,986,940

Police and Fire Retirement System - As of December 31, 2009, the most recent actuarial valuation date, the plan was 84.9 percent funded. The actuarial accrued liability for benefits was \$227.5 million, and the actuarial value of assets was \$193.2 million, resulting in an unfunded actuarial accrued liability of \$34.3 million. The covered payroll (annual payroll for active employees covered by the plan) was \$22.5 million, and the ratio for the unfunded actuarial accrued liability to the covered payroll was 152.7 percent.

As of June 30, 2010, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 19,897,015
Reserve for retired benefit payments	147,401,004

The plan's legally required reserves have exceeded plan net assets as of June 30, 2010 as a result of the market decline that occurred.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2010

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	\$ 5,977,124	\$ 21,847,908
Investments - At fair value:		
Government securities	19,414,189	23,758,138
Corporate bonds	5,851,113	20,843,153
Common and preferred stocks	61,745,449	77,025,059
Mutual funds	6,658,735	329,497
Pooled investments	-	6,041,728
Receivables - Accrued interest	196,809	568,130
Total assets	99,843,419	150,413,613
Liabilities		
Accounts payable	577,401	1,436,094
Accrued and other liabilities	275,449	544,213
Deferred revenue	11,493	-
Total liabilities	864,343	1,980,307
Net Assets - Held in trust for pensions	<u>\$ 98,979,076</u>	<u>\$ 148,433,306</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2010

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	\$ 3,000,373	\$ 3,947,720
Net adjustment to fair value of investments	10,181,269	6,872,906
Less investment expenses	(585,429)	(845,502)
Net investment gain	12,596,213	9,975,124
Securities lending income:		
Interest and fees	13,365	30,556
Less borrower rebates and bank fees	(9,632)	(22,195)
Net securities lending income	3,733	8,361
Contributions:		
Employer	204,054	4,925,570
Employee	1,168,156	1,141,854
Purchase of prior year's service credits	58,501	477,739
Total additions - Net	14,030,657	16,528,648
Deductions		
Benefit payments	6,456,447	12,876,391
Refunds of contributions	300,497	197,700
Total deductions	6,756,944	13,074,091
Change in Net Assets		
Net Assets - Beginning of year	91,705,363	144,978,749
Net Assets - End of year	\$ 98,979,076	\$ 148,433,306

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

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 7 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 \$300,718 during the current year and employees contributed \$242,059.

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, 2008, the date of the most recent actuary report, the plan has 1,040 members (including employees in active service and retirees or beneficiaries currently receiving benefits). Of those members, 343 general and 249 police and fire retirees are currently eligible.

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.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

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 \$11,604,200, which was funded by the General Fund and the Water and Sewer Fund, and healthcare benefits paid totaled \$5,866,208.

Funding Progress - For the year ended June 30, 2010, the City estimated the cost of providing postemployment benefits through an actuarial valuation as of December 31, 2008. 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, 2010, the City's annual contribution of \$11,604,200 for the plan was equal to the required contribution.

Three-year trend information is not available for annual OPEB costs, the percentage contributed to the plan, or the net OPEB obligation; therefore, only the current and previous fiscal years have been presented:

	Fiscal Year Ended	
	2010	2009
Annual OPEB costs (AOC)	\$ 11,604,200	\$ 11,265,740
Percentage of AOC contributed	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, 2008:

Actuarial value of assets	\$ 17,328,970
Actuarial value of liability (AAL)	160,689,774
Unfunded AAL (UAAL)	143,360,804
Funded ratio	10.8%
Annual covered payroll	46,814,550
Ratio of UAAL to covered payroll	306.2%

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

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 scheduling 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.

In the December 31, 2008 actuarial valuation, the individual entry age actuarial cost method was used. 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 of 10 percent was used in fiscal 2008, grading to 4.5 percent in fiscal 2017 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 as of December 31, 2008 was 30 years.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

Note 13 - Postemployment Benefits (Continued)

Statement of Net Assets

	Retiree Medical Benefits
Assets	
Cash and cash equivalents	\$ 1,620,292
Investments - At fair value:	
Government securities	4,025,709
Mutual funds	1,600,889
Corporate bonds	2,208,860
Common and preferred stocks	20,563,368
Receivables - Accrued interest	51,800
Due from other governmental units	<u>110</u>
Total assets	30,071,028
Liabilities	
Accounts payable	16,885
Accrued and other liabilities	8,850
Due to other governmental units	491,452
Provision for uninsured losses and liabilities	<u>651,878</u>
Total liabilities	<u>1,169,065</u>
Net Assets - Held in trust for other retirement benefits	<u>\$ 28,901,963</u>

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

Note 13 - Postemployment Benefits (Continued)

Statement of Changes in Net Assets

	Retiree Medical Benefits
Additions	
Investment income (loss):	
Interest and dividends	\$ 700,865
Net adjustment to fair value of investments	2,100,660
Less investment expenses	<u>(183,442)</u>
Net investment income	2,618,083
Contributions - Employer	11,604,200
Insurance recovery	<u>202,752</u>
Total additions	14,425,035
Deductions - Benefit payments	<u>5,883,907</u>
Net Change in Net Assets	8,541,128
Net Assets - Beginning of year	<u>20,360,835</u>
Net Assets - End of year	<u>\$ 28,901,963</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2010

Note 14 - Designated Fund Balance

The following is a summary of the unreserved fund balances of the governmental funds with management's designation:

Designated for	Funds						
	Road Bond						
	General	Major Roads	Debt	Retirement	General	Road Bond	Nonmajor
Debt service	\$ -	\$ -	\$ 369,556	\$ -	\$ -	\$ -	\$ 9,821
Capital improvement		2,346,538			2,066,858	954,605	1,189,377
Park improvements	-	-	-	-	-	-	859,565
Public safety	-	-	-	-	-	-	608,568
Subsequent year's expenditures	3,046,140	-	-	-	-	-	-
Total designated	\$ 3,046,140	\$ 2,346,538	\$ 369,556	\$ 2,066,858	\$ 954,605	\$ 2,667,331	
Undesignated	\$ 8,476,835	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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	\$ 23,192,829

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.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2010**

Note 15 - Contingent Liabilities (Continued)

An original equipment manufacturer (OEM) with two facilities located within the City is currently challenging its 2009 personal property tax assessment. The total taxes being challenged amount to \$950,000. The City does not believe a loss will be incurred in this matter and has not recognized a liability as of June 30, 2010.

Required Supplemental Information

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 15,207,062	\$ 15,207,062	\$ 15,207,062	\$ -
Resources (Inflows)				
Property taxes	46,218,090	46,218,090	45,954,154	(263,936)
Refuse taxes	4,581,540	4,581,540	4,561,110	(20,430)
Police and fire pension taxes	4,925,570	4,925,570	4,925,570	-
Federal, state, and local returns	11,271,650	9,828,740	9,991,240	162,500
Licenses and permits	1,241,000	1,179,000	1,194,707	15,707
Fines and forfeitures	3,160,500	3,625,600	3,618,574	(7,026)
Charges for services	8,993,820	8,774,900	8,598,054	(176,846)
Cable revenue	1,725,000	1,805,000	1,799,495	(5,505)
Other revenue	3,603,190	3,074,630	3,016,801	(57,829)
Total resources (inflows)	85,720,360	84,013,070	83,659,705	(353,365)
Charges to Appropriations (Outflows)				
41A District Court	3,200,750	3,215,660	3,221,815	(6,155)
City administration	7,820,590	7,491,380	7,416,613	74,767
Community relations	1,655,210	1,597,960	1,584,184	13,776
Police department	32,345,650	31,768,710	31,674,715	93,995
Fire department	17,715,610	17,325,950	17,158,588	167,362
City development	3,764,240	3,764,840	3,735,557	29,283
Public works department	8,290,990	7,892,080	7,746,519	145,561
Refuse collection	4,614,540	4,478,720	4,429,922	48,798
Parks and recreation department	2,223,750	2,069,900	2,028,196	41,704
Public library department	2,762,410	2,737,140	2,719,400	17,740
General expenditures	2,631,390	2,731,140	2,700,525	30,615
Transfers to other funds	1,911,810	1,921,810	1,921,810	-
Total charges to appropriations (outflows)	88,936,940	86,995,290	86,337,844	657,446
Fund Balance - End of year	\$ 11,990,482	\$ 12,224,842	\$ 12,528,923	\$ 304,081

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Roads Fund Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 2,022,637	\$ 2,022,637	\$ 2,022,637	\$ -
Resources (Inflows)				
State sources	8,748,890	4,981,000	4,962,129	(18,871)
Other	265,000	349,320	284,006	(65,314)
Transfers from other funds	350,000	300,000	300,000	-
Total resources (inflows)	9,363,890	5,630,320	5,546,135	(84,185)
Charges to Appropriations (Outflows)				
Public works:				
Administration	180,730	115,730	117,617	(1,887)
Routine maintenance	1,670,000	1,711,500	1,518,765	192,735
Improvements	4,683,700	1,050,950	667,157	383,793
Transfers to other funds	2,835,000	2,835,000	2,835,000	-
Total charges to appropriations (outflows)	9,369,430	5,713,180	5,138,539	574,641
Fund Balance - End of year	\$ 2,017,097	\$ 1,939,777	\$ 2,430,233	\$ 490,456

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Community Development Block Grant Fund Year Ended June 30, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal sources	1,117,730	922,600	793,046	(129,554)
Charges to Appropriations (Outflows)				
Administrative expenses	110,000	87,570	83,046	4,524
Books	6,200	6,240	6,230	10
Senior Citizens Home Chore and Minor Home Repair	73,200	73,340	54,943	18,397
Handicapped Recreation Program	19,200	19,320	19,320	-
Single Parent Education Program	25,130	25,290	25,283	7
Housing Rehabilitation Program	498,210	151,750	59,757	91,993
Community policing	9,200	9,260	5,907	3,353
Awards to nonprofit organizations	20,650	20,760	20,760	-
Capital improvements	41,680	214,810	203,541	11,269
Principal	-	280,000	280,000	-
Interest	-	34,260	34,259	1
Transfers to other funds	314,260	-	-	-
Total charges to appropriations (outflows)	1,117,730	922,600	793,046	129,554
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, 2010

The schedule of funding progress is as follows:

Actuarial Valuation	Actuarial Date	Value of Plan Assets	Actuarial Accrued	Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio (Percent)	Annual Payroll	UAAL as a Percentage of Covered Payroll (b-a)/(c)	Underfunded/ (Overfunded)
General Employees' Retirement System									
12/31/04	\$ 102,510,129	\$ 82,169,717	\$ (20,340,412)	124.8	\$ 15,251,784			(133.4)	
12/31/05	107,739,690	89,249,361	(18,490,329)	120.7	15,012,036			(123.2)	
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)	
Police and Fire Retirement System									
12/31/04	\$ 187,265,961	\$ 155,818,664	\$ (31,447,297)	120.2	\$ 19,906,323			(158.0)	
12/31/05	194,145,450	158,517,125	(35,628,325)	122.5	19,787,496			(180.1)	
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	
Retiree Medical Benefits Trust									
12/31/08	\$ 17,328,970	\$ 160,689,774	\$ 143,360,804	10.8	\$ 46,814,550			306.2	

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress (Continued) June 30, 2010

General Employees' Retirement System

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution*</u>	<u>Percentage Contributed</u>
06/30/05	12/31/03	\$ -	100.0
06/30/06	12/31/04	-	100.0
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

Police and Fire Retirement System

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution*</u>	<u>Percentage Contributed</u>
06/30/05	12/31/03	\$ 4,204,831	100.0
06/30/06	12/31/04	2,993,592	100.0
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

Retiree Medical Benefits Trust

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution*</u>	<u>Percentage Contributed</u>
06/30/09	12/31/06	\$ 11,265,740	100.0
06/30/10	12/31/08	11,604,200	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, 2010

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, 2009 for the General Employees' Retirement and the Police and Fire Retirement Systems and as of December 31, 2008 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)	20 years (closed)
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.5% - 13.0%
*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*	5.0% - 21.0%
*Includes inflation at	4.5%
Cost-of-living adjustments	None

City of Sterling Heights, Michigan

Note to Required Supplemental Information

June 30, 2010

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, 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 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, 2010**

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 - District Court	\$ <u>3,215,660</u>	\$ <u>3,221,815</u>

The General Fund - District Court unfavorable variance was the result of higher than anticipated personnel costs due to retirements and increased cases.

Other Financial and Supplemental Information

Nonmajor Governmental Funds

City of Sterling Heights, Michigan

Nonmajor Special Revenue Funds						
	Local Roads	Land and Water Conservation	Energy Efficiency Community Block Grant	Public Safety Forfeiture	Neighborhood Stabilization Fund	Total Nonmajor Special Revenue Funds
Assets						
Cash and cash equivalents	\$ 418,581	\$ 607,755	\$ -	\$ 700,966	\$ -	\$ 1,727,302
Investments	498,938	249,303	-	-	-	748,241
Receivables:						
Special assessments:						
Current	34,135	-	-	-	-	34,135
Deferred	204,809	-	-	-	-	204,809
Accrued interest	14,337	-	-	-	-	14,337
Prepaid costs and other assets	750	2,507	-	-	25,000	28,257
Due from other governmental units	288,932	-	84,730	-	117,049	490,711
Inventories	-	-	-	164,894	-	164,894
Total assets	\$ 1,460,482	\$ 859,565	\$ 84,730	\$ 865,860	\$ 142,049	\$ 3,412,686
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 4,243	\$ -	\$ 84,689	\$ 57,797	\$ 113,119	\$ 259,848
Due to other funds	61,303	-	41	123	28,930	90,397
Deferred revenue	205,559	-	-	-	-	205,559
Total liabilities	271,105	-	84,730	57,920	142,049	555,804
Fund Balances						
Reserved for encumbrances	-	-	-	34,478	-	34,478
Reserved for inventory	-	-	-	164,894	-	164,894
Unreserved:						
Designated for road improvements	1,189,377	-	-	-	-	1,189,377
Designated for debt service	-	-	-	-	-	-
Designated for public safety	-	-	-	608,568	-	608,568
Designated for park improvements	-	859,565	-	-	-	859,565
Total fund balances	1,189,377	859,565	-	807,940	-	2,856,882
Total liabilities and fund balances	\$ 1,460,482	\$ 859,565	\$ 84,730	\$ 865,860	\$ 142,049	\$ 3,412,686

Other Financial and Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

Nonmajor Debt Service Funds

General Drain	Voted Tax General Obligation	Settlement Bond	Limited Tax General Obligation	Total Nonmajor Debt Service Funds	Total Nonmajor Governmental Funds
\$ 124	\$ 9,452	\$ -	\$ 245	\$ 9,821	\$ 1,737,123
					748,241
-	-	-	-	-	34,135
-	-	-	-	-	204,809
-	-	-	-	-	14,337
-	-	-	-	-	28,257
-	-	-	-	-	490,711
-	-	-	-	-	164,894
\$ 124	\$ 9,452	\$ -	\$ 245	\$ 9,821	\$ 3,422,507
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 259,848
-	-	-	-	-	90,397
-	-	-	-	-	205,559
-	-	-	-	-	555,804
-	-	-	-	-	34,478
-	-	-	-	-	164,894
-	-	-	-	-	1,189,377
124	9,452	-	245	9,821	9,821
-	-	-	-	-	608,568
-	-	-	-	-	859,565
124	9,452	-	245	9,821	2,866,703
\$ 124	\$ 9,452	\$ -	\$ 245	\$ 9,821	\$ 3,422,507

City of Sterling Heights, Michigan

Nonmajor Special Revenue Funds						
	Local Roads	Land and Water Conservation	Community Block Grant	Public Safety Forfeiture	Neighborhood Stabilization Fund	Total Nonmajor Special Revenue Funds
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	235,027	171,458	915,620	1,322,105
Special assessments	34,135	-	-	-	-	34,135
State sources	1,854,805	1,643	-	214,642	-	2,071,090
Interest income	3,671	4,069	-	-	-	7,740
Other	75,379	-	-	-	-	75,379
Total revenue	1,967,990	5,712	235,027	386,100	915,620	3,510,449
Expenditures						
Current:						
Public safety	-	-	-	297,224	-	297,224
Public works	1,588,653	-	-	-	915,620	2,504,273
Other	-	-	29,153	-	-	29,153
Capital outlay	1,217,266	16,577	205,874	149,838	-	1,589,555
Debt service	-	-	-	-	-	-
Total expenditures	2,805,919	16,577	235,027	447,062	915,620	4,420,205
Excess of Expenditures Over Revenue	(837,929)	(10,865)	-	(60,962)	-	(909,756)
Other Financing Sources (Uses)						
Proceeds from sale of asset	-	115,724	-	-	-	115,724
Interfund transfers in	765,000	-	-	-	-	765,000
Total other financing sources (uses)	765,000	115,724	-	-	-	880,724
Change in Fund Balances	(72,929)	104,859	-	(60,962)	-	(29,032)
Fund Balances - Beginning of year	1,262,306	754,706	-	868,902	-	2,885,914
Fund Balances - End of year	\$ 1,189,377	\$ 859,565	\$ -	\$ 807,940	\$ -	\$ 2,856,882

Other Financial and Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2010

Nonmajor Debt Service Funds

General Drain	Voted Tax General Obligation	Settlement Bond	Limited Tax General Obligation	Total Nonmajor Debt Service Funds	Total Nonmajor Governmental Funds
\$ 1,178,018	\$ 182,454	\$ -	\$ -	\$ 1,360,472	\$ 1,360,472
-	-	-	-	-	1,322,105
-	-	-	-	-	34,135
-	-	-	-	-	2,071,090
4,061	1,511	4,216	10	9,798	17,538
-	-	-	-	-	75,379
1,182,079	183,965	4,216	10	1,370,270	4,880,719
 -	 -	 -	 -	 -	 297,224
 -	 -	 -	 -	 -	 2,504,273
5,604	2,251	2,164	664	10,683	39,836
-	-	-	-	-	1,589,555
1,197,086	308,250	11,142,781	1,047,097	13,695,214	13,695,214
1,202,690	310,501	11,144,945	1,047,761	13,705,897	18,126,102
 (20,611)	 (126,536)	 (11,140,729)	 (1,047,751)	 (12,335,627)	 (13,245,383)
 - 10,000	 - -	 11,137,585	 - 1,047,810	 - 12,195,395	 115,724 12,960,395
 10,000	 - -	 11,137,585	 1,047,810	 12,195,395	 13,076,119
 (10,611)	 (126,536)	 (3,144)	 59	 (140,232)	 (169,264)
 10,735	 135,988	 3,144	 186	 150,053	 3,035,967
\$ 124	\$ 9,452	\$ -	\$ 245	\$ 9,821	\$ 2,866,703

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds Year Ended June 30, 2010

Special Revenue Fund - Local Roads

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 1,262,306	\$ 1,262,306	\$ 1,262,306	\$ -
Resources (Inflows)				
State sources	1,873,000	1,833,000	1,854,805	21,805
Charges for services	80,000	70,000	60,890	(9,110)
Other	70,380	53,490	52,295	(1,195)
Transfer from other funds	765,000	765,000	765,000	-
Total resources (inflows)	2,788,380	2,721,490	2,732,990	11,500
Charges to Appropriations (Outflows)				
Administration	149,640	134,640	120,214	14,426
Local street maintenance	1,733,500	1,642,170	1,468,439	173,731
Local street improvements	1,265,000	1,226,340	1,217,266	9,074
Total charges to appropriations (outflows)	3,148,140	3,003,150	2,805,919	197,231
Fund Balance - End of year	\$ 902,546	\$ 980,646	\$ 1,189,377	\$ 208,731

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2010

Special Revenue Fund - Land and Water Conservation

	Original Budget	Final Budget	Actual	Variance with Final Budget	
				Positive	(Negative)
Fund Balance - Beginning of year	\$ 754,706	\$ 754,706	\$ 754,706	\$ -	
Resources (Inflows)					
Federal and state sources	3,000	1,650	1,643		(7)
Other	13,000	122,500	119,793		(2,707)
Total resources (inflows)	16,000	124,150	121,436		(2,714)
Charges to Appropriations (Outflows)					
Land acquisition	-	100	166		(66)
Land improvements	8,000	17,130	16,411		719
Total charges to appropriations (outflows)	8,000	17,230	16,577		653
Fund Balance - End of year	<u>\$ 762,706</u>	<u>\$ 861,626</u>	<u>\$ 859,565</u>	<u>\$ (2,061)</u>	

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2010

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	-	300,110	235,027	(65,083)
Charges to Appropriations (Outflows) -				
Administration and improvements	-	300,110	235,027	65,083
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Special Revenue Fund - Public Safety Forfeiture Fund

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 868,902	\$ 868,902	\$ 868,902	\$ -
Resources (Inflows)				
Federal forfeitures	-	127,260	169,630	42,370
State forfeitures	-	160,240	185,856	25,616
OWI forfeitures	-	19,350	26,900	7,550
Interest income	<u>8,740</u>	<u>8,740</u>	<u>3,714</u>	<u>(5,026)</u>
Total resources (inflows)	<u>8,740</u>	<u>315,590</u>	<u>386,100</u>	<u>70,510</u>
Charges to Appropriations (Outflows)				
Federal forfeiture expenditures	81,340	186,740	164,543	22,197
State forfeiture expenditures	124,200	317,300	277,973	39,327
Gambling forfeiture expenditures	-	-	60	(60)
OWI forfeiture expenditures	-	4,490	4,486	4
Total charges to appropriations (outflows)	<u>205,540</u>	<u>508,530</u>	<u>447,062</u>	<u>61,468</u>
Fund Balance - End of year	<u>\$ 672,102</u>	<u>\$ 675,962</u>	<u>\$ 807,940</u>	<u>\$ 131,978</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2010

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	2,188,760	1,228,700	915,620	(313,080)
Charges to Appropriations (Outflows)				
Downpayment and rehabilitation assistance	680,000	265,000	229,837	35,163
Acquisition, rehabilitation, and resale	491,740	654,870	563,101	91,769
Acquisition and redevelopment	695,720	119,420	52,119	67,301
Demolition	100,000	100,000	-	100,000
Administration costs	221,300	89,410	70,563	18,847
Total charges to appropriations (outflows)	2,188,760	1,228,700	915,620	313,080
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	\$ 10,735	\$ 10,735	\$ 10,735	\$ -
Resources (Inflows)				
Property taxes	1,184,520	1,183,320	1,178,018	(5,302)
Other revenue	15,000	4,000	4,061	61
Transfer from other funds	-	10,000	10,000	-
Total resources (inflows)	1,199,520	1,197,320	1,192,079	(5,241)
Charges to Appropriations (Outflows)				
Other charges	4,430	6,630	5,604	1,026
Principal	955,000	955,000	955,000	-
Interest	242,090	242,090	242,086	4
Total charges to appropriations (outflows)	1,201,520	1,203,720	1,202,690	1,030
Fund Balance - End of year	<u>\$ 8,735</u>	<u>\$ 4,335</u>	<u>\$ 124</u>	<u>\$ (4,211)</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2010

Debt Service Fund - Voted Tax General Obligation

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 135,988	\$ 135,988	\$ 135,988	\$ -
Resources (Inflows)				
Property taxes	182,000	182,000	181,325	(675)
Delinquents and penalties	1,600	1,600	1,129	(471)
Other revenue	2,000	1,600	1,511	(89)
Total resources (inflows)	185,600	185,200	183,965	(1,235)
Charges to Appropriations (Outflows)				
Proposal F	309,600	309,100	308,600	500
Proposal R	1,000	2,000	1,901	99
Total charges to appropriations (outflows)	310,600	311,100	310,501	599
Fund Balance - End of year	\$ 10,988	\$ 10,088	\$ 9,452	\$ (636)

Debt Service Fund - Settlement Bond

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 3,144	\$ 3,144	\$ 3,144	\$ -
Resources (Inflows)				
Other revenue	50	4,220	4,216	(4)
Transfer from other funds	1,694,560	11,137,590	11,137,585	(5)
Total resources (inflows)	1,694,610	11,141,810	11,141,801	(9)
Charges to Appropriations (Outflows)				
Principal	1,170,000	10,870,000	10,870,000	-
Interest	524,360	272,780	272,780	-
Other	250	2,170	2,165	5
Total charges to appropriations (outflows)	1,694,610	11,144,950	11,144,945	5
Fund Balance - End of year	\$ 3,144	\$ 4	\$ -	\$ (4)

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2010

Debt Service Fund - Limited Tax General Obligation

	Original Budget	Final Budget	Actual	Variance with Final Budget	
				Positive	(Negative)
Fund Balance - Beginning of year	\$ 186	\$ 186	\$ 186	\$ -	\$ -
Resources (Inflows)					
Other revenue	70	70	10		(60)
Transfer from other funds	1,362,070	1,047,810	1,047,810		-
Total resources (inflows)	1,362,140	1,047,880	1,047,820		(60)
Charges to Appropriations (Outflows)					
Other charges	780	780	664		116
Principal	1,170,000	890,000	890,000		-
Interest	191,360	157,100	157,097		3
Total charges to appropriations (outflows)	1,362,140	1,047,880	1,047,761		119
Fund Balance - End of year	\$ 186	\$ 186	\$ 245	\$ 59	

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, 2010

Debt Service Fund - Road Bond Debt Retirement

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 338,928	\$ 338,928	\$ 338,928	\$ -
Resources (Inflows)				
Other revenue	1,500	1,500	1,417	(83)
Special assessments	330,600	295,970	297,530	1,560
Issuance of long-term debt	-	2,273,930	2,273,935	5
Transfer from other funds	<u>2,585,000</u>	<u>2,585,000</u>	<u>2,585,000</u>	<u>-</u>
Total resources (inflows)	2,917,100	5,156,400	5,157,882	1,482
Charges to Appropriations (Outflows)				
Other	1,900	73,840	73,697	143
Principal	2,115,000	4,315,000	4,315,000	-
Interest	<u>738,560</u>	<u>738,560</u>	<u>738,557</u>	<u>3</u>
Total charges to appropriations (outflows)	<u>2,855,460</u>	<u>5,127,400</u>	<u>5,127,254</u>	<u>146</u>
Fund Balance - End of year	<u>\$ 400,568</u>	<u>\$ 367,928</u>	<u>\$ 369,556</u>	<u>\$ 1,628</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, 2010

Capital Projects Fund - General Improvements

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 2,712,319	\$ 2,712,319	\$ 2,712,319	\$ -
Resources (Inflows)				
Federal, state, and local sources	140,000	890,820	764,136	(126,684)
Penalties and interest	1,900	1,900	271	(1,629)
Other revenue	696,300	406,300	397,792	(8,508)
Transfer from other funds	349,000	349,000	349,000	-
Total resources (inflows)	1,187,200	1,648,020	1,511,199	(136,821)
Charges to Appropriations (Outflows)				
Capital equipment	183,300	947,090	642,505	304,585
Capital vehicles	189,000	216,990	214,544	2,446
Capital projects	1,100,000	996,040	863,116	132,924
Total charges to appropriations (outflows)	1,472,300	2,160,120	1,720,165	439,955
Fund Balance - End of year	\$ 2,427,219	\$ 2,200,219	\$ 2,503,353	\$ 303,134

Capital Projects Fund - Road Bond Construction

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 233,726	\$ 233,726	\$ 233,726	\$ -
Resources (Inflows)				
Other revenue	10,000	1,000	645	(355)
Issuance of long-term debt	1,385,000	1,570,000	1,570,000	-
Total resources (inflows)	1,395,000	1,571,000	1,570,645	(355)
Charges to Appropriations (Outflows)				
Capital outlay	1,070,000	744,990	508,015	236,975
Transfer to other funds	350,000	300,000	300,000	-
Total charges to appropriations (outflows)	1,420,000	1,044,990	808,015	236,975
Fund Balance - End of year	\$ 208,726	\$ 759,736	\$ 996,356	\$ 236,620

Fiduciary and Agency Funds

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Fiduciary Net Assets Trust Funds June 30, 2010

	Trust Funds			
	Pension and Other Retirement Benefits Funds			
	General			
	Employees' Retirement System	Police and Fire Retirement System	Retiree Benefits	Total
Assets				
Cash and cash equivalents	\$ 5,977,124	\$ 21,847,908	\$ 1,620,292	\$ 29,445,324
Investments - At fair value:				
Government securities	19,414,189	23,758,138	4,025,709	47,198,036
Mutual funds	6,658,735	329,497	1,600,889	8,589,121
Corporate bonds	5,851,113	20,843,153	2,208,860	28,903,126
Common and preferred stocks	61,745,449	77,025,059	20,563,368	159,333,876
Pooled investments	-	6,041,728	-	6,041,728
Receivables - Accrued interest	196,809	568,130	51,800	816,739
Due from other governmental units	-	-	110	110
Total assets	99,843,419	150,413,613	30,071,028	280,328,060
Liabilities				
Accounts payable	577,401	1,436,094	16,885	2,030,380
Accrued and other liabilities	275,449	544,213	8,850	828,512
Due to other governmental units	-	-	491,452	491,452
Provision for uninsured losses and liabilities	-	-	651,878	651,878
Deferred revenue	11,493	-	-	11,493
Total liabilities	864,343	1,980,307	1,169,065	4,013,715
Net Assets - Held in trust for pension and other retirement benefits	\$ 98,979,076	\$ 148,433,306	\$ 28,901,963	\$ 276,314,345

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Fiduciary Net Assets Trust Funds Year Ended June 30, 2010

	General Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Total
Additions				
Investment income (loss):				
Interest and dividends	\$ 3,000,373	\$ 3,947,720	\$ 700,865	\$ 7,648,958
Net adjustment to fair value of investments	10,181,269	6,872,906	2,100,660	19,154,835
Less investment expenses	<u>(585,429)</u>	<u>(845,502)</u>	<u>(183,442)</u>	<u>(1,614,373)</u>
Net investment gain	12,596,213	9,975,124	2,618,083	25,189,420
Securities lending income:				
Interest and fees	13,365	30,556	-	43,921
Less borrower rebates and bank fees	<u>(9,632)</u>	<u>(22,195)</u>	<u>-</u>	<u>(31,827)</u>
Net securities lending income	3,733	8,361	-	12,094
Contributions:				
Employer	204,054	4,925,570	11,604,200	16,733,824
Employee	1,168,156	1,141,854	-	2,310,010
Purchase of prior year's service credits	58,501	477,739	-	536,240
Insurance recovery	<u>-</u>	<u>-</u>	<u>202,752</u>	<u>202,752</u>
Total additions - Net	14,030,657	16,528,648	14,425,035	44,984,340
Deductions				
Benefit payments	6,456,447	12,876,391	5,883,907	25,216,745
Refunds of contributions	<u>300,497</u>	<u>197,700</u>	<u>-</u>	<u>498,197</u>
Total deductions	6,756,944	13,074,091	5,883,907	25,714,942
Net Change in Net Assets	7,273,713	3,454,557	8,541,128	19,269,398
Net Assets - Beginning of year	91,705,363	144,978,749	20,360,835	257,044,947
Net Assets - End of year	\$ 98,979,076	\$ 148,433,306	\$ 28,901,963	\$ 276,314,345

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Fiduciary Assets and Liabilities Agency Funds June 30, 2010

	Agency Funds		
	Tax	General Agency	Total
Assets			
Cash and cash equivalents	\$ 23,724	\$ 1,944,623	\$ 1,968,347
Investments - At fair value -			
Short-term investment funds	- -	1,348,220	1,348,220
Receivables - Accrued interest	- -	1,879	1,879
Due from other governmental units	<u>100</u>	<u>9,508</u>	<u>9,608</u>
Total assets	<u><u>\$ 23,824</u></u>	<u><u>\$ 3,304,230</u></u>	<u><u>\$ 3,328,054</u></u>
Liabilities			
Accrued and other liabilities	\$ 3	\$ 1,283,306	\$ 1,283,309
Due to other governmental units	23,821	10,444	34,265
Cash bonds and deposits	<u>-</u>	<u>2,010,480</u>	<u>2,010,480</u>
Total liabilities	<u><u>\$ 23,824</u></u>	<u><u>\$ 3,304,230</u></u>	<u><u>\$ 3,328,054</u></u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Assets and Liabilities Agency Funds Year Ended June 30, 2010

	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010
<u>Tax Collection</u>				
Assets				
Cash and cash equivalents	\$ 7,575	\$ 138,701,827	\$ 138,685,678	\$ 23,724
Due from other governmental units	- 100	100	-	100
	<u>7,575</u>	<u>138,701,927</u>	<u>138,685,678</u>	<u>23,824</u>
Liabilities				
Accrued and other liabilities	\$ 189	\$ 84,532	\$ 84,718	\$ 3
Due to other governmental units	7,386	187,656,893	187,640,458	23,821
Total liabilities	<u>7,575</u>	<u>187,741,425</u>	<u>187,725,176</u>	<u>23,824</u>
<u>General Agency</u>				
Assets				
Cash and cash equivalents	\$ 291,742	\$ 12,969,447	\$ 11,316,566	\$ 1,944,623
Investments - At fair value	2,651,815	9,263,091	10,566,686	1,348,220
Accrued interest	-	1,879	-	1,879
Due from other governmental units	887	8,621	-	9,508
Total assets	<u>2,944,444</u>	<u>22,243,038</u>	<u>21,883,252</u>	<u>3,304,230</u>
Liabilities				
Accrued and other liabilities	\$ 1,181,039	\$ 1,522,183	\$ 1,419,916	\$ 1,283,306
Due to other governmental units	27,348	10,471	27,375	10,444
Cash and bond deposits	1,736,057	8,149,054	7,874,631	2,010,480
Total liabilities	<u>2,944,444</u>	<u>9,681,708</u>	<u>9,321,922</u>	<u>3,304,230</u>
<u>Totals - All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 299,317	\$ 151,671,274	\$ 150,002,244	\$ 1,968,347
Investments - At fair value	2,651,815	9,263,091	10,566,686	1,348,220
Accrued interest	-	1,879	-	1,879
Due from other governmental units	887	8,721	-	9,608
Total assets	<u>2,952,019</u>	<u>160,944,965</u>	<u>160,568,930</u>	<u>3,328,054</u>
Liabilities				
Accrued and other liabilities	\$ 1,181,228	\$ 1,606,715	\$ 1,504,634	\$ 1,283,309
Due to other governmental units	34,734	187,667,364	187,667,833	34,265
Cash and bond deposits	1,736,057	8,149,054	7,874,631	2,010,480
Total liabilities	<u>2,952,019</u>	<u>197,423,133</u>	<u>197,047,098</u>	<u>3,328,054</u>

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	107
Changes in Net Assets	108-109
Fund Balances of Governmental Funds	110
Changes in Fund Balances of Governmental Funds	111-112*
General Governmental Tax Revenue by Source	113

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	114*
Property Tax Rates - Direct and Overlapping Governments	115-116*
Assessed Taxable Values (History of Property Values)	117-118*
Principal Property Taxpayers (Major Taxpayers)	119*

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	120
Ratios of Outstanding Debt by Type	121
Direct and Overlapping Governmental Activities Debt	122*
Legal Debt Margin	123*
Legal Debt Margin Information	124
Pledged Revenue Coverage	125

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	126
Miscellaneous Demographics	127
Principal Employers (Major Employers)	128*

* 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	129-130
Capital Asset Statistics by Function	131
Building Permits at Market Value	132
Full-time Equivalent City Government Employees by Function	133

CONTINUING DISCLOSURE 134

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	135
Gas and Weight Taxes	135
Labor Agreements	136

Statistical Information

City of Sterling Heights, Michigan

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

	2002*	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities:									
Invested in capital assets -									
Net of related debt	\$ 149,115,930	\$ 157,319,066	\$ 164,071,091	\$ 165,784,014	\$ 171,697,125	\$ 175,544,446	\$ 175,084,518	\$ 173,670,878	\$ 169,230,936
Restricted	18,041,590	13,918,356	8,845,442	5,537,300	13,956,025	6,601,883	12,015,678	10,040,331	9,733,081
Unrestricted	<u>27,748,112</u>	<u>29,284,871</u>	<u>(2,714,472)</u>	<u>(3,747,590)</u>	<u>7,320,525</u>	<u>20,524,819</u>	<u>19,437,952</u>	<u>19,880,753</u>	<u>34,565,371</u>
Total governmental activities -									
Net assets	\$ 194,905,632	\$ 200,522,293	\$ 170,202,061	\$ 167,573,724	\$ 192,973,675	\$ 202,671,148	\$ 206,538,148	\$ 203,591,962	\$ 213,529,388
Business-type activities:									
Invested in capital assets -									
Net of related debt	\$ 127,892,311	\$ 131,088,312	\$ 135,546,803	\$ 135,416,064	\$ 139,088,895	\$ 137,413,059	\$ 135,723,619	\$ 133,050,974	\$ 130,990,910
Restricted	9,064,472	9,286,673	8,525,469	9,029,341	7,050,855	7,418,300	7,522,330	7,605,803	8,308,749
Unrestricted	<u>22,169,256</u>	<u>24,155,268</u>	<u>23,976,948</u>	<u>23,607,368</u>	<u>28,265,921</u>	<u>29,163,010</u>	<u>29,337,877</u>	<u>26,385,878</u>	<u>25,732,829</u>
Total business-type activities -									
Net assets	\$ 159,126,039	\$ 164,530,253	\$ 168,049,220	\$ 168,052,773	\$ 174,405,671	\$ 173,994,369	\$ 172,583,826	\$ 167,042,655	\$ 165,032,488
Primary government:									
Invested in capital assets -									
Net of related debt	\$ 277,008,241	\$ 288,407,378	\$ 299,617,894	\$ 301,200,078	\$ 310,786,020	\$ 312,957,505	\$ 310,808,137	\$ 306,721,852	\$ 300,221,846
Restricted	27,106,062	23,205,029	17,370,911	14,566,641	21,006,880	14,020,183	19,538,008	17,646,134	18,041,830
Unrestricted	<u>49,917,368</u>	<u>53,440,139</u>	<u>21,262,476</u>	<u>19,859,778</u>	<u>35,586,446</u>	<u>49,687,829</u>	<u>48,775,829</u>	<u>46,266,631</u>	<u>60,298,200</u>
Total primary government -									
Net assets	\$ 354,031,671	\$ 365,052,546	\$ 338,251,281	\$ 335,626,497	\$ 367,379,346	\$ 376,665,517	\$ 379,121,974	\$ 370,634,617	\$ 378,561,876

* Prior to the issuance of the financial report for fiscal year ended June 30, 2002, information relative to GASB No. 34 is not available.

City of Sterling Heights, Michigan

	Fiscal Year				
	2002*	2003	2004	2005	
Expenses					
Governmental activities:					
General government	\$ 7,958,782	\$ 8,710,448	\$ 9,499,251	\$ 9,873,718	
41A District Court	2,354,295	2,480,824	2,690,360	2,852,812	
Public safety	33,975,838	37,066,435	39,815,539	42,253,545	
Public works	22,945,588	22,555,042	22,838,480	25,464,111	
Recreation and culture	5,184,217	5,476,196	6,047,819	5,716,243	
Interest on long-term debt	2,243,791	2,266,350	2,022,258	2,585,777	
Total governmental activities expenses	74,662,511	78,555,295	82,913,707	88,746,206	
Business-type activities - Water and sewer	23,004,156	23,267,170	25,829,284	28,142,434	
Total primary government expenses	\$ 97,666,667	\$ 101,822,465	\$ 108,742,991	\$ 116,888,640	
Program Revenue					
Governmental activities:					
Charges for services:					
General government	\$ 830,931	\$ 709,161	\$ 714,601	\$ 844,263	
41A District Court	1,779,233	1,831,676	2,136,354	2,320,411	
Public safety	1,394,218	728,790	1,114,300	1,249,154	
Public works	4,922,913	3,566,606	3,855,774	6,241,366	
Recreation and culture	411,642	425,400	465,391	513,241	
Operating grants and contributions	8,803,688	8,811,085	10,284,432	9,547,201	
Capital grants and contributions	231,693	1,777,966	3,142,226	1,336,930	
Total governmental activities program revenue	18,374,318	17,850,684	21,713,078	22,052,566	
Business-type activities - Water and sewer:					
Charges for services	17,625,565	20,563,318	20,385,299	22,619,205	
Operating grants and contributions	-	30,806	-	-	
Capital grants and contributions	4,385,957	6,847,385	8,430,400	4,911,208	
Total business-type activities program revenue	22,011,522	27,441,509	28,815,699	27,530,413	
Total primary government program revenue	\$ 40,385,840	\$ 45,292,193	\$ 50,528,777	\$ 49,582,979	
Net (Expense) Revenue					
Governmental activities	\$ (56,288,193)	\$ (60,704,611)	\$ (61,200,629)	\$ (66,693,640)	
Business-type activities	(992,634)	4,174,339	2,986,415	(612,021)	
Total primary government net expense	\$ (57,280,827)	\$ (56,530,272)	\$ (58,214,214)	\$ (67,305,661)	
General Revenue and Other Changes in Net Assets					
Governmental activities:					
Property taxes	\$ 44,784,294	\$ 46,791,310	\$ 48,495,510	\$ 50,357,630	
State-shared revenue	13,315,069	14,431,298	11,249,778	11,127,156	
Interest	1,913,772	2,058,855	709,149	1,155,124	
Gain on disposal of capital assets	975,870	-	-	105,454	
Insurance proceeds	-	-	-	-	
Other nonprogram revenue	1,769,580	3,039,809	1,425,963	1,319,937	
Extraordinary item	-	-	(31,000,000)	-	
Total governmental activities expenses	62,758,585	66,321,272	30,880,400	64,065,301	
Business-type activities - Interest	1,036,950	1,229,875	532,552	615,574	
Total primary government	\$ 63,795,535	\$ 67,551,147	\$ 31,412,952	\$ 64,680,875	
Change in Net Assets					
Governmental activities	\$ 6,470,392	\$ 5,616,661	\$ (30,320,229)	\$ (2,628,339)	
Business-type activities	43,956	5,404,214	3,518,967	3,553	
Total primary government	\$ 6,514,348	\$ 11,020,875	\$ (26,801,262)	\$ (2,624,786)	

*Prior to the issuance of the financial report for fiscal year ended June 30, 2002, information relative to GASB No. 34 is not available.

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

Fiscal Year						
	2006	2007	2008	2009	2010	
\$	8,760,970	\$ 10,348,927	\$ 11,017,399	\$ 8,877,803	\$ 8,804,497	
2,864,422	2,992,184	3,164,448	3,251,224	3,470,065		
41,327,439	43,995,464	48,044,223	49,201,944	52,695,852		
24,181,418	22,603,155	24,083,515	24,904,207	25,269,096		
5,989,344	5,890,651	6,322,163	6,112,129	5,695,827		
2,463,042	1,922,125	1,921,428	1,956,286	1,086,571		
	85,586,635	87,752,506	94,553,176	94,303,593	97,021,908	
	28,106,435	30,290,386	32,784,120	32,292,608	30,901,624	
\$	113,693,070	\$ 118,042,892	\$ 127,337,296	\$ 126,596,201	\$ 127,923,532	
\$	1,829,127	\$ 2,022,680	\$ 2,216,008	\$ 2,229,296	\$ 3,020,737	
2,424,477	2,185,724	2,351,225	2,426,813	2,985,409		
1,394,981	1,326,061	1,984,318	1,571,100	1,629,846		
6,813,150	8,125,228	6,363,346	2,869,634	2,545,211		
583,627	563,152	629,818	733,598	948,463		
9,184,599	9,148,913	8,525,230	8,957,951	9,676,314		
2,751,871	2,638,714	3,173,757	478,767	1,090,732		
	24,981,832	26,010,472	25,243,702	19,267,159	21,896,712	
	24,944,170	25,404,755	27,456,965	24,495,066	25,057,683	
	-	-	-	-	-	
8,364,981	2,662,317	2,461,289	867,991	2,912,917		
	33,309,151	28,067,072	29,918,254	25,363,057	27,970,600	
\$	58,290,983	\$ 54,077,544	\$ 55,161,956	\$ 44,630,216	\$ 49,867,312	
\$	(60,604,803)	\$ (61,742,034)	\$ (69,309,474)	\$ (75,036,434)	\$ (75,125,196)	
	5,202,716	(2,223,314)	(2,865,866)	(6,929,551)	(2,931,024)	
\$	(55,402,087)	\$ (63,965,348)	\$ (72,175,340)	\$ (81,965,985)	\$ (78,056,220)	
\$	52,574,000	\$ 55,624,617	\$ 58,331,682	\$ 57,875,942	\$ 56,801,307	
11,003,347	10,675,667	10,675,667	10,183,758	9,057,434		
2,034,936	3,383,824	3,075,919	2,278,601	1,098,458		
256,994	227,321	-	-	-	-	
18,763,736	-	-	-	-	16,318,640	
1,371,831	1,527,988	1,093,203	1,751,947	1,786,782		
	-	-	-	-	-	
	86,004,844	71,439,417	73,176,471	72,090,248	85,062,621	
	1,150,182	1,812,012	1,455,323	1,388,380	920,857	
\$	87,155,026	\$ 73,251,429	\$ 74,631,794	\$ 73,478,628	\$ 85,983,478	
\$	25,400,041	\$ 9,697,383	\$ 3,866,997	\$ (2,946,186)	\$ 9,937,425	
	6,352,898	(411,302)	(1,410,543)	(5,541,171)	(2,010,167)	
\$	31,752,939	\$ 9,286,081	\$ 2,456,454	\$ (8,487,357)	\$ 7,927,258	

City of Sterling Heights, Michigan

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund:										
Reserved	\$ 528,424	\$ 489,404	\$ 580,930	\$ 593,593	\$ 655,400	\$ 662,581	\$ 679,962	\$ 643,564	\$ 767,986	\$ 1,005,948
Unreserved	<u>15,923,759</u>	<u>17,346,558</u>	<u>17,641,156</u>	<u>19,057,927</u>	<u>13,345,638</u>	<u>14,387,663</u>	<u>15,037,933</u>	<u>14,649,346</u>	<u>14,439,075</u>	<u>11,522,975</u>
Total General Fund	<u>\$ 16,452,183</u>	<u>\$ 17,835,962</u>	<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>
All other governmental funds:										
Reserved	\$ 1,982,635	\$ 679,942	\$ 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	17,255,612	20,268,530	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	599,914	545,540	277,483	248,467	236,999	284,417	118,705	92,441	488,981	379,377
Capital Projects Funds	<u>4,685,906</u>	<u>5,136,412</u>	<u>3,866,901</u>	<u>2,861,154</u>	<u>3,446,888</u>	<u>3,756,197</u>	<u>2,662,224</u>	<u>2,011,345</u>	<u>2,720,603</u>	<u>3,021,463</u>
Total all other governmental funds	<u>\$ 24,524,067</u>	<u>\$ 26,630,424</u>	<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>

City of Sterling Heights, Michigan

	2001 (1)	2002	2003	2004
Revenue				
Property taxes	\$ 42,155,402	\$ 44,773,685	\$ 46,791,310	\$ 48,495,510
Fees and permits	2,253,273	1,916,542	2,036,864	2,318,120
Federal sources	1,657,762	1,280,774	752,977	1,629,936
State and local sources	20,293,929	20,676,922	20,161,887	20,176,008
Fines and forfeitures	2,781,114	2,299,389	2,587,756	3,069,824
Charges for services	5,791,473	5,514,851	5,875,269	6,334,722
Interest income	3,509,122	1,921,851	1,760,354	567,049
Special assessments	164,086	179,973	68,497	372,917
Rental income	1,240,272	1,047,761	1,253,148	1,298,796
Cable revenue	1,264,214	1,302,183	1,120,768	1,224,778
Reimbursement of advance road construction	-	-	-	-
Other	1,110,088	2,074,758	1,927,055	2,758,591
 Total revenue	 82,220,735	 82,988,689	 84,335,885	 88,246,251
Expenditures				
Current:				
General government	8,368,507	8,550,972	8,733,703	9,091,026
41A District Court	2,131,093	2,178,525	2,173,817	2,342,220
Public safety	30,386,650	30,913,608	33,857,315	35,779,556
Public works	16,492,407	16,910,029	18,334,751	18,280,775
Recreation and culture	4,035,209	4,323,476	4,447,809	4,553,035
General expenditures	2,454,301	2,539,196	2,771,249	3,388,336
Capital outlay	14,107,920	13,053,333	11,763,846	13,041,634
Debt service:				
Principal	5,667,440	5,051,381	4,466,382	4,436,681
Interest	2,380,172	2,243,791	1,968,669	1,827,203
 Total expenditures	 86,023,699	 85,764,311	 88,517,541	 92,740,466
Excess of Expenditures Over Revenue	(3,802,964)	(2,775,622)	(4,181,656)	(4,494,215)
Other Financing Sources (Uses)				
Long-term financing	4,421,872	1,725,000	4,916,772	30,355,000
Proceeds from sale of fixed assets	-	1,338,442	-	-
Bond premium	-	-	-	975,374
Net payments to refunded bond escrow	-	-	(4,916,772)	(5,075,000)
agent and bond issuance costs	-	-	(4,916,772)	(5,075,000)
Transfers in	10,389,950	12,319,565	8,807,280	6,462,170
Transfers out	(10,389,950)	(12,319,565)	(8,807,280)	(6,462,170)
 Total other financing sources	 4,421,872	 3,063,442	 -	 26,255,374
Net Change in Fund Balances - Before extraordinary items	618,908	287,820	(4,181,656)	21,761,159
Extraordinary Items - Lawsuit settlement payments	-	-	-	(25,000,000)
Net Change in Fund Balances	\$ 618,908	\$ 287,820	\$ (4,181,656)	\$ (3,238,841)
Debt Service as a Percentage of Noncapital Expenditures	11.19%	10.03%	8.38%	7.86%

(1) Information presented prior to the implementation of GASB No. 34 has been combined to reflect such activity.

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

2005	2006	2007	2008	2009	2010
\$ 50,357,630	\$ 52,574,000	\$ 55,624,617	\$ 58,331,682	\$ 57,875,942	\$ 56,801,306
2,012,360	1,986,333	1,784,156	1,352,594	960,683	1,194,707
2,069,321	3,198,148	2,755,145	1,001,641	1,419,052	2,789,569
19,607,043	19,721,028	19,894,287	18,939,977	18,505,491	17,114,177
2,995,613	2,890,745	2,563,520	2,755,701	2,836,556	3,618,574
6,695,039	7,795,120	8,038,601	7,988,183	7,896,549	8,598,054
977,664	1,788,092	2,511,234	2,316,653	1,580,754	582,435
73,776	28,017	130,082	92,745	243,123	215,118
1,566,845	1,357,037	1,443,651	1,727,929	1,798,484	1,429,222
1,319,937	1,371,831	1,527,988	1,671,094	1,771,978	1,799,495
			2,440,414	-	-
<u>1,980,022</u>	<u>1,731,700</u>	<u>1,511,396</u>	<u>1,755,645</u>	<u>2,007,807</u>	<u>1,898,739</u>
89,655,250	94,442,051	97,784,677	100,374,258	96,896,419	96,041,396
10,042,438	10,109,764	10,562,158	11,244,018	9,534,712	9,000,797
2,472,160	2,660,587	2,847,111	2,974,001	3,150,155	3,221,815
38,346,169	39,440,275	41,610,977	44,435,670	46,327,145	49,130,527
21,418,948	18,545,503	18,734,562	20,134,496	21,273,705	20,321,669
4,669,116	4,868,429	5,180,497	5,358,825	5,321,281	4,747,596
2,651,054	3,555,955	3,791,084	2,945,761	2,793,240	2,814,058
12,476,405	10,576,821	14,756,585	7,402,019	13,212,947	4,694,663
5,056,539	5,030,000	14,000,000	5,685,000	5,730,000	15,235,000
<u>2,334,584</u>	<u>2,479,375</u>	<u>2,336,756</u>	<u>1,938,403</u>	<u>1,987,533</u>	<u>1,628,030</u>
<u>99,467,413</u>	<u>97,266,709</u>	<u>113,819,730</u>	<u>102,118,193</u>	<u>109,330,718</u>	<u>110,794,155</u>
(9,812,163)	(2,824,658)	(16,035,053)	(1,743,935)	(12,434,299)	(14,752,759)
13,720,000	-	7,900,000	5,000,000	3,260,000	3,810,000
476,081	550,074	-	-	149,466	115,724
91,759	-	26,815	50,143	-	33,935
(8,511,067)	-	-	-	-	(2,200,000)
8,354,684	9,931,683	18,458,535	9,716,170	11,319,369	16,194,395
<u>(6,639,684)</u>	<u>(8,071,683)</u>	<u>(8,681,215)</u>	<u>(8,197,830)</u>	<u>(8,412,389)</u>	<u>(5,056,810)</u>
<u>7,491,773</u>	<u>2,410,074</u>	<u>17,704,135</u>	<u>6,568,483</u>	<u>6,316,446</u>	<u>12,897,244</u>
(2,320,390)	(414,584)	1,669,082	4,824,548	(6,117,853)	(1,855,515)
<u>(6,000,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ (8,320,390)	\$ (414,584)	\$ 1,669,082	\$ 4,824,548	\$ (6,117,853)	\$ (1,855,515)
8.50%	8.66%	16.49%	8.06%	8.05%	15.91%

City of Sterling Heights, Michigan

General Government Tax Revenue by Source Last Ten Fiscal Years

Fiscal Year Ended June 30	General Fund Property Taxes				Debt Service Funds Property Taxes				Total All Property Taxes
	Operating		Refuse	Police and Fire Retirement System	Total	General Drain		Voted Tax General Obligation	
	Operating	Refuse	Police and Fire Retirement System	Total	General Drain	Voted Tax General Obligation	Total	Total	
2001	\$ 31,836,229	\$ 4,231,574	\$ 2,207,727	\$ 38,275,530	\$ 818,785	\$ 3,061,087	\$ 3,879,872	\$ 42,155,402	
2002	35,424,907	4,396,245	1,579,658	41,400,810	1,295,294	2,077,581	3,372,875	44,773,685	
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	

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
2001	2002	\$ 44,791,080	\$ 43,840,834	97.88	\$ 602,398	\$ 44,443,232	99.22
2002	2003	46,900,401	45,827,067	97.71	710,729	46,537,796	99.23
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	60,065,710 (2)	-	-	-	-	-

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

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

Source: City Treasurer's Office

City of Sterling Heights, Michigan

Fiscal Year (Tax Year)	City Direct Rates							Overlapping Rates							Macomb County	
	Operating (I)		Police and Fire Retirement System			Public Drain Debt Service		Total	Macomb Intermediate School District	Macomb Community College	Huron/Clinton Metro Authority	S.M.A.R.T.	County Zoo Authority	Veterans Operations	Drain Debt Service	
	Operating (I)	Refuse	Fire System	Retirement	Drain Debt Service	Public Improvement Debt Service										
2001 (2000)																
Homestead	8.08550	1.07470	0.56070	0.21070	0.78840	10.72000	2.02100	1.51400	0.22020	0.32730	0.00000	0.00000	0.00000	4.20000	0.00700	
Non-homestead	8.08550	1.07470	0.56070	0.21070	0.78840	10.72000	2.02100	1.51400	0.22020	0.32730	0.00000	0.00000	0.00000	4.20000	0.00700	
2002 (2001)																
Homestead	8.43430	1.04670	0.37610	0.30700	0.48590	10.65000	2.00330	1.67070	0.22020	0.32730	0.00000	0.00000	0.00000	4.20000	0.00600	
Non-homestead	8.43430	1.04670	0.37610	0.30700	0.48590	10.65000	2.00330	1.67070	0.22020	0.32730	0.00000	0.00000	0.00000	4.20000	0.00600	
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	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	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	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	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	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	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	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	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	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	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	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	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	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	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	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	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	Operating/			State Education			Operating/			Utica Community	Warren Consolidated
	Local	Supplemental	Debt	Tax	Local	Supplemental	Sinking	Debt			
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	7.81630	0.00000	1.00000	28.50950	33.82580	
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	46.50950	44.00950	
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	7.89710	0.00000	1.00000	28.57750	33.97460	
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	46.57750	44.07750	
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	7.4662	0.9964	2.5000	29.8316	37.2942	
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.0000	0.9964	2.5000	47.8316	47.8280	
5.00000	0.00000	0.00000	3.50000	5.00000	0.00000	7.3342	0.9964	2.3500	28.7030	35.8836	
5.00000	18.00000	0.00000	3.50000	5.00000	18.00000	0.0000	0.9964	2.3500	46.7030	46.5494	
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	6.7662	0.9964	2.2800	29.6028	36.1454	
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.0000	0.9964	2.2800	47.6028	47.3792	
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	6.7166	0.9964	2.2800	29.5008	35.9938	
6.00000	17.9316	0.00000	3.50000	6.00000	18.00000	0.0000	0.9964	2.2800	47.4324	47.2772	
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	6.5530	0.9964	2.2800	29.5993	35.9287	
6.00000	17.9316	0.00000	3.50000	6.00000	18.00000	0.0000	0.9964	2.2800	47.5309	47.3757	
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	5.9594	0.9964	2.2800	29.5993	35.3351	
6.00000	17.9316	0.00000	3.50000	6.00000	18.00000	0.0000	0.9964	2.2800	47.5309	47.3757	
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	5.2688	0.9964	2.1500	29.8001	34.7153	
6.00000	17.9316	0.00000	3.50000	6.00000	18.00000	0.0000	0.9964	2.1500	47.7317	47.4465	
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	5.7814	0.9964	2.1500	30.1681	35.5959	
6.00000	17.9316	0.00000	3.50000	6.00000	18.00000	0.0000	0.9964	2.1500	48.0997	47.8145	

City of Sterling Heights, Michigan

	2001	2002	2003	2004	2005
State Equalized Value					
SEV equivalent	\$ 4,384,642,350	\$ 4,786,398,900	\$ 5,272,934,560	\$ 5,553,761,050	\$ 5,754,101,500
IFT exemption	205,204,050	261,109,300	259,867,600	226,175,750	221,346,700
Total SEV	\$ 4,589,846,400	\$ 5,047,508,200	\$ 5,532,802,160	\$ 5,779,936,800	\$ 5,975,448,200
Taxable Value					
By Class:					
Real property	\$ 3,145,249,054	\$ 3,356,956,900	\$ 3,587,248,700	\$ 3,764,758,000	\$ 3,970,808,500
Personal property	979,571,300	1,086,927,400	1,071,358,000	1,025,224,600	968,119,700
Total value	\$ 4,124,820,354	\$ 4,443,884,300	\$ 4,658,606,700	\$ 4,789,982,600	\$ 4,938,928,200
By Type:					
Residential	\$ 2,329,156,554	\$ 2,502,544,100	\$ 2,685,708,600	\$ 2,820,357,100	\$ 2,990,452,700
Commercial	446,957,000	465,723,900	496,719,500	529,584,800	548,866,900
Industrial	343,988,000	359,713,900	373,247,900	383,343,100	397,910,200
Personal property	594,310,700	593,683,800	583,195,500	607,793,500	567,204,500
IFT real and personal property	410,408,100	522,218,600	519,735,200	448,904,100	434,493,900
Total	4,124,820,354	4,443,884,300	4,658,606,700	4,789,982,600	4,938,928,200
Less exempt property	(205,204,050)	(261,109,300)	(259,867,600)	(224,452,050)	(217,246,950)
Total taxable value	\$ 3,919,616,304	\$ 4,182,775,000	\$ 4,398,739,100	\$ 4,565,530,550	\$ 4,721,681,250
Total direct tax rate (I)	\$ 10.72000	\$ 10.65000	\$ 10.63000	\$ 10.62500	\$ 10.62500
Total taxable value as					
a percentage of SEV equivalent	89.39%	87.39%	83.42%	82.21%	82.06%
Total taxable value as					
a percentage of total value	95.03%	94.12%	94.42%	95.31%	95.60%

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

Source: City of Sterling Heights, Assessors Office

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

2006	2007	2008	2009	2010
\$ 5,997,740,400 225,091,700	\$ 6,230,684,225 223,376,725	\$ 6,380,752,375 290,426,725	\$ 5,940,796,525 255,549,975	\$ 5,555,163,580 239,402,825
<u>\$ 6,222,832,100</u>	<u>\$ 6,454,060,950</u>	<u>\$ 6,671,179,100</u>	<u>\$ 6,196,346,500</u>	<u>\$ 5,794,566,405</u>
\$ 4,195,815,400 949,766,100	\$ 4,451,151,600 944,127,850	\$ 4,645,291,550 1,053,774,300	\$ 4,599,077,850 1,007,788,550	\$ 4,508,088,655 986,259,050
<u>\$ 5,145,581,500</u>	<u>\$ 5,395,279,450</u>	<u>\$ 5,699,065,850</u>	<u>\$ 5,606,866,400</u>	<u>\$ 5,494,347,705</u>
\$ 3,151,356,400 588,205,000 416,252,900 548,022,100 441,745,100	\$ 3,327,952,350 638,272,700 445,399,650 540,032,000 443,622,750	\$ 3,480,892,950 692,716,600 430,477,050 515,469,150 579,510,100	\$ 3,451,602,900 706,330,000 405,605,650 532,258,650 511,069,200	\$ 3,328,660,655 726,513,650 416,847,650 545,007,250 477,318,500
<u>\$ 4,924,708,950</u>	<u>\$ 5,173,468,075</u>	<u>\$ 5,409,310,800</u>	<u>\$ 5,351,331,800</u>	<u>\$ 5,255,688,455</u>
<u>\$ 10.62500</u>	<u>\$ 10.72500</u>	<u>\$ 10.72500</u>	<u>\$ 10.78580</u>	<u>\$ 10.78580</u>
82.11%	83.03%	84.78%	90.08%	94.61%
95.71%	95.89%	94.92%	95.44%	95.66%

City of Sterling Heights, Michigan

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

Company Name	Product/Service	Year Ended June 30, 2010				Year Ended June 30, 2001			
		Taxable Value	Rank	Percent of Total City		Taxable Value	Rank	Percent of Total City	
				Taxable Value	Rank			Taxable Value	Rank
Chrysler Group LLC	Automotive assembly and stamping	\$ 245,395,225	1	4.67	\$ 300,550,300	1	7.67		
Ford Motor Company	Automotive manufacturing and drive shafts	242,280,950	2	4.61	122,767,000	3	3.13		
DTE Energy	Public electric utility	36,429,750	3	0.69	50,228,700	4	1.28		
Detroit News Agency	Printing plant - Newspapers	34,728,500	4	0.66	16,886,200	10	0.43		
Lakeside Associates	Retail shopping center	31,452,700	5	0.60	30,442,700	5	0.78		
General Dynamics	Administrative engineering and design	31,445,800	6	0.60	26,171,700	6	0.67		
Laurel/Shoal Creek	Office and apartment complex	18,532,450	7	0.35	14,528,500	12	0.37		
Ledd's Development	Office and business complex	16,117,500	8	0.31	15,091,050	11	0.39		
Market Place Properties	Retail shopping center	13,807,900	9	0.26	-	-	-		
Comcast Cable	Cable communications	13,404,850	10	0.26	-	-	-		
Visteon Corporation	Automotive axles and shafts	-	-	-	163,000,900	2	4.16		
T.R.W.	Auto subcomponent assembly	-	-	-	18,110,400	7	0.46		
AIG Baker	Retail shopping center	-	-	-	17,644,700	8	0.45		
Consumers Power	Public utility for gas	-	-	-	17,528,500	9	0.45		
	Ten largest taxpayers	683,595,625	<u>13.01</u>		792,950,650		<u>20.24</u>		
	Other taxpayers	4,572,092,830			3,126,665,654				
	Total taxable value	<u>\$ 5,255,688,455</u>			<u>\$ 3,919,616,304</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	Business-type Activities				Percentage of Estimated Total Taxable Value of Property (I)				Per Capita
	Governmental Activities		Amounts Available in Debt Service Funds	County Issued Bonds	Total Primary Government	Population			
2001	\$ 14,680,000	\$ 10,485,984	\$ (112,528)	\$ -	\$ 25,053,456	0.5714	125,140	\$ 200.20	
2002	12,180,000	11,319,602	(62,846)	-	23,436,756	0.4897	125,800	186.30	
2003	9,125,000	10,403,220	(15,300)	-	19,512,920	0.3701	126,470	154.29	
2004	33,745,000	9,936,539	(8,007)	-	43,673,532	0.7864	127,270	343.16	
2005	31,735,000	9,060,000	(61,570)	-	40,733,430	0.7079	128,026	318.17	
2006	29,705,000	8,230,000	(88,166)	-	37,846,834	0.6310	128,692	394.09	
2007	21,590,000	7,325,000	(66,116)	-	28,848,884	0.4630	128,914	223.78	
2008	23,635,000	6,495,000	(68,694)	-	30,061,306	0.4711	128,500	233.94	
2009	20,985,000	5,590,000	(150,053)	-	26,424,947	0.4141	128,500	205.64	
2010	8,820,000	4,635,000	(9,821)	3,702,531	17,147,710	0.2886	128,500	133.45	

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						
2001	\$ 14,680,000	\$ 20,635,000	\$ 975,000	\$ 10,485,984	\$ -	\$ 46,775,984	1.50%	125,140	\$ 373.79		
2002	12,180,000	19,175,000	775,000	11,319,602	-	43,449,602	1.38%	125,800	345.39		
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	1.89%	127,270	470.98		
2005	31,735,000	19,735,000	125,000	9,060,000	-	60,655,000	1.91%	128,026	473.77		
2006	29,705,000	17,690,000	-	8,230,000	-	55,625,000	1.74%	128,692	432.23		
2007	21,590,000	20,610,000	-	7,325,000	-	49,525,000	1.55%	128,914	384.17		
2008	23,635,000	18,710,000	-	6,495,000	-	48,840,000	1.52%	128,500	380.08		
2009	20,985,000	16,535,000	3,260,000	5,590,000	-	46,370,000	1.44%	128,500	360.86		
2010	8,820,000	16,130,000	3,160,000	4,635,000	3,702,531	36,447,531	1.14%	128,500	283.64		

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, 2010

Direct Debt

General Obligation Bonds

04/27/05	Limited Tax	\$ 2,520,000
04/01/07	Limited Tax	1,525,000
06/09/08	Fire Stations, UT	<u>4,775,000</u> \$ 8,820,000

Michigan Transportation Fund Bonds

12/09/03	Refunding Bonds, Series 2003	995,000
04/05/05	Refunding Bonds, Series 2005	2,425,000
05/19/05	Bonds	4,600,000
04/01/07	Bonds	4,300,000
03/02/10	Refunding Bonds, Series 2010	2,240,000
06/22/10	Recovery Zone Bonds, Series 2010	<u>1,570,000</u> 16,130,000

Special Assessment Bonds

08/03/08	Improvements	3,160,000
----------	--------------	-----------

Share of County-issued Drain Bonds

Macomb County	4,635,000
Macomb County - North Gratiot	2,597,695
Oakland County (OMID)	<u>1,104,836</u> 8,337,531

Total direct debt outstanding 36,447,531

Less:	MTF Bonds	16,130,000
	Special Assessment Bonds	<u>3,160,000</u> 19,290,000

Net direct debt outstanding 17,157,531

Overlapping Debt

40.34%	Utica Community School District	205,100,000	82,737,340
43.54%	Warren Consolidated School District	168,605,000	73,410,617
16.24%	Macomb County at large	57,580,437	9,351,063
15.91%	Macomb Intermediate School District	500,000	<u>79,550</u>

Total overlapping debt 165,578,570

Net direct debt outstanding and overlapping debt \$ 182,736,101

Source: Municipal Advisory Council of Michigan, Detroit, Michigan

City of Sterling Heights, Michigan

Legal Debt Margin
June 30, 2010

Valuation for debt limit:

2009 state equalized value (2010 fiscal year)	\$ 5,315,760,755
Addback of assessed value equivalent - 2009 SEV of Act 198 exemptions	<u>478,805,650</u>
Total valuation for debt limit	<u>\$ 5,794,566,405</u>
Debt limit (10 percent of state equalized valuation and equivalent) (1)	\$ 579,456,641
Debt applicable to limit:	
Amount of total direct outstanding debt	\$ 36,447,531
Less: Michigan Transportation Fund Bonds	16,130,000
Special Assessment Bonds	<u>3,160,000</u>
Net debt applicable limit	<u>17,157,531</u>
Legal debt margin	<u>\$ 562,299,110</u>

(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				
	2001	2002	2003	2004	2005
Debt limit	\$ 458,984,640	\$ 504,750,820	\$ 553,280,216	\$ 577,993,680	\$ 597,544,820
Total net debt applicable to limit	<u>(25,165,984)</u>	<u>(23,499,602)</u>	<u>(19,528,220)</u>	<u>(43,681,539)</u>	<u>(40,795,000)</u>
Legal debt margin	<u>\$ 433,818,656</u>	<u>\$ 481,251,218</u>	<u>\$ 533,751,996</u>	<u>\$ 534,312,141</u>	<u>\$ 556,749,820</u>
Total net debt applicable to the limit as a percentage of debt limit	5.48%	4.66%	3.53%	7.56%	6.83%
	Fiscal Year				
	2006	2007	2008	2009	2010
Debt limit	\$ 622,283,210	\$ 645,406,095	\$ 667,117,910	\$ 619,634,650	\$ 579,456,641
Total net debt applicable to limit	<u>(37,935,000)</u>	<u>(28,915,000)</u>	<u>(30,130,000)</u>	<u>(26,575,000)</u>	<u>(17,157,531)</u>
Legal debt margin	<u>\$ 584,348,210</u>	<u>\$ 616,491,095</u>	<u>\$ 636,987,910</u>	<u>\$ 593,059,650</u>	<u>\$ 562,299,110</u>
Total net debt applicable to the limit as a percentage of debt limit	6.10%	4.48%	4.52%	4.29%	2.96%

City of Sterling Heights, Michigan

Pledged Revenue Coverage Last Ten Fiscal Years

Fiscal Year Ended		Limited Tax Obligation Bonds					Coverage
		Collections	Principal	Interest	Total		
2001	\$ 1,069,510	\$ 710,000	\$ 357,540	\$ 1,067,540		1.002	
2002	1,058,238	725,000	331,535	1,056,535		1.002	
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	
Michigan Transportation Fund Bonds							
Fiscal Year Ended		Debt Service					Coverage
		Collections	Principal	Interest	Total		
2001	\$ 3,049,816	\$ 1,525,000	\$ 1,100,805	\$ 2,625,805		1.162	
2002	3,175,854	1,660,000	1,031,928	2,691,928		1.180	
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	738,557	2,853,557		1.136	
Special Assessment Bonds							
Fiscal Year Ended		Debt Service					Coverage (I)
		Collections (I)	Principal	Interest	Total		
2001	\$ 192,015	\$ 200,000	\$ 51,963	\$ 251,963		0.762	
2002	169,933	200,000	42,694	242,694		0.700	
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		2.774	

(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 (1)	Education Age 25 or Older (1)			Per Capita Income (1)	Income (in thousands)	Number of Households (2)	Median Household	
			High School Graduate or Higher	Bachelor's Degree or Higher					Income (in 1999 dollars) (2)	Unemployment Rate (3)
2001	125,140	N/A	N/A	N/A	N/A	\$ 3,123,244	\$ 46,072	\$ 60,494	4.1%	
2002	125,800	N/A	N/A	N/A	N/A	3,139,716	48,775	60,494	4.8%	
2003	126,470	N/A	N/A	N/A	N/A	3,156,438	48,990	60,494	5.3%	
2004	127,270	N/A	N/A	N/A	N/A	3,176,405	49,260	60,494	5.4%	
2005	128,026	N/A	N/A	N/A	N/A	3,195,273	49,405	60,494	5.6%	
2006	128,692	N/A	N/A	N/A	N/A	3,211,895	49,871	60,494	6.3%	
2007	128,914	N/A	N/A	N/A	N/A	3,217,436	50,761	60,494	7.3%	
2008	128,500	N/A	N/A	N/A	N/A	3,224,574	50,375	60,494	8.8%	
2009	128,500	N/A	N/A	N/A	N/A	3,231,712	49,735	60,494	14.1%	
2010	128,500	N/A	N/A	N/A	N/A	3,207,103	49,339	60,494	13.6%	

Sources:

(1) United States Census Bureau - 2000 Census (last reported)

(2) Southeast Michigan Council of Governments (SEMCOG)

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

City of Sterling Heights, Michigan

Miscellaneous Demographics

Population		Labor Characteristics		
			Number of Employees	
2000 U.S. Census	124,471	Management, professional, and related	22,844	
1990 U.S. Census	117,810	Service	7,889	
1980 U.S. Census	108,999	Sales and office	19,213	
		Farming, forestry, and fishing	51	
		Construction, extraction, and maintenance	4,927	
		Production, transportation, and material moving	9,416	
		Total	64,340	
Income Characteristics		By Industry:		
Household Income	Number of Households			
Less than \$10,000	2,157	Agriculture, forestry, fishing, hunting, and mining	53	
\$10,000 - \$14,999	1,795	Construction	3,226	
\$15,000 - \$24,999	3,749	Manufacturing	16,639	
\$25,000 - \$34,999	4,473	Wholesale trade	2,471	
\$35,000 - \$49,999	6,497	Retail trade	9,105	
\$50,000 - \$74,999	10,773	Transportation, warehousing, and utilities	1,583	
\$75,000 - \$99,999	8,087	Information	1,475	
\$100,000 - \$149,999	6,977	Finance, insurance, real estate, rental, and leasing	4,091	
\$150,000 or more	1,873	Professional, scientific, management, administrative, and waste management services	6,774	
		Educational, health, and social services	9,651	
		Arts, entertainment, recreation, accomodation, and food services	4,777	
		Other professional and related services	2,372	
		Public administration	2,123	
		Total	64,340	
Residential Characteristics				
Single family	75.21%			
Multi family	21.18%			
Mobile homes	3.61%			
Age Statistics		Educational Characteristics		
Years	1990	2000	Persons 25 and Over	
Under 5	6.50%	6.20%	Less than 9th grade	6.40%
5 to 19	19.40%	20.30%	9th to 12th grade, no diploma	9.60%
20 to 24	11.20%	6.10%	High school graduate	29.20%
25 to 44	33.60%	30.40%	Some college, no degree	23.60%
45 to 64	20.10%	25.20%	Associate's degree	8.20%
Over 64	9.20%	11.80%	Bachelor's degree	15.70%
			Graduate or professional degree	7.30%

Source: 2000 United States Census

City of Sterling Heights, Michigan

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

Company Name	Product/Service	Year Ended June 30, 2010			Year Ended June 30, 2001		
		Employees	Rank	Total City	Employees	Rank	Total City
				Employment			(1)
General Dynamics	Defense-related manufacturing	2,900	1	5.00%	2,415	6	
Ford Motor Company	Automotive axles and chassis components	2,300	2	3.96%	6,500	2	
Lakeside Associates	Retail shopping center	2,000	3	3.45%	2,500	4	
Detroit News Agency	Printing plant - Newspapers	1,200	4	2.07%	730	8	
Utica Community Schools	Education (2)	1,150	5	1.98%	4,150	3	
Chrysler Group LLC	Automotive assembly and stamping	1,000	6	1.72%	6,875	1	
Warren Consolidated Schools	Education (2)	790	7	1.36%	2,200	5	
City of Sterling Heights	Local government	587	8	1.01%	623	10	
U.S. Farathane Corporation	Paints and finishes	580	9	1.00%	-		
Kuka Flexible Production Systems, Inc.	Automotive interior	450	10	0.78%	-		
Shuert Industries	Plastic packaging	300	11	0.52%	-		
Conti Electric	Electrical contractor	250	12	-	-		
Roncelli, Inc.	General contractor	250	13	-	-		
Henry Ford Health Systems Macomb	Hospital	250	14	-	-		
Comcast Cable	Cable services	220	15	-	-		
Cadillac Products, Inc.	Plastic bags, sheets, paper	-			750	7	
Automotive Plastic Technologies Co.	Plumbing, pipe and bottles	-			650	9	
MNP	Nut, bolt, and wire manufacturer	-			580	11	
T.R.W.	Auto subcomponent assembly	-			570	12	
Breed Technologies	Safety restraints	-			560	13	
Chivas Products Ltd.	Moldings	-			500	14	
Modular Plastics	Plastic molds	-			330	15	
	Fifteen largest employers	14,227		24.51%	<u>29,933</u>		
	Other employers	<u>43,825</u>		75.49%			
	Total employment	<u>58,052</u>	(3)				

(1) Information to determine percentage of total employment for ten years prior is not available prior to June 30, 2005.

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

(3) State of Michigan, Department of Energy, Labor & Economic Growth, Department of Labor and Statistics

Source: City of Sterling Heights, Economic Development Office

City of Sterling Heights, Michigan

Operating Indicators by Function Last Ten Fiscal Years

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Government										
Election Data										
Registered voters	77,134	79,426	79,100	79,221	83,461	83,910	83,639	84,082	88,258	85,345
Voters at polls	42,229	9,285	30,309	10,445	45,608	7,654	34,405	3,842	44,074	10,138
Absentee ballots	10,593	6,981	8,908	7,113	14,801	7,605	11,904	7,556	16,972	7,963
Percent voting	68.48%	20.48%	49.58%	22.16%	72.38%	18.18%	55.37%	13.56%	69.17%	21.00%
41A District Court										
Court Cases										
Civil	1,754	2,000	2,300	2,508	2,709	2,862	3,239	3,867	3,947	3,816
Criminal	6,651	5,827	5,920	4,782	3,994	4,211	4,533	5,677	4,922	4,818
Landlord and tenant	1,642	1,930	2,200	2,285	2,203	2,226	2,433	2,471	2,653	2,407
Small claims	639	657	612	610	513	488	432	425	524	448
Traffic	25,405	20,859	25,044	27,282	25,338	24,256	27,143	27,709	30,422	35,540
Public Safety										
Police Protection										
Adult arrests	3,452	3,198	2,988	2,707	2,406	2,560	3,326	3,747	3,079	3,000
Civil infractions	21,265	14,303	18,450	18,605	23,627	23,819	26,582	27,596	29,855	32,724
Group A offenses (2)	7,379	6,873	6,897	6,260	6,474	7,926	7,873	7,361	6,686	6,484
Group B offenses (3)	3,129	2,808	2,424	3,623	4,170	4,609	4,491	3,433	2,632	2,370
Injury accidents	804	747	766	884	862	810	806	1,004	824	704
Juvenile arrests	299	318	225	246	183	239	251	174	156	173
OUIL arrests	593	541	405	412	361	375	328	340	414	394
Parking violations	1,918	1,616	2,293	1,696	1,713	1,730	2,016	1,706	1,702	1,992
Property damage	3,476	3,261	3,317	3,637	3,669	3,663	3,415	4,353	3,191	3,071
Private property damage	1,673	1,546	1,419	1,426	1,439	1,304	1,322	1,133	1,037	944
Total traffic violations	29,389	24,543	27,012	24,208	26,972	25,379	29,166	30,484	32,154	37,022
Fire Protection										
Emergency alarms answered	7,747	8,425	5,966	9,215	9,292	9,573	10,261	10,500	10,480	10,383
Fire inspections conducted	4,202	4,139	3,871	4,427	3,832	4,204	4,624	3,767	3,874	2,859
Inspection violations issued	3,890	3,239	3,225	4,451	3,697	6,020	10,292	9,391	7,495	5,831
Medical emergencies	5,191	5,517	5,888	6,551	6,719	6,927	7,493	7,691	7,745	7,693
Training hours completed	33,798	36,491	32,839	34,583	35,809	34,124	33,538	33,857	31,121	30,955
Recreation and Culture										
Parks and Recreation										
Adult athletics attendance	18,810	19,383	14,150	13,980	15,825	19,480	18,782	20,135	15,360	25,477
Instructional swim attendance	8,390	8,281	9,025	9,640	9,592	8,896	9,386	7,570	7,100	3,417
Instructional rec. attendance	26,840	26,620	24,330	24,285	24,970	28,070	26,567	25,666	24,795	23,999
Nature program attendance	22,750	15,460	27,290	28,350	29,362	22,748	24,582	24,399	23,321	27,708
Senior program attendance	89,990	111,120	121,990	126,280	111,020	111,610	109,528	109,970	116,564	117,570
Special event attendance	55,890	68,530	68,480	68,500	71,930	72,725	73,000	73,100	74,449	65,551
Special recreation program attendance	13,880	15,585	15,700	15,870	15,895	16,870	14,878	16,060	15,679	11,351
Summer playground attendance	21,250	21,097	19,120	15,600	11,646	9,992	11,025	14,094	11,370	7,565
Youth athletics attendance	45,930	45,064	56,035	56,080	53,325	49,480	53,978	52,885	54,968	73,604
Library										
Book Van deliveries	8,098	9,126	9,759	12,623	12,844	12,820	11,242	9,318	8,818	7,909
Community meeting room reservations	N/A	N/A	N/A	295	150	299	341	384	1,200	1,289
In-house materials usage	N/A	N/A	190,771	159,897	139,897	140,033	144,698	139,973	121,907	93,714
Interlibrary loan requests	17,995	45,832	86,855	88,657	99,078	109,995	120,393	123,142	125,167	110,778
Interlibrary loans - Lent	N/A	N/A	70,782	75,931	89,405	100,260	109,814	113,947	117,671	105,692
Items circulated	447,240	690,262	687,070	662,579	641,730	648,967	635,425	616,323	625,688	627,496
Library visits	193,505	296,249	309,531	371,398	388,706	417,601	420,716	442,768	581,046	560,035
Online computer uses	170,452	187,950	296,414	357,869	441,111	456,752	492,979	514,794	552,503	583,260
Program attendance	14,687	24,004	23,046	22,034	22,780	21,275	25,470	36,204	37,639	31,664
Reference transactions	95,289	135,514	137,941	132,104	141,056	133,617	132,557	141,610	148,978	131,039
Registered borrowers	53,680	53,822	53,435	53,476	57,050	50,390	50,599	51,098	52,043	53,114

City of Sterling Heights, Michigan

Operating Indicators by Function (Continued) Last Ten Fiscal Years

	Fiscal Year									
	2001	2002	2003	2004	2005	2006 (4)	2007	2008	2009	2010
Water and Sewer Services										
Customers: (5)										
Residential	33,495	34,049	34,302	34,529	34,535	34,850	35,021	35,048	34,811	34,846
Commercial/Industrial	3,367	3,534	3,582	3,741	4,185	4,272	4,477	4,539	4,233	4,234
Water (in thousand cubic feet):										
Purchased from Detroit	847,075	843,530	885,283	828,398	867,931	803,969	775,817	786,726	716,384	659,817
Sold to residents	800,654	845,667	881,780	815,645	811,252	852,661	789,033	827,893	711,126	667,792
Rates (per thousand): (4)										
1,000 CU. FT.	\$ 18.94	\$ 20.72	\$ 22.77	\$ 22.72	\$ 25.42	\$ 27.13	\$ 28.64	\$ 30.74	\$ 31.94	\$ 37.22
Next 2,000 CU.FT.	17.44	19.08	21.28	(1)	(1)	27.13	28.64	30.74	31.94	37.22
Over 3,000 CU.FT.	16.45	18.01	20.57	(1)	(1)	27.96	29.50	31.67	32.90	38.32
Sewer only - Per billing	15.00	15.00	15.00	15.00	15.00	15.00	25.00	30.00	35.00	45.00

(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) The 2009 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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Government										
Buildings										
City Center Commons										
41A District Court										
Public Safety										
Police Protection										
Stations										
Vehicles - Marked	48	48	48	48	49	49	49	54	54	54
Vehicles - Unmarked	68	68	68	68	68	80	82	79	77	64
Fire Protection										
Stations	5	5	5	5	5	5	5	5	5	5
Vehicles - Extinguishment	11	12	13	14	14	14	15	16	16	16
Public Works										
Streets and Sidewalks										
Miles of City:										
Primary streets	60	60	60	60	60	60	60	63	63	63
Secondary streets	281	282	285	285	286	287	289	289	286	286
Sidewalks	535	537	565	565	566	605	607	608	609	609
Bridges	11	11	11	11	11	11	11	11	11	11
Buildings	2	2	2	2	2	2	2	2	2	2
Street lights	2,474	2,490	2,495	2,475	2,472	2,508	2,513	2,520	2,520	2,520
Vehicles - Snow plows	21	21	21	21	21	20	21	22	22	23
Water and Sewer Services										
Fire hydrants	6,488	6,597	6,633	6,796	6,932	7,015	7,050	7,162	7,203	7,221
Miles of water mains	535	544	554	558	563	569	570	573	574	575
Miles of sanitary sewers	412	415	415	422	424	428	429	430	430	430
Recreation and Culture										
Parks and Recreation										
Acres	810	811	820	820	820	820	820	820	820	820
Developed parks	26	27	28	28	28	28	28	28	28	28
Buildings	3	3	3	3	3	3	3	3	3	3
Library										
Book collections	215,840	191,481	197,472	186,992	189,822	190,791	188,365	197,412	199,968	203,593
Other collections (I)	24,786	25,442	28,250	24,622	23,937	23,776	35,619	36,619	37,344	37,051
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					
	New Construction		Additions/Improvements			
	Number	Value	Number	Value	Total Residential	
2001	414	\$ 63,789,140	2,266	\$ 9,055,033	\$ 72,844,173	
2002	513	51,306,550	1,766	2,737,615	54,044,165	
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	
Commercial						
Fiscal Year Ended June 30	New Construction		Additions/Improvements		Total	
	Number	Value	Number	Value	Commercial	
	96	\$ 40,493,780	156	\$ 20,199,408	\$ 60,693,188	
2001	42	25,736,795	295	16,143,812	41,880,607	
2002	19	17,228,169	265	18,095,804	35,323,973	
2003	29	28,123,162	272	59,264,545	87,387,707	
2004	31	34,143,253	271	26,257,489	60,400,742	
2005	24	25,096,450	302	26,567,543	51,663,993	
2006	24	44,813,309	254	40,418,973	85,232,282	
2007	17	38,153,479	239	26,322,149	64,475,628	
2008	16	5,148,379	160	23,119,046	28,267,425	
2009	27	31,115,804	165	28,194,133	59,309,937	

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

	Full-time and Part-time Employees as of June 30									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<u>Function</u>										
General government	99	99	97	95	95	94	95	83	78	71
41A District Court	37	37	36	38	38	40	40	40	39	40
Public safety:										
Police	266	263	259	258	259	260	260	261	259	251
Fire	114	111	107	107	107	108	108	106	106	104
Public works:										
City development (2)	51	51	50	50	50	32	32	37	32	32
Public works	57	45	43	43	43	43	43	42	40	37
Street services	23	23	23	23	23	23	23	23	21	21
Engineering (1)	-	-	-	-	-	19	19	17	14	13
Recreation and culture:										
Parks and recreation	16	16	16	16	16	16	16	16	13	12
Library	42	42	41	41	41	41	41	42	42	42
Water and sewer	41	41	41	41	41	41	41	41	40	39
Total	746	728	713	712	713	717	718	708	684	662

(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
2001	\$ 13,329,919	N/A
2002	13,315,069	\$ 13,315,069
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

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	
2001	\$ 4,647,631	\$ 1,452,001	\$ 6,099,632
2002	4,836,746	1,514,962	6,351,708
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

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)	6/30/2012	87
Police Clerical Employees Michigan Association of Police (MAP)	6/30/2011	26
Emergency Dispatchers Police Officers Association of Michigan (POAM)	6/30/2012	23
Department of Public Works Field Employees Teamsters, Local 214	6/30/2012	64
Department of Public Works Supervisors AFSCME, Local 1917, Council 25	6/30/2012	7
Firefighters International Association of Firefighters, Local 1557	6/30/2012	98
Police Officers Michigan Association of Police (MAP)	6/30/2011	131
Police Command Officers Sterling Heights Police Command Officers Association	6/30/2012	35
Court Clerical AFSCME, Local 1884, Council 25	6/30/2011	23
Professional and Technical Employees United Auto Workers, Unit 40, Local 412	6/30/2013	53
Supervisory Employees United Auto Workers, Unit 41, Local 412	6/30/2012	19
Executive Employees Michigan Association of Public Employees (MAPE)	6/30/2013	7
Nonunion Employees		
City Manager	N/A	1
41A District Court Judges	N/A	3
41A District Court Administration	N/A	10

Source: City of Sterling Heights