



# Comprehensive Annual Financial Report

**Richard J. Notte**  
*Mayor*

**Deanna Koski**  
*Mayor Pro Tem*

**Richard L. Bracci**  
*Councilman*

**Yvonne D. Kniaz**  
*Councilwoman*

**Joseph V. Romano**  
*Councilman*

**Maria G. Schmidt**  
*Councilwoman*

**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**  
*Financial Services Manager*

**For the Fiscal Year Ended June 30, 2007**

---

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

# **City of Sterling Heights, Michigan**

---

## **Contents**

### **Introductory Section**

|   |           |
|---|-----------|
| <b>City Manager's Comprehensive Summary of Fiscal Year 2006/2007 and a Prospective Look at the Future of the City of Sterling Heights</b> | i-xi      |
| <b>Letter of Transmittal</b>  | xii-xxvii |
| <b>GFOA Certificate of Achievement</b>  | xxviii    |
| <b>City Organization Chart</b>  | xxix      |
| <b>List of Principal Officials</b>  | xxx       |
| <b>Fund Organization Chart</b>  | xxxi      |

### **Financial Section**

|  |       |
|--|-------|
| <b>Independent Auditor's Report</b>  | 1-2   |
| <b>Management's Discussion and Analysis</b>  | 3-11  |
| <b>Basic Financial Statements</b>  |       |
| Government-wide Financial Statements:  |       |
| Statement of Net Assets  | 12    |
| Statement of Activities  | 13-14 |
| Fund Financial Statements:   |       |
| Governmental Funds:  |       |
| Balance Sheet  | 15-16 |
| Reconciliation of Fund Balances to the Statement of Net Assets   | 17    |
| Statement of Revenues, Expenditures, and Changes in Fund Balances  | 18-19 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 20    |
| Proprietary Funds:   |       |
| Statement of Net Assets  | 21    |
| Statement of Revenues, Expenses, and Changes in Net Assets   | 22    |
| Statement of Cash Flows  | 23-24 |
| Fiduciary Funds:   |       |
| Statement of Fiduciary Net Assets  | 25    |
| Statement of Changes in Fiduciary Net Assets   | 26    |

# **City of Sterling Heights, Michigan**

---

## **Contents (Continued)**

### **Financial Section (Continued)**

|   |        |
|---|--------|
| Component Units:  |        |
| Statement of Net Assets   | 27     |
| Statement of Activities   | 28     |
| Notes to Financial Statements   | 29-60  |
| <br><b>Required Supplemental Information</b>                                | <br>61 |
| Budgetary Comparison Schedule - General Fund                                | 62     |
| Budgetary Comparison Schedule - Major Roads Fund                            | 63     |
| Budgetary Comparison Schedule - Community Development Block Grant Fund      | 64     |
| Pension Systems Schedule of Funding Progress                                | 65-67  |
| Note to Required Supplemental Information                                   | 68-70  |
| <br><b>Other Financial and Supplemental Information</b>                     | <br>   |
| Nonmajor Governmental Funds:  | 71     |
| Combining Balance Sheet   | 72-73  |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances | 74-75  |
| Budgetary Comparison Schedule   | 76-82  |
| Major Funds:  | 83     |
| Budgetary Comparison Schedule - Major Capital Projects Funds                | 84     |
| Fiduciary and Agency Funds:   | 85     |
| Combining Statement of Fiduciary Net Assets - Trust Funds                   | 86     |
| Combining Statement of Changes in Fiduciary Net Assets - Trust Funds        | 87     |
| Combining Statement of Fiduciary Net Assets - Agency Funds                  | 88     |
| Combining Statement of Changes in Assets and Liabilities - Agency Funds     | 89     |

# **City of Sterling Heights, Michigan**

---

## **Contents (Continued)**

|  |         |
|--|---------|
| <b><u>Statistical and Continuing Disclosure Contents</u></b> | 90-91   |
| <br>   |         |
| <b><u>Statistical</u></b>                                    | 92      |
| <br>   |         |
| <b>Financial Trends</b>                                      |         |
| Net Assets by Component                                      | 93      |
| Changes in Net Assets  | 94      |
| Fund Balances of Governmental Funds                          | 95      |
| Changes in Fund Balances of Governmental Funds               | 96-97   |
| General Governmental Tax Revenues by Source                  | 98      |
| <br>   |         |
| <b>Revenue Capacity</b>                                      |         |
| Property Tax Levies and Collections                          | 99      |
| Property Tax Rates - Direct and Overlapping Governments      | 100-101 |
| Assessed Taxable Values (History of Property Values)         | 102-103 |
| Principal Property Taxpayers (Major Taxpayers)               | 104     |
| <br>   |         |
| <b>Debt Capacity</b>   |         |
| Ratios of Net General Bonded Debt Outstanding                | 105     |
| Ratios of Outstanding Debt by Type                           | 106     |
| Direct and Overlapping Governmental Activities Debt          | 107     |
| Legal Debt Margin  | 108     |
| Legal Debt Margin Information                                | 109     |
| Pledged Revenue Coverage                                     | 110     |
| <br>   |         |
| <b>Demographic and Economic Information</b>                  |         |
| Demographic and Economic Statistics                          | 111     |
| Miscellaneous Demographics                                   | 112     |
| Principal Employers (Major Employers)                        | 113     |
| <br>   |         |
| <b>Operating Information</b>                                 |         |
| Operating Indicators by Function                             | 114-115 |
| Capital Asset Statistics by Function                         | 116     |
| Building Permits at Market Value                             | 117     |
| Full-time Equivalent City Government Employees by Function   | 118     |
| <br>   |         |
| <b><u>Continuing Disclosure</u></b>                          | 119     |
| <br>   |         |
| State-shared Revenues  | 120     |
| Gas and Weight Taxes   | 120     |
| Labor Agreements   | 121     |

## **CITY MANAGER'S COMPREHENSIVE SUMMARY OF FISCAL YEAR 2006/2007 AND A PROSPECTIVE LOOK AT THE FUTURE OF THE CITY OF STERLING HEIGHTS**

Honorable Mayor, City Council, and Community Residents:

This executive summary is an analysis of the results of operations of the City of Sterling Heights and serves as the introduction to the City's Comprehensive Annual Financial Report for Fiscal Year 2006/2007. Contained within this report is pertinent information about the City's community, economy, and major initiatives completed during the past year, as well as a prospective look at the future.

### **STERLING HEIGHTS - 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 a six-member city council, who individually serve two-year terms. Elections are non-partisan and are held the first Tuesday of November in each odd-numbered year. The mayor is a directly elected position, while the council candidate who receives the highest number of votes in the general election serves as the mayor pro tem. 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 27 boards, commissions, authorities, committees, as well as the Sterling Heights Community Foundation. From beautifying the community to regulating its development, board members and commissioners meet regularly to support the City Council and City Administration.

The City of Sterling Heights is a vibrant community with a strong sense of civic pride and determination by its community leaders. At 36.8 square miles, the City is bordered by M-59 on the north, 14 Mile Road on the south, Hayes Road on the east, and Dequindre Road on the west. Geographically, Sterling Heights is the third largest city in the state. There are more than 395 miles of roadway in Sterling Heights, of which 349 miles are maintained by the City. Sterling Heights is a balanced community that is rich with cultural diversity, community wellness, and economic vitality. Sterling Heights continues to attract upscale housing developments, prestigious office complexes, and large commercial development projects. The 2007 estimated population for the City stands at 128,914, making Sterling Heights the state's fastest-growing community among cities with more than 100,000 residents. In terms of population, Sterling Heights is the fourth largest city in Michigan. There are 60 voting precincts in the city with more than 83,450 registered voters. City services are provided to 32,886 houses, 9,531 apartments, 7,747 condominiums, 1,691 mobile homes, and 2,603 commercial and industrial businesses.

## **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, Government Finance Officers' Association, and the International City/County Management Association.

Sterling Heights has pursued a policy dedicated to attracting and retaining highly qualified management personnel. The City provides a level of compensation sufficient to attract and retain the management 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 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. Staff restructuring, pay increases mirroring inflation, and the use of privatization where economically feasible have kept the City's salary expenditures manageable.

The 2007/2008 approved budget includes funding for 630 full-time positions, an increase of one position. A vacant police captain position has been eliminated and replaced with two police officers assigned to the road. Although the City has eliminated 19 vacant positions since 2002, saving \$1.3 million annually, full-time staffing has still increased by nine positions since 1996. As a result, our ratio of employees to residents is at a 30-year low. As evidenced by the ICMA's Center for Performance Measurement data, the City has one of the lowest ratios of employees per 1,000 residents, which explains why the City's costs are less than 82 percent of other cities nationally. These statistics illustrate the high productivity level of our employees in order to achieve high performance results. In addition, both city pension plans are fully funded. Last year, city administration conducted the 2006 Resident Satisfaction Survey of 3,000 randomly selected households achieving an overwhelming response rate of over 50 percent. According to the survey, 95 percent of the City's residents consider the city an excellent or good place to live.

## **A LIFESTYLE FOR EVERYONE**

Comprehensive plans have been established that will continue to enhance and secure the quality of life in Sterling Heights for many years to come. These goals and objectives will serve to heighten the community's existing foundation of quality programs and services for residents. The City's annual strategic plan will guide the City in managing its capital improvement needs and equipment purchases over the next several years. With support from residents, the City of Sterling Heights continues to strive for excellence.

## **Most Informed City**

Sterling Heights continues to implement technologies that will enhance customer service and improve efficiency as follows:

- ▶ Sterling Heights was the first in the state to offer the *Water Bill Review and Payment Service*, which allows residents to review historical accounting of water usage on their address, as well as having the option to pay their bill online;
- ▶ A new *Water Billing Budgeting Program*, recently made available for residential customers, is designed to help smooth out the four quarterly water bills that residential customers receive each year;
- ▶ Sterling Heights residents can review vital voting information on the City's new online *Voter Information Center*;
- ▶ The City has utilized new disability accessible voting machines, received through grant funds, that allow a sight-impaired or disabled person the opportunity to vote with greater ease;
- ▶ Sterling Heights now provides a *Surplus Auction* link on the City's website to accommodate the need for a more efficient means of disposing surplus equipment and supplies;
- ▶ The City implemented an electronic City Council agenda packet whereby residents are able to access the complete agenda packet from their home computers;
- ▶ Sterling Heights was the first city in Michigan to introduce the *Online Permit System* that allows contractors to obtain plumbing, electrical, and mechanical permits via the City's website;
- ▶ The *Online Assessing and Tax Information System* allows residents to obtain assessment roll information on any parcel in Sterling Heights. The online Internet service provides users with the ability to gain information on school districts, administration fees, and current tax bills;
- ▶ Residents and non-profit groups have the opportunity to publicize activities, such as garage sales, golf outings, and lost pet notices on Sterling Heights Television (SHTV) at no charge;
- ▶ Vendors conducting business with the City now have access to the new *Central Bid Notification System* to obtain information regarding posting bids, quotes, construction notices, etc; and
- ▶ Registration for the Parks and Recreation and Library programs can now be accomplished online.

## **Safest Big City**

The City enjoys an outstanding reputation for public safety and thus has established an Emergency Operations Center (EOC) and an alternate emergency dispatch center. Also, an Incident Command Vehicle has been placed into service to be used for emergency response by the Police, Fire, and Public Works Departments. The City of Sterling Heights Emergency Preparedness Partnership has been created, consisting of representatives from the City's Emergency Services Operations Group (ESOG), private sector, and Chamber of Commerce. This group will increase communications and cooperation between the public and private sectors in response to emergencies. In addition, Sterling Heights recently joined *A Child Is Missing* program, a nonprofit program that provides a rapid response communication network and dissemination of information. Police officers in Sterling Heights are now able to receive immediate assistance during searches for missing children, the elderly, and the disabled.

Continuous training for sworn personnel and police academy students contribute to the emphasis on security within Sterling Heights. Along with such programs as D.A.R.E., Neighborhood Watch, Child I.D., and Crime Prevention, the Police Department annually sponsors the Citizens' Police Academy, a nationally recognized program that trains residents to take an active role in community protection. In addition, the Police Department's K-9 Unit recently claimed the top two spots in the regional Midwestern United States Police Canine Certification Trials, which is a rigorous testing competition of numerous K-9 programs throughout the Midwest. According to FBI crime statistics, the City has continued to maintain its "Safest City in Michigan" ranking with crime decreasing overall in Sterling Heights. In addition, the Sterling Heights Police Department utilizes an in-car computer system that assists the officers in obtaining more information on potentially dangerous suspects. The CLEMIS (Courts and Law Enforcement Management Information Services) system links with area police departments and allows the sharing of vital information. During the past year, the 800 mHz Public Safety Radio System was established for the Police, Fire, and Public Works Departments. Keeping crime rates down can be attributed to the City having the appropriate and necessary financial resources and a concerned public that cooperates with law enforcement.

The Sterling Heights Police Department has implemented a summer Residential Traffic Safety Initiative by using DARE officers to enforce traffic concerns throughout city neighborhoods. This valuable program has been very successful through enforcement action and education in addressing the residents' concerns, thus enhancing safety activities in residential areas of the city.

The False Alarm Ordinance was established in an effort to further the public safety and welfare of the city's taxpayers. This program has been effective in reducing the undue burden incurred by taxpayers for unnecessary false alarm responses. Alarm users are encouraged to maintain operational reliability of the alarm system, thereby reducing and preventing the misuse of police and fire resources at taxpayer expense. In addition, the City's Snow Emergency Ordinance has been enhanced to provide increased enforcement authority requiring owners to remove vehicles from the street during a declared emergency.

Sterling Heights Fire Department became the first fire department in the world to achieve ISO 9001:2000 registration. This achievement expresses a commitment to quality that is internationally understood and accepted, thus attaining quality customer service and continual improvement. Additionally, the department has been the first in providing programs such as the administering of free flu shots to senior residents and introducing and adopting the first Private Water System Ordinance that requires private water systems to provide an annual maintenance program. Sterling Heights is below average in the number of fires and fire losses nationwide. As part of the City's fire prevention and training efforts, the Fire Department successfully completed its ninth annual Civilian Fire Academy in which residents had the opportunity to receive hands-on experience on a variety of fire safety equipment and techniques. The Fire Prevention Division of the Sterling Heights Fire Department is the first in the state to have all of its members certified by the National Association of Fire Investigators (NAFI). As a result, a high level of credibility is present at all times when Sterling Heights inspectors work on various fire matters. The Fire Department continues to take the initiative toward offering advanced life support services, fire rescue and suppression activities, fire prevention/inspection/investigation, public education, hazardous materials response, and all forms of technical rescue.

## Most Efficient City

The Sterling Heights Civic Center, with its inviting and functional campus-style layout, includes City Hall, Public Library, Police Department, 41-A District Court, Upton House, Recreation Center, Nature Center, and Senior Activity Center. The Civic Center has become the community focal point for municipal activities and cultural events with such landscaping enhancements as the placement of several sculptures throughout the complex. Residents have access to a modern, state-of-the-art City Hall with offices, meeting rooms, and a 200-seat City Council Chambers. The Employee Memorial Fountain, situated outside City Hall, was created to serve as a lasting tribute and memorial to Sterling Heights employees who have died in the line of duty. The Public Library houses a cultural center with expansive user space. With security enhancement in place, the Kenneth J. Kosnic 41-A District Court Building provides a safe and secure environment for dispute resolutions within our jurisdiction. The 128-year old Upton House is a Michigan Historical Landmark and is one of the few surviving 19<sup>th</sup> century homes in Sterling Heights. Today, the Upton House is used for meetings and is available for rental to the public. The Recreation Center houses a vast array of programs to accommodate the needs of all city residents. Serving as a model program for neighboring communities, the Special Recreation Services provides recreation and leisure activities for the disabled with the program reaching over 14,800 in attendance. The Nature Center offers visitors of all ages the opportunity to learn more about the natural world and it is expected to attract over 24,000 participants this year. The Senior Activity Center, with its recently installed bocce ball court, provides a large selection of senior programs to keep our senior residents youthful and active. In fact, the completion of the new Senior Active Life Center, a 14,135 square foot gymnasium addition, now offers a wealth of new activities for the City's active senior citizens.

In a continued effort to provide quality services within the city, the municipal phone system is equipped with direct dialing capabilities, thus allowing incoming calls to be quickly received and expedited. The City's general information phone number [586/446-CITY (2489)] serves as the City's "help" line. Establishing a "virtual" City Hall, Sterling Heights' official website ([www.sterling-heights.net](http://www.sterling-heights.net)) can be accessed for informative city news and events. As a matter of fact, the City's "virtual" City Hall has earned numerous distinctions including: the 2003/2004 Golden Web Award from the International Association of Webmasters and Designers for excellence in design, originality, and content; the honor of being named as a "Top Pick" among municipal websites by *MuniNet Guide and Review*; and the Apex Award for Publication Excellence for Most Approved Website. The City's e-mail address ([cityhall@sterling-heights.net](mailto:cityhall@sterling-heights.net)) provides the opportunity to conveniently communicate with City Hall by means of e-mail transmissions. The City also offers free automatic electronic mail service for residents who want up-to-date information on city activities. Residents can e-mail their request to the City to be included in the distribution of city announcements, press releases, and other city information. A *Job Posting E-Mail Subscription Service* is also featured on the City's website. This free service provides the opportunity for those searching for employment to register for automatic electronic notifications of available job positions with the City of Sterling Heights. A new full-color publication entitled, "Life At Its Best - Getting to Know Us", has been created to welcome new residents, as well as introduce visitors and potential residents to the city. Sterling Heights is the first city in Macomb County to debut a municipal radio station, WPTC-1700 AM, which provides residents with round-the-clock information on community activities and emergencies, including up-to-the-minute weather bulletins. Collectively, the redesigned city quarterly publication, *Sterling Heights Magazine*, city website, SHTV, city radio station, and sustained performance rating for city services will continue to support Sterling Heights as the most information-friendly community in southeastern Michigan.

The City's Nice Neighbor Program has been successful, as it has recognized more than 100 residents since its inception in 2003. This popular program honors residents who offer a helping hand to their neighbors; they are recognized at a City Council meeting and also publicized on SHTV, the City's website and magazine.

### **Healthiest and Active City**

A variety of athletic and instructional programs are provided to city residents through the Parks and Recreation Department. The City's Recreation Center promotes active lifestyles and enhances the coordinated youth/career age/senior exercise and health center programs. The updated *Master Parks and Facilities Conceptual Development Plans* were recently adopted to assist in guiding the development of the City's future parks and facilities. With Avis Neighborhood Park as the latest addition to the community's expansive 820-acre network of major parks and neighborhood recreation areas, the City maintains 28 developed park sites and several other undeveloped park properties dedicated to recreational purposes. City parks provide various recreational and leisure opportunities from baseball diamond complexes to children's tot lots to miles of developed walking, jogging, and bicycle riding pathways. The final phase of the Huron Clinton Metropolitan Authority's (HCMA) county hike/bike path system through the City of Sterling Heights from Riverland Drive to Van Dyke Avenue has been completed, thus creating a path that is more than five miles from border to border within the city. Also, emergency markers were installed along the Clinton River Path System to assist emergency personnel in quickly locating those in need of assistance. Named *Tree City USA* annually since 1985, Sterling Heights supports policies to protect the woodlands, wetlands, and flood plains remaining in the city. In its continuing effort to preserve green space and open spaces, Sterling Heights is the only city in southeast Michigan that maintains a municipal nature preserve, the Plumbrook Forest, located at M-59 and Dequindre Road.

The number of visitors to the Sterling Heights Public Library continues to increase annually with this year's total number of visits exceeding 420,700. The Library offers compact discs, audiocassettes, computerized book and magazine catalogs, computer software for public use, and a collection of fiction books in CD format totaling well over 223,900. Last year, the Library published a local history book, *Sterling Township 1875-1968*, which contains more than 150 historic photographs from the Library's archives. An English as a Second Language (ESL) collection of videos and books has been established which complements the Library's International Language Collection. In addition, videotapes of City Council meetings are available for residents to check out and view at their leisure. The addition of coffee and beverage machines provides visitors with a more relaxed and welcoming ambience when utilizing the facility. Computerized reference services provide access to millions of references, abstracts, and statistics. Residents can search the Suburban Library Cooperative's database of book and non-print material, along with an extensive on-line general interest magazine database from the comfort of their homes. From terminals within the Library, residents continue to enjoy the opportunity to "surf" the Internet. This past year, online computer uses totaled more than 492,900, while program attendance totaled over 25,000. A book drop box is located in the median outside the Library and provides increased services to our residents. This added convenience has been well received as it better accommodates our busy residents.

## BEST PLACE TO RAISE A FAMILY

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. To encourage redevelopment in commercial areas, the City passed its first ever mixed-use ordinance. The commercial and industrial business environment is an exceptional mix of service, product, and technological employers, which allows Sterling Heights to enjoy the extraordinary combination of business opportunities. Employment in the city has also become more diversified in terms of new industry and trained workers. Principal employers within the city include Chrysler LLC, Ford Motor Company, Detroit News Agency, DTE Energy, Lakeside Associates, and General Dynamics.

Property values in Sterling Heights remain high. In 2007, property taxable values increased an inflationary 3.7 percent. Notwithstanding an expected decline in housing values for the current reporting year, the City's overall property values equate to \$13.4 billion. The City has the highest property valuation of any city in the state with the exception of only Detroit. The City continues to provide high quality services at the lowest possible cost. In fact, the City's millage rate has decreased by 2.66 mills or by 19.8 percent since 1988. 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. With the televising of the Board of Ordinance Appeals meetings and the efforts of the administrative Code Committee, the City continues to proactively pursue property maintenance enforcement.

Sterling Heights is a pre-retirement community attracting middle class homeowners with job security and seniority. Many Sterling Heights' homeowners are choosing to reinvest and renovate existing homes as evidenced by the 598 permits issued for residential home additions and/or improvements as compared to the 152 new housing permits issued this past year. The total number of residential permits in 2006/2007 has culminated in representing an investment of over \$28.3 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 2006/2007 had a taxable value of \$81,580, which equates to a market value of \$200,000. The total tax for that home in the Utica Community School District was \$2,430, while the total tax for that same home in the Warren Consolidated School District was \$2,952. Of the total tax dollars collected, the City received only \$875 from the average homeowner for a full line of city services. It is estimated that the total average tax for 2007/2008 will be \$2,520 and \$3,061, respectively.

Proposed plans for innovative single-family housing within the city include:

|                              |  |
|------------------------------|--|
| South Hampton                | 19 Mile between Ryan & Mound Rds.                      |
| Hampton South                | Schoenherr Rd. between Clinton River & 18 Mile Rds.    |
| Westbrooke Site Condominiums | Plumbrook Rd. between Dodge Park & 17 Mile Rds.        |
| Ashland Meadows Site         |  |
| Condominiums                 | 16 1/2 Mile between Lola Dr. & Dodge Park Rd.          |
| Heights Pointe               | 14 Mile Rd. between Mound Rd. & Defour Dr.             |
| The Woods of North Sterling  | 19 Mile Rd. between Mound & Ryan Rds.                  |
| Maple Woods                  | 15 Mile Rd. between Maple Lane & Schoenherr Rd.        |
| Covington Place Condominiums | Dequindre Rd. between 19 Mile Rd. & Forest Mead Dr.    |
| Plum River Estates           | 18 1/2 Mile Rd. between Mound & Ryan Rds.              |
| Hannebauer Condominiums      | Clinton River Rd. between Hannebauer Lane & Early Dr.  |
| Tyler Manor                  | 19 Mile Rd. between Willsharon St. & Hanks Lane        |
| Rosebrook Condominiums       | 16 1/2 Mile Rd. between Dodge Park Rd. & Van Dyke Ave. |
| Elmcrest Woods               | Ryan Rd. between 15 Mile Rd. & Veronica Dr.            |

Newly proposed multiple family developments include:

|                           |  |
|---------------------------|--|
| NCR of Lakeside Towers II | Hayes Rd. south of Shoreline Dr.         |
| Bickford Cottage          | Corner of Ryan Rd. & Dobry Dr.           |
| Preserves North No. 3     | Dobry Dr. between Ryan & Dequindre Rds.  |
| North Pointe Phase III    | Ryan Rd. between 19 Mile Rd. & Dobry Dr. |
| Toussaint Farms           | Saal Rd. between Hope Dr. & 19 Mile Rd.  |

These developments confirm that the community continues to invest in new residential construction.

Currently, more than 2,500 commercial and industrial businesses, including two of the top 25 “Fortune 500” companies (Chrysler LLC and Ford Motor Company) are located in Sterling Heights. The City's other major principal taxpayers include Detroit News Agency, DTE Energy, Lakeside Associates, 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. An Economic Development Brochure and promotional DVD were developed as part of the City's renewed Business Recruitment and Retention Program. As a result, recent significant investments and reinvestments include:

|                          |   |
|--------------------------|---|
| Comcast                  | \$5 million investment with 200 additional jobs           |
| Faurecia                 | New Sterling Heights facility creating 400 jobs           |
| Ford Motor Company       | \$104 million investment at the Ford Transmission Plant   |
| Fodale                   | Constructing new facility creating more than 100 new jobs |
| AGS Automotive Systems   | Reopening its Sterling Heights facility creating 242 jobs |
| Chrysler Corporation LLC | \$300 million investment at the Sterling Stamping Plant   |

Redevelopment opportunities have been actively pursued throughout the city including commercial strip centers and industrial facilities, such as 14 Mile Road and Van Dyke Avenue, 15 Mile and Dodge Park Roads, and numerous other sites along Van Dyke Avenue and the industrial corridor. What's more, City administration recently conducted a business/industry survey to ensure the City is adequately addressing local business needs. Sterling Heights continues to benefit from the expansion of current local employers, as well as additional retail and commercial developments. Sterling Heights has fostered a business environment attractive to national restaurant, retail, and entertainment facilities. In fact, Pei Wei Asian Diner (sister company to national chain, PF Chang's China Bistro) chose to open its first Michigan store in the City of Sterling Heights this past year. Sterling Heights continues to be a hotbed for retail and restaurant activity given the recent openings of Abuelo's Mexican Food Embassy, Bonefish Grill, Cheeseburger in Paradise, Chipotle, H & M Clothing Store, and Traverse City Pie Company, just to name a few. Since 1998, \$1.8 billion has been invested and 2,326 jobs have been created as part of the tax abatement program. This past year, 300 new businesses were established in the city with investments totaling \$238 million. A number of industrial, commercial, and retail developments approved during the past year include:

|                                  |   |                 |
|----------------------------------|---|-----------------|
| Atikian Industrial (4 buildings) | 15 Mile between Van Dyke & Mound Rd.                  | 256,500 sq. ft. |
| Beaumont Hospital                | Dequindre Rd. between 19 Mile Rd. & Dobry Dr.         | 234,000 sq. ft. |
| Sterling Ponds Addition          | Van Dyke Ave. between 14 & 15 Mile Rds.               | 50,893 sq. ft.  |
| Boulder Design Office Bldg.      | Schoenherr Rd. between 14 Mile & Moravian             | 40,765 sq. ft.  |
| Mancini Lot #6                   | Mancini Dr. between Van Dyke Ave. & Mound Rd.         | 32,516 sq. ft.  |
| Detroit News                     | Progress Dr. between Metropolitan Pkwy. & 17 Mile Rd. | 32,120 sq. ft.  |
| Plumbrook Retail & Office Center | Van Dyke Ave. & Plumbrook                             | 19,000 sq. ft.  |
| Suburban Mazda                   | Van Dyke Ave. between 17 & 18 Mile Rds.               | 17,428 sq. ft.  |

Recently, the City sought and received legislative approval to create a Corridor Improvement Authority to enhance the aesthetics along major corridors, such as Van Dyke Avenue. Additionally, the Plumbrook Technology Park, located off 18 ½ Mile Road east of Mound Road, was approved this past year as a *State Certified Business Park*, the first and only certified park in Macomb County. 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 with surpluses and significant fund balances stimulated by economic growth, moderately low tax rates, low debt levels, and strengthened wealth levels among its residents. It is with this goal of strong financial management in mind that several of this year's awards were received. Sterling Heights was recognized as being one of just three cities in Michigan to receive all three Government Finance Officers' Association (GFOA) awards: (1) for the 20<sup>th</sup> consecutive year, Sterling Heights has achieved national recognition with the *Distinguished Annual Budget Presentation Award*; (2) the Popular Annual Financial Report/City Calendar (PAFR) has earned 10 years of recognition for providing residents with an easy-to-read report on the City's economic condition for the past year; and (3) the Comprehensive Annual

Financial Report (CAFR) has achieved national recognition with the *Certificate of Achievement for Excellence in Financial Reporting* award for the past 19 years. In addition, the City once again received an "Outstanding" designation for its budget document.

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

The City takes pride in providing various community functions and events throughout the year to residents who can enjoy both city services and local camaraderie. The grand event highlighted this past year was the City's popular *2007 Sterlingfest Art & Jazz Fair*. A huge success, this annual event once again provided members of the community the opportunity to take pleasure in this summer festivity of fun, crafts, and music.

The Sterling Heights City Council, in cooperation with the Sterling Heights Ethnic Community Committee, has established sister city partnerships with Tetovo, Yugoslavia (1982), Legazpi City, Philippines (1999), Cassino, Italy (2006), and Sorsogon City, Philippines (2007).

The City of Sterling Heights has received many awards and recognitions from various professional associations and municipal service organizations for innovative approaches to service delivery and quality improvements:

- ★ Sterling Heights was rated 37<sup>th</sup> nationwide and 3<sup>rd</sup> statewide in *Money Magazine's "Top 100 Best Places to Live for 2006"*.
- ★ Allstate Insurance recognized Sterling Heights as placing 21<sup>st</sup> among the nation's 200 largest cities in 2006 in terms of best drivers and low accident rates.
- ★ The City of Sterling Heights was selected as one of "Metropolitan Detroit's 101 Best and Brightest Companies to Work For!" by the Michigan Business and Professional Association.
- ★ According to a recent study released by American City Business Journals, Sterling Heights is ranked 7<sup>th</sup> in the nation and 2<sup>nd</sup> in Michigan on its list of the least socio-economically stressed large U.S. cities.
- ★ The City of Sterling Heights was rated an A+ and "9<sup>th</sup> Best Family Friendly Suburban City in the U.S." by Population Connection, a Washington DC nonprofit environmental organization.
- ★ Sterling Heights is the safest large city in Michigan and the 6<sup>th</sup> safest city in the nation out of 213 cities with populations between 100,000 & 499,999 as determined by Morgan Quinto Press, 2006.
- ★ Sterling Heights City Center received national distinction as one of "America's Great Community Places and Public Spaces" by Project for Public Spaces, a national nonprofit educational organization.
- ★ Sterling Heights has been recognized by the National Weather Service as a "Storm Ready Community" because of its proactive measures in preparing for local hazardous weather.
- ★ *Ladies Home Journal* named Sterling Heights the "2<sup>nd</sup> Best Michigan City" and the "16<sup>th</sup> Best American City" for women to live and work.
- ★ *Crain's Detroit Business* listed Sterling Heights among the "hot spots" for residential development in southeast Michigan.
- ★ Sterling Heights won national recognition for its "Sidewalk Inspection Program," which uses meter readers to report hazardous sidewalk conditions.

- ★ For the past 14 years, Sterling Heights has maintained the lowest combined water and sewer rates in Michigan for cities having over 25,000 residents.

I would like to thank the mayor and City Council, department directors, and employees responsible for contributing to the success and sound financial position of the City. Finance and Budget Director Brian Baker, City Treasurer James Buhlinger, City Controller Leslie Reinhart, Financial Services Manager 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 Mary Jo Dombrowski, Management Services Specialist, for her assistance with this report.

The City's employees are working together to preserve and enhance our community. Our mission is to make Sterling Heights the nation's most livable and best-managed city by providing courteous and quality services through teamwork, innovation, and continually striving for excellence on behalf of all.

Respectfully submitted,



Mark D. Vanderpool  
City Manager

September 21, 2007

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

In compliance with state law, this report was prepared in accordance with generally accepted accounting principles (GAAP) and regulations set forth by the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants and its Committee on Governmental Accounting and Auditing, the Treasurer of the State of Michigan, the City Charter, and the Government Finance Officers Association. Pursuant to these requirements, the Office of Financial Services is pleased to submit this Comprehensive Annual Financial Report of the City of Sterling Heights for the fiscal year ended June 30, 2007.

The accuracy and reliability of the accounting system is dependent on adequate internal control. Internal control is a plan of organization under which employees' duties are so arranged and records and procedures so designed as to make it possible to exercise accounting control over assets, liabilities, revenues, and expenditures. To provide a reasonable basis for making the following representation, management of the City of Sterling Heights has established a comprehensive internal control framework that is designed both to protect the City's assets from losses, theft, or misuse and to compile sufficient reliable information for the preparations of the enclosed financial statements in conformity with GAAP. Since the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. Therefore, the accuracy, completeness, and fairness of the financial data herein, including all disclosures, rests with the City's management, who assumes full responsibility for the information presented in this report and asserts that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

In 2004, the Governmental Accounting Standards Board issued Statement No. 43 (GASB No. 43), *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45 (GASB No. 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB No. 43 and No. 45 establish accounting standards for financial reporting of postemployment benefits other than pensions. These benefits include but are not limited to health care, life insurance, and dental insurance for retirees. The City of Sterling Heights has elected to implement GASB No. 43 with the fiscal 2007/2008 financial statements and GASB No. 45 with the fiscal 2008/2009 financial statements in compliance with the guidance provided by the Governmental Accounting Standards Board.

In 2006, the Governmental Accounting Standards Board issued Statement No. 48 (GASB No. 48), *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. GASB No. 48 establishes criteria that governments can use to determine if proceeds received should be reported as revenue or as a liability until earned. Although the City of Sterling Heights has elected to implement GASB No. 48 with the fiscal 2007/2008 financial statements in compliance with the guidance provided by the Governmental Accounting Standards Board, a review of current activity was performed which indicated that adoption of the standard would not have affected the financial statements contained in this report.

In 2006, the Governmental Accounting Standards Board issued Statement No. 49 (GASB No. 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB No. 49 establishes a framework for the recognition and measurement of liabilities related to pollution remediation. Although the City of Sterling Heights has elected to implement GASB No. 49 with the fiscal 2008/2009 financial statements in compliance with the guidance provided by the Governmental Accounting Standards Board, a review of current activity was performed which indicated that adoption of the standard would not have affected the financial statements contained in this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany these basic financial statements in the form of a management's discussion and analysis (MD&A) narrative. 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 auditors.

Financial data presented is designed to provide the reader with information to assist in determining both the long-term fiscal health of the City and the City's ability to meet obligations on a short-term basis. The financial statements contained in this report are designed to fairly set forth the financial position and results of operations of the City and include all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs.

### **Independent Audit**

The City Charter and state laws require an annual audit of the financial records and transactions of the City by a firm of independent licensed certified public accountants. This requirement has been complied with and the City's financial statements have received an "unqualified opinion" from Plante & Moran, PLLC, certified public accountants. 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.

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.

### **Reporting Entity and Services**

As required by GAAP, these financial statements present the City of Sterling Heights and related component units. The individual component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

This report includes all funds of the City and encompasses a full range of municipal services including administrative, public information, district court, police, fire, code enforcement, building, development and planning, engineering, public works, parks and recreation, library, and water and sewer services.

## **Report Organization**

This Comprehensive Annual Financial Report was prepared to meet the needs of a broad spectrum of financial statement readers and is divided into the following major sections:

**Introductory Section** - This section introduces the reader to the City of Sterling Heights and to this report. Included are a letter from the City Manager highlighting economic conditions and major City initiatives, this transmittal letter with continuing disclosure reporting enhancements, the City's organizational chart, a list of principal officials, and a fund organization chart.

**Financial Section/Basic Financial Statements** - The independent auditor's report, management's discussion and analysis letter, government-wide financial statements, combined fund financial statements, component unit financial statements, and notes to the financial statements are included here. These are the City's basic financial statements and provide an overview for readers who require less detailed information than is contained in the balance of this report.

**Financial Section/Required Supplemental Information** - This section contains a more detailed comparative analysis of actual revenues and expenditures versus the 2006/2007 budgets for the General, Major Roads, and Community Development Block Grant Funds. Additionally, there are schedules showing the funding progress of both the General Employees and the Police and Fire Defined Benefit Retirement Systems and notes to the required supplemental information.

**Financial Section/Other Financial and Supplemental Information** - This section contains combining statements for all of the City's nonmajor governmental, fiduciary, and agency funds as well as budget to actual comparative statements for all nonmajor governmental and the major Capital Projects Funds.

**Statistical and Continuing Disclosure Section** - Although this section contains substantial financial data, these schedules differ from financial statements in that they present some non-accounting data, cover more than the current year, and are designed to reflect social and economic data, financial trends, and the fiscal capabilities of the City.

The continuing disclosure schedules in this section reflect information in accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission and as set forth in the Continuing Disclosure Certificates for issued debt.

## **Accounting System and Budgetary 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 "fund basis." Each fund is a distinct, self-balancing accounting entity. A list of funds used by

Sterling Heights is found later in this section and a discussion of the nature of each fund type is found in Note I to the basic financial statements.

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. Also required under this Act is a budgetary control to ensure that expenditures do not exceed appropriations. 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 variances.

### **General Fund**

Since the General Fund receives all City revenues not designated for specific use by state statutes or City Charter, and accounts for most of the services provided to residents, the following is provided to give the financial statement reader a more detailed analysis of the activity within the General Fund.

| Revenues and Other Financing Sources | Amount               | Percent of Total | Increase (Decrease) from June 30, 2006 |
|--------------------------------------|----------------------|------------------|--|
| Property taxes                       | \$ 53,437,096        | 64.1             | \$ 3,002,790                           |
| Fees and permits                     | 1,784,156            | 2.1              | (202,177)                              |
| Federal sources                      | 106,819              | 0.1              | (205,786)                              |
| State sources                        | 11,669,984           | 14.0             | (251,295)                              |
| Fines and forfeitures                | 2,563,520            | 3.1              | (310,647)                              |
| Charges for services                 | 8,038,601            | 9.6              | 245,836                                |
| Interest income                      | 2,203,201            | 2.7              | 762,254                                |
| Special assessments                  | -                    | -                | (2,141)                                |
| Rental income                        | 1,443,651            | 1.7              | 86,614                                 |
| Cable revenue                        | 1,527,988            | 1.8              | 156,157                                |
| Other                                | 576,405              | 0.7              | 126,553                                |
| Subtotal                             | 83,351,421           | 99.9             | 3,408,158                              |
| Transfers from other funds           | 91,780               | 0.1              | (1,013)                                |
| <b>Total</b>                         | <b>\$ 83,443,201</b> | <b>100.0</b>     | <b>\$ 3,407,145</b>                    |

Overall General Fund revenues increased 4.3 percent over the prior year. Property taxes in the General Fund increased by 6.0 percent due to new construction, a 3.3 percent inflationary valuation adjustment for existing property, and an addition of 0.1 mill for the voter-approved Proposal N. Fees and permits revenue was down 10.2 percent due a reduction in building activity in the City. Federal sources decreased by 65.8 percent due to a decrease in operating grant dollars related to homeland security training. Fines and forfeitures revenue decreased by 10.8 percent due to a decrease in ordinance fines and other district court related fees. Interest income increased 52.9 percent due to increased market rates and the implementation of an investment strategy designed to capture greater returns in a stagnant interest rate environment. Rental income increased by 6.4 percent due an increase in equipment rental related to various City projects. Other income increased 28.1 percent due to receipt of Medicare Part-D program reimbursements.

| Expenditures and<br>Other Financing Uses | Amount               | Percent<br>of Total | Increase<br>(Decrease)<br>from June 30,<br>2006 |
|--|----------------------|---------------------|---|
| <b>General government:</b>               |                      |                     |   |
| City administration                      | \$ 8,129,513         | 9.8                 | \$ 349,771                                      |
| Community and information services       | 2,432,645            | 2.9                 | 102,623   |
| 41A District Court                       | 2,847,111            | 3.4                 | 186,524   |
| <b>Public safety:</b>                    |                      |                     |   |
| Police department                        | 26,658,773           | 32.2                | 1,581,383                                       |
| Fire department                          | 14,827,978           | 17.9                | 730,632   |
| <b>Public works:</b>                     |                      |                     |   |
| City development                         | 2,865,725            | 3.5                 | 128,286   |
| Public works                             | 8,002,422            | 9.7                 | 268,259   |
| Refuse collection                        | 4,089,428            | 5.0                 | 61,111  |
| <b>Recreation and culture:</b>           |                      |                     |   |
| Parks and recreation                     | 2,428,267            | 2.9                 | 114,117   |
| Public library                           | 2,752,230            | 3.3                 | 197,951   |
| General expenditures                     | <u>3,698,838</u>     | <u>4.5</u>          | <u>152,693</u>                                  |
| Subtotal                                 | 78,732,930           | 95.1                | 3,873,350                                       |
| Transfers to other funds                 | <u>4,042,620</u>     | <u>4.9</u>          | <u>(84,650)</u>                                 |
| <b>Total</b>                             | <b>\$ 82,775,550</b> | <b>100.0</b>        | <b>\$ 3,788,700</b>                             |

Total General Fund expenditures increased by approximately 4.8 percent over the prior year. Major factors in the increase over the prior year were a 3.2 percent increase in compensation in compliance with existing labor agreements, a 54.4 percent increase in the funding for retiree health care in compliance with the City's plan to meet the actuarial funding requirements for the retiree health care program on an annual basis going forward, and a 32.3 percent increase in liability insurance cross charges. The primary offset to these increases were an 11.6 percent decrease in the required contribution to the Police and Fire Retirement System, a 57.6 percent decrease in tax tribunal refunds, and a 2.1 percent decrease in the transfers to other funds.

### **Special Revenue Funds**

Special Revenue Funds are so classified because some authority requires special legal restrictions and accounting procedures. The Special Revenue Funds of the City include:

**Major Roads** - Gas and weight tax revenues received in this fund are used for construction, maintenance, and other authorized operations pertaining to all streets classified as "major" within the City. Total revenues and other sources decreased during the current year by approximately \$0.4 million, primarily due to a decrease in the transfers from the General Fund of \$0.25 million and a decrease in federal grants and state source revenues of \$0.15 million for road construction and maintenance. Total expenditures and other uses decreased by \$2.45 million due to a decrease in the transfer to the Road Bond Debt Retirement Service Fund of \$0.625 million and a planned decrease in capital outlay of \$1.8 million.

**Local Roads** - This fund provides for the construction, maintenance, and snow and ice control for streets classified as "local" within the City. Total revenue and other sources remained basically unchanged from the prior fiscal year (\$3.73 million versus \$3.67 million). Special assessment revenue received from two new districts established in fiscal 2007 accounted for the small increase of \$0.06 million in the current fiscal year. Total expenditures and other uses decreased by \$0.6 million due to a planned decrease in capital outlay of \$0.5 million and reduction in road maintenance expenditures of \$0.1 million.

**Budget Stabilization Fund** - In 1999, the City Council created a Budget Stabilization Fund to serve as a rainy day fund for the purpose of preventing future deficits, revenue shortfalls, reductions in services, or to cover expenditures arising from natural disasters. During fiscal 2007, no additional money was added to this fund due to conservative estimates of General Fund revenues. The balance available in the fund remains at \$750,000.

**Land and Water Conservation** - This fund is used to reflect all activities related to the acquisition and development of parks. Revenue for this fund comes from state grants (\$0.2 million), transfers in (\$0.1 million), which is dedicated to park-land acquisition and improvements. Projects accounted for in this fund include park improvements and capital outlay for recreational facilities and equipment (\$0.1 million).

**Public Safety Forfeiture** - This fund is used to reflect all activities related to federal, state, and local public safety forfeiture programs. Revenues are recognized when property used in the commission of a criminal act has been both seized and forfeited to the applicable police agency. Expenditures are restricted to law enforcement and/or drug enforcement activities depending on the program from which the revenue was generated. Approximately \$0.4 million in federal forfeitures and \$0.4 million in state and local forfeitures were recognized in 2007. These resources were used to provide the Public Safety staff with training, operational supplies/support, and capital equipment totaling approximately \$0.4 million.

**Community Development Block Grant** - The City of Sterling Heights is an entitlement community under the federally administered Community Development Block Grant Program. As such, the City receives a proportionate share of monies appropriated by Congress. The funds can only be used for activities that are directed to fulfilling specific objectives as reflected in the current Housing and Community Development Act. The major activities in this fund include improvements to local park(s) including playground equipment, Senior Minor Home Chore, and various Repair Program ventures. In the current fiscal year, both the revenues and expenditures increased by \$0.5 million due to an increase in federal funding and the timing of the expansion of the Senior Active Life Center.

### **Capital Projects Funds**

**General Improvements Fund** - This fund includes all major capital improvement projects of the City other than special assessment, road, and Enterprise Fund projects. A transfer from the General Fund of \$1.6 million, bond proceeds of \$3.25 million, federal and state sources of almost \$1.3 million, and other revenues of \$0.7 million, funded \$6.6 million of capital expenditures. Included in these costs were renovations to various City buildings, sidewalk repairs and replacement, improvements and construction related to various storm drains, purchase of capital equipment and vehicles for various City departments, and technology improvements within various City buildings. Additionally, a planned transfer of \$1.35 million was made to service the current year debt service requirements in the Settlement Bond Debt Service Fund.

**Road Bond Construction Fund** - This fund was established to account for road-related construction activity financed with bond proceeds. New bonds totaling \$4.65 million were sold during fiscal 2007. Expenditures in the current year represent completion of various major road reconstruction and expansion projects (\$4.7 million).

## Enterprise Fund

For the fiscal year ended June 30, 2007, water and sewer operating revenue increased by 1.8 percent due to a modest rate increase offset by decreases in the volume of water sold as a result of higher than normal precipitation during the summer of 2006. Operating expenses increased \$2.2 million (7.8 percent). Leading factors contributing to this increase were a 5.8 percent increase in the cost of water purchased, a 7.2 percent increase in the rate for sewage processed, and a 4.3 percent increase in the cost of materials and labor. Net nonoperating revenues decreased 53.0 percent due to a decrease in contributions from developers (\$5.6 million) and a decrease in tap fees and frontage charges (\$0.1 million), which was offset by an increase in interest income (\$0.6 million). As a result, the total net assets in the Enterprise Fund decreased to just under \$174.0 million.

|  | Year Ended June 30 |               | Increase<br>(Decrease) |
|--|--------------------|---------------|------------------------|
|  | 2007               | 2006          |                        |
| Operating revenues                           | \$ 25,404,755      | \$ 24,944,170 | \$ 460,585             |
| Operating expenses                           | 30,290,386         | 28,106,435    | 2,183,951              |
| Operating loss                               | (4,885,631)        | (3,162,265)   | (1,723,366)            |
| Nonoperating revenues - Net                  | 4,474,329          | 9,515,163     | (5,040,834)            |
| Change in net assets                         | \$ (411,302)       | \$ 6,352,898  | \$ (6,764,200)         |
| Number of customers:                         |                    |               |                        |
| Residential                                  | 35,021             | 34,850        | 171                    |
| Commercial/Industrial                        | 4,477              | 4,272         | 205                    |
| Approximate number of cubic feet sold (000s) | 789,033            | 852,661       | (63,628)               |

## Internal Service Fund

Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the governmental unit on a cost-reimbursement basis.

**Self-insurance Fund** - The Self-insurance Fund was established in 1986 and is used to record the insurance activities related to liability and property claims, active employee health care, workers' compensation, and short-term disability, which are funded by the City. Revenues in the Self-insurance Fund are the result of charges to the General and Water and Sewer Funds based on underwriters' estimates or the City's estimates using historical data. Expenses in this fund include reinsurance charges, administrative fees, claims expense, and provisions for both reported and unreported claims. The provision for incurred but not reported claims (IBNR) is \$1.8 million and is reported as part of the provisions for uninsured losses and liabilities. There was a decrease in total net assets for the year of \$6.3 million due to operating and interest income of \$3.5 million combined, which was offset by a transfer of \$9.7 million in restricted net assets to the Settlement Bond Debt Service Fund for the purpose of defeasing a portion of the 2015 and all of the 2016 through 2018 bonds in compliance with the requirements contained within the bond issuance documents. As a result, unrestricted net assets increased to \$16.2 million at June 30, 2007, enabling a reserve for future self-insurance needs.

### **Fiduciary Funds**

Fiduciary Funds are established to account for assets held by the governmental unit in a trustee capacity or as an agent for individuals, private organizations, and other governmental units and/or funds. The Fiduciary Funds of the City include:

**Pension Trust - General Employees' Retirement System** - The actuarially determined value of assets available for benefits in the General Employees' Retirement System on December 31, 2006 (the date of the most recent actuarial valuation) was \$118.9 million. A five-member board of trustees manages this fund under the provisions of the City of Sterling Heights' defined benefit pension ordinance as amended by various labor agreements. This pension fund was 124.2 percent funded as of December 31, 2006.

**Pension Trust - Police and Fire Retirement System** - The actuarially determined value of assets available for benefits as of December 31, 2006 (the date of the most recent actuarial valuation) was \$204.7 million. A five-member board of trustees manages this system under the provisions of P.A. 345 as amended by various labor agreements. This pension fund was 130.7 percent funded as of December 31, 2006. A separate tax was levied to provide for the City's \$2,646,459 police and fire pension contribution for the fiscal year ended June 30, 2007.

**Retiree Medical Benefits Fund** - The Retiree Medical Benefits Fund was established in fiscal 1989 to account for medical benefits provided to employees during retirement. In fiscal 2002, the City Council adopted the provisions of Michigan Public Act 149 of 2001, establishing the Retirees' Medical Benefits Fund as a trust, and the fund was reclassified from an Internal Service Fund to a Fiduciary Fund. Revenues reported this year were based on actuarial estimated contribution rates of 12.0 percent and 18.0 percent of budgeted payroll for general employees and police and fire employees, respectively. These contribution rates represent a 45.5 percent and 46.9 percent increase in contributions over the prior year, respectively. The deductions of \$4.4 million reflected in this fund relate to medical benefit payments for all eligible retirees and provisions for incurred but not reported claims of \$0.5 million. Net assets at June 30, 2007 were \$13.7 million.

**Agency Funds** - The City operates two Agency Funds with total assets of \$4.7 million as of June 30, 2007. These include funds for tax collections and a General Agency Fund used primarily for the deposit of various developer fees.

### **Component Units**

Component units, as defined by GASB No. 14, are so classified due to their relationship with the primary government relative to financial accountability of the reporting entity. City component units include:

**Economic Development Corporation** - The City of Sterling Heights Economic Development Corporation is organized pursuant to Act 338 of the Public Acts of 1974. Its general purpose is to assist and retain local industries and commercial enterprise in order to strengthen and revitalize the economy of the City. The core Economic Development Corporation membership is a nine-member board with up to two additional members, all of which are appointed by the City Council.

**Brownfield Redevelopment Authority** - This fund was established in fiscal 2001 to account for projects that will improve environmentally distressed areas within the City. The activity within this fund during the current year was to reimburse eligible cost incurred by a local developer in cleaning up a contaminated site located on Sims Road within the city.

**Corridor Improvement Authority** - The Sterling Heights Corridor Improvement Authority was created during fiscal 2007 in accordance with Act 280 of the Public Acts of 2005. Its general purpose is to facilitate the beautification of public right-of-way and encourage new development/redevelopment of commercial and residential property along the Van Dyke corridor between 18-1/2 Mile Road and the northern city limits. Although a Corridor Improvement Authority Board was established and met several times during fiscal 2007, no revenue or expenditure activity occurred. As a result, this report does not contain financial statements for this activity.

### **Cash Management**

The City complies with Public Act 20 of 1943 (as amended) of the State of Michigan in its cash management activities. 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. Interest income for the governmental and proprietary funds for the current fiscal year is \$5.2 million, an increase of \$2.0 million or 62.5 percent over the fiscal year ended June 30, 2006.

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.

The City has an investment committee and an investment policy. The Investment Committee, which consists of the city treasurer, finance and budget director, financial services manager, and controller, meets periodically to evaluate the City's investment activity and to assure that all investments held by the City are within the guidelines of the policy adopted by the City Council. In addition, the City Council receives monthly summary reports as well as an annual report on the results of investment activity.

### **Tax Rate Limitations**

The City Charter provides tax rate limitations for general operations. In addition, the City may levy taxes in excess of the Charter limitation for refuse and police and fire pension requirements pursuant to state law.

| Purpose                              | Authority                                  | Rate (per \$1,000 of State Equalized Valuation) |
|--------------------------------------|--|---|
| General Operating                    | City Charter                               | \$12.00 *                                       |
| Refuse Collection and Disposal       | Act 298, P.A. of Michigan 1917, as amended | 3.00  |
| Police and Fire Pension Requirements | Act 345, P.A. of Michigan 1937, as amended | Amount required to make contribution            |

\* The maximum permitted rate per the Headlee amendment of the Michigan Constitution for fiscal 2007 was unchanged at \$10.8395.

In addition, Article IX, Section 6 of the Michigan Constitution permits the City to levy a millage in excess of the above for (a) all debt service on tax-supported issues that have been approved by the voters for which the City has pledged its full faith and credit, and (b) operating purposes for a specified period of time provided that said increase is approved by a majority of the qualified electors of the local unit.

### **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.

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 \$110.1 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 \$150,000 per occurrence self-insured retention. Reinsurance for the self-insured health care risk is purchased to limit City liability to \$200,000 per employee/contract per year. Health care expenditures account for 77.0 percent of all self-insurance expenditures (excluding transfer to the Settlement Bonds Debt Service Fund) during fiscal 2007. 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.

### **Prospects for the Future**

The City remains proactive and strategically plans well into the future. Annually, the staff prepares a comprehensive capital-planning document called the "Municipal Improvement Plan." This document captures and explains all planned projects and improvements extending five years into the future. Additionally, estimated expenditures, funding sources, chronological event sequences, associated projects, and their costs supplement this information. The Municipal Improvement Plan provides the financial planning focus for progress into the future for the community.

**Economic Outlook** - The City of Sterling Heights is a major manufacturing center located in Southeast Michigan, 30 miles north of Detroit. The state of Michigan lost 170,000 manufacturing jobs from 2000-2006. The City of Sterling Heights is not immune to these losses. However, located in Sterling Heights are four major Original Equipment Manufacturing (OEM) plants. Chrysler Stamping and Assembly, as well as Ford Transmission and Axle, are located within the city limits. In 2006, Ford and Chrysler both announced approximately \$500 million of upgrades to their facilities. As a result of the continued investment and platforms launched at these facilities, the City has seen a healthy supply chain market locate here creating new jobs. Many of these suppliers are foreign customers to the OEMs. Faurecia (France), AGS Automotive (Canada), Getrag (Germany) Transmission, Mag Industrial (Canada), and KUKA Robotics (Germany) have announced projects creating close to 900 jobs. General Dynamics Land Systems (GDLS) Corporate Engineering and Technical center is also located within Sterling Heights. GDLS employs close to 3,000 people, mostly engineering, design, and software development professionals. In 2006, GDLS added 220 new employees and over the course of the next three years will add approximately 500 more as part of the Future Combat Systems program that runs through 2012.

In order to better assist the business community, the City Council expanded the City Development Department to include an Economic Development Manager. As a result, programs based on the core components of business retention and attraction, corridor revitalization, and Brownfield redevelopment have been developed and implemented during fiscal 2007. In Michigan's current economic climate, the business retention program has been the most vital.

The future outlook for Sterling Heights remains stable. With the recent investment announcements from Ford and Chrysler, as well as General Motors boasting profitable gains in 2007, the local supplier market is expected to hold steady over the next five to seven years. Many Sterling Heights companies are reaping the benefits of the OEM activity and also have opportunities to grow after securing new contracts. The current industrial vacancy rate in Sterling Heights is approximately 5.5 percent. This rate has fluctuated within 2 percent over the past three years.

**Legislation** - Legislation has and will continue to impact the City of Sterling Heights well into the future. Through its involvement with the Michigan Government Finance Officers Association and the Michigan Municipal League, the City is actively involved in legislative proposals affecting the financial activities of municipalities.

**Personal Property Tax Issues** - The case involving the challenge to the State Tax Commission depreciation tables H and I involving the correct valuation of electric transmission and distribution and gas distribution assets has been settled. The Assessing Office has determined that the partial payments made by Detroit Edison and Consumers Energy in the 2000-2003 tax years were equal to the assessed and taxable values that were agreed to by both sides in the written settlement. The settlement also left the previous assessed and taxable values that were determined for the 1997, 1998, and 1999 assessment years in place. The Assessing Office has used these new multipliers since 2004 and will use these multipliers going forward. Therefore, there will be no changes to the assessments in these prior years and there will be no additional taxes collected or refunds required.

The City of Sterling Heights has settled all of the personal property issues involving the Ford Motor Company Transmission Plant. This global settlement involved the personal property sale-leaseback issue for the 1999, 2000, and 2001 assessment years, personal property audit issues for 2003 and 2004, and the personal property corrections for the 2006 assessment year.

On October 1, 2005, the real and personal property assets of the former Visteon Axle Plant transferred back to the Ford Motor Company. Tax Management Associates audited the personal property of this facility for the 2003, 2004, and 2005 assessment years. Their audit resulted in an increase in taxable value of \$8,787,350 for these three tax years. The City Assessor made attempts to negotiate a settlement regarding these audit results in July and September of 2006 but was unsuccessful.

In September 2006, Visteon filed appeals with the State Tax Commission seeking a reduction of its personal property assessments on these three parcels of \$13,546,137 in taxable value for 2003, 2004, and 2005 and also filed appeals on four additional personal property parcels seeking an additional reduction of \$1,032,500 in taxable value for the 2004 and 2005 assessment years. The State Tax Commission (STC) ruled in the City's favor on September 26, 2006 and Visteon appealed its decision to the Michigan Tax Tribunal (MTT) on November 2, 2006. The STC denied Visteon's appeal of the four additional parcels on November 29, 2006 and Visteon appealed these decisions on December 20, 2006. On May 11, 2007, Visteon's attorneys filed a Motion for Summary Disposition and brief in support of the motion, seeking a dismissal of all of the appeals before the MTT. The central argument of this motion is that MCL 211.154 (1) states that taxes computed under the STCs omitted property statute "shall not be spread against the property for a period before the last change of ownership of the property." The motion characterizes the sale of this property (including all of the assets) from Visteon to Ford Motor Company as an "arms length transaction" and all of the claims should therefore be dismissed. On May 29, 2007, the City assessor and City attorney responded to this motion and the MTT has not yet ruled on the motions.

On May 31, 2007, attorneys for the DaimlerChrysler Corporation filed appeals on all of the personal property accounts located in the City, seeking a reduction of 30 percent in the value of all of these properties. This appeal, if approved at their requested reduction, amount would result in a 2007 city tax refund of approximately \$558,000. The City is currently in negotiations with Chrysler tax representatives concerning these pending cases.

**Technology Plan** - Due to the high level of dependence on technology, the City continues to take the necessary actions to maximize the available resources to provide all municipal employees with the ability to work more efficiently. The City is now in the second year of a recently updated five-year plan. The multi-year plan addresses every aspect of future technology needs across the organization. Several major projects identified in the strategic plan were completed in the 2007 fiscal year including:

- Acquisition and installation of an 800-megahertz Public Safety Radio System
- Replacement of 66 personal computers
- Upgrade to the City's telephone system software
- Installation of fiber optic lines to improve data connection speed at remote City buildings
- Implementation of web-based employee email system
- Replacement of the 41-A District Court computer system
- City website improvements, including electronic access to many City services

Future information technology plans include an employee Intranet, a document imaging and management system, development of wireless applications, a storage area network, and continued ongoing replacement of department personal computers and file servers. Attention will be given to upgrading the City's network hardware to allow for future software applications and to further speed the flow of information between departments.

**Major Projects** - This past year, the City completed a number of major capital improvement projects including:

- Construction of a Senior Active Life Center addition
- Widening of 19 Mile Road from Schoenherr to Saal and from Mound to Ryan Road
- Resurfacing of Dobry Drive from Ryan to Dequindre Road
- Reconstruction of Plumbrook Road between 17 Mile Road and Van Dyke
- Completion of numerous neighborhood road improvements

**Financial Strength** - On a budgetary basis, the General Fund revenues have slightly exceeded expenditures for the past 10 years. As a whole, the City of Sterling Heights is in a better position to withstand any future constraints than most Michigan municipalities. For fiscal 2007-2008, the operating budget contains a total millage of 10.725 (the second lowest rate of any of the comparable full-service communities within 20 miles of the City). The current undesignated, unreserved fund balance equates to approximately 15 percent of the 2007-2008 fiscal year General Fund budget. The 9.2256 operating levy is well below the 12 mill limitation in the City Charter and the 10.8395 Headlee maximum allowable levy. The creation and prior year funding of a Budget Stabilization Fund places an emphasis on future planning and maintaining a visionary perspective on the City's financial strength and soundness.

Conservative revenue, investment, debt, and reserve budget policies are in place to maintain a controlled spending approach that the residents of Sterling Heights have come to expect from their city government. We believe our continued financial integrity and stability, as well as the vision and forthright perspective of our elected leaders and administration, will enable Sterling Heights to weather any uncertainties of the future.

### **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, 2006. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

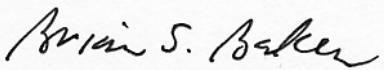
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable 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 19 consecutive years (fiscal years 1988-2006). We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

## **Acknowledgments**

The preparation of this Comprehensive Annual Financial Report was made possible by the efficient and dedicated service of the entire staff of the Office of Financial Services. We wish to express our sincere appreciation to each of them and to various employees from other offices for their cooperation and assistance. Appreciation is also expressed to the City Council 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 & Budget Director



Leslie D. Reinhart, CPA  
Controller



Rick J. Sanborn, CPA  
Financial Services Manager

# 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, 2006

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.



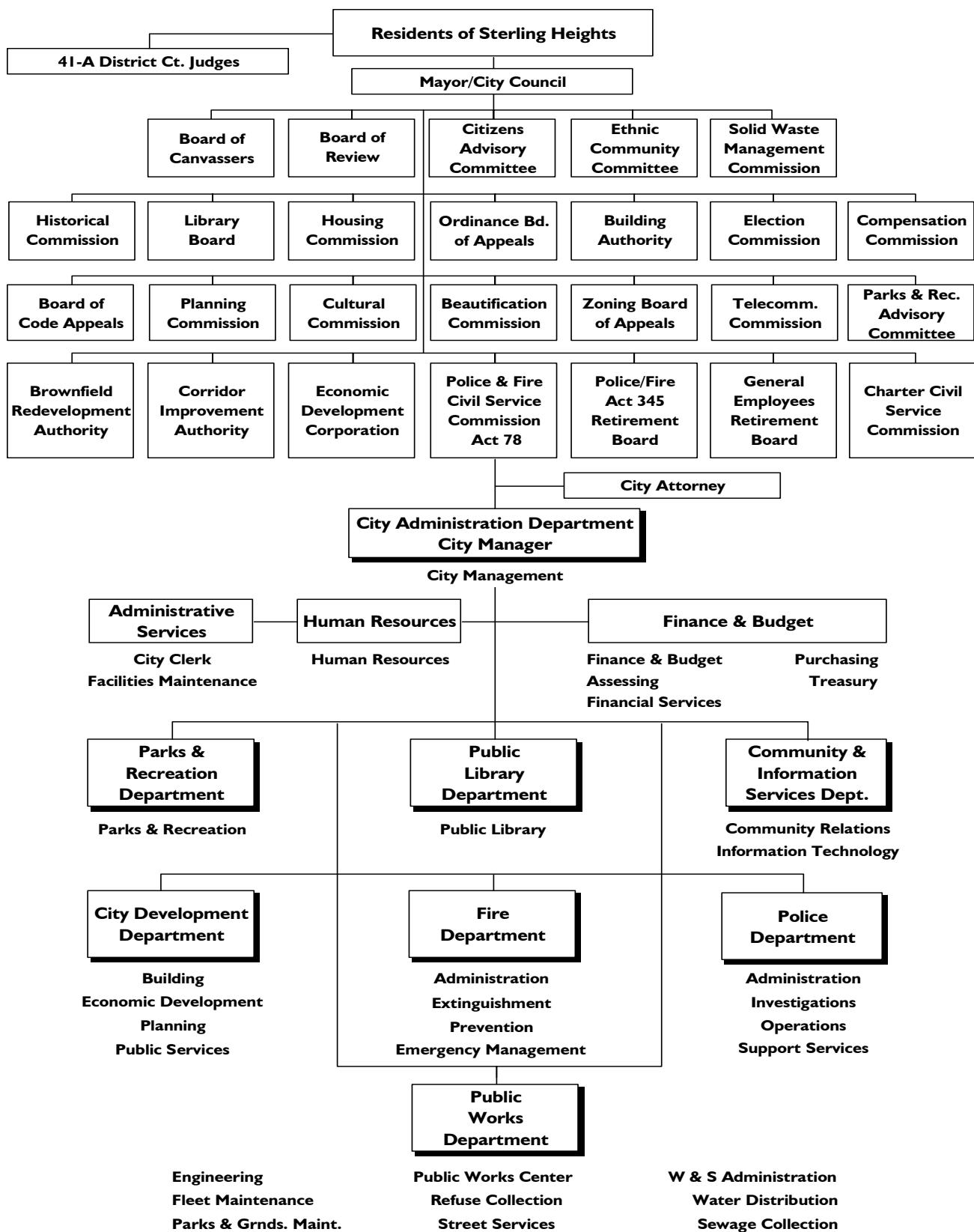
President



Executive Director

# City of Sterling Heights, Michigan

## City Organizational Chart



# **City of Sterling Heights, Michigan**

---

## **List of Principal Officials**

| <b>Title</b>                                     | <b>Name</b>            |
|--|------------------------|
| 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                                    | Salvatore Conigliaro   |
| City Planner                                     | Donald A. Mende        |
| City Treasurer                                   | James P. Buhlinger     |
| Communications Manager                           | Patricia Brockway      |
| Community Relations Director                     | Steve Guitar           |
| Controller                                       | Leslie D. Reinhart     |
| Economic Development Manager                     | Lukas Bonner           |
| Emergency Manager                                | Nicole Miller          |
| Engineering Services Manager                     | Brent S. Bashaw        |
| Environmental Services Manager                   | Daniel J. Sears        |
| Facilities Maintenance Manager                   | Gary Schamehorn        |
| Finance and Budget Director                      | Brian S. Baker         |
| Financial Services Manager                       | Rick J. Sanborn        |
| Fire Chief                                       | John H. Childs         |
| Human Resources Director                         | Dawn L. Demick         |
| Information Technology Manager                   | Lois J. Gates          |
| Network Administrator                            | Steve Deon             |
| Parks and Recreation Director                    | Susan C. Kebbe         |
| Police Chief                                     | David Vinson           |
| Public Library Director                          | Tammy L. Turgeon       |
| Public Services Manager                          | Denice A. Gerstenberg  |
| Public Works Director                            | Guy A. Kebbe           |
| Purchasing Manager                               | Janice L. Sierzenga    |
| Risk Manager                                     | Mark Carufel           |

# **City of Sterling Heights, Michigan**

## **Fund Organization Chart**

| <b>Governmental Funds</b>            |   |
|--------------------------------------|---|
| <b>General *</b>                     | <b>Special Revenue</b>                    |
|                                      | Major Roads *                             |
|                                      | Budget Stabilization                      |
|                                      | Local Roads                               |
|                                      | Land and Water Conservation               |
|                                      | Public Safety Forfeiture                  |
|                                      | Community Development Block Grant (CDBG)* |
| <b>Debt Service</b>                  |   |
| General Drain                        | General Improvements *                    |
| RS&T Debt Service                    | Road Bond Construction *                  |
| Settlement Bond                      |   |
| Road Bond Debt Retirement            |   |
| Limited Tax General Obligation       |   |
| <b>Proprietary Funds</b>             |   |
| <b>Enterprise</b>                    |   |
| Water and Sewer *                    | Internal Service                          |
|                                      | Self-insurance                            |
| <b>Fiduciary Funds</b>               |   |
| <b>Trust</b>                         |   |
| General Employees' Retirement System | Tax Collections                           |
| Police and Fire Retirement System    | General Agency                            |
| Retiree Medical Benefits             |   |
| <b>Agency</b>                        |   |
|                                      |   |
| <b>Component Units</b>               |   |
|                                      | Economic Development Corporation          |
|                                      | Brownfield Redevelopment Authority        |
|                                      | Corridor Improvement 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 as of and for the year ended June 30, 2007, 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 of Sterling Heights, Michigan'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 of Sterling Heights, Michigan as of June 30, 2007 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 of Sterling Heights, Michigan'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 September 21, 2007 on our consideration of the City of Sterling Height'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*

September 21, 2007

# **City of Sterling Heights, Michigan**

---

## **Management's Discussion and Analysis**

### **Using this Annual Report**

This annual report consists of a series of narratives and financial statements. This narrative should be considered in conjunction with the additional information presented in the letter of transmittal found on pages xii-xxvii and is intended to serve as an introduction to the City of Sterling Heights' basic financial statements. The basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary and statistical information, as well as continuing disclosure information related to bonded debt issued by the City of Sterling Heights in addition to the basic financial statements.

**Government-wide Financial Statements** are designed to provide readers with a broad overview of the City of Sterling Heights' finances, in a manner similar to a private sector business. The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Sterling Heights is improving or deteriorating. The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. As a result, revenues and expenses are reported in this statement for some items that only result in cash flows in future fiscal periods (e.g., uncollected receivables and unused vacation leave).

Both of the government-wide statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover costs from user fees and charges for services (business-type activities). The governmental activities include general government, 41A District Court, public safety, public works, and recreation and culture. The business-type activities include the water and sewer operation of the City. The government-wide financial statements include not only the City of Sterling Heights (known as the primary government), but also the legally separate Economic Development Corporation and Brownfield Redevelopment Authority for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the City. 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.

**Fund Financial Statements** (which report the City's operation in more detail than the government-wide financial statements) follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities and to demonstrate compliance with finance-related legal requirements. 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* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental fund financial statements 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 readers to better understand the long-term impact of the City's short-term financing decisions. Both the balance sheet and the statement of revenues, expenditures, and changes in fund balances for the governmental funds provide a reconciliation to facilitate this comparison between governmental funds and government activities.

The City of Sterling Heights maintains 14 individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Roads Fund, Community Development Block Grant Fund, General Improvement Fund, and Road Bond Construction Fund, all of which are considered to be major funds. Data for the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Sterling Heights adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for all the governmental funds to demonstrate budgetary compliance.

*Proprietary funds* provide the same type of information as the government-wide financial statements, only in more detail. The City maintains two different types of proprietary funds. Enterprise Funds are used to report the same functions presented in the business-type activities in the government-wide financial statements. The City of Sterling Heights uses an Enterprise Fund to account for its water and sewer operation. This fund is considered a major fund of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among various functions. The City of Sterling Heights uses an Internal Service Fund to account for its self-insurance program. Because this program predominantly benefits governmental rather than business-type functions, it has been consolidated within the governmental activities in the government-wide financial statements.

*Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

# City of Sterling Heights, Michigan

## Management's Discussion and Analysis (Continued)

**Required Supplemental Information** concerning the City's progress in funding its obligations to provide pensions and other postemployment benefits to its employees is also presented in this section of the report. Also included are the budgetary comparison statements for the General Fund and major Special Revenue Fund as well as budget footnotes. This required supplemental information is in addition to the basic financial statements and accompanying notes.

**Other Financial and Supplemental Information**, such as the combining statements and certain budget comparison statements referred to earlier, as well as continuing disclosure information required by bond covenants, is presented immediately following the required supplemental information.

### The City of Sterling Heights as a Whole

The City's combined net assets increased 2.5 percent from a year ago, increasing from \$367.4 million to \$376.7 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$9.7 million in net assets, or 5.0 percent, during fiscal 2007. This increase was attributable to operating income of \$9.7 million plus a reduction in restricted net assets of \$7.4 million, offset by a net increase in capital assets of \$3.9 million and a net decrease in non-capital assets and liabilities of \$3.5 million.

The business-type activities experienced a decrease in net assets of approximately \$0.4 million. This was primarily due to nonoperating revenues and contribution of water and sewer lines by developers totaling \$4.5 million, combined with offsetting operating losses of \$4.9 million. In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of June 30, 2007 to the prior year:

|  | Governmental Activities |                 | Business-type Activities |                 | Total           |                 |
|--|-------------------------|-----------------|--------------------------|-----------------|-----------------|-----------------|
|  | 2007                    | 2006            | 2007                     | 2006            | 2007            | 2006            |
| <b>Assets</b>                                    |                         |                 |                          |                 |                 |                 |
| Current assets                                   | \$ 51.0                 | \$ 48.0         | \$ 33.6                  | \$ 32.4         | \$ 84.6         | \$ 80.4         |
| Noncurrent assets:                               |                         |                 |                          |                 |                 |                 |
| Restricted and other assets                      | 4.1                     | 11.8            | 7.4                      | 7.0             | 11.5            | 18.8            |
| Capital assets                                   | 212.2                   | 204.5           | 137.4                    | 139.1           | 349.6           | 343.6           |
| Total assets                                     | 267.3                   | 264.3           | 178.4                    | 178.5           | 445.7           | 442.8           |
| <b>Liabilities</b>                               |                         |                 |                          |                 |                 |                 |
| Current liabilities                              | 8.3                     | 13.8            | 4.2                      | 3.9             | 12.5            | 17.7            |
| Noncurrent liabilities                           | 56.3                    | 57.5            | 0.2                      | 0.2             | 56.5            | 57.7            |
| Total liabilities                                | 64.6                    | 71.3            | 4.4                      | 4.1             | 69.0            | 75.4            |
| <b>Net Assets</b>                                |                         |                 |                          |                 |                 |                 |
| Invested in capital assets - Net of related debt | 175.6                   | 171.7           | 137.4                    | 139.1           | 313.0           | 310.8           |
| Restricted                                       | 6.6                     | 14.0            | 7.4                      | 7.0             | 14.0            | 21.0            |
| Unrestricted                                     | 20.5                    | 7.3             | 29.2                     | 28.3            | 49.7            | 35.6            |
| Total net assets                                 | <b>\$ 202.7</b>         | <b>\$ 193.0</b> | <b>\$ 174.0</b>          | <b>\$ 174.4</b> | <b>\$ 376.7</b> | <b>\$ 367.4</b> |

# City of Sterling Heights, Michigan

## Management's Discussion and Analysis (Continued)

Unrestricted net assets for the governmental activities, which is the part of net assets that is available to finance day-to-day operations and future growth, was \$20.5 million at June 30, 2007. This represents an increase of \$13.2 million. The major factors contributing to this increase were operating income of \$9.7 million and the reduction in long-term debt not related to capital assets of \$9.98 million offset by the \$3.9 million increase in capital assets above related debt, a \$1.8 million increase in restricted assets and a \$0.7 million reduction in long-term liabilities for compensated absences.

The following table shows the changes in net assets (in millions of dollars) as of June 30, 2007 and the prior year:

|  | Governmental    |                 | Business-type   |                 | Total           |                 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|  | Activities      |                 | Activities      |                 | Total           |                 |
|  | 2007            | 2006            | 2007            | 2006            | 2007            | 2006            |
| <b>Revenue</b>                           |                 |                 |                 |                 |                 |                 |
| Program revenue:                         |                 |                 |                 |                 |                 |                 |
| Charges for services                     | \$ 14.2         | \$ 13.0         | \$ 25.4         | \$ 24.9         | \$ 39.6         | \$ 37.9         |
| Operating grants and contributions       | 9.1             | 9.2             | -               | -               | 9.1             | 9.2             |
| Capital grants and contributions         | 2.7             | 2.8             | 2.7             | 8.4             | 5.4             | 11.2            |
| General revenues:                        |                 |                 |                 |                 |                 |                 |
| Property taxes                           | 55.6            | 52.6            | -               | -               | 55.6            | 52.6            |
| State-shared revenues                    | 10.7            | 11.0            | -               | -               | 10.7            | 11.0            |
| Interest                                 | 3.4             | 2.0             | 1.8             | 1.2             | 5.2             | 3.2             |
| Gain on sale of capital assets           | 0.2             | 0.2             | -               | -               | 0.2             | 0.2             |
| Insurance proceeds                       | -               | 18.8            | -               | -               | -               | 18.8            |
| Other non-program generated revenues     | 1.5             | 1.4             | -               | -               | 1.5             | 1.4             |
| Total revenue                            | 97.4            | 111.0           | 29.9            | 34.5            | 127.3           | 145.5           |
| <b>Program Expenses</b>                  |                 |                 |                 |                 |                 |                 |
| General government                       | 10.3            | 8.7             | -               | -               | 10.3            | 8.7             |
| 41A District Court                       | 3.0             | 2.9             | -               | -               | 3.0             | 2.9             |
| Public safety                            | 44.0            | 41.3            | -               | -               | 44.0            | 41.3            |
| Public works                             | 22.6            | 24.2            | -               | -               | 22.6            | 24.2            |
| Recreation and culture                   | 5.9             | 6.0             | -               | -               | 5.9             | 6.0             |
| Interest on long-term debt               | 1.9             | 2.5             | -               | -               | 1.9             | 2.5             |
| Water and sewer                          | -               | -               | 30.3            | 28.1            | 30.3            | 28.1            |
| Total program expenses                   | 87.7            | 85.6            | 30.3            | 28.1            | 118.0           | 113.7           |
| <b>Increase (Decrease) in Net Assets</b> | 9.7             | 25.4            | (0.4)           | 6.4             | 9.3             | 31.8            |
| <b>Net Assets - Beginning of year</b>    | 193.0           | 167.6           | 174.4           | 168.0           | 367.4           | 335.6           |
| <b>Net Assets - End of year</b>          | <b>\$ 202.7</b> | <b>\$ 193.0</b> | <b>\$ 174.0</b> | <b>\$ 174.4</b> | <b>\$ 376.7</b> | <b>\$ 367.4</b> |

# **City of Sterling Heights, Michigan**

---

## **Management's Discussion and Analysis (Continued)**

### **Governmental Activities**

The City's total governmental revenues decreased by approximately \$13.6 million due to the recognition of one-time revenues from insurance proceeds totaling \$18.8 million last year offset by increased property tax revenues of \$3.0 million (due to levying Proposal N voted millage of .10 mills for the first time and increased taxable values), increased interest income of \$1.4 million (due to higher rates of interest and extended portfolio duration), and increases related to charges for services of \$1.2 million (due to increased contributions of local roads from developers).

Expenses increased by approximately \$2.1 million or 2.5 percent over the last fiscal year. Contributing to the increase was the annual 3 percent wage increase contained in the City's labor contracts and increased contributions to the City's retiree healthcare trust. These increases were offset by the reduction in the required contribution to the Police & Fire Retirement System (\$0.3 million) and an increase in net income of the Self-Insurance Fund that resulted in a decrease in consolidated expenses (\$1.1 million).

During the year, the City continued meeting the actuarial required contributions for both defined benefit pension systems and increased funding set aside in trust for retiree medical benefits by 53 percent over the prior year. This is important for the City since future taxpayers should not be required to fund benefit payments that were earned in the current period.

### **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. Rate increases for fiscal year 2007 were less than the increase received from the City of Detroit due to the budgeted use of unrestricted net assets accumulated over prior years. The City provides sewage treatment to approximately 99 percent of its residents through the Macomb County Sewage Treatment Plant. Rate increases for sewage treatment were also below the increase in rates charged by Macomb County. During fiscal 2007, the water and sewer system saw an approximately 7.5 percent decrease in the volume of water sold and sewage treated. This decrease is consistent with the weather conditions over the fiscal year and the City's efforts to reduce water consumption overall in order to control rate increases from the City of Detroit. As in prior years, a major source of growth in the system was the water and sewer lines contributed by developers. During fiscal year 2007, developers contributed \$2.6 million of water and sewer lines and tap fees/frontage charges to the City. This contribution, plus interest income of \$1.8 million, offset the \$4.9 million operating loss realized and resulted in a \$0.4 million reduction in net assets during fiscal year 2007.

# **City of Sterling Heights, Michigan**

---

## **Management's Discussion and Analysis (Continued)**

### **The City's Funds**

Our analysis of the City's major funds begins on pages 15 and 16, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51 major and local roads revenue and voted debt retirement property tax millages. The City's major funds for 2007 include the General Fund, the Major Roads Fund, the Community Development Block Grant Fund, the General Improvements Fund, and the Road Bond Construction Fund.

The General Fund pays for most of the City's governmental services. The most significant of these are police and fire services, which incurred expenditures of approximately \$41.5 million in 2007, before depreciation and other full accrual accounting adjustments. The general operating millage levied by the City supports these two services. Fund balance in the General Fund increased by \$0.7 million primarily due to increases in revenues over original budgeted projections (\$0.5 million) and to cost savings under original budget projections by various departments throughout the fiscal year (\$0.2 million).

Fund balance in the Major Roads Fund increased by \$1.1 million due to planned revenues in excess of expenditures (\$0.8 million) to accumulate resources for future capital projects and savings on current capital projects (\$0.3 million).

The Community Development Block Grant Fund accounts for federal grants received from the U.S. Department of Housing and Urban Development on a reimbursement basis. As a result, each year, revenues equal expenditures and net assets are not accumulated over time. During fiscal year 2007, the total revenues and expenditures increased by \$.5 million over the previous fiscal year primarily due to increased capital outlay related to the expansion of the Senior Activity Center operated by the Sterling Heights Parks and Recreation Department.

The General Improvements Fund and Road Bond Construction Fund are the two funds used by the City to account for most capital outlay expenditures. Transfers from other funds or debt issuance proceeds support the activities within these funds. The General Improvements Fund had a decrease in fund balance (\$1.1 million) due to capital outlay and transfers out for debt service in compliance with the adopted budget. The Road Bond Construction Fund had a minor increase in fund balance (\$0.03 million) during fiscal year 2007 due to cost savings related to budgeted capital outlay.

### **General Fund Budgetary Highlights**

# **City of Sterling Heights, Michigan**

---

## **Management's Discussion and Analysis (Continued)**

Over the course of the year, City administration and the City Council monitor and amend the budget to take into account unanticipated events that occur during the year. The budget was amended twice during fiscal 2007. Final budgeted expenditures were slightly lower than the original budget due to department expenditure savings achieved throughout the year mainly as the result of employee retirements and staff turnover. The additional cost of tax tribunal refunds was offset by the first year budgeted debt payment for the Public Safety Radio System for which payments will not begin until the next fiscal year. The total General Fund revenue budget increased by 0.8 percent due to higher than anticipated interest on investments and additional cable revenues. The budget for the remaining non-tax revenues was reduced at year end due to a decline in state funding, building activity, and 41-A District Court revenues. The overall revenue increase is the primary reason the City was able to contribute nearly \$700,000 to General Fund reserves for the fiscal year.

At year end, actual General Fund expenditures came in at 99.9 percent or \$48,910 under budget due to continued department operational efficiencies. General Fund revenues came in at 99.8 percent or \$187,079 under budget as a result of lower year-end building, engineering, and court revenues.

### **Capital Assets and Debt Administration**

At the end of fiscal year 2007, the City had \$313.0 million invested (net of related debt) in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, infrastructure assets (roads, bridges, sidewalks, and storm drains in which it has invested since 1980), and water and sewer lines. The value of the infrastructure assets, net of depreciation, contained in this report is \$120.3 million and \$116.9 million for fiscal years 2007 and 2006, respectively (see Note 4 of the notes to the basic financial statements for additional information).

The City's general obligation bonds maintained ratings of "Aa2" from Moody's, "AA+" from Fitch, and "AA" from Standard & Poor's throughout the year. During the fiscal year, the City issued \$4.65 million par value in Michigan Transportation Fund bonds. The proceeds from this bond issue were used to finance various improvements to existing major roads. The City also issued \$3.25 million in Limited Tax General Obligation bonds to partially finance the construction of a major addition to the Sterling Heights Senior Activity Center and the acquisition for an 800 MHZ emergency radio system. Additionally, the City used \$9.7 million in insurance proceeds received in fiscal year 2006 to partially defease \$9.15 million of principal of the 2004 General Obligation Judgment Funding bonds. Interest expense reductions in future years resulting from the defeasance of a portion of the 2015 and all of the 2016 through 2018 bonds will be \$5.1 million over the original life of the bonds. Additional debt service during fiscal year 2007 consisted of \$4.85 million in principal and \$1.9 million in interest after recognition of amortized premiums (see Note 7 of the notes to the basic financial statements for additional information).

# **City of Sterling Heights, Michigan**

## **Management's Discussion and Analysis (Continued)**

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

|                                      | 2007          | 2006          |
|--------------------------------------|---------------|---------------|
| Net direct bonded debt               | \$ 28,915,000 | \$ 37,935,000 |
| Ratio of debt to total taxable value | 0.4622%       | 0.6277%       |
| Debt per capita                      | \$ 223.38     | \$ 292.56     |

### **Economic Factors and Next Year's Budgets and Rates**

Property taxes make up nearly 65 percent of the City's General Fund budget. The City has been able to reduce the property tax millage rate by 2.66 mills or 19.8 percent since 1988, saving the average resident \$2,693 in taxes over the 20-year period. Strong expenditure controls and past growth in the City's tax base had helped to accomplish this planned tax rate reduction. In 2007, the City's tax rate increased by 0.10 mills as the voter-approved Proposal N local road millage was implemented for the first time, which allowed the City to fund needed repairs to neighborhood roads. The City's millage rate of 10.725 compares very favorably to surrounding communities in Southeast Michigan. In fact, the City's tax rate is lower than all but one of the 77 full-service communities located within 20 miles. Not only do most of these cities have higher tax rates, almost all have also increased millage rates over the years.

Tax rate reductions experienced in the past are not presently forecasted. New growth and development in the City has diminished from a 4 percent rate in the late 1990s to 1.8 percent in 2007 with a projection of 0.9 percent for fiscal year 2008. The City's second largest revenue source, state revenue sharing, has been cut by the State of Michigan for each of the last six years. As a result of these cuts, the City has lost nearly 20 percent of its revenue-sharing dollars. It is likely the City will see a reduction again due to the State's continued structural deficit problems. Building and engineering revenues are trending downward due to less new development in the City. In addition, residential property assessments are expected to see a reduction for the first time next year due to a decline in home prices in Michigan. However, Proposal A taxable values are projected to increase based on the rate of inflation. If present trends continue, falling home prices could adversely affect City tax revenues within three years.

# **City of Sterling Heights, Michigan**

---

## **Management's Discussion and Analysis (Continued)**

The City continues to take action to keep its expenditures and revenues in line and to operate with relatively low personnel costs due to its efficient labor force. Three labor contracts have been settled and seven are currently under negotiation with an emphasis toward reducing costs related to current and future employees' active and postemployment health care. The City has received two bond-rating upgrades in the past several years and during 2007 received confirmation of the existing ratings. During the year, the City received payment from two insurance companies for over half of the Hillside Productions settlement. These funds were used to defease a portion of the outstanding judgment bonds and to reimburse the City for non-bonded settlement and legal costs. The City's pension systems are fully funded and have recently increased their funding levels. The City has significantly increased its funding for future retiree medical costs, currently contributing 21.9 percent of payroll. The City continues to investigate potential new revenue opportunities and will continue to monitor and adjust expenditures to the revenue base in order to ensure that adequate fund balance reserves are maintained.

The City purchases its water and sewer services from the City of Detroit. Historically, the City has not passed the full Detroit water and sewer rate increase to our customers. It is becoming increasingly difficult to continue this practice. Over the past several years the City has changed its water and sewer rate structure from a declining tier to an inclining tier. This has facilitated the recovery of costs from the system's largest users who are contributing most to the higher peak costs, while at the same time lowering the cost to the average user. The City prides itself on having the lowest combined residential water and sewer rate of any city in the state with 25,000 or more residents. The City continues to work to ensure that Sterling Heights retains the lowest rates in the state.

### **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, 2007

|   | Primary Government         |                             |                | Component<br>Units |
|---|----------------------------|-----------------------------|----------------|--------------------|
|   | Governmental<br>Activities | Business-type<br>Activities | Total          |                    |
| <b>Assets</b>   |                            |                             |                |                    |
| Cash and cash equivalents (Note 3)                          | \$ 9,202,904               | \$ -                        | \$ 9,202,904   | \$ 9,039           |
| Investments - At fair value (Note 3)                        | 37,065,525                 | 23,509,619                  | 60,575,144     | -                  |
| Receivables:  |                            |                             |                |                    |
| Customers   | -                          | 6,777,647                   | 6,777,647      | -                  |
| Special assessments - Current                               | 53,653                     | -                           | 53,653         | -                  |
| Accrued interest  | 367,238                    | 262,343                     | 629,581        | -                  |
| Other   | 711,261                    | -                           | 711,261        | -                  |
| Internal balances   | (2,597,081)                | 2,597,081                   | -              | -                  |
| Due from other governmental units                           | 4,124,380                  | 254                         | 4,124,634      | -                  |
| Prepaid costs and other assets                              | 1,589,250                  | -                           | 1,589,250      | -                  |
| Inventories   | 495,921                    | 382,377                     | 878,298        | -                  |
| Special assessments   | 384,247                    | 2,365                       | 386,612        | -                  |
| Restricted assets (Note 8)                                  | 1,942,527                  | 7,418,300                   | 9,360,827      | -                  |
| Loans receivable (Note 9)                                   | 1,739,615                  | -                           | 1,739,615      | -                  |
| Capital assets:   |                            |                             |                |                    |
| Nondepreciable (Note 4)                                     | 50,729,543                 | 2,289,058                   | 53,018,601     | -                  |
| Depreciable - Net (Note 4)                                  | 161,494,903                | 135,124,001                 | 296,618,904    | -                  |
| Total assets  | 267,303,886                | 178,363,045                 | 445,666,931    | 9,039              |
| <b>Liabilities</b>  |                            |                             |                |                    |
| Accounts payable  | 2,373,703                  | 3,900,554                   | 6,274,257      | 600                |
| Accrued and other liabilities                               | 2,873,545                  | 159,174                     | 3,032,719      | -                  |
| Provision for uninsured losses and liabilities<br>(Note 10) | 841,867                    | -                           | 841,867        | -                  |
| Due to other governmental units                             | 46,451                     | -                           | 46,451         | -                  |
| Unearned revenue (Note 6)                                   | 2,187,760                  | 99,190                      | 2,286,950      | -                  |
| Noncurrent liabilities (Note 7):                            |                            |                             |                |                    |
| Due within one year   | 6,223,672                  | 62,975                      | 6,286,647      | -                  |
| Due in more than one year                                   | 50,085,740                 | 146,783                     | 50,232,523     | -                  |
| Total liabilities   | 64,632,738                 | 4,368,676                   | 69,001,414     | 600                |
| <b>Net Assets</b>   |                            |                             |                |                    |
| Invested in capital assets - Net of<br>related debt         | 175,544,446                | 137,413,059                 | 312,957,505    | -                  |
| Restricted:   |                            |                             |                |                    |
| Roads   | 3,731,226                  | -                           | 3,731,226      | -                  |
| Public safety   | 809,425                    | -                           | 809,425        | -                  |
| Debt service  | 118,705                    | -                           | 118,705        | -                  |
| County drains (Note 8)                                      | 1,942,527                  | -                           | 1,942,527      | -                  |
| Ordinance requirements (Note 8)                             | -                          | 7,418,300                   | 7,418,300      | -                  |
| Unrestricted  | 20,524,819                 | 29,163,010                  | 49,687,829     | 8,439              |
| Total net assets  | \$ 202,671,148             | \$ 173,994,369              | \$ 376,665,517 | \$ 8,439           |

# City of Sterling Heights, Michigan

---

|  | Program Revenues      |                      |                     |                     |
|--|-----------------------|----------------------|---------------------|---------------------|
|  | Expenses              | Operating Grants     | Capital Grants      |                     |
|  |                       | Charges for Services | and Contributions   | and Contributions   |
| <b>Functions/Programs</b>                  |                       |                      |                     |                     |
| Primary government:                        |                       |                      |                     |                     |
| Governmental activities:                   |                       |                      |                     |                     |
| General government                         | \$ 10,348,927         | \$ 2,022,680         | \$ 767              | \$ -                |
| 41A District Court                         | 2,992,184             | 2,185,724            | 151,597             | -                   |
| Public safety                              | 43,995,464            | 1,326,061            | 849,676             | 1,530,230           |
| Public works                               | 22,603,155            | 8,125,228            | 7,324,439           | -                   |
| Recreation and culture                     | 5,890,651             | 563,152              | 822,434             | 1,108,484           |
| Interest on long-term debt                 | 1,922,125             | -                    | -                   | -                   |
| Total governmental activities              | 87,752,506            | 14,222,845           | 9,148,913           | 2,638,714           |
| Business-type activities - Water and Sewer | 30,290,386            | 25,404,755           | -                   | 2,662,317           |
| Total primary government                   | <b>\$ 118,042,892</b> | <b>\$ 39,627,600</b> | <b>\$ 9,148,913</b> | <b>\$ 5,301,031</b> |
| Component units:                           |                       |                      |                     |                     |
| Economic Development Corporation           | \$ 9,883              | \$ -                 | \$ 8,000            | \$ -                |
| Brownfield Redevelopment Authority         | 44,942                | -                    | 32,232              | -                   |
| Total component units                      | <b>\$ 54,825</b>      | <b>\$ -</b>          | <b>\$ 40,232</b>    | <b>\$ -</b>         |

## General revenues:

|                                      |
|--------------------------------------|
| Property taxes                       |
| State-shared general revenues        |
| Interest                             |
| Gain on sale of capital assets       |
| Other non-program generated revenues |

Total general revenues

## Change in Net Assets

**Net Assets** - Beginning of year

**Net Assets** - End of year

**Statement of Activities**  
**Year Ended June 30, 2007**

| Net (Expenses) Revenues and Changes in Net Assets |                             |                       |                 |   |
|---|-----------------------------|-----------------------|-----------------|---|
| Primary Government                                |                             |                       |                 |   |
| Governmental<br>Activities                        | Business-type<br>Activities | Total                 | Component Units |   |
| \$ (8,325,480)                                    | \$ (654,863)                | \$ (8,325,480)        | \$ (654,863)    | - |
| (40,289,497)                                      | -                           | (40,289,497)          | -               | - |
| (7,153,488)                                       | -                           | (7,153,488)           | -               | - |
| (3,396,581)                                       | -                           | (3,396,581)           | -               | - |
| (1,922,125)                                       | -                           | (1,922,125)           | -               | - |
| <u>(61,742,034)</u>                               | <u>-</u>                    | <u>(61,742,034)</u>   | <u>-</u>        |   |
| <u>-</u>  | <u>(2,223,314)</u>          | <u>(2,223,314)</u>    | <u>-</u>        |   |
| <u>(61,742,034)</u>                               | <u>(2,223,314)</u>          | <u>(63,965,348)</u>   | <u>-</u>        |   |
| <u>-</u>  | <u>-</u>                    | <u>-</u>              | <u>(1,883)</u>  |   |
| <u>-</u>  | <u>-</u>                    | <u>-</u>              | <u>(12,710)</u> |   |
| <u>-</u>  | <u>-</u>                    | <u>-</u>              | <u>(14,593)</u> |   |
| 55,624,617  | -                           | 55,624,617            | -               |   |
| 10,675,667  | -                           | 10,675,667            | -               |   |
| 3,383,824   | 1,812,012                   | 5,195,836             | 1,019           |   |
| 227,321   | -                           | 227,321               | -               |   |
| <u>1,527,988</u>                                  | <u>-</u>                    | <u>1,527,988</u>      | <u>-</u>        |   |
| <u>71,439,417</u>                                 | <u>1,812,012</u>            | <u>73,251,429</u>     | <u>1,019</u>    |   |
| 9,697,383   | (411,302)                   | 9,286,081             | (13,574)        |   |
| <u>192,973,765</u>                                | <u>174,405,671</u>          | <u>367,379,436</u>    | <u>22,013</u>   |   |
| <b>\$ 202,671,148</b>                             | <b>\$ 173,994,369</b>       | <b>\$ 376,665,517</b> | <b>\$ 8,439</b> |   |

# City of Sterling Heights, Michigan

|  | General Fund         | Major Roads         | Community Development Block Grant | General Improvements |
|--|----------------------|---------------------|-----------------------------------|----------------------|
| <b>Assets</b>                            |                      |                     |                                   |                      |
| Cash and cash equivalents (Note 3)       | \$ 4,515,577         | \$ 366,259          | \$ 792                            | \$ 284,979           |
| Investments - At fair value (Note 3)     | 15,616,850           | 1,650,000           | -                                 | 2,594,650            |
| Receivables:                             |                      |                     |                                   |                      |
| Special assessments:                     |                      |                     |                                   |                      |
| Current                                  | -                    | -                   | -                                 | 15,510               |
| Deferred                                 | -                    | -                   | -                                 | 40,961               |
| Accrued interest                         | 207,918              | 9,327               | -                                 | 18,153               |
| Other                                    | 728,243              | -                   | -                                 | -                    |
| Prepaid costs and other assets           | 97,986               | -                   | -                                 | -                    |
| Due from other funds (Note 5)            | 319,089              | -                   | -                                 | -                    |
| Due from other governmental units        | 808,989              | 1,034,280           | 54,788                            | 19,816               |
| Inventories                              | 495,921              | -                   | -                                 | -                    |
| Restricted assets (Note 8)               | -                    | -                   | -                                 | 1,942,527            |
| Rehabilitation loans receivable (Note 9) | -                    | -                   | 1,739,615                         | -                    |
| Total assets                             | <b>\$ 22,790,573</b> | <b>\$ 3,059,866</b> | <b>\$ 1,795,195</b>               | <b>\$ 4,916,596</b>  |
| <b>Liabilities and Fund Balances</b>     |                      |                     |                                   |                      |
| <b>Liabilities</b>                       |                      |                     |                                   |                      |
| Accounts payable                         | \$ 1,542,699         | \$ 177,539          | \$ 47,413                         | \$ 395,437           |
| Accrued and other liabilities            | 2,055,728            | 7,320               | -                                 | 86,080               |
| Due to other funds (Note 5)              | 2,899,892            | 140,110             | 8,167                             | 8,672                |
| Due to other governmental units          | 46,451               | -                   | -                                 | -                    |
| Deferred revenue (Note 6)                | 527,908              | -                   | 1,739,615                         | 1,983,489            |
| Total liabilities                        | 7,072,678            | 324,969             | 1,795,195                         | 2,473,678            |
| <b>Fund Balances</b>                     |                      |                     |                                   |                      |
| Reserved for:                            |                      |                     |                                   |                      |
| Encumbrances                             | 86,055               | 25,000              | -                                 | 300,813              |
| Inventory                                | 495,921              | -                   | -                                 | -                    |
| Prepaid costs                            | 97,986               | -                   | -                                 | -                    |
| Unreserved - Reported in (Note 14):      |                      |                     |                                   |                      |
| General Fund                             | 15,037,933           | -                   | -                                 | -                    |
| Special Revenue Funds                    | -                    | 2,709,897           | -                                 | -                    |
| Capital Projects Funds                   | -                    | -                   | -                                 | 2,142,105            |
| Debt Service Funds                       | -                    | -                   | -                                 | -                    |
| Total fund balances                      | <b>15,717,895</b>    | <b>2,734,897</b>    | <b>-</b>                          | <b>2,442,918</b>     |
| Total liabilities and fund balances      | <b>\$ 22,790,573</b> | <b>\$ 3,059,866</b> | <b>\$ 1,795,195</b>               | <b>\$ 4,916,596</b>  |

**Governmental Funds**  
**Balance Sheet**  
**June 30, 2007**

|  | Road Bond<br>Construction | Other<br>Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------------|--|--------------------------------|
|--|---------------------------|--|--------------------------------|

|  |            |              |              |
|--|------------|--------------|--------------|
|  | \$ 156,849 | \$ 1,540,662 | \$ 6,865,118 |
|  | 500,000    | 1,550,000    | 21,911,500   |

|  |                   |                     |                      |
|--|-------------------|---------------------|----------------------|
|  | -                 | 38,143              | 53,653               |
|  | -                 | 343,286             | 384,247              |
|  | 3,111             | 10,264              | 248,773              |
|  | -                 | -                   | 728,243              |
|  | 183,547           | 9,440               | 290,973              |
|  | -                 | 144                 | 319,233              |
|  | -                 | 311,174             | 2,229,047            |
|  | -                 | -                   | 495,921              |
|  | -                 | -                   | 1,942,527            |
|  | -                 | -                   | 1,739,615            |
|  | <hr/>             | <hr/>               | <hr/>                |
|  | <b>\$ 843,507</b> | <b>\$ 3,803,113</b> | <b>\$ 37,208,850</b> |

|  |                |                |                   |
|--|----------------|----------------|-------------------|
|  | \$ 102,020     | \$ 27,971      | \$ 2,293,079      |
|  | 37,821         | 25,149         | 2,212,098         |
|  | -              | 162,140        | 3,218,981         |
|  | -              | -              | 46,451            |
|  | -              | 343,286        | 4,594,298         |
|  | <hr/>          | <hr/>          | <hr/>             |
|  | <b>139,841</b> | <b>558,546</b> | <b>12,364,907</b> |

|  |                   |                     |                      |
|--|-------------------|---------------------|----------------------|
|  | -                 | 24,906              | 436,774              |
|  | -                 | -                   | 495,921              |
|  | 183,547           | -                   | 281,533              |
|  | -                 | -                   | 15,037,933           |
|  | -                 | 3,100,956           | 5,810,853            |
|  | 520,119           | -                   | 2,662,224            |
|  | -                 | 118,705             | 118,705              |
|  | <hr/>             | <hr/>               | <hr/>                |
|  | <b>703,666</b>    | <b>3,244,567</b>    | <b>24,843,943</b>    |
|  | <hr/>             | <hr/>               | <hr/>                |
|  | <b>\$ 843,507</b> | <b>\$ 3,803,113</b> | <b>\$ 37,208,850</b> |

# **City of Sterling Heights, Michigan**

## **Governmental Funds**

### **Reconciliation of Fund Balances to the Statement of Net Assets**

**June 30, 2007**

|   |                              |
|---|------------------------------|
| <b>Total Fund Balances for Governmental Funds</b>   | <b>\$ 24,843,943</b>         |
| <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  | 447,029                      |
| Receivables related to state-shared revenues are reported in the statement of net assets at the time they are earned, without regard to timeliness of remittance by the State | 1,895,333                    |
| Restricted assets held by Macomb County to be used over several years and which are not available to pay for current year expenditures  | 1,942,527                    |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds  | 212,224,446                  |
| Long-term liabilities not due and payable in the current period are not reported in the funds   | (49,525,000)                 |
| 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                                  | (4,694,323)                  |
| Bond premiums are amortized over the life of the bonds, while recognized as an other financing source in the funds when received  | (661,447)                    |
| Internal Service Fund is included as part of governmental activities  | <u>16,198,640</u>            |
| <b>Net Assets of Governmental Activities</b>  | <b><u>\$ 202,671,148</u></b> |

# City of Sterling Heights, Michigan

|   | General Fund         | Major Roads         | Community Development Block Grant | General Improvements |
|---|----------------------|---------------------|-----------------------------------|----------------------|
| <b>Revenues</b>                                     |                      |                     |                                   |                      |
| Property taxes                                      | \$ 53,437,096        | \$ -                | \$ -                              | \$ -                 |
| Fees and permits                                    | 1,784,156            | -                   | -                                 | -                    |
| Federal sources                                     | 106,819              | 113,419             | 1,223,013                         | 929,256              |
| State and local sources                             | 11,669,984           | 5,231,108           | -                                 | 357,222              |
| Fines and forfeitures                               | 2,563,520            | -                   | -                                 | -                    |
| Charges for services                                | 8,038,601            | -                   | -                                 | -                    |
| Interest income                                     | 2,203,201            | 44,247              | -                                 | 138,562              |
| Special assessments                                 | -                    | -                   | -                                 | 23,371               |
| Rental income                                       | 1,443,651            | -                   | -                                 | -                    |
| Cable revenue                                       | 1,527,988            | -                   | -                                 | -                    |
| Other   | 576,405              | 269,376             | 4,579                             | 555,231              |
| Total revenues                                      | 83,351,421           | 5,658,150           | 1,227,592                         | 2,003,642            |
| <b>Expenditures</b>                                 |                      |                     |                                   |                      |
| Current:  |                      |                     |                                   |                      |
| General government                                  | 10,562,158           | -                   | -                                 | -                    |
| 41A District Court                                  | 2,847,111            | -                   | -                                 | -                    |
| Public safety                                       | 41,486,751           | -                   | -                                 | -                    |
| Public works  | 14,957,575           | 1,726,644           | 215,122                           | -                    |
| Recreation and culture                              | 5,180,497            | -                   | -                                 | -                    |
| General expenditures                                | 3,698,838            | -                   | -                                 | -                    |
| Capital outlay                                      | -                    | 703,091             | 920,690                           | 6,633,421            |
| Debt service  | -                    | -                   | -                                 | -                    |
| Total expenditures                                  | 78,732,930           | 2,429,735           | 1,135,812                         | 6,633,421            |
| <b>Excess of Revenues Over (Under) Expenditures</b> | <b>4,618,491</b>     | <b>3,228,415</b>    | <b>91,780</b>                     | <b>(4,629,779)</b>   |
| <b>Other Financing Sources (Uses)</b>               |                      |                     |                                   |                      |
| Proceeds from long-term debt                        | -                    | -                   | -                                 | 3,250,000            |
| Bond premium  | -                    | -                   | -                                 | 26,815               |
| Transfers in  | 91,780               | 1,100,000           | -                                 | 1,600,720            |
| Transfers out                                       | (4,042,620)          | (3,200,000)         | (91,780)                          | (1,346,815)          |
| Total other financing sources (uses)                | (3,950,840)          | (2,100,000)         | (91,780)                          | 3,530,720            |
| <b>Net Change in Fund Balances</b>                  | <b>667,651</b>       | <b>1,128,415</b>    | <b>-</b>                          | <b>(1,099,059)</b>   |
| <b>Fund Balances - Beginning of year</b>            | <b>15,050,244</b>    | <b>1,606,482</b>    | <b>-</b>                          | <b>3,541,977</b>     |
| <b>Fund Balances - End of year</b>                  | <b>\$ 15,717,895</b> | <b>\$ 2,734,897</b> | <b>\$ -</b>                       | <b>\$ 2,442,918</b>  |

**Governmental Funds**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances**  
**Year Ended June 30, 2007**

| Road Bond<br>Construction | Other Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---------------------------|---|--------------------------------|
| \$ -                      | \$ 2,187,521                            | \$ 55,624,617                  |
| -                         | -                                       | 1,784,156                      |
| -                         | 382,638                                 | 2,755,145                      |
| -                         | 2,635,973                               | 19,894,287                     |
| -                         | -                                       | 2,563,520                      |
| -                         | -                                       | 8,038,601                      |
| 21,729                    | 103,495                                 | 2,511,234                      |
| -                         | 106,711                                 | 130,082                        |
| -                         | -                                       | 1,443,651                      |
| -                         | -                                       | 1,527,988                      |
| 51,577                    | 54,228                                  | 1,511,396                      |
| 73,306                    | 5,470,566                               | 97,784,677                     |
| <br>                      | <br>                                    | <br>                           |
| -                         | -                                       | 10,562,158                     |
| -                         | -                                       | 2,847,111                      |
| -                         | 124,226                                 | 41,610,977                     |
| -                         | 1,835,221                               | 18,734,562                     |
| -                         | -                                       | 5,180,497                      |
| -                         | 92,246                                  | 3,791,084                      |
| 4,694,041                 | 1,805,342                               | 14,756,585                     |
| -                         | 16,336,756                              | 16,336,756                     |
| 4,694,041                 | 20,193,791                              | 113,819,730                    |
| (4,620,735)               | (14,723,225)                            | (16,035,053)                   |
| <br>                      | <br>                                    | <br>                           |
| 4,650,000                 | -                                       | 7,900,000                      |
| -                         | -                                       | 26,815                         |
| -                         | 15,666,035                              | 18,458,535                     |
| -                         | -                                       | (8,681,215)                    |
| 4,650,000                 | 15,666,035                              | 17,704,135                     |
| 29,265                    | 942,810                                 | 1,669,082                      |
| 674,401                   | 2,301,757                               | 23,174,861                     |
| <b>\$ 703,666</b>         | <b>\$ 3,244,567</b>                     | <b>\$ 24,843,943</b>           |

# City of Sterling Heights, Michigan

## Governmental Funds

### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

|   |                     |
|---|---------------------|
| <b>Net Change in Fund Balances - Total Governmental Funds</b> | <b>\$ 1,669,082</b> |
|---|---------------------|

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   | 7,727,231                  |
| Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection   | (118,502)                  |
| Special assessment revenues are recorded in the statement of activities when the assessment is earned (i.e., work is substantially complete); they are not reported in the funds until collected or collectible within 60 days of year end. In the current year, more was collected than earned | 323,313                    |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)   | 14,000,000                 |
| Bond issuance is not reported as an other financing source on the statement of activities   | (7,900,000)                |
| 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  | 387,816                    |
| 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  | (126,231)                  |
| 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  | (6,265,326)                |
| <b>Change in Net Assets of Governmental Activities</b>  | <b><u>\$ 9,697,383</u></b> |

# City of Sterling Heights, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2007

|  | Business-type<br>Activities             | Governmental<br>Activity                      |
|--|---|---|
|  | Enterprise<br>Fund -<br>Water and Sewer | Internal Service<br>Fund - Self-<br>insurance |
| <b>Assets</b>  |   |   |
| Current assets:  |   |   |
| Cash and cash equivalents (Note 3)                       | \$ -                                    | \$ 2,337,786                                  |
| Investments - At fair value (Note 3)                     | 23,509,619                              | 15,154,025                                    |
| Receivables:   |   |   |
| Customers  | 6,777,647                               | -   |
| Accrued interest   | 262,343                                 | 118,465                                       |
| Prepaid costs and other assets                           | -                                       | 1,298,277                                     |
| Due from other governments                               | 254                                     | -   |
| Due from other funds (Note 5)                            | 2,597,081                               | 302,667                                       |
| Inventories  | 382,377                                 | -   |
| Total current assets                                     | 33,529,321                              | 19,211,220                                    |
| Noncurrent assets:                                       |   |   |
| Special assessments                                      | 2,365                                   | -   |
| Restricted assets (Note 8)                               | 7,418,300                               | -   |
| Capital assets - Net (Note 4)                            | 137,413,059                             | -   |
| Total noncurrent assets                                  | 144,833,724                             | -   |
| Total assets   | 178,363,045                             | 19,211,220                                    |
| <b>Liabilities</b>                                       |   |   |
| Current liabilities:                                     |   |   |
| Accounts payable   | 3,900,554                               | 80,624  |
| Accrued and other liabilities                            | 159,174                                 | -   |
| Provision for uninsured losses and liabilities (Note 10) | -                                       | 841,867                                       |
| Unearned revenue   | 99,190                                  | -   |
| Total current liabilities                                | 4,158,918                               | 922,491                                       |
| Noncurrent liabilities:                                  |   |   |
| Provision for uninsured losses and liabilities (Note 10) | -                                       | 2,090,089                                     |
| Long-term debt (Note 7):                                 |   |   |
| Due within one year                                      | 62,975                                  | -   |
| Due in more than one year                                | 146,783                                 | -   |
| Total noncurrent liabilities                             | 209,758                                 | 2,090,089                                     |
| Total liabilities  | 4,368,676                               | 3,012,580                                     |
| <b>Net Assets</b>  |   |   |
| Investment in capital assets                             | 137,413,059                             | -   |
| Restricted for ordinance requirements                    | 7,418,300                               | -   |
| Unrestricted   | 29,163,010                              | 16,198,640                                    |
| Total net assets   | \$ 173,994,369                          | \$ 16,198,640                                 |

# City of Sterling Heights, Michigan

## Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2007

|   | Business-type<br>Activities             | Governmental<br>Activity                      |
|---|---|---|
|   | Enterprise<br>Fund -<br>Water and Sewer | Internal Service<br>Fund - Self-<br>insurance |
| <b>Operating Revenues</b>   |   |   |
| Water sales   | \$ 10,133,651                           | \$ -  |
| Sewage treatment  | 12,957,977                              | -   |
| Service charges   | 1,163,057                               | -   |
| City contributions  | -                                       | 9,197,213                                     |
| Other   | 1,150,070                               | 150,730                                       |
| <br>Total operating revenues  | <br>25,404,755                          | <br>9,347,943                                 |
| <b>Operating Expenses</b>   |   |   |
| Wages and fringe benefits   | 3,130,296                               | -   |
| Contractual services  | 139,278                                 | -   |
| Water purchases   | 8,971,599                               | -   |
| Sewage disposal charges   | 10,465,317                              | -   |
| Materials and supplies  | 291,902                                 | -   |
| Repairs and maintenance   | 511,905                                 | -   |
| Building and equipment rental                                       | 133,870                                 | -   |
| Insurance   | 327,270                                 | -   |
| Depreciation  | 4,597,436                               | -   |
| Administration expenses   | 1,593,030                               | 313,590                                       |
| Reinsurance charges and claims                                      | -                                       | 5,686,884                                     |
| Other   | 128,483                                 | 708,065                                       |
| <br>Total operating expenses  | <br>30,290,386                          | <br>6,708,539                                 |
| <b>Operating (Loss) Income</b>                                      |   |   |
|   | (4,885,631)                             | 2,639,404                                     |
| <b>Nonoperating Revenues</b>  |   |   |
| Interest income   | 1,812,012                               | 872,590                                       |
| Tap fees and frontage charges                                       | 1,158,489                               | -   |
| <br>Total nonoperating revenues                                     | <br>2,970,501                           | <br>872,590                                   |
| <b>(Loss) Income - Before contributions and operating transfers</b> |   |   |
|   | (1,915,130)                             | 3,511,994                                     |
| <b>Contributions from Developers</b>                                |   |   |
|   | 1,503,828                               | -   |
| <b>Transfer Out</b>   |   |   |
|   | -                                       | (9,777,320)                                   |
| <b>Change in Net Assets</b>   |   |   |
|   | (411,302)                               | (6,265,326)                                   |
| <b>Net Assets - Beginning of year</b>                               |   |   |
|   | 174,405,671                             | 22,463,966                                    |
| <b>Net Assets - End of year</b>                                     | <b>\$ 173,994,369</b>                   | <b>\$ 16,198,640</b>                          |

# City of Sterling Heights, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

|   | Business-type<br>Activities | Governmental<br>Activity |
|---|-----------------------------|--------------------------|
|   | Internal Service            |                          |
| Enterprise Fund -<br>Water and Sewer  | Fund - Self-<br>insurance   |                          |
| <b>Cash Flows from Operating Activities</b>   |                             |                          |
| Receipts from customers   | \$ 23,240,808               | \$ 17,319,693            |
| Payments to suppliers for goods and services  | (19,555,690)                | -                        |
| Payments to employees for services  | (3,130,297)                 | -                        |
| Payments connected with interfund services  | (1,920,300)                 | -                        |
| Receipts connected with interfund services  | (2,663,227)                 | -                        |
| Claims paid   | -                           | (7,687,896)              |
| Other receipts  | <u>299,388</u>              | <u>150,730</u>           |
| Net cash (used in) provided by operating activities   | (3,729,318)                 | 9,782,527                |
| <b>Cash Flows from Noncapital Financing Activities - Transfer to<br/>governmental funds</b> |                             |                          |
|   | -                           | (9,777,320)              |
| <b>Cash Flows from Capital and Related Financing Activities</b>                             |                             |                          |
| Collection of customer assessments (principal and interest)                                 | 1,158,489                   | -                        |
| Purchase of capital assets  | (1,417,772)                 | -                        |
| Net cash used in capital and related<br>financing activities                                | (259,283)                   | -                        |
| <b>Cash Flows from Investing Activities</b>   |                             |                          |
| Interest received on investments  | 1,812,012                   | 872,590                  |
| Purchase of investment securities   | (47,634,268)                | (38,411,300)             |
| Proceeds from sales and maturities of investment securities                                 | <u>52,429,318</u>           | <u>28,325,000</u>        |
| Net cash provided by (used in) investing activities   | <u>6,607,062</u>            | <u>(9,213,710)</u>       |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                                 | 2,618,461                   | (9,208,503)              |
| <b>Cash and Cash Equivalents - Beginning of year</b>  | <u>2,531,058</u>            | <u>11,546,289</u>        |
| <b>Cash and Cash Equivalents - End of year</b>  | <b>\$ 5,149,519</b>         | <b>\$ 2,337,786</b>      |
| <b>Balance Sheet Classification of Cash and Cash Equivalents</b>                            |                             |                          |
| Cash and cash equivalents   | \$ -                        | \$ 2,337,786             |
| Restricted cash and cash equivalents (Note 8)   | <u>5,149,519</u>            | <u>-</u>                 |
| Total   | <b>\$ 5,149,519</b>         | <b>\$ 2,337,786</b>      |

# City of Sterling Heights, Michigan

## Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2007

| Business-type<br>Activities          | Governmental<br>Activity  |
|--------------------------------------|---------------------------|
|                                      | Internal Service          |
| Enterprise Fund -<br>Water and Sewer | Fund - Self-<br>insurance |
|                                      |                           |

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

|   |                       |                     |
|---|-----------------------|---------------------|
| Operating (loss) income   | \$ (4,885,631)        | \$ 2,639,404        |
| Adjustments to reconcile operating (loss) income to net cash from operating activities: |                       |                     |
| Depreciation and amortization   | 4,597,436             | -                   |
| Changes in assets and liabilities:  |                       |                     |
| Receivables   | (1,013,878)           | 8,438,985           |
| Prepaid costs and other assets  | -                     | (461,902)           |
| Due from other funds  | (2,597,335)           | 145,397             |
| Inventory   | 19,011                | -                   |
| Accounts payable  | 342,812               | (70,102)            |
| Accrued and other liabilities   | (49,417)              | -                   |
| Provision for uninsured losses and liabilities  | -                     | (909,255)           |
| Deferred revenue  | (76,424)              | -                   |
| Due to other funds  | (65,892)              | -                   |
| Net cash provided by operating activities   | <u>\$ (3,729,318)</u> | <u>\$ 9,782,527</u> |

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2007, developers constructed water and sewer lines with an estimated value of \$1,503,828 and donated them to the City's Water and Sewer Enterprise Fund.

# City of Sterling Heights, Michigan

## Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2007

|   | Trust Funds -             | Pensions and            | Other Retirement |
|---|---------------------------|-------------------------|------------------|
|   | Benefits                  | Agency Funds            |                  |
| <b>Assets</b>   |                           |                         |                  |
| Cash and cash equivalents (Note 3)  | \$ 11,532,600             | \$ 566,032              |                  |
| Investments - At fair value (Note 3):   |                           |                         |                  |
| Government securities   | 27,234,413                | 2,734,175               |                  |
| Short-term investment fund  | -                         | 1,330,000               |                  |
| Corporate bonds   | 90,449,113                | -                       |                  |
| Common and preferred stocks   | 218,540,411               | -                       |                  |
| Pooled investments  | 10,002,259                | -                       |                  |
| Cash and investments held as collateral for<br>securities lending                   | 36,325,038                | -                       |                  |
| Receivables - Accrued interest  | 1,057,543                 | 47,495                  |                  |
| Other assets  | -                         | -                       |                  |
| <br>Total assets  | <br>395,141,377           | <br><u>\$ 4,677,702</u> |                  |
| <b>Liabilities</b>  |                           |                         |                  |
| Accounts payable  | 1,455,012                 | \$ -                    |                  |
| Accrued and other liabilities   | 4,800,613                 | 1,495,851               |                  |
| Amounts due to broker under securities<br>lending agreements                        | 36,325,038                | -                       |                  |
| Due to other governmental units   | 296,960                   | 147,906                 |                  |
| Provision for uninsured losses and liabilities (Note 10)                            | 530,412                   | -                       |                  |
| Deferred revenue  | 3,051                     | -                       |                  |
| Cash bonds and deposits   | -                         | 3,033,945               |                  |
| <br>Total liabilities   | <br>43,411,086            | <br><u>\$ 4,677,702</u> |                  |
| <br><b>Net Assets</b> - Held in trust for pensions<br>and other retirement benefits | <br><u>\$ 351,730,291</u> |                         |                  |

# City of Sterling Heights, Michigan

## Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2007

Trust Funds -  
 Pensions and Other  
 Retirement  
 Benefits

---

### Additions

|   |                    |
|---|--------------------|
| Investment income:                          |                    |
| Interest and dividends                      | \$ 9,870,375       |
| Net adjustment to fair value of investments | 31,180,410         |
| Less investment expenses                    | <u>(1,219,359)</u> |
| Net investment income                       | 39,831,426         |
| Securities lending income:                  |                    |
| Interest and fees                           | 2,170,909          |
| Less borrower rebates and bank fees         | <u>(2,120,091)</u> |
| Net securities lending income               | 50,818             |
| Contributions:                              |                    |
| Employer                                    | 9,674,869          |
| Employee                                    | 2,037,392          |
| Purchase of prior year's service credits    | 1,166,814          |
| Insurance recovery                          | <u>103,310</u>     |
| Total additions                             | 52,864,629         |

### Deductions

|                          |                   |
|--------------------------|-------------------|
| Benefit payments         | 19,408,820        |
| Refunds of contributions | <u>1,481,527</u>  |
| Total deductions         | <u>20,890,347</u> |

|                                       |                              |
|---------------------------------------|------------------------------|
| <b>Change in Net Assets</b>           | 31,974,282                   |
| <b>Net Assets - Beginning of year</b> | <u>319,756,009</u>           |
| <b>Net Assets - End of year</b>       | <b><u>\$ 351,730,291</u></b> |

# **City of Sterling Heights, Michigan**

**Component Units  
Statement of Net Assets  
June 30, 2007**

|   | Economic<br>Development<br>Corporation | Brownfield<br>Redevelopment<br>Authority | Total           |
|---|--|--|-----------------|
| <b>Assets</b> - Cash and cash equivalents | \$ 5,305                               | \$ 3,734                                 | \$ 9,039        |
| <b>Liabilities</b> - Accounts payable     | 506                                    | 94                                       | 600             |
| <b>Net Assets</b> - Unrestricted          | <u>\$ 4,799</u>                        | <u>\$ 3,640</u>                          | <u>\$ 8,439</u> |

# City of Sterling Heights, Michigan

## Component Units Statement of Activities Year Ended June 30, 2007

|   | Program<br>Revenues     |                             | Net (Expenses) Revenues and<br>Changes in Net Assets |                             |            |
|---|-------------------------|-----------------------------|--|-----------------------------|------------|
|   | Operating<br>Expenses   | Grants and<br>Contributions | Economic<br>Development                              | Brownfield<br>Redevelopment | Total      |
|   |                         |                             | Corporation  | Authority                   |            |
| <b>Economic Development Corporation -</b><br>Public Works   | \$ 9,883                | \$ 8,000                    | \$ (1,883)   | \$ -                        | \$ (1,883) |
| <b>Brownfield Redevelopment Authority -</b><br>Public Works | 44,942                  | 32,232                      | -  | (12,710)                    | (12,710)   |
| Total component units                                       | <b><u>\$ 54,825</u></b> | <b><u>\$ 40,232</u></b>     | (1,883)  | (12,710)                    | (14,593)   |
| <b>General Revenues</b> - Interest                          |                         |                             | 373  | 646                         | 1,019      |
| <b>Change in Net Assets</b>                                 |                         |                             | (1,510)  | (12,064)                    | (13,574)   |
| <b>Net Assets</b> - Beginning of year                       |                         |                             | 6,309  | 15,704                      | 22,013     |
| <b>Net Assets</b> - End of year                             | <b><u>\$ 4,799</u></b>  | <b><u>\$ 3,640</u></b>      | <b><u>\$ 8,439</u></b>                               |                             |            |

# **City of Sterling Heights, Michigan**

---

## **Notes to Financial Statements** **June 30, 2007**

### **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 "Authority") was created to encourage and provide assistance in environmentally distressed areas in the City. The 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 Authority. The 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 had no financial activity in the current year and therefore has not been presented in these financial statements 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.

# **City of Sterling Heights, Michigan**

---

**Notes to Financial Statements**  
**June 30, 2007**

## **Note I - Summary of Significant Accounting Policies (Continued)**

### **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 revenues, 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 revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (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 revenues are reported instead as general revenues.

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.

### **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.

# **City of Sterling Heights, Michigan**

---

## **Notes to Financial Statements** **June 30, 2007**

### **Note I - Summary of Significant Accounting Policies (Continued)**

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 revenues to be available if they are 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 revenues 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 accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.
- The Community Development Block Grant Fund accounts for federal grant funds received from the U.S. Department of Housing & Urban Development for purposes of developing a viable urban community by providing economic opportunities principally for persons of low and moderate income.
- 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.

# **City of Sterling Heights, Michigan**

---

## **Notes to Financial Statements** **June 30, 2007**

### **Note I - Summary of Significant Accounting Policies (Continued)**

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 Benefit 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.

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 revenues 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.

# **City of Sterling Heights, Michigan**

---

## **Notes to Financial Statements** **June 30, 2007**

### **Note I - Summary of Significant Accounting Policies (Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less when acquired. Investments are stated at fair value. Shared pooled investment income from the General Drain, RS&T, Settlement, Road Bond, and Limited Tax Obligations Debt Service Funds is generally allocated to each fund using a weighted average.

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

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

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

# City of Sterling Heights, Michigan

## Notes to Financial Statements June 30, 2007

### Note I - Summary of Significant Accounting Policies (Continued)

**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    |

**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.

# **City of Sterling Heights, Michigan**

## **Notes to Financial Statements** **June 30, 2007**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

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.

### **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 July 1, 2001 is as follows:

|  |                       |
|--|-----------------------|
| Shortfall at July 1, 2006                      | \$ (2,611,523)        |
| Current year building permit revenue           | \$ 2,000,929          |
| Related expenses:                              |                       |
| Direct costs                                   | 1,801,171             |
| Estimated indirect costs                       | <u>1,301,581</u>      |
| Total construction code expenses               | <u>3,102,752</u>      |
| Net shortfall for the year ended June 30, 2007 | <u>(1,101,823)</u>    |
| Cumulative shortfall at June 30, 2007          | <u>\$ (3,713,346)</u> |

# **City of Sterling Heights, Michigan**

---

## **Notes to Financial Statements** **June 30, 2007**

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

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

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

# City of Sterling Heights, Michigan

## Notes to Financial Statements June 30, 2007

### Note 3 - Deposits and Investments (Continued)

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy does not directly address a deposit policy for custodial credit risk. At year end, the City had \$43,094,867 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<br>(date specific maturities only) | 10 years   |
| CDs (non-negotiable)   | 20% to 1 year, 20% to 270 days   |
| Commercial paper (rated A1<br>or equivalent)                           | 270 days   |
| Banker acceptances   | 184 days   |
| Repurchase agreements  | 60 days (collateral 10 years for<br>treasuries, 7 years for instrumentalities) |
| Repurchase agreements  |  |

# **City of Sterling Heights, Michigan**

## **Notes to Financial Statements** **June 30, 2007**

### **Note 3 - Deposits and Investments (Continued)**

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

| Investment                                  | Fair Value   | Average Maturity |
|---|--------------|------------------|
| <b>Government-wide</b>                      |              |                  |
| Commercial paper                            | \$ 5,426,550 | .25 years        |
| U.S. government agencies                    | 29,881,550   | 3.24 years       |
| <b>General Employees' Retirement System</b> |              |                  |
| Corporate bonds                             | 30,786,478   | 3.70 years       |
| Foreign bonds                               | 1,115,560    | 5.83 years       |
| U.S. government agencies                    | 98,170       | .13 years        |
| U.S. government obligations                 | 5,304,184    | 2.88 years       |
| Municipal obligations                       | 2,085,523    | 3.91 years       |
| <b>Police and Fire Retirement System</b>    |              |                  |
| Corporate bonds                             | 55,509,005   | 4.45 years       |
| Foreign bonds                               | 2,476,073    | 6.27 years       |
| U.S. government agencies                    | 137,438      | 7.04 years       |
| U.S. government obligations                 | 13,275,989   | 5.46 years       |
| Municipal obligations                       | 3,345,281    | 4.94 years       |
| <b>Retiree Medical Benefits</b>             |              |                  |
| Corporate bonds                             | 561,997      | 3.82 years       |
| U.S. government agencies                    | 2,035,480    | 6.94 years       |
| U.S. government obligations                 | 952,348      | 5.51 years       |

# City of Sterling Heights, Michigan

## Notes to Financial Statements June 30, 2007

### 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      |
|---|---------------|--------------|-------------------|
| <b>Government-wide</b>                      |               |              |                   |
| Pooled funds                                | \$ 12,724,649 | AAA          | S&P               |
| Pooled funds                                | 1,008,728     | Not Rated    |                   |
| Commercial paper                            | 2,490,750     | P1           | Moody             |
| Commercial paper                            | 2,935,800     | A2           | S&P               |
| U.S. government agencies                    | 29,881,550    | AAA          | S&P               |
| <b>General Employees' Retirement System</b> |               |              |                   |
| U.S. government agencies                    | 98,170        | A+           | S&P               |
| Municipal obligations                       | 2,085,523     | AAA          | S&P, Fitch        |
| Corporate bonds                             | 20,847,958    | AAA          | S&P, Fitch, Moody |
| Corporate bonds                             | 1,010,144     | AA to AA-    | S&P, Moody        |
| Corporate bonds                             | 1,934,163     | A to A-      | S&P, Moody        |
| Corporate bonds                             | 6,417,120     | BBB to BBB-  | S&P, Fitch        |
| Corporate bonds                             | 552,349       | BB+          | S&P               |
| Corporate bonds                             | 24,744        | B+           | S&P               |
| Foreign bonds                               | 1,115,560     | BBB to BBB-  | S&P               |
| Pooled funds - Securities lending           | 8,430,749     | Not Rated    |                   |
| <b>Police and Fire Retirement System</b>    |               |              |                   |
| U.S. government agencies                    | 137,438       | A+           | S&P               |
| Municipal obligations                       | 2,944,162     | AAA          | S&P, Moody        |
| Municipal obligations                       | 401,119       | AAA          | S&P               |
| Corporate bonds                             | 43,923,548    | AAA          | S&P, Fitch        |
| Corporate bonds                             | 2,913,980     | A to A-      | S&P, Moody        |
| Corporate bonds                             | 7,859,271     | BBB to BBB-  | S&P, Fitch        |
| Corporate bonds                             | 812,206       | BB to BB-    | S&P               |
| Foreign bonds                               | 554,923       | A            | S&P               |
| Foreign bonds                               | 1,921,150     | BBB to BBB-  | S&P               |
| Pooled funds - Securities lending           | 27,894,289    | Not Rated    |                   |
| <b>Retiree Medical Benefits</b>             |               |              |                   |
| Pooled funds                                | 128,182       | AAA          | S&P               |
| U.S. government agencies                    | 2,035,480     | AAA          | S&P               |
| Corporate bonds                             | 40,271        | AAA          | S&P               |
| Corporate bonds                             | 182,724       | AA+ to AA-   | S&P               |
| Corporate bonds                             | 216,032       | A1+ to A-    | S&P               |
| Corporate bonds                             | 122,970       | BBB+ to BBB- | S&P               |

# **City of Sterling Heights, Michigan**

---

## **Notes to Financial Statements** **June 30, 2007**

### **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 & 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, 2007, 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, 2007

### 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, 2007 was 133 days. Their duration did not generally match the duration of the loans because the loans could be terminated on demand. The total amount of collateral held and the fair values of the underlying securities for the Systems as of June 30, 2007 were \$36,325,038 and \$35,226,223, respectively.

### Note 4 - Capital Assets

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

|  | Balance<br>July 1, 2006 |                     | Disposals and<br>Adjustments | Balance<br>June 30, 2007 |
|--|-------------------------|---------------------|------------------------------|--------------------------|
| <b>Governmental Activities</b>         |                         |                     |                              |                          |
| Capital assets not being depreciated:  |                         |                     |                              |                          |
| Land                                   | \$ 44,342,595           | \$ 926,015          | \$ -                         | \$ 45,268,610            |
| Construction in progress               | 3,029,743               | 4,360,184           | (2,235,745)                  | 5,154,182                |
| Works of art                           | <u>306,751</u>          | <u>-</u>            | <u>-</u>                     | <u>306,751</u>           |
| Net capital assets -<br>Nondepreciable | 47,679,089              | 5,286,199           | (2,235,745)                  | 50,729,543               |
| Capital assets being depreciated:      |                         |                     |                              |                          |
| Building and building improvements     | 31,569,549              | 91,150              | -                            | 31,660,699               |
| Improvements other than buildings      | 5,902,064               | 80,743              | -                            | 5,982,807                |
| Equipment                              | 32,420,003              | 3,898,134           | (845,719)                    | 35,472,418               |
| Furnishings and fixtures               | 1,376,346               | 18,043              | (10,621)                     | 1,383,768                |
| Infrastructure                         | <u>213,728,150</u>      | <u>11,143,386</u>   | <u>-</u>                     | <u>224,871,536</u>       |
| Subtotal                               | 284,996,112             | 15,231,456          | (856,340)                    | 299,371,228              |
| Accumulated depreciation:              |                         |                     |                              |                          |
| Building and building improvements     | 9,335,837               | 686,606             | -                            | 10,022,443               |
| Improvements other than buildings      | 1,138,138               | 195,857             | -                            | 1,333,995                |
| Equipment                              | 19,830,986              | 2,476,350           | (1,455,936)                  | 20,851,400               |
| Furnishings and fixtures               | 1,034,211               | 57,098              | (9,906)                      | 1,081,403                |
| Infrastructure                         | <u>96,838,814</u>       | <u>7,748,270</u>    | <u>-</u>                     | <u>104,587,084</u>       |
| Subtotal                               | <u>128,177,986</u>      | <u>11,164,181</u>   | <u>(1,465,842)</u>           | <u>137,876,325</u>       |
| Net capital assets being depreciated   | <u>156,818,126</u>      | <u>4,067,275</u>    | <u>609,502</u>               | <u>161,494,903</u>       |
| Net governmental capital assets        | <u>\$ 204,497,215</u>   | <u>\$ 9,353,474</u> | <u>\$ (1,626,243)</u>        | <u>\$ 212,224,446</u>    |

# City of Sterling Heights, Michigan

## Notes to Financial Statements June 30, 2007

### Note 4 - Capital Assets (Continued)

|                                       | Balance<br>July 1, 2006 | Additions   | Disposals and<br>Adjustments | Balance<br>June 30, 2007 |
|---------------------------------------|-------------------------|-------------|------------------------------|--------------------------|
| <b>Business-type Activities</b>       |                         |             |                              |                          |
| Capital assets not being depreciated: |                         |             |                              |                          |
| Land                                  | \$ 64,871               | \$ -        | \$ -                         | \$ 64,871                |
| Construction in progress              | 1,651,883               | 2,224,187   | (1,651,883)                  | 2,224,187                |
| Net capital assets -                  |                         |             |                              |                          |
| Nondepreciable                        | 1,716,754               | 2,224,187   | (1,651,883)                  | 2,289,058                |
| Capital assets being depreciated:     |                         |             |                              |                          |
| Building and building improvements    | 408,372                 | 14,261      | -                            | 422,633                  |
| Improvements other than buildings     | 11,391                  | -           | -                            | 11,391                   |
| Equipment                             | 2,532,153               | 285,559     | (175,451)                    | 2,642,261                |
| Furnishings and fixtures              | 27,030                  | -           | -                            | 27,030                   |
| Water and sewer mains                 | 217,079,786             | 2,051,212   | -                            | 219,130,998              |
| Subtotal                              | 220,058,732             | 2,351,032   | (175,451)                    | 222,234,313              |
| Accumulated depreciation:             |                         |             |                              |                          |
| Building and building improvements    | 187,286                 | 8,159       | -                            | 195,445                  |
| Improvements other than buildings     | 11,391                  | -           | -                            | 11,391                   |
| Equipment                             | 1,418,801               | 227,345     | (173,715)                    | 1,472,431                |
| Furnishings and fixtures              | 15,748                  | 1,802       | -                            | 17,550                   |
| Water and sewer mains                 | 81,053,365              | 4,360,130   | -                            | 85,413,495               |
| Subtotal                              | 82,686,591              | 4,597,436   | (173,715)                    | 87,110,312               |
| Net capital assets being depreciated  | 137,372,141             | (2,246,404) | (1,736)                      | 135,124,001              |
| Net business-type capital assets      | \$ 139,088,895          | \$ (22,217) | \$ (1,653,619)               | \$ 137,413,059           |

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

|  |               |
|--|---------------|
| Governmental activities:                   |               |
| General government                         | \$ 483,625    |
| Public safety                              | 1,530,113     |
| Public works                               | 8,297,040     |
| Recreation and culture                     | 798,109       |
| 41A District Court                         | 55,294        |
| Total governmental activities              | \$ 11,164,181 |
| Business-type activities - Water and Sewer | \$ 4,597,436  |

# **City of Sterling Heights, Michigan**

## **Notes to Financial Statements** **June 30, 2007**

### **Note 5 - Interfund Receivables, Payables, and Transfers**

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

| Receivable Fund             | Payable Fund                | Amount        |
|-----------------------------|-----------------------------|---------------|
| General Fund                | Major Roads Fund            | \$ 140,110    |
|                             | Nonmajor governmental funds | 162,140       |
|                             | Community Development       |               |
|                             | Block Grant Fund            | 8,167         |
|                             | General Improvements Fund   | 8,672         |
|                             |                             | <hr/>         |
|                             | Total General Fund          | 319,089       |
| Nonmajor governmental funds | General Fund                | 144           |
| Water and Sewer Fund        | General Fund                | 2,597,081     |
| Self-insurance Fund         | General Fund                | <hr/> 302,667 |
|                             |                             | <hr/>         |
|                             | Total                       | \$ 3,218,981  |

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

### **Interfund Transfers Reported in the Fund Statements**

| Fund Transferred From    | Fund Transferred To         | Amount          |
|--------------------------|-----------------------------|-----------------|
| General Fund             | Major Roads Fund            | \$ 1,100,000    |
|                          | General Improvements Fund   | 1,600,720       |
|                          | Nonmajor governmental funds | <hr/> 1,341,900 |
|                          |                             | <hr/>           |
|                          | Total                       | 4,042,620       |
| Major Roads Fund         | Nonmajor governmental funds | 3,200,000       |
| General Improvement Fund | Nonmajor governmental funds | 1,346,815       |
| Community Development    |                             |                 |
| Block Grant Fund         | General Fund                | 91,780          |
| Proprietary Funds -      |                             |                 |
| Governmental activity    | Nonmajor governmental funds | <hr/> 9,777,320 |
|                          |                             | <hr/>           |
|                          | Total                       | \$ 18,458,535   |

## **City of Sterling Heights, Michigan**

## **Notes to Financial Statements**

### **June 30, 2007**

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

The transfer from the General Fund to the Major Roads Fund represents the transfer of unrestricted resources for current and future road projects; the transfer from the General Fund to the General Improvements Fund represents unrestricted resources for current and future capital projects; and the transfers from the General Fund to the nonmajor governmental funds represents unrestricted resources for current local road repair and replacement programs and debt service payments. Transfers from the Major Roads Fund to the nonmajor governmental funds represent funding of current debt service and local road maintenance. Transfers from the General Improvements Fund represents funding for debt service payments. Transfers from the Community Development Block Grant Fund to the General Fund represent funding of current grant-related expenditures. Transfers from the Proprietary Fund to the nonmajor governmental funds represents the prefunding of future debt service.

## **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:

|                                   | Unavailable         | Unearned            |
|-----------------------------------|---------------------|---------------------|
| Due from Macomb County (Note 8)   | \$ 1,942,527        | \$ -                |
| Loans receivable - Rehabilitation | - -                 | 1,739,615           |
| Special assessments               | 384,247             | - -                 |
| Other deposits                    | 79,764              | 448,145             |
| <b>Total</b>                      | <b>\$ 2,406,538</b> | <b>\$ 2,187,760</b> |

## **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, 2007

### Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

|   | Beginning<br>Balance | Additions | Reductions and<br>Refundings | Ending Balance | Due Within<br>One Year |
|---|----------------------|-----------|------------------------------|----------------|------------------------|
| <b>Governmental Activities</b>                    |                      |           |                              |                |                        |
| General Obligation Bonds:                         |                      |           |                              |                |                        |
| 1997 Unlimited Tax Road Bonds:                    |                      |           |                              |                |                        |
| Amount of Issue - \$1,850,000                     |                      |           |                              |                |                        |
| Maturing through 2007                             |                      |           |                              |                |                        |
| Interest Rate Ranges 4.70% - 5.10%                |                      |           |                              |                |                        |
| Principal Maturity Range \$175,000 - \$225,000    | \$ 450,000           | \$ -      | \$ (225,000)                 | \$ 225,000     | \$ 225,000             |
| 1998 Unlimited Tax Road Bonds:                    |                      |           |                              |                |                        |
| Amount of Issue - \$2,775,000                     |                      |           |                              |                |                        |
| Maturing through 2007                             |                      |           |                              |                |                        |
| Interest Rate Ranges 3.75% - 5.75%                |                      |           |                              |                |                        |
| Principal Maturity Range \$250,000 - \$375,000    | 725,000              | -         | (350,000)                    | 375,000        | 375,000                |
| 1999 Unlimited Tax Road Bonds:                    |                      |           |                              |                |                        |
| Amount of Issue - \$2,700,000                     |                      |           |                              |                |                        |
| Maturing through 2008                             |                      |           |                              |                |                        |
| Interest Rate Ranges 3.56% - 4.10%                |                      |           |                              |                |                        |
| Principal Maturity Range \$250,000 - \$350,000    | 1,025,000            | -         | (325,000)                    | 700,000        | 350,000                |
| 1999 Michigan Transportation Fund Bonds:          |                      |           |                              |                |                        |
| Amount of Issue - \$5,250,000                     |                      |           |                              |                |                        |
| Maturing through 2013                             |                      |           |                              |                |                        |
| Interest Rate Ranges 4.10% - 4.65%                |                      |           |                              |                |                        |
| Principal Maturity Range \$200,000 - \$600,000    | 3,600,000            | -         | (300,000)                    | 3,300,000      | 300,000                |
| 2000 Building Authority Bonds City Center Commons |                      |           |                              |                |                        |
| Amount of Issue - \$3,700,000                     |                      |           |                              |                |                        |
| Maturing through 2019                             |                      |           |                              |                |                        |
| Interest Rate Ranges 5.00% - 7.00%                |                      |           |                              |                |                        |
| Principal Maturity Range \$75,000 - \$300,000     | 475,000              | -         | (150,000)                    | 325,000        | 150,000                |
| 2000 Michigan Transportation Fund Bonds:          |                      |           |                              |                |                        |
| Amount of Issue - \$4,225,000                     |                      |           |                              |                |                        |
| Maturing through 2014                             |                      |           |                              |                |                        |
| Interest Rate 5.00%                               |                      |           |                              |                |                        |
| Principal Maturity Range \$100,000 - \$500,000    | 400,000              | -         | (200,000)                    | 200,000        | 200,000                |
| 2002 Michigan Transportation Refunding Bonds:     |                      |           |                              |                |                        |
| Amount of Issue - \$4,840,000                     |                      |           |                              |                |                        |
| Maturing through 2009                             |                      |           |                              |                |                        |
| Interest Rate Ranges 2.70% - 4.00%                |                      |           |                              |                |                        |
| Principal Maturity Range \$100,000 - \$890,000    | 2,500,000            | -         | (680,000)                    | 1,820,000      | 740,000                |
| 2003 Michigan Transportation Refunding Bonds:     |                      |           |                              |                |                        |
| Amount of Issue - \$3,050,000                     |                      |           |                              |                |                        |
| Maturing through 2013                             |                      |           |                              |                |                        |
| Interest Rate Ranges 2.375% - 3.60%               |                      |           |                              |                |                        |
| Principal Maturity Range \$120,000 - \$500,000    | 2,740,000            | -         | (415,000)                    | 2,325,000      | 400,000                |
| 2003 Building Authority Refunding Bonds:          |                      |           |                              |                |                        |
| Amount of Issue - \$2,025,000                     |                      |           |                              |                |                        |
| Maturing through 2010                             |                      |           |                              |                |                        |
| Interest Rate Ranges 2.00% - 2.75%                |                      |           |                              |                |                        |
| Principal Maturity Range \$300,000 - \$395,000    | 1,410,000            | -         | (310,000)                    | 1,100,000      | 325,000                |

# City of Sterling Heights, Michigan

## Notes to Financial Statements June 30, 2007

### Note 7 - Long-term Debt (Continued)

|  | Beginning<br>Balance | Additions | Reductions and<br>Refundings | Ending Balance | Due Within<br>One Year |
|--|----------------------|-----------|------------------------------|----------------|------------------------|
| <b>Governmental Activities (Continued)</b>       |                      |           |                              |                |                        |
| General Obligation Bonds (Continued):            |                      |           |                              |                |                        |
| 2004 Judgment Bonds:                             |                      |           |                              |                |                        |
| Amount of Issue - \$24,395,000                   |                      |           |                              |                |                        |
| Maturing through 2015                            |                      |           |                              |                |                        |
| Interest Rate Ranges 2.00% - 5.375%              |                      |           |                              |                |                        |
| Principal Maturity Range \$840,000 - \$3,030,000 | \$ 22,825,000        | \$ -      | \$ (9,980,000)               | \$ 12,845,000  | \$ 930,000             |
| 2005 Michigan Transportation Refunding Bonds:    |                      |           |                              |                |                        |
| Amount of Issue - \$3,285,000                    |                      |           |                              |                |                        |
| Maturing through 2014                            |                      |           |                              |                |                        |
| Interest Rate Ranges 3.00% - 4.125%              |                      |           |                              |                |                        |
| Principal Maturity Range \$35,000 - \$500,000    | 3,250,000            | -         | (35,000)                     | 3,215,000      | 35,000                 |
| 2005 Limited Tax Refunding Bonds:                |                      |           |                              |                |                        |
| Amount of Issue - \$2,820,000                    |                      |           |                              |                |                        |
| Maturing through 2019                            |                      |           |                              |                |                        |
| Interest Rate Ranges 3.00% - 5.00%               |                      |           |                              |                |                        |
| Principal Maturity Range \$25,000 - \$305,000    | 2,795,000            | -         | (25,000)                     | 2,770,000      | 25,000                 |
| 2005 Michigan Transportation Fund Bonds:         |                      |           |                              |                |                        |
| Amount of Issue - \$5,300,000                    |                      |           |                              |                |                        |
| Maturing through 2019                            |                      |           |                              |                |                        |
| Interest Rate Ranges 3.00% - 4.25%               |                      |           |                              |                |                        |
| Principal Maturity Range \$100,000 - \$625,000   | 5,200,000            | -         | (100,000)                    | 5,100,000      | 125,000                |
| 2007 Michigan Transportation Fund Bonds:         |                      |           |                              |                |                        |
| Amount of Issue - \$4,650,000                    |                      |           |                              |                |                        |
| Maturing through 2021                            |                      |           |                              |                |                        |
| Interest Rate Ranges 3.70% - 4.00%               |                      |           |                              |                |                        |
| Principal Maturity Range \$100,000 - \$500,000   | -                    | 4,650,000 | -                            | 4,650,000      | 100,000                |
| 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   | -                    | 3,250,000 | -                            | 3,250,000      | 575,000                |
| County Drain Contract Obligations:               |                      |           |                              |                |                        |
| Green Drain Enclosure:                           |                      |           |                              |                |                        |
| Amount of Issue - \$1,065,000                    |                      |           |                              |                |                        |
| Maturing through 2007                            |                      |           |                              |                |                        |
| Interest Rate Ranges 5.40% - 5.70%               |                      |           |                              |                |                        |
| Principal Maturity Range \$75,000 - \$100,000    | 100,000              | -         | (100,000)                    | -              | -                      |
| Busch Drain Drainage District:                   |                      |           |                              |                |                        |
| Amount of Issue - \$1,250,000                    |                      |           |                              |                |                        |
| Maturing through 2014                            |                      |           |                              |                |                        |
| Interest Rate Ranges 4.00% - 4.55%               |                      |           |                              |                |                        |
| Principal Maturity Range \$50,000 - \$125,000    | 825,000              | -         | (75,000)                     | 750,000        | 100,000                |
| Hawken Drain Drainage District:                  |                      |           |                              |                |                        |
| Amount of Issue - \$795,000                      |                      |           |                              |                |                        |
| Maturing through 2015                            |                      |           |                              |                |                        |
| Interest Rate Ranges 4.45% - 5.25%               |                      |           |                              |                |                        |
| Principal Maturity Range \$50,000 - \$75,000     | 500,000              | -         | (50,000)                     | 450,000        | 50,000                 |

# City of Sterling Heights, Michigan

## Notes to Financial Statements June 30, 2007

### Note 7 - Long-term Debt (Continued)

|  | Beginning<br>Balance | Additions     | Reductions and<br>Refundings | Ending Balance | Due Within<br>One Year |
|--|----------------------|---------------|------------------------------|----------------|------------------------|
| <b>Governmental Activities (Continued)</b>           |                      |               |                              |                |                        |
| County Drain Contract Obligations (Continued):       |                      |               |                              |                |                        |
| Hayes Drainage District:                             |                      |               |                              |                |                        |
| Amount of Issue - \$1,095,000                        |                      |               |                              |                |                        |
| Maturing through 2015                                |                      |               |                              |                |                        |
| Interest Rate Ranges 4.50% - 5.50%                   |                      |               |                              |                |                        |
| Principal Maturity Range \$25,000 - \$125,000        | \$ 875,000           | \$ -          | \$ (75,000)                  | \$ 800,000     | \$ 75,000              |
| 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 \$100,000 - \$275,000       | 2,050,000            | -             | (175,000)                    | 1,875,000      | 175,000                |
| 17 Mile Extension Drainage District:                 |                      |               |                              |                |                        |
| Amount of Issue - \$1,725,000                        |                      |               |                              |                |                        |
| Maturing through 2016                                |                      |               |                              |                |                        |
| Interest Rate Ranges 3.00% - 4.50%                   |                      |               |                              |                |                        |
| Principal Maturity Range \$75,000 - \$150,000        | 1,325,000            | -             | (100,000)                    | 1,225,000      | 100,000                |
| Sterling Relief Lateral 12B Drainage District:       |                      |               |                              |                |                        |
| Amount of Issue - \$885,000                          |                      |               |                              |                |                        |
| Maturing through 2013                                |                      |               |                              |                |                        |
| Interest Rate Ranges 2.00% - 4.00%                   |                      |               |                              |                |                        |
| Principal Maturity Range \$75,000 - \$105,000        | 670,000              | -             | (80,000)                     | 590,000        | 85,000                 |
| 17 Mile Road Drain and Branches Refunding Bonds      |                      |               |                              |                |                        |
| Amount of Issue - \$2,315,000                        |                      |               |                              |                |                        |
| Maturing through 2013                                |                      |               |                              |                |                        |
| Interest Rate Ranges 2.00% - 3.75%                   |                      |               |                              |                |                        |
| Principal Maturity Range \$200,000 - \$290,000       | 1,885,000            | -             | (250,000)                    | 1,635,000      | 245,000                |
| Total bond obligations                               | 55,625,000           | 7,900,000     | (14,000,000)                 | 49,525,000     | 5,685,000              |
| Other long-term obligations:                         |                      |               |                              |                |                        |
| Provision for uninsured losses and other liabilities | 3,841,211            | 5,050,514     | (5,959,769)                  | 2,931,956      | 841,867                |
| Compensated absences - General Fund                  | 4,568,092            | 1,352,222     | (1,225,991)                  | 4,694,323      | 538,672                |
| Total other long-term obligations                    | 8,409,303            | 6,402,736     | (7,185,760)                  | 7,626,279      | 1,380,539              |
| Total governmental activities                        | 64,034,303           | 14,302,736    | (21,185,760)                 | 57,151,279     | 7,065,539              |
| <b>Business-type Activities - Water and Sewer</b>    |                      |               |                              |                |                        |
| Fund obligations - Compensated absences              | 232,642              | 24,320        | (47,204)                     | 209,758        | 62,975                 |
| Total  | \$ 64,266,945        | \$ 14,327,056 | \$ (21,232,964)              | \$ 57,361,037  | \$ 7,128,514           |

# **City of Sterling Heights, Michigan**

## **Notes to Financial Statements** **June 30, 2007**

### **Note 7 - Long-term Debt (Continued)**

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

|                  | <b>Governmental Activities</b> |                          |                          |
|------------------|--------------------------------|--------------------------|--------------------------|
|                  | <b>Principal</b>               | <b>Interest</b>          | <b>Total</b>             |
| 2008             | \$ 5,685,000                   | \$ 1,963,556             | \$ 7,648,556             |
| 2009             | 5,630,000                      | 1,763,436                | 7,393,436                |
| 2010             | 5,310,000                      | 1,569,707                | 6,879,707                |
| 2011             | 5,005,000                      | 1,370,039                | 6,375,039                |
| 2012             | 5,100,000                      | 1,157,551                | 6,257,551                |
| 2013-2017        | 17,750,000                     | 2,725,680                | 20,475,680               |
| 2018-2022        | 5,045,000                      | 463,388                  | 5,508,388                |
| <br><b>Total</b> | <br><u>\$ 49,525,000</u>       | <br><u>\$ 11,013,357</u> | <br><u>\$ 60,538,357</u> |

On August 1, 2006, restricted insurance proceeds were deposited into an escrow account with JP Morgan, the paying agent for the 2004 Judgment Funding Bonds, and U.S. government securities were purchased to cover the \$9,150,000 principal and the related interest for a portion of the 2015 and all of the 2016-2018 bonds. Those securities were deposited into separate irrevocable trusts with an escrow agent to provide for future debt service payments.

During the year, the City issued \$4,650,000 in new Michigan Transportation Fund Bonds. The bonds mature from 2007 through 2021 and carry coupons ranging from 3.70 percent to 4.00 percent. The true interest cost of the issue was 3.97 percent. Bond proceeds totaling \$81,094 were used to pay underwriter fees and other issuance costs. The net proceeds of the bond issue were used to reimburse costs associated with three major road projects completed during fiscal year 2007. The City also issued \$3,250,000 in new Limited Tax General Obligation Bonds. The bonds mature from 2007 through 2012 and carry coupons at 4.00 percent. The true interest cost of the issue was 3.68 percent. Bond proceeds totaling \$53,627 were used to pay underwriter fees and other issuance costs. The net proceeds of the bond issue were used to partially finance the construction of a major addition to the Senior Activity Life Center and equipment purchased related to the 800 MHz emergency radio system during fiscal year 2007.

Additionally, 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 related liability for defeased bonds are not included in the general purpose financial statements.

# **City of Sterling Heights, Michigan**

## **Notes to Financial Statements** **June 30, 2007**

### **Note 7 - Long-term Debt (Continued)**

At June 30, 2007, the City's portion of bonds outstanding considered defeased totals \$5,725,000.

### **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. Specific assets of the General Improvements Fund are restricted as the result of an external government issuing bonds for which state law requires the proceeds of the issue to be used exclusively for the purpose the bonds were issued or the repayment of the bonds. Following is the detail of restricted assets at June 30, 2007:

#### Water and Sewer Fund:

|                            |                  |
|----------------------------|------------------|
| Cash and cash equivalents  | \$ 5,149,519     |
| Investments                | <u>2,268,781</u> |
| Total Water and Sewer Fund | 7,418,300        |

#### General Improvements Fund - Due from Macomb County\*

|                         |                     |
|-------------------------|---------------------|
| (Note 6)                | <u>1,942,527</u>    |
| Total restricted assets | <u>\$ 9,360,827</u> |

\* This amount is held by Macomb County in the 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 restricted assets and net assets have been reserved.

### **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 \$1,739,615 at June 30, 2007 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.

# **City of Sterling Heights, Michigan**

---

## **Notes to Financial Statements** **June 30, 2007**

### **Note 10 - Risk Management**

The City is exposed to various risks of loss related to property loss, errors and omissions, and employee injuries (workers' compensation and short-term disability), as well as medical benefits provided to employees. The City is self-funded for all of these claims up to a retention amount, at which time the City's reinsurance coverage begins. Settled claims did not exceed the amount of reinsurance coverage for any of the last three years.

#### **Property Liability**

The City purchased reinsurance through Arthur J. Gallagher and Company, an international insurance brokerage firm.

It is estimated, based on past experience, that \$1,486,462 will be paid for all claims reported to date and \$581,798 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:

|  | <b>2007</b>         | <b>2006</b>         |
|--|---------------------|---------------------|
| Estimated liability - Beginning of year                      | \$ 2,489,791        | \$ 2,400,823        |
| Estimated claims incurred, including<br>changes in estimates | (252,856)           | 253,987             |
| Claim payments   | (168,675)           | (165,019)           |
| Estimated liability - End of year                            | <u>\$ 2,068,260</u> | <u>\$ 2,489,791</u> |

#### **Medical Claims and Short-term Disability**

As of April 1, 1989, the City became self-insured for Blue Cross/Blue Shield equivalent healthcare coverage. Under the program, the City 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, 2007. At January 1, 1990, the City became self-insured for short-term disability.

# **City of Sterling Heights, Michigan**

## **Notes to Financial Statements** **June 30, 2007**

### **Note 10 - Risk Management (Continued)**

It is estimated, based on past experience, that \$70,553 will be paid for all claims reported to date and \$1,175,224 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 Fiduciary Fund. Changes in the estimated liability for the past two fiscal years are as follows:

|  | <b>Self-insurance<br/>Internal Service Fund</b> |                     |
|--|---|---------------------|
|  | <b>2007</b>                                     | <b>2006</b>         |
| Estimated liability - Beginning of year                      | \$ 1,124,472                                    | \$ 1,348,880        |
| Estimated claims incurred, including changes in<br>estimates | 4,898,507                                       | 4,827,091           |
| Claim payments   | (5,307,614)                                     | (5,051,499)         |
| Estimated liability - End of year                            | <u>\$ 715,365</u>                               | <u>\$ 1,124,472</u> |

|  | <b>Retiree Medical<br/>Benefits Fund</b> |                   |
|--|--|-------------------|
|  | <b>2007</b>                              | <b>2006</b>       |
| Estimated liability - Beginning of year                      | \$ 774,285                               | \$ 924,646        |
| Estimated claims incurred, including changes in<br>estimates | 3,999,425                                | 3,566,210         |
| Claim payments   | (4,243,298)                              | (3,716,571)       |
| Estimated liability - End of year                            | <u>\$ 530,412</u>                        | <u>\$ 774,285</u> |

# **City of Sterling Heights, Michigan**

## **Notes to Financial Statements** **June 30, 2007**

### **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, 2007, it was estimated, based on past experience, that \$148,331 will be paid in total for both claims reported to date and claims incurred but not reported. This estimated liability for claims reported to date has been recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

|   | <u>2007</u>       | <u>2006</u>       |
|---|-------------------|-------------------|
| Estimated liability - Beginning of year                   | \$ 226,948        | \$ 231,371        |
| Estimated claims incurred, including changes in estimates | 152,007           | 215,361           |
| Claim payments  | <u>(230,624)</u>  | <u>(219,784)</u>  |
| Estimated liability - End of year                         | <u>\$ 148,331</u> | <u>\$ 226,948</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 June 30, 2007, membership consisted of 221 retirees, beneficiaries, alternative payees currently receiving benefits, 13 terminated employees entitled to benefits but not yet receiving them, and 266 current active employees.

**Police and Fire Retirement System** - This system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2007, membership consisted of 241 retirees, beneficiaries, alternate payees currently receiving benefits, no terminated employees entitled to benefits but not yet receiving them, and 271 current active employees.

# **City of Sterling Heights, Michigan**

---

## **Notes to Financial Statements** **June 30, 2007**

### **Note 11 - Defined Benefit Pension Plans (Continued)**

#### **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 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, 2007, the City had no required pension contributions (exclusive of administrative costs of approximately \$672,500). The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, 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, 2007**

### **Note 11 - Defined Benefit Pension Plans (Continued)**

**Police and Fire Retirement System** - For the fiscal year ended June 30, 2007, the City's annual pension cost of \$2,646,459 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, 2005, 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 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.

|  | Year Ended   |              |              |
|--|--------------|--------------|--------------|
|  | 2005         | 2006         | 2007         |
| <b>General Employees' Retirement System:</b> |              |              |              |
| Annual pension costs (APC)                   | \$ -         | \$ -         | \$ -         |
| Percentage of APC contributed                | 100%         | 100%         | 100%         |
| Net pension obligation                       | \$ -         | \$ -         | \$ -         |
| <b>Police and Fire Retirement System:</b>    |              |              |              |
| Annual pension costs (APC)                   | \$ 4,204,831 | \$ 2,993,592 | \$ 2,646,459 |
| Percentage of APC contributed                | 100%         | 100%         | 100%         |
| Net pension obligation                       | \$ -         | \$ -         | \$ -         |

# City of Sterling Heights, Michigan

## Notes to Financial Statements June 30, 2007

### Note 11 - Defined Benefit Pension Plans (Continued)

#### Statement of Net Assets

|   | General                            |   |  |
|---|------------------------------------|---|--|
|   | Employees'<br>Retirement<br>System | Police and Fire<br>Retirement<br>System |  |
| <b>Assets</b>   |                                    |   |  |
| Cash and cash equivalents   | \$ 5,202,977                       | \$ 6,201,441                            |  |
| Investments - At fair value:                                      |                                    |   |  |
| U.S. government securities  | 7,487,877                          | 16,758,708                              |  |
| Corporate bonds   | 31,902,038                         | 57,985,078                              |  |
| Common and preferred stocks                                       | 86,183,466                         | 121,508,776                             |  |
| Pooled investments  | -                                  | 10,002,259                              |  |
| Cash and investments held as collateral<br>for securities lending | 8,430,749                          | 27,894,289                              |  |
| Receivables - Accrued interest                                    | 370,613                            | 686,930                                 |  |
| <b>Total assets</b>   | <b>139,577,720</b>                 | <b>241,037,481</b>                      |  |
| <b>Liabilities</b>  |                                    |   |  |
| Accounts payable  | 357,073                            | 1,094,940                               |  |
| Accrued and other liabilities                                     | 1,343,907                          | 3,447,981                               |  |
| Amounts due to broker under securities<br>lending agreements      | 8,430,749                          | 27,894,289                              |  |
| Deferred revenue  | 3,051                              | -                                       |  |
| <b>Total liabilities</b>  | <b>10,134,780</b>                  | <b>32,437,210</b>                       |  |
| <b>Net Assets - Held in trust for pensions</b>                    | <b>\$ 129,442,940</b>              | <b>\$ 208,600,271</b>                   |  |

# City of Sterling Heights, Michigan

## Notes to Financial Statements June 30, 2007

### Note 11 - Defined Benefit Pension Plans (Continued)

#### Statement of Changes in Net Assets

|  | General<br>Employees'<br>Retirement<br>System | Police and Fire<br>Retirement<br>System |
|--|---|---|
| <b>Additions</b>                               |   |   |
| Investment income (loss):                      |   |   |
| Interest and dividends                         | \$ 3,282,943                                  | \$ 6,274,440                            |
| Net adjustment to fair value of<br>investments | 13,139,041                                    | 16,583,244                              |
| Less investment expenses                       | <u>-</u>                                      | <u>(1,114,306)</u>                      |
| Net investment income                          | 16,421,984                                    | 21,743,378                              |
| Securities lending income:                     |   |   |
| Interest and fees                              | 786,509                                       | 1,384,400                               |
| Less borrower rebates and bank fees            | <u>(768,053)</u>                              | <u>(1,352,038)</u>                      |
| Net securities lending income                  | 18,456  | 32,362                                  |
| Contributions:                                 |   |   |
| Employer                                       | <u>-</u>                                      | 2,646,459                               |
| Employee                                       | 788,674                                       | 1,248,718                               |
| Purchase of prior year's service credits       | <u>1,166,814</u>                              | <u>-</u>                                |
| Total additions                                | 18,395,928                                    | 25,670,917                              |
| <b>Deductions</b>                              |   |   |
| Benefit payments                               | 4,085,110                                     | 10,912,214                              |
| Refunds of contributions                       | <u>473,842</u>                                | <u>1,007,685</u>                        |
| Total deductions                               | 4,558,952                                     | 11,919,899                              |
| <b>Change in Net Assets</b>                    |   |   |
| Net Assets - Beginning of year                 | 115,605,964                                   | 194,849,253                             |
| Net Assets - End of year                       | <u>\$ 129,442,940</u>                         | <u>\$ 208,600,271</u>                   |

# **City of Sterling Heights, Michigan**

---

## **Notes to Financial Statements** **June 30, 2007**

### **Note 12 - Defined Contribution Pension Plan**

The City provides pension benefits to new employees who are members of the MAPE Executive Union, non-union 41A District Court employees, UAW TOPS members, UAW supervisors, and MAPE clerical members 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 employees' individual accounts. The City's contributions to the employees' account including investment earnings are fully vested after five years of service. In accordance with these requirements, the City contributed \$256,710 during the current year and employees contributed \$223,018.

All new employees of the above-mentioned groups participate from the date of employment. Current members of the above unions can elect to withdraw from the defined benefit plan and enter the defined contribution plan. No assets were transferred into the defined contribution plan during the current year since no members elected to withdraw from the defined benefit plan.

### **Note 13 - Postemployment Benefits**

In addition to providing pension benefits, the City provides certain health care benefits, in accordance with labor contracts, for retired general, police, and fire employees. Substantially all of the City's employees mentioned above may become eligible for those benefits if they reach normal retirement age while working for the City. Currently, 197 general and 221 police and fire retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant, except for the M.A.P.E. Executives Union and the U.A.W. Professional and Technical Employees Union, which, effective July 1, 2003, requires new members to pay 25 percent of the monthly retiree health care coverage premium upon retirement; the M.A.P. Police Officers Union and the A.F.S.C.M.E. Court Clerical Union, which, effective July 1, 2006, requires new members to pay 50 percent of the monthly retiree health care coverage premium upon retirement; and the U.A.W. Supervisory Employees Union, which, effective January 1, 2007, requires new members to pay 50 percent of the monthly retiree health care coverage premium upon retirement. The City purchases Medicare supplemental insurance for retirees eligible for Medicare.

# **City of Sterling Heights, Michigan**

## **Notes to Financial Statements** **June 30, 2007**

### **Note 13 - Postemployment Benefits (Continued)**

The cost of retiree health care 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 \$7,028,410, which was funded by the General and Water and Sewer Funds, and health care benefits paid totaled \$4,411,496.

#### **Statement of Net Assets**

|   | <b>Retiree Medical<br/>Benefits</b> |
|---|-------------------------------------|
| <b>Assets</b>   |                                     |
| Cash and cash equivalents                                       | \$ 128,182                          |
| Investments - At fair value:                                    |                                     |
| Government securities   | 2,987,828                           |
| Corporate bonds   | 561,997                             |
| Common and preferred stocks                                     | <u>10,848,169</u>                   |
| Total assets  | 14,526,176                          |
| <b>Liabilities</b>  |                                     |
| Accounts payable  | 2,999                               |
| Accrued and other liabilities                                   | 8,725                               |
| Due to other governmental units                                 | 296,960                             |
| Provision for uninsured losses and liabilities                  | <u>530,412</u>                      |
| Total liabilities   | <u>839,096</u>                      |
| <b>Net Assets - Held in trust for other retirement benefits</b> | <b><u>\$ 13,687,080</u></b>         |

# **City of Sterling Heights, Michigan**

## **Notes to Financial Statements** **June 30, 2007**

### **Note 13 - Postemployment Benefits (Continued)**

#### **Statement of Changes in Net Assets**

|   | Retiree Medical<br>Benefits |
|---|-----------------------------|
| <b>Additions</b>                            |                             |
| Investment income (loss):                   |                             |
| Interest and dividends                      | \$ 312,992                  |
| Net adjustment to fair value of investments | 1,458,125                   |
| Less investment expenses                    | <u>(105,053)</u>            |
| Net investment income                       | 1,666,064                   |
| Contributions - Employer                    | 7,028,410                   |
| Insurance recovery                          | <u>103,310</u>              |
| Total additions                             | 8,797,784                   |
| <b>Deductions - Benefit payments</b>        | <u>4,411,496</u>            |
| <b>Net Change in Net Assets</b>             | 4,386,288                   |
| <b>Net Assets - Beginning of year</b>       | <u>9,300,792</u>            |
| <b>Net Assets - End of year</b>             | <u>\$ 13,687,080</u>        |

# **City of Sterling Heights, Michigan**

## **Notes to Financial Statements** **June 30, 2007**

### **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                |                     |                     |                   |                     | Nonmajor            |
|--------------------------|----------------------|---------------------|---------------------|-------------------|---------------------|---------------------|
|                          | General              | Major Roads         | Improvements        | Road Construction | Bond                |                     |
| Debt service             | \$ -                 | \$ -                | \$ -                | \$ -              | \$ -                | \$ 118,705          |
| Capital improvement      | -                    | 2,709,897           | 2,142,105           | 520,119           |                     | 978,203             |
| Public safety            | -                    | -                   | -                   | -                 |                     | 802,645             |
| Retiree medical benefits | 2,100,000            | -                   | -                   | -                 |                     | -                   |
| <b>Total designated</b>  | <b>\$ 2,100,000</b>  | <b>\$ 2,709,897</b> | <b>\$ 2,142,105</b> | <b>\$ 520,119</b> | <b>\$ 1,899,553</b> |                     |
| <b>Undesignated</b>      | <b>\$ 12,937,933</b> | <b>\$ -</b>         | <b>\$ -</b>         | <b>\$ -</b>       | <b>\$ -</b>         | <b>\$ 1,320,108</b> |

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

| Designated for      | Enterprise Fund -<br>Water and Sewer |
|---------------------|--------------------------------------|
| Capital improvement | \$ 2,540,000                         |
| Undesignated        | \$ 26,623,010                        |

## **Required Supplemental Information**

---

# City of Sterling Heights, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

|   | Original<br>Budget   | Final<br>Budget      | Actual               | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|----------------------|----------------------|----------------------|---|
| <b>Fund Balance - Beginning of year</b>               | \$ 15,050,244        | \$ 15,050,244        | \$ 15,050,244        | \$ -  |
| <b>Resources (Inflows)</b>                            |                      |                      |                      |   |
| Property taxes  | 46,592,670           | 46,592,670           | 46,585,168           | (7,502)   |
| Refuse taxes  | 4,210,420            | 4,210,420            | 4,205,469            | (4,951)   |
| Police and fire pension taxes                         | 2,646,450            | 2,646,450            | 2,646,459            | 9   |
| Federal, state, and local returns                     | 11,835,680           | 11,713,680           | 11,776,803           | 63,123  |
| Licenses and permits                                  | 2,291,600            | 1,974,600            | 1,784,156            | (190,444)   |
| Fines and forfeitures                                 | 2,765,850            | 2,627,800            | 2,563,520            | (64,280)  |
| Charges for services                                  | 8,284,600            | 8,222,880            | 8,038,601            | (184,279)   |
| Cable revenue   | 1,320,000            | 1,445,000            | 1,527,988            | 82,988  |
| Other revenue   | 2,946,630            | 4,105,000            | 4,223,257            | 118,257   |
| Transfer from other funds                             | 91,780               | 91,780               | 91,780               | -   |
| <b>Total resources (inflows)</b>                      | <b>82,985,680</b>    | <b>83,630,280</b>    | <b>83,443,201</b>    | <b>(187,079)</b>  |
| <b>Charges to Appropriations (Outflows)</b>           |                      |                      |                      |   |
| City administration                                   | 8,145,710            | 8,129,900            | 8,129,513            | 387   |
| 41A District Court                                    | 2,861,380            | 2,851,210            | 2,847,111            | 4,099   |
| Parks and recreation department                       | 2,388,540            | 2,398,660            | 2,428,267            | (29,607)  |
| Community and information<br>services                 | 2,526,740            | 2,457,120            | 2,432,645            | 24,475  |
| Police department                                     | 26,617,450           | 26,626,350           | 26,658,773           | (32,423)  |
| Fire department                                       | 14,973,790           | 14,934,920           | 14,827,978           | 106,942   |
| City development                                      | 2,878,530            | 2,859,400            | 2,865,725            | (6,325)   |
| Public works department                               | 7,843,240            | 7,931,500            | 8,002,422            | (70,922)  |
| Refuse collection                                     | 4,253,420            | 4,106,320            | 4,089,428            | 16,892  |
| Public library department                             | 2,694,170            | 2,763,800            | 2,752,230            | 11,570  |
| General expenditures                                  | 3,468,360            | 3,722,660            | 3,698,838            | 23,822  |
| Transfers to other funds                              | 4,310,120            | 4,042,620            | 4,042,620            | -   |
| <b>Total charges to appropriations<br/>(outflows)</b> | <b>82,961,450</b>    | <b>82,824,460</b>    | <b>82,775,550</b>    | <b>48,910</b>   |
| <b>Fund Balance - End of year</b>                     | <b>\$ 15,074,474</b> | <b>\$ 15,856,064</b> | <b>\$ 15,717,895</b> | <b>\$ (138,169)</b>                                     |

# City of Sterling Heights, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Roads Fund Year Ended June 30, 2007

|   | Original<br>Budget  | Final<br>Budget     | Actual              | Variance With<br>Final Budget<br>Positive<br>(Negative) |
|---|---------------------|---------------------|---------------------|---|
| <b>Fund Balance - Beginning of year</b>       | \$ 1,606,482        | \$ 1,606,482        | \$ 1,606,482        | \$ -  |
| <b>Resources (Inflows)</b>                    |                     |                     |                     |   |
| State sources                                 | 5,513,240           | 5,345,240           | 5,344,527           | (713)   |
| Other   | 270,000             | 284,500             | 313,623             | 29,123  |
| Transfers from other funds                    | 1,100,000           | 1,100,000           | 1,100,000           | -   |
| Total resources (inflows)                     | 6,883,240           | 6,729,740           | 6,758,150           | 28,410  |
| <b>Charges to Appropriations (Outflows)</b>   |                     |                     |                     |   |
| Public works:                                 |                     |                     |                     |   |
| Administration                                | 108,700             | 108,700             | 109,030             | (330)   |
| Routine maintenance                           | 1,739,500           | 1,640,000           | 1,617,614           | 22,386  |
| Improvements                                  | 1,046,000           | 926,170             | 703,091             | 223,079   |
| Transfers to other funds                      | 3,200,000           | 3,200,000           | 3,200,000           | -   |
| Total charges to appropriations<br>(outflows) | 6,094,200           | 5,874,870           | 5,629,735           | 245,135   |
| <b>Fund Balance - End of year</b>             | <b>\$ 2,395,522</b> | <b>\$ 2,461,352</b> | <b>\$ 2,734,897</b> | <b>\$ 273,545</b>                                       |

# City of Sterling Heights, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Community Development Block Grant Fund Year Ended June 30, 2007

|   | Original<br>Budget | Final Budget | Actual    | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|--------------------|--------------|-----------|---|
| <b>Fund Balance - Beginning of year</b>             | \$ -               | \$ -         | \$ -      | \$ -  |
| <b>Resources (Inflows)</b>                          |                    |              |           |   |
| Federal sources                                     | 702,700            | 1,197,040    | 1,223,013 | 25,973  |
| Other   | -                  | -            | 4,579     | 4,579   |
| Total resources (inflows)                           | 702,700            | 1,197,040    | 1,227,592 | 30,552  |
| <b>Charges to Appropriations (Outflows)</b>         |                    |              |           |   |
| Administrative expenses                             | 14,220             | 14,970       | 14,645    | 325   |
| Books   | 10,000             | 10,000       | 10,000    | -   |
| Senior Citizens Home Chore<br>and Minor Home Repair | 25,000             | 25,000       | 25,556    | (556)   |
| Single Parent Education Program                     | 25,210             | 25,210       | 24,960    | 250   |
| Housing Rehabilitation Program                      | 82,300             | 102,300      | 132,205   | (29,905)  |
| Contributions to nonprofit organizations            | 20,190             | 20,190       | 17,756    | 2,434   |
| Capital improvements                                | 434,000            | 907,590      | 910,690   | (3,100)   |
| Transfers to other funds                            | 91,780             | 91,780       | 91,780    | -   |
| Total charges to appropriations<br>(outflows)       | 702,700            | 1,197,040    | 1,227,592 | (30,552)  |
| <b>Fund Balance - End of year</b>                   | \$ -               | \$ -         | \$ -      | \$ -  |

# City of Sterling Heights, Michigan

## Required Supplemental Information Pension Systems Schedule of Funding Progress June 30, 2007

The schedule of funding progress is as follows:

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of Plan<br>Assets<br>(a) | Actuarial     |                               |                        | Funded Ratio<br>(Percent)<br>(a/b) | Annual Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered Payroll<br>(b-a)/(c)<br>Underfunded/<br>(Overfunded)<br>(Overfunded) |
|--------------------------------|---|---------------|-------------------------------|------------------------|------------------------------------|----------------------------------|--|
|                                |   | Actuarial     | Accrued<br>Liability<br>(AAL) | Unfunded<br>AAL (UAAL) |                                    |                                  |  |
|                                |   | Assets<br>(b) | (b-a)                         | (b-a)                  |                                    |                                  |  |

### General Employees' Retirement System

|          |               |               |                 |       |               |          |
|----------|---------------|---------------|-----------------|-------|---------------|----------|
| 12/31/01 | \$ 97,369,495 | \$ 67,431,670 | \$ (29,937,825) | 144.4 | \$ 14,383,348 | (208.1%) |
| 12/31/02 | 97,272,398    | 73,294,274    | (23,978,124)    | 132.7 | 14,304,432    | (167.6%) |
| 12/31/03 | 99,270,906    | 77,021,654    | (22,249,252)    | 128.9 | 14,544,030    | (153.0%) |
| 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 | 118,967,737   | 95,810,183    | (23,158,554)    | 124.2 | 15,382,785    | (150.5%) |

### Police and Fire Retirement System

|          |                |                |                 |       |               |          |
|----------|----------------|----------------|-----------------|-------|---------------|----------|
| 12/31/01 | \$ 187,772,035 | \$ 133,938,061 | \$ (53,833,974) | 140.2 | \$ 18,504,190 | (290.9%) |
| 12/31/02 | 184,609,657    | 141,187,613    | (43,422,044)    | 130.8 | 18,595,100    | (233.5%) |
| 12/31/03 | 183,664,050    | 149,968,630    | (33,695,420)    | 122.5 | 18,271,862    | (184.4%) |
| 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%) |

# **City of Sterling Heights, Michigan**

## **Required Supplemental Information Pension Systems Schedule of Funding Progress (Continued) June 30, 2007**

### **General Employees' Retirement System**

| <b>Fiscal Year Ended</b> | <b>Actuarial<br/>Valuation Date</b> | <b>Annual Required<br/>Contribution*</b> | <b>Percentage<br/>Contributed</b> |
|--------------------------|-------------------------------------|--|-----------------------------------|
| 06/30/02                 | 12/31/00                            | \$ -                                     | 100.0                             |
| 06/30/03                 | 12/31/01                            | -  | 100.0                             |
| 06/30/04                 | 12/31/02                            | -  | 100.0                             |
| 06/30/05                 | 12/31/03                            | -  | 100.0                             |
| 06/30/06                 | 12/31/04                            | -  | 100.0                             |
| 06/30/07                 | 12/31/05                            | -  | 100.0                             |

### **Police and Fire Retirement System**

| <b>Fiscal Year Ended</b> | <b>Actuarial<br/>Valuation Date</b> | <b>Annual Required<br/>Contribution*</b> | <b>Percentage<br/>Contributed</b> |
|--------------------------|-------------------------------------|--|-----------------------------------|
| 06/30/02                 | 12/31/00                            | \$ 1,634,437                             | 100.0                             |
| 06/30/03                 | 12/31/01                            | 2,747,983                                | 100.0                             |
| 06/30/04                 | 12/31/02                            | 3,545,592                                | 100.0                             |
| 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                             |

\* 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, 2007**

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2006, the latest actuarial valuation, follows:

### **General Employees' Retirement System**

|                                 |                          |
|---------------------------------|--------------------------|
| Actuarial cost method           | Entry age                |
| Amortization method             | Level percent of payroll |
| Amortization period (perpetual) | 16 years                 |
| Asset valuation method          | 4-year smoothed market   |
| Actuarial assumptions:          |                          |
| Investment rate of return       | 8.0%                     |
| Projected salary increases*     | 5.0% - 13.5%             |
| *Includes inflation at          | 4.5%                     |
| Cost of living adjustments      | None                     |

### **Police and Fire Retirement System**

|                                 |                          |
|---------------------------------|--------------------------|
| Actuarial cost method           | Entry age                |
| Amortization method             | Level percent of payroll |
| Amortization period (perpetual) | 20 years                 |
| Asset valuation method          | 4-year smoothed market   |
| Actuarial assumptions:          |                          |
| Investment rate of return       | 8.0%                     |
| Projected salary increases*     | 1.0% - 17.0%             |
| *Includes inflation at          | 4.0%                     |
| Cost of living adjustments      | None                     |

An additional \$800 will be paid to pre-07/01/94 COA and fire retirees and \$500 for pre-07/01/93 MAP retirees each January 1 following the year of service retirement, or converted service retirement, terminating upon the member's death.

# **City of Sterling Heights, Michigan**

---

## **Note to Required Supplemental Information**

**June 30, 2007**

### **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 revenues 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 revenues 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, 2007**

### **Note - Stewardship, Compliance, and Accountability (Continued)**

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

|   | <u>Budget</u>        | <u>Actual</u>        |
|---|----------------------|----------------------|
| General Fund:                                 |                      |                      |
| Parks and recreation department               | \$ 2,398,660         | \$ 2,428,267         |
| Police department                             | 26,626,350           | 26,658,773           |
| City development                              | 2,859,400            | 2,865,725            |
| Public works department                       | <u>7,931,500</u>     | <u>8,002,422</u>     |
| Total General Fund                            | <u>\$ 39,815,910</u> | <u>\$ 39,955,187</u> |
| Community Development Block Grant Fund:       |                      |                      |
| Senior Home Chore & Minor Home Repair program | \$ 25,000            | \$ 25,556            |
| Housing Rehabilitation program                | 102,300              | 132,205              |
| Capital Improvements program                  | <u>907,590</u>       | <u>910,690</u>       |
| Total Community Development Block Grant Fund  | <u>\$ 1,034,890</u>  | <u>\$ 1,068,451</u>  |

The General Fund had unfavorable variances in the following:

- Parks and recreation was the result of higher than anticipated costs for scheduled recreation programs.
- Police was the result of higher than anticipated personnel costs as the result of increased law enforcement activity.
- City development was the result of higher than anticipated personnel costs as the result of an unanticipated retirement.
- Public works was due to higher than anticipated fuel and maintenance costs.

# **City of Sterling Heights, Michigan**

---

## **Note to Required Supplemental Information**

**June 30, 2007**

### **Note - Stewardship, Compliance, and Accountability (Continued)**

The Community Development Block Grant Fund had unfavorable variances in the following:

- Senior Home Chore & Minor Home Repair program was due to higher than anticipated costs for eligible program expenses.
- Housing Rehabilitation program resulted from higher than anticipated repayment of loans generating additional funds for additional eligible program expenses.
- Capital improvements program was due to higher than anticipated costs for eligible program expenses.

## **Nonmajor Governmental Funds**

---

# City of Sterling Heights, Michigan

## Nonmajor Special Revenue Funds

|                                      | Budget<br>Stabilization | Local<br>Roads      | Land and Water<br>Conservation | Public Safety<br>Forfeiture | Total<br>Nonmajor<br>Special<br>Revenue Funds |
|--------------------------------------|-------------------------|---------------------|--------------------------------|-----------------------------|---|
| <b>Assets</b>                        |                         |                     |                                |                             |   |
| Cash and cash equivalents            | \$ 750,000              | \$ 303,138          | \$ 68,840                      | \$ 324,928                  | \$ 1,446,906                                  |
| Investments                          | -                       | 500,000             | 500,000                        | 500,000                     | 1,500,000                                     |
| Receivables:                         |                         |                     |                                |                             |   |
| Special assessments:                 |                         |                     |                                |                             | -   |
| Current                              | -                       | 38,143              | -                              | -                           | 38,143  |
| Deferred                             | -                       | 343,286             | -                              | -                           | 343,286                                       |
| Accrued interest                     | -                       | 6,601               | 3,126                          | -                           | 9,727   |
| Prepaid costs and other assets       | -                       | -                   | 4,070                          | 5,370                       | 9,440   |
| Due from other funds                 | -                       | -                   | 144                            | -                           | 144   |
| Due from other governmental units    | -                       | 311,174             | -                              | -                           | 311,174                                       |
| Total assets                         | <b>\$ 750,000</b>       | <b>\$ 1,502,342</b> | <b>\$ 576,180</b>              | <b>\$ 830,298</b>           | <b>\$ 3,658,820</b>                           |
| <b>Liabilities and Fund Balances</b> |                         |                     |                                |                             |   |
| <b>Liabilities</b>                   |                         |                     |                                |                             |   |
| Accounts payable                     | \$ -                    | \$ 1,368            | \$ 6,072                       | \$ 20,092                   | \$ 27,532                                     |
| Accrued and other liabilities        | -                       | -                   | -                              | -                           | -   |
| Due to other funds                   | -                       | 161,359             | -                              | 781                         | 162,140                                       |
| Deferred revenue                     | -                       | 343,286             | -                              | -                           | 343,286                                       |
| Total liabilities                    | -                       | 506,013             | 6,072                          | 20,873                      | 532,958                                       |
| <b>Fund Balances</b>                 |                         |                     |                                |                             |   |
| Reserved for encumbrances            | -                       | 18,126              | -                              | 6,780                       | 24,906  |
| Unreserved:                          |                         |                     |                                |                             |   |
| Designated for road improvements     | -                       | 978,203             | -                              | -                           | 978,203                                       |
| Designated for debt service          | -                       | -                   | -                              | -                           | -   |
| Designated for public safety         | -                       | -                   | -                              | 802,645                     | 802,645                                       |
| Undesignated                         | 750,000                 | -                   | 570,108                        | -                           | 1,320,108                                     |
| Total fund balance                   | 750,000                 | 996,329             | 570,108                        | 809,425                     | 3,125,862                                     |
| Total liabilities and fund balances  | <b>\$ 750,000</b>       | <b>\$ 1,502,342</b> | <b>\$ 576,180</b>              | <b>\$ 830,298</b>           | <b>\$ 3,658,820</b>                           |

**Other Financial and Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2007**

**Nonmajor Debt Service Funds**

| General Drain    | RS&T Debt Service | Settlement Bond | Road Bond Debt Retirement | Limited Tax General Obligation | Total Nonmajor Debt Service Funds | Total Nonmajor Governmental Funds |
|------------------|-------------------|-----------------|---------------------------|--------------------------------|-----------------------------------|-----------------------------------|
| \$ 24,772        | \$ 10,575         | \$ 1,188        | \$ 16,729                 | \$ 40,492                      | \$ 93,756                         | \$ 1,540,662                      |
| -                | -                 | -               | 50,000                    | -                              | 50,000                            | 1,550,000                         |
| -                | -                 | -               | -                         | -                              | -                                 | 38,143                            |
| -                | -                 | -               | -                         | -                              | -                                 | 343,286                           |
| -                | -                 | -               | 537                       | -                              | 537                               | 10,264                            |
| -                | -                 | -               | -                         | -                              | -                                 | 9,440                             |
| -                | -                 | -               | -                         | -                              | -                                 | 144                               |
| -                | -                 | -               | -                         | -                              | -                                 | 311,174                           |
| <b>\$ 24,772</b> | <b>\$ 10,575</b>  | <b>\$ 1,188</b> | <b>\$ 67,266</b>          | <b>\$ 40,492</b>               | <b>\$ 144,293</b>                 | <b>\$ 3,803,113</b>               |
| <br>             | <br>              | <br>            | <br>                      | <br>                           | <br>                              | <br>                              |
| \$ 244           | \$ 195            | \$ -            | \$ 14,677                 | \$ -                           | \$ 439                            | \$ 27,971                         |
| -                | -                 | -               | 14,677                    | 10,472                         | 25,149                            | 25,149                            |
| -                | -                 | -               | -                         | -                              | -                                 | 162,140                           |
| -                | -                 | -               | -                         | -                              | -                                 | 343,286                           |
| 244              | 195               | -               | 14,677                    | 10,472                         | 25,588                            | 558,546                           |
| -                | -                 | -               | -                         | -                              | -                                 | 24,906                            |
| -                | -                 | -               | -                         | -                              | -                                 | 978,203                           |
| 24,528           | 10,380            | 1,188           | 52,589                    | 30,020                         | 118,705                           | 118,705                           |
| -                | -                 | -               | -                         | -                              | -                                 | 802,645                           |
| -                | -                 | -               | -                         | -                              | -                                 | 1,320,108                         |
| <b>24,528</b>    | <b>10,380</b>     | <b>1,188</b>    | <b>52,589</b>             | <b>30,020</b>                  | <b>118,705</b>                    | <b>3,244,567</b>                  |
| <br>             | <br>              | <br>            | <br>                      | <br>                           | <br>                              | <br>                              |
| <b>\$ 24,772</b> | <b>\$ 10,575</b>  | <b>\$ 1,188</b> | <b>\$ 67,266</b>          | <b>\$ 40,492</b>               | <b>\$ 144,293</b>                 | <b>\$ 3,803,113</b>               |

# City of Sterling Heights, Michigan

---

| Nonmajor Special Revenue Funds                          |                         |                   |                                |                             |  |      |
|---|-------------------------|-------------------|--------------------------------|-----------------------------|--|------|
|   | Budget<br>Stabilization | Local<br>Roads    | Land and Water<br>Conservation | Public Safety<br>Forfeiture | Total Nonmajor<br>Special Revenue<br>Funds |      |
| <b>Revenues</b>   |                         |                   |                                |                             |  |      |
| Property taxes  | \$ -                    | \$ -              | \$ -                           | \$ -                        | \$ -                                       | \$ - |
| Federal sources   | -                       | -                 | -                              | 382,638                     | 382,638                                    |      |
| State sources   | -                       | 1,979,912         | 199,694                        | 456,367                     | 2,635,973                                  |      |
| Interest income   | -                       | 20,882            | 23,479                         | -                           | 44,361                                     |      |
| Other   | -                       | 160,939           | -                              | -                           | 160,939                                    |      |
| Total revenues  | -                       | 2,161,733         | 223,173                        | 839,005                     | 3,223,911                                  |      |
| <b>Expenditures</b>                                     |                         |                   |                                |                             |  |      |
| Current:  |                         |                   |                                |                             |  |      |
| Public works  | -                       | 1,835,221         | -                              | -                           | 1,835,221                                  |      |
| Public safety   | -                       | -                 | -                              | 124,226                     | 124,226                                    |      |
| Other   | -                       | -                 | -                              | -                           | -  |      |
| Capital outlay  | -                       | 1,452,906         | 108,684                        | 243,752                     | 1,805,342                                  |      |
| Debt service  | -                       | -                 | -                              | -                           | -  |      |
| Total expenditures                                      | -                       | 3,288,127         | 108,684                        | 367,978                     | 3,764,789                                  |      |
| <b>Excess of Revenues Over (Under)<br/>Expenditures</b> | -                       | (1,126,394)       | 114,489                        | 471,027                     | (540,878)                                  |      |
| <b>Other Financing Sources -</b>                        |                         |                   |                                |                             |  |      |
| Transfers in  | -                       | 1,575,000         | 74,400                         | -                           | 1,649,400                                  |      |
| <b>Change in Fund Balances</b>                          | -                       | 448,606           | 188,889                        | 471,027                     | 1,108,522                                  |      |
| <b>Fund Balances - Beginning of year</b>                | 750,000                 | 547,723           | 381,219                        | 338,398                     | 2,017,340                                  |      |
| <b>Fund Balances - End of year</b>                      | <b>\$ 750,000</b>       | <b>\$ 996,329</b> | <b>\$ 570,108</b>              | <b>\$ 809,425</b>           | <b>\$ 3,125,862</b>                        |      |

**Other Financial and Supplemental Information**  
**Combining Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2007**

**Nonmajor Debt Service Funds**

| General Drain    | RS&T Debt Service | Settlement Bond   | Road Bond Debt Retirement | Limited Tax General Obligation | Total Nonmajor Debt Service Funds | Total Nonmajor Governmental Funds |
|------------------|-------------------|-------------------|---------------------------|--------------------------------|-----------------------------------|-----------------------------------|
| \$ 1,214,130     | \$ 973,391        | \$ -              | \$ -                      | \$ -                           | \$ 2,187,521                      | \$ 2,187,521                      |
| -                | -                 | -                 | -                         | -                              | -                                 | 382,638                           |
| -                | -                 | -                 | -                         | -                              | -                                 | 2,635,973                         |
| 31,120           | 5,211             | 6,240             | 14,828                    | 1,735                          | 59,134                            | 103,495                           |
| -                | -                 | -                 | -                         | -                              | -                                 | 160,939                           |
| <b>1,245,250</b> | <b>978,602</b>    | <b>6,240</b>      | <b>14,828</b>             | <b>1,735</b>                   | <b>2,246,655</b>                  | <b>5,470,566</b>                  |
| <br>             | <br>              | <br>              | <br>                      | <br>                           | <br>                              | <br>                              |
| -                | -                 | -                 | -                         | -                              | -                                 | 1,835,221                         |
| -                | -                 | -                 | -                         | -                              | -                                 | 124,226                           |
| 23,010           | 45,381            | 20,980            | 1,825                     | 1,050                          | 92,246                            | 92,246                            |
| -                | -                 | -                 | -                         | -                              | -                                 | 1,805,342                         |
| <b>1,250,882</b> | <b>972,806</b>    | <b>11,100,789</b> | <b>2,356,665</b>          | <b>655,614</b>                 | <b>16,336,756</b>                 | <b>16,336,756</b>                 |
| <b>1,273,892</b> | <b>1,018,187</b>  | <b>11,121,769</b> | <b>2,358,490</b>          | <b>656,664</b>                 | <b>16,429,002</b>                 | <b>20,193,791</b>                 |
| <br>             | <br>              | <br>              | <br>                      | <br>                           | <br>                              | <br>                              |
| (28,642)         | (39,585)          | (11,115,529)      | (2,343,662)               | (654,929)                      | (14,182,347)                      | (14,723,225)                      |
| <br>             | <br>              | <br>              | <br>                      | <br>                           | <br>                              | <br>                              |
| -                | 40,000            | 11,097,320        | 2,200,000                 | 679,315                        | 14,016,635                        | 15,666,035                        |
| (28,642)         | 415               | (18,209)          | (143,662)                 | 24,386                         | (165,712)                         | 942,810                           |
| 53,170           | 9,965             | 19,397            | 196,251                   | 5,634                          | 284,417                           | 2,301,757                         |
| <b>\$ 24,528</b> | <b>\$ 10,380</b>  | <b>\$ 1,188</b>   | <b>\$ 52,589</b>          | <b>\$ 30,020</b>               | <b>\$ 118,705</b>                 | <b>\$ 3,244,567</b>               |

# City of Sterling Heights, Michigan

## Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds Year Ended June 30, 2007

### Special Revenue Fund - Budget Stabilization

|   | Original Budget   | Final Budget      | Actual            | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|-------------------|-------------------|-------------------|---|
| <b>Fund Balance - Beginning of year</b> | \$ 750,000        | \$ 750,000        | \$ 750,000        | \$ -  |
| <b>Resources (Inflows)</b>              | - - -             | - - -             | - - -             | - - -   |
| <b>Fund Balance - End of year</b>       | <u>\$ 750,000</u> | <u>\$ 750,000</u> | <u>\$ 750,000</u> | <u>\$ -</u>   |

### Special Revenue Fund - Local Roads

|   | Original Budget   | Final Budget      | Actual            | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|-------------------|-------------------|-------------------|---|
| <b>Fund Balance - Beginning of year</b>       | \$ 547,723        | \$ 547,723        | \$ 547,723        | \$ -  |
| <b>Resources (Inflows)</b>                    |                   |                   |                   |   |
| State sources                                 | 1,995,000         | 1,985,000         | 1,979,912         | (5,088)   |
| Charges for services                          | 80,000            | 50,000            | 34,690            | (15,310)  |
| Other   | 75,000            | 34,550            | 147,131           | 112,581   |
| Transfer from other funds                     | <u>1,575,000</u>  | <u>1,575,000</u>  | <u>1,575,000</u>  | <u>-</u>  |
| Total resources (inflows)                     | 3,725,000         | 3,644,550         | 3,736,733         | 92,183  |
| <b>Charges to Appropriations (Outflows)</b>   |                   |                   |                   |   |
| Administration                                | 149,700           | 149,700           | 148,173           | 1,527   |
| Local street maintenance                      | 1,591,280         | 1,633,280         | 1,687,048         | (53,768)  |
| Local street improvements                     | <u>1,704,890</u>  | <u>1,722,750</u>  | <u>1,452,906</u>  | <u>269,844</u>  |
| Total charges to appropriations<br>(outflows) | <u>3,445,870</u>  | <u>3,505,730</u>  | <u>3,288,127</u>  | <u>217,603</u>  |
| <b>Fund Balance - End of year</b>             | <u>\$ 826,853</u> | <u>\$ 686,543</u> | <u>\$ 996,329</u> | <u>\$ 309,786</u>                                       |

# City of Sterling Heights, Michigan

## Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2007

### Special Revenue Fund - Land and Water Conservation

|   | Original Budget          | Final Budget             | Actual                   | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|--------------------------|--------------------------|--------------------------|---|
| <b>Fund Balance - Beginning of year</b>       | \$ 381,219               | \$ 381,219               | \$ 381,219               | \$ -  |
| <b>Resources (Inflows)</b>                    |                          |                          |                          |   |
| Federal and state sources                     | 16,000                   | 205,690                  | 199,694                  | (5,996)   |
| Other   | 205,000                  | 25,000                   | 23,479                   | (1,521)   |
| Transfers from other funds                    | <u>74,400</u>            | <u>74,400</u>            | <u>74,400</u>            | <u>-</u>  |
| Total resources (inflows)                     | 295,400                  | 305,090                  | 297,573                  | (7,517)   |
| <b>Charges to Appropriations (Outflows)</b>   |                          |                          |                          |   |
| Land acquisition                              | -                        | 21,250                   | 21,230                   | 20  |
| Land improvements                             | <u>86,400</u>            | <u>87,240</u>            | <u>87,454</u>            | <u>(214)</u>  |
| Total charges to appropriations<br>(outflows) | <u>86,400</u>            | <u>108,490</u>           | <u>108,684</u>           | <u>(194)</u>  |
| <b>Fund Balance - End of year</b>             | <u><b>\$ 590,219</b></u> | <u><b>\$ 577,819</b></u> | <u><b>\$ 570,108</b></u> | <u><b>\$ (7,711)</b></u>                                |

# City of Sterling Heights, Michigan

## Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2007

### Special Revenue Fund - Public Safety Forfeiture Fund

|   | Original Budget   | Final Budget      | Actual            | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|-------------------|-------------------|-------------------|---|
| <b>Fund Balance - Beginning of year</b>       | \$ 338,398        | \$ 338,398        | \$ 338,398        | \$ -  |
| <b>Resources (Inflows)</b>                    |                   |                   |                   |   |
| Federal justice forfeitures                   | -                 | 282,350           | 275,158           | (7,192)   |
| Federal treasury forfeitures                  | -                 | 92,010            | 92,010            | -   |
| State forfeitures                             | -                 | 399,510           | 401,116           | 1,606   |
| Gambling forfeitures                          | -                 | 25,720            | 26,804            | 1,084   |
| Other forfeitures                             | -                 | 3,570             | 12,935            | 9,365   |
| Interest income                               | -                 | 23,370            | 30,982            | 7,612   |
| Total resources (inflows)                     | -                 | 826,530           | 839,005           | 12,475  |
| <b>Charges to Appropriations (Outflows)</b>   |                   |                   |                   |   |
| Federal forfeiture expenditures               | 143,060           | 212,580           | 169,756           | 42,824  |
| State forfeiture expenditures                 | 82,500            | 232,700           | 197,007           | 35,693  |
| Gambling forfeiture expenditures              | -                 | 810               | 1,215             | (405)   |
| Total charges to appropriations<br>(outflows) | 225,560           | 446,090           | 367,978           | 78,112  |
| <b>Fund Balance - End of year</b>             | <b>\$ 112,838</b> | <b>\$ 718,838</b> | <b>\$ 809,425</b> | <b>\$ 90,587</b>  |

# City of Sterling Heights, Michigan

## Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2007

### Debt Service Fund - General Drain

|   | Original<br>Budget | Final Budget     | Actual           | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|--------------------|------------------|------------------|---|
| <b>Fund Balance - Beginning of year</b>       | <b>\$ 53,170</b>   | <b>\$ 53,170</b> | <b>\$ 53,170</b> | <b>\$ -</b>   |
| <b>Resources (Inflows)</b>                    |                    |                  |                  |   |
| Property taxes                                | 1,209,530          | 1,209,530        | 1,208,787        | (743)   |
| Other revenue                                 | 16,000             | 32,000           | 31,120           | (880)   |
| Delinquents and penalties                     | 5,000              | 5,500            | 5,343            | (157)   |
| Total resources (inflows)                     | 1,230,530          | 1,247,030        | 1,245,250        | (1,780)   |
| <b>Charges to Appropriations (Outflows)</b>   |                    |                  |                  |   |
| Other charges                                 | 4,650              | 24,280           | 23,010           | 1,270   |
| Principal                                     | 905,000            | 905,000          | 905,000          | -   |
| Interest                                      | 345,880            | 345,880          | 345,882          | (2)   |
| Total charges to appropriations<br>(outflows) | 1,255,530          | 1,275,160        | 1,273,892        | 1,268   |
| <b>Fund Balance - End of year</b>             | <b>\$ 28,170</b>   | <b>\$ 25,040</b> | <b>\$ 24,528</b> | <b>\$ (512)</b>   |

# City of Sterling Heights, Michigan

## Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2007

### Debt Service Fund - RS&T Debt Service

|   | Original<br>Budget | Final Budget    | Actual           | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|--------------------|-----------------|------------------|---|
| <b>Fund Balance - Beginning of year</b>     | <b>\$ 9,965</b>    | <b>\$ 9,965</b> | <b>\$ 9,965</b>  | <b>\$ -</b>   |
| <b>Resources (Inflows)</b>                  |                    |                 |                  |   |
| Property taxes                              | 969,540            | 969,540         | 969,200          | (340)   |
| Delinquents and penalties                   | 3,000              | 4,000           | 4,191            | 191   |
| Other revenue                               | 2,500              | 5,500           | 5,211            |   |
| Transfers from other funds                  | -                  | 40,000          | 40,000           | (289)   |
| Total resources (inflows)                   | 975,040            | 1,019,040       | 1,018,602        | (438)   |
| <b>Charges to Appropriations (Outflows)</b> |                    |                 |                  |   |
| Proposal R                                  | 975,040            | 1,015,540       | 1,013,860        | (1,680)   |
| Proposal S                                  | -                  | 4,330           | 4,327            | (3)   |
| Total charges to appropriations (outflows)  | 975,040            | 1,019,870       | 1,018,187        | 1,683   |
| <b>Fund Balance - End of year</b>           | <b>\$ 9,965</b>    | <b>\$ 9,135</b> | <b>\$ 10,380</b> | <b>\$ 1,245</b>   |

### Debt Service Fund - Settlement Bond

|   | Original<br>Budget | Final Budget     | Actual           | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|--------------------|------------------|------------------|---|
| <b>Fund Balance - Beginning of year</b>     | <b>\$ 19,397</b>   | <b>\$ 19,397</b> | <b>\$ 19,397</b> | <b>\$ -</b>   |
| <b>Resources (Inflows)</b>                  |                    |                  |                  |   |
| Other revenue                               | 14,000             | 14,000           | 6,240            | (7,760)   |
| Transfer from other funds                   | 1,920,000          | 1,1097,320       | 1,1097,320       | -   |
| Total resources (inflows)                   | 1,934,000          | 11,111,320       | 11,103,560       | (7,760)   |
| <b>Charges to Appropriations (Outflows)</b> |                    |                  |                  |   |
| Principal                                   | 830,000            | 9,980,000        | 9,980,000        | -   |
| Interest                                    | 1,114,300          | 1,120,790        | 1,120,789        | 1   |
| Other                                       | 250                | 21,080           | 20,980           | 100   |
| Total charges to appropriations (outflows)  | 1,944,550          | 11,121,870       | 11,121,769       | 101   |
| <b>Fund Balance - End of year</b>           | <b>\$ 8,847</b>    | <b>\$ 8,847</b>  | <b>\$ 1,188</b>  | <b>\$ (7,659)</b>                                       |

# City of Sterling Heights, Michigan

## Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2007

### Debt Service Fund - Road Bond Debt Retirement

|   | Original<br>Budget | Final Budget      | Actual            | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|--------------------|-------------------|-------------------|---|
| <b>Fund Balance - Beginning of year</b>       | <b>\$ 196,251</b>  | <b>\$ 196,251</b> | <b>\$ 196,251</b> | <b>\$ -</b>   |
| <b>Resources (Inflows)</b>                    |                    |                   |                   |   |
| Other revenue                                 | 10,000             | 16,000            | 14,828            | (1,172)   |
| Transfer from other funds                     | 2,200,000          | 2,200,000         | 2,200,000         | -   |
| Total resources (inflows)                     | 2,210,000          | 2,216,000         | 2,214,828         | (1,172)   |
| <b>Charges to Appropriations (Outflows)</b>   |                    |                   |                   |   |
| Other   | 1,500              | 1,830             | 1,825             | 5   |
| Principal                                     | 1,730,000          | 1,730,000         | 1,730,000         | -   |
| Interest                                      | 626,670            | 626,670           | 626,665           | 5   |
| Total charges to appropriations<br>(outflows) | 2,358,170          | 2,358,500         | 2,358,490         | 10  |
| <b>Fund Balance - End of year</b>             | <b>\$ 48,081</b>   | <b>\$ 53,751</b>  | <b>\$ 52,589</b>  | <b>\$ (1,162)</b>                                       |

# City of Sterling Heights, Michigan

## Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2007

### Debt Service Fund - Limited Tax General Obligation

|   | Original<br>Budget | Final Budget     | Actual           | Variance with<br>Final Budget |
|---|--------------------|------------------|------------------|-------------------------------|
|   |                    |                  |                  | Positive<br>(Negative)        |
| <b>Fund Balance - Beginning of year</b>       | \$ 5,634           | \$ 5,634         | \$ 5,634         | \$ -                          |
| <b>Resources (Inflows)</b>                    |                    |                  |                  |                               |
| Other revenue                                 | 1,000              | 1,500            | 1,735            | 235                           |
| Transfer from other funds                     | 960,000            | 679,320          | 679,315          | (5)                           |
| Total resources (inflows)                     | 961,000            | 680,820          | 681,050          | 230                           |
| <b>Charges to Appropriations (Outflows)</b>   |                    |                  |                  |                               |
| Other charges                                 | 950                | 1,050            | 1,050            | -                             |
| Principal                                     | 755,000            | 485,000          | 485,000          | -                             |
| Interest                                      | 208,110            | 170,620          | 170,614          | 6                             |
| Total charges to appropriations<br>(outflows) | 964,060            | 656,670          | 656,664          | 6                             |
| <b>Fund Balance - End of year</b>             | <b>\$ 2,574</b>    | <b>\$ 29,784</b> | <b>\$ 30,020</b> | <b>\$ 236</b>                 |

## **Major Funds**

---

# City of Sterling Heights, Michigan

## Other Financial and Supplemental Information Budgetary Comparison Schedule - Major Capital Projects Funds Year Ended June 30, 2007

### Capital Projects Fund - General Improvements

|   | Original Budget     | Final Budget        | Actual              | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|---------------------|---------------------|---------------------|---|
| <b>Fund Balance - Beginning of year</b>     | \$ 3,541,977        | \$ 3,541,977        | \$ 3,541,977        | \$ -  |
| <b>Resources (Inflows)</b>                  |                     |                     |                     |   |
| Federal, state, and local sources           | 116,790             | 708,410             | 1,286,478           | 578,068   |
| Penalties and interest                      | 2,500               | 2,500               | 1,283               | (1,217)   |
| Other revenue                               | 653,050             | 749,050             | 715,881             | (33,169)  |
| Proceeds from long-term debt                | 3,301,400           | 3,250,000           | 3,276,815           | 26,815  |
| Transfer from other funds                   | 1,600,720           | 1,600,720           | 1,600,720           | -   |
| Total resources (inflows)                   | 5,674,460           | 6,310,680           | 6,881,177           | 570,497   |
| <b>Charges to Appropriations (Outflows)</b> |                     |                     |                     |   |
| Capital equipment                           | 1,870,120           | 2,468,710           | 2,741,898           | (273,188)   |
| Capital vehicles                            | 707,000             | 1,159,360           | 867,000             | 292,360   |
| Capital projects                            | 3,542,300           | 3,460,990           | 3,024,523           | 436,467   |
| Transfer to other funds                     | 1,320,000           | 1,346,820           | 1,346,815           | 5   |
| Total charges to appropriations (outflows)  | 7,439,420           | 8,435,880           | 7,980,236           | 455,644   |
| <b>Fund Balance - End of year</b>           | <b>\$ 1,777,017</b> | <b>\$ 1,416,777</b> | <b>\$ 2,442,918</b> | <b>\$ 1,026,141</b>                                     |

### Capital Projects Fund - Road Bond Construction

|   | Original<br>Budget | Final Budget      | Actual            | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|--------------------|-------------------|-------------------|---|
| <b>Fund Balance - Beginning of year</b>       | \$ 674,401         | \$ 674,401        | \$ 674,401        | \$ -  |
| <b>Resources (Inflows)</b>                    |                    |                   |                   |   |
| Other revenues                                | 15,000             | 76,580            | 73,306            | (3,274)   |
| Proceeds from long-term debt                  | 4,600,000          | 4,650,000         | 4,650,000         | -   |
| Total resources (inflows)                     | 4,615,000          | 4,726,580         | 4,723,306         | (3,274)   |
| <b>Charges to Appropriations (Outflows) -</b> |                    |                   |                   |   |
| Capital outlay                                | 5,025,200          | 4,851,150         | 4,694,041         | 157,109   |
| <b>Fund Balance - End of year</b>             | <b>\$ 264,201</b>  | <b>\$ 549,831</b> | <b>\$ 703,666</b> | <b>\$ 153,835</b>                                       |

## **Fiduciary and Agency Funds**

---

# City of Sterling Heights, Michigan

## Other Financial and Supplemental Information Combining Statement of Fiduciary Net Assets Trust Funds June 30, 2007

|  | Trust Funds                                 |                                      |                      |                       |
|--|---|--------------------------------------|----------------------|-----------------------|
|  | Pension and Other Retirement Benefits Funds |                                      |                      |                       |
|  | General                                     |                                      |                      |                       |
|  | Employees'<br>Retirement System             | Police and Fire<br>Retirement System | Retiree Benefits     | Total                 |
| <b>Assets</b>  |   |                                      |                      |                       |
| Cash and cash equivalents  | \$ 5,202,977                                | \$ 6,201,441                         | \$ 128,182           | \$ 11,532,600         |
| Investments - At fair value:   |   |                                      |                      |                       |
| Government securities  | 7,487,877                                   | 16,758,708                           | 2,987,828            | 27,234,413            |
| Corporate bonds  | 31,902,038                                  | 57,985,078                           | 561,997              | 90,449,113            |
| Common and preferred stocks  | 86,183,466                                  | 121,508,776                          | 10,848,169           | 218,540,411           |
| Pooled investments   | -   | 10,002,259                           | -                    | 10,002,259            |
| Cash and investments held as collateral<br>for securities lending              | 8,430,749                                   | 27,894,289                           | -                    | 36,325,038            |
| Receivables - Accrued interest   | 370,613                                     | 686,930                              | -                    | 1,057,543             |
| <br>Total assets   | <br>139,577,720                             | <br>241,037,481                      | <br>14,526,176       | <br>395,141,377       |
| <b>Liabilities</b>   |   |                                      |                      |                       |
| Accounts payable   | 357,073                                     | 1,094,940                            | 2,999                | 1,455,012             |
| Accrued and other liabilities  | 1,343,907                                   | 3,447,981                            | 8,725                | 4,800,613             |
| Amounts due to broker under securities<br>lending agreements                   | 8,430,749                                   | 27,894,289                           | -                    | 36,325,038            |
| Due to other governmental units  | -   | -                                    | 296,960              | 296,960               |
| Provision for uninsured losses and liabilities                                 | -   | -                                    | 530,412              | 530,412               |
| Deferred revenue   | 3,051                                       | -                                    | -                    | 3,051                 |
| <br>Total liabilities  | <br>10,134,780                              | <br>32,437,210                       | <br>839,096          | <br>43,411,086        |
| <b>Net Assets</b> - Held in trust for pension and other<br>retirement benefits | <b>\$ 129,442,940</b>                       | <b>\$ 208,600,271</b>                | <b>\$ 13,687,080</b> | <b>\$ 351,730,291</b> |

# City of Sterling Heights, Michigan

## Other Financial and Supplemental Information Combining Statement of Changes in Fiduciary Net Assets Trust Funds Year Ended June 30, 2007

|   | General<br>Employees'<br>Retirement<br>System | Police and Fire<br>Retirement System | Retiree<br>Medical<br>Benefits | Total                 |
|---|---|--------------------------------------|--------------------------------|-----------------------|
| <b>Additions</b>                            |   |                                      |                                |                       |
| Investment income (loss):                   |   |                                      |                                |                       |
| Interest and dividends                      | \$ 3,282,943                                  | \$ 6,274,440                         | \$ 312,992                     | \$ 9,870,375          |
| Net adjustment to fair value of investments | 13,139,041                                    | 16,583,244                           | 1,458,125                      | 31,180,410            |
| Less investment expenses                    | -   | (1,114,306)                          | (105,053)                      | (1,219,359)           |
| Net investment income                       | 16,421,984                                    | 21,743,378                           | 1,666,064                      | 39,831,426            |
| Securities lending income:                  |   |                                      |                                |                       |
| Interest and fees                           | 786,509                                       | 1,384,400                            | -                              | 2,170,909             |
| Less borrower rebates and bank fees         | (768,053)                                     | (1,352,038)                          | -                              | (2,120,091)           |
| Net securities lending income               | 18,456  | 32,362                               | -                              | 50,818                |
| Contributions:                              |   |                                      |                                |                       |
| Employer                                    | -   | 2,646,459                            | 7,028,410                      | 9,674,869             |
| Employee                                    | 788,674                                       | 1,248,718                            | -                              | 2,037,392             |
| Purchase of prior year's service credits    | 1,166,814                                     | -                                    | -                              | 1,166,814             |
| Insurance recovery                          | -   | -                                    | 103,310                        | 103,310               |
| Total additions                             | 18,395,928                                    | 25,670,917                           | 8,797,784                      | 52,864,629            |
| <b>Deductions</b>                           |   |                                      |                                |                       |
| Benefit payments                            | 4,085,110                                     | 10,912,214                           | 4,411,496                      | 19,408,820            |
| Refunds of contributions                    | 473,842                                       | 1,007,685                            | -                              | 1,481,527             |
| Total deductions                            | 4,558,952                                     | 11,919,899                           | 4,411,496                      | 20,890,347            |
| <b>Net Change in Net Assets</b>             | 13,836,976                                    | 13,751,018                           | 4,386,288                      | 31,974,282            |
| <b>Net Assets - Beginning of year</b>       | 115,605,964                                   | 194,849,253                          | 9,300,792                      | 319,756,009           |
| <b>Net Assets - End of year</b>             | <b>\$ 129,442,940</b>                         | <b>\$ 208,600,271</b>                | <b>\$ 13,687,080</b>           | <b>\$ 351,730,291</b> |

# City of Sterling Heights, Michigan

## Other Financial and Supplemental Information Combining Statement of Fiduciary Net Assets Agency Funds June 30, 2007

|                                 | Agency Funds         |                         |                         |
|---------------------------------|----------------------|-------------------------|-------------------------|
|                                 | Tax Collections      | General Agency          | Total                   |
| <b>Assets</b>                   |                      |                         |                         |
| Cash and cash equivalents       | \$ 59,540            | \$ 506,492              | \$ 566,032              |
| Investments - At fair value:    |                      |                         |                         |
| Government securities           | -                    | 2,734,175               | 2,734,175               |
| Short-term investment funds     | -                    | 1,330,000               | 1,330,000               |
| Receivables - Accrued interest  | -                    | 47,495                  | 47,495                  |
| <br>Total assets                | <br><b>\$ 59,540</b> | <br><b>\$ 4,618,162</b> | <br><b>\$ 4,677,702</b> |
| <b>Liabilities</b>              |                      |                         |                         |
| Accrued and other liabilities   | \$ 5,215             | \$ 1,490,636            | \$ 1,495,851            |
| Due to other governmental units | 54,325               | 93,581                  | 147,906                 |
| Cash bonds and deposits         | -                    | 3,033,945               | 3,033,945               |
| <br>Total liabilities           | <br><b>\$ 59,540</b> | <br><b>\$ 4,618,162</b> | <br><b>\$ 4,677,702</b> |

# City of Sterling Heights, Michigan

## Other Financial and Supplemental Information Combining Statement of Changes in Assets and Liabilities Agency Funds Year Ended June 30, 2007

|   | Balance<br>June 30, 2006 | Additions             | Deductions            | Balance<br>June 30, 2007 |
|---|--------------------------|-----------------------|-----------------------|--------------------------|
| <b>Tax Collection</b>                     |                          |                       |                       |                          |
| <b>Assets</b> - Cash and cash equivalents | <b>\$ 14,987</b>         | <b>\$ 151,615,580</b> | <b>\$ 151,571,027</b> | <b>\$ 59,540</b>         |
| <b>Liabilities</b>                        |                          |                       |                       |                          |
| Accrued and other liabilities             | \$ 4,266                 | \$ 276,184            | \$ 275,235            | \$ 5,215                 |
| Due to other governmental units           | 10,721                   | 197,781,290           | 197,737,686           | 54,325                   |
| Total liabilities                         | <b>\$ 14,987</b>         | <b>\$ 198,057,474</b> | <b>\$ 198,012,921</b> | <b>\$ 59,540</b>         |
| <b>General Agency</b>                     |                          |                       |                       |                          |
| <b>Assets</b>                             |                          |                       |                       |                          |
| Cash and cash equivalents                 | \$ 162,135               | \$ 12,221,920         | \$ 11,877,563         | \$ 506,492               |
| Investments - At fair value               | 4,342,725                | 10,821,769            | 11,100,319            | 4,064,175                |
| Receivables - Accrued interest            | 53,493                   | 349,402               | 355,400               | 47,495                   |
| Due from other governmental units         | 9,349                    | 223,154               | 232,503               | -                        |
| Total assets                              | <b>\$ 4,567,702</b>      | <b>\$ 23,616,245</b>  | <b>\$ 23,565,785</b>  | <b>\$ 4,618,162</b>      |
| <b>Liabilities</b>                        |                          |                       |                       |                          |
| Accounts payable                          | \$ 17,556                | \$ 1,426,288          | \$ 1,443,844          | \$ -                     |
| Accrued and other liabilities             | 1,583,129                | 342,517               | 435,010               | 1,490,636                |
| Due to other governmental units           | 130,151                  | 20,222,129            | 20,258,699            | 93,581                   |
| Cash and bond deposits                    | 2,836,866                | 2,768,707             | 2,571,628             | 3,033,945                |
| Total liabilities                         | <b>\$ 4,567,702</b>      | <b>\$ 24,759,641</b>  | <b>\$ 24,709,181</b>  | <b>\$ 4,618,162</b>      |
| <b>Totals - All Agency Funds</b>          |                          |                       |                       |                          |
| <b>Assets</b>                             |                          |                       |                       |                          |
| Cash and cash equivalents                 | \$ 177,122               | \$ 163,837,500        | \$ 163,448,590        | \$ 566,032               |
| Investments - At fair value               | 4,342,725                | 10,821,769            | 11,100,319            | 4,064,175                |
| Receivables - Accrued interest            | 53,493                   | 349,402               | 355,400               | 47,495                   |
| Due from other governmental units         | 9,349                    | 223,154               | 232,503               | -                        |
| Total assets                              | <b>\$ 4,582,689</b>      | <b>\$ 175,231,825</b> | <b>\$ 175,136,812</b> | <b>\$ 4,677,702</b>      |
| <b>Liabilities</b>                        |                          |                       |                       |                          |
| Accounts payable                          | \$ 17,556                | \$ 1,426,288          | \$ 1,443,844          | \$ -                     |
| Accrued and other liabilities             | 1,587,395                | 618,701               | 710,245               | 1,495,851                |
| Due to other governmental units           | 140,872                  | 218,003,419           | 217,996,385           | 147,906                  |
| Cash and bond deposits                    | 2,836,866                | 2,768,707             | 2,571,628             | 3,033,945                |
| Total liabilities                         | <b>\$ 4,582,689</b>      | <b>\$ 222,817,115</b> | <b>\$ 222,722,102</b> | <b>\$ 4,677,702</b>      |

# **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                        | 93     |
| Changes in Net Assets                          | 94     |
| Fund Balances of Governmental Funds            | 95     |
| Changes in Fund Balances of Governmental Funds | 96-97* |
| General Governmental Tax Revenues by Source    | 98     |

#### **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                     | 99*      |
| Property Tax Rates - Direct and Overlapping Governments | 100-101* |
| Assessed Taxable Values (History of Property Values)    | 102-103* |
| Principal Property Taxpayers (Major Taxpayers)          | 104*     |

#### **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       | 105  |
| Ratios of Outstanding Debt by Type                  | 106  |
| Direct and Overlapping Governmental Activities Debt | 107* |
| Legal Debt Margin                                   | 108* |
| Legal Debt Margin Information                       | 109  |
| Pledged Revenue Coverage                            | 110  |

#### **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   | 111  |
| Miscellaneous Demographics            | 112  |
| Principal Employers (Major Employers) | 113* |

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

# **City Of Sterling Heights, Michigan**

## **Statistical Information and Continuing Disclosure Contents (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                           | 114-115 |
| Capital Asset Statistics by Function                       | 116     |
| Building Permits at Market Value                           | 117     |
| Full-time Equivalent City Government Employees by Function | 118     |

### **CONTINUING DISCLOSURE**

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

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

|                       |     |
|-----------------------|-----|
| State-shared Revenues | 120 |
| Gas and Weight Taxes  | 120 |
| Labor Agreements      | 121 |

## **Statistical Information**

---

# City of Sterling Heights, Michigan

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

|  | Fiscal Year           |                       |                       |                       |                       |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|  | 2002                  | 2003                  | 2004                  | 2005                  | 2006                  | 2007                  |
| <b>Governmental activities:</b>                    |                       |                       |                       |                       |                       |                       |
| 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        |
| Restricted   | 18,041,590            | 13,918,356            | 8,845,442             | 5,537,300             | 13,956,025            | 6,601,883             |
| Unrestricted                                       | 27,748,112            | 29,284,871            | (2,714,472)           | (3,747,590)           | 7,320,525             | 20,524,819            |
| <b>Total governmental activities - Net assets</b>  | <b>\$ 194,905,632</b> | <b>\$ 200,522,293</b> | <b>\$ 170,202,061</b> | <b>\$ 167,573,724</b> | <b>\$ 192,973,675</b> | <b>\$ 202,671,148</b> |
| <b>Business-type activities:</b>                   |                       |                       |                       |                       |                       |                       |
| 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        |
| Restricted   | 9,064,472             | 9,286,673             | 8,525,469             | 9,029,341             | 7,050,855             | 7,418,300             |
| Unrestricted                                       | 22,169,256            | 24,155,268            | 23,976,948            | 23,607,368            | 28,265,921            | 29,163,010            |
| <b>Total business-type activities - Net assets</b> | <b>\$ 159,126,039</b> | <b>\$ 164,530,253</b> | <b>\$ 168,049,220</b> | <b>\$ 168,052,773</b> | <b>\$ 174,405,671</b> | <b>\$ 173,994,369</b> |
| <b>Primary government:</b>                         |                       |                       |                       |                       |                       |                       |
| 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        |
| Restricted   | 27,106,062            | 23,205,029            | 17,370,911            | 14,566,641            | 21,006,880            | 14,020,183            |
| Unrestricted                                       | 49,917,368            | 53,440,139            | 21,262,476            | 19,859,778            | 35,586,446            | 49,687,829            |
| <b>Total primary government - Net assets</b>       | <b>\$ 354,031,671</b> | <b>\$ 365,052,546</b> | <b>\$ 338,251,281</b> | <b>\$ 335,626,497</b> | <b>\$ 367,379,346</b> | <b>\$ 376,665,517</b> |

# City of Sterling Heights, Michigan

## Changes in Net Assets Last Six Fiscal Years (Accrual Basis of Accounting)

|   | Fiscal Year            |                        |                        |                        |                        |                        |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
|   | 2002                   | 2003                   | 2004                   | 2005                   | 2006                   | 2007                   |
| <b>Expenses</b>   |                        |                        |                        |                        |                        |                        |
| Governmental activities:                                |                        |                        |                        |                        |                        |                        |
| General government                                      | \$ 7,958,782           | \$ 8,710,448           | \$ 9,499,251           | \$ 9,873,718           | \$ 8,760,970           | \$ 10,348,927          |
| 41A District Court                                      | 2,354,295              | 2,480,824              | 2,690,360              | 2,852,812              | 2,864,422              | 2,992,184              |
| Public safety   | 33,975,838             | 37,066,435             | 39,815,539             | 42,253,545             | 41,327,439             | 43,995,464             |
| Public works  | 22,945,588             | 22,555,042             | 22,838,480             | 25,464,111             | 24,181,418             | 22,603,155             |
| Recreation and culture                                  | 5,184,217              | 5,476,196              | 6,047,819              | 5,716,243              | 5,989,344              | 5,890,651              |
| Interest on long-term debt                              | 2,243,791              | 2,266,350              | 2,022,258              | 2,585,777              | 2,463,042              | 1,922,125              |
| Total governmental activities expenses                  | 74,662,511             | 78,555,295             | 82,913,707             | 88,746,206             | 85,586,635             | 87,752,506             |
| Business-type activities - Water and sewer              | 23,004,156             | 23,267,170             | 25,829,284             | 28,142,434             | 28,106,435             | 30,290,386             |
| Total primary government expenses                       | <b>\$ 97,666,667</b>   | <b>\$ 101,822,465</b>  | <b>\$ 108,742,991</b>  | <b>\$ 116,888,640</b>  | <b>\$ 113,693,070</b>  | <b>\$ 118,042,892</b>  |
| <b>Program Revenues</b>                                 |                        |                        |                        |                        |                        |                        |
| Governmental activities:                                |                        |                        |                        |                        |                        |                        |
| Charges for services:                                   |                        |                        |                        |                        |                        |                        |
| General government                                      | \$ 830,931             | \$ 709,161             | \$ 714,601             | \$ 844,263             | \$ 1,829,127           | \$ 2,022,680           |
| 41A District Court                                      | 1,779,233              | 1,831,676              | 2,136,354              | 2,320,411              | 2,424,477              | 2,185,724              |
| Public safety   | 1,394,218              | 728,790                | 1,114,300              | 1,249,154              | 1,394,981              | 1,326,061              |
| Public works  | 4,922,913              | 3,566,606              | 3,855,774              | 6,241,366              | 6,813,150              | 8,125,228              |
| Recreation and culture                                  | 411,642                | 425,400                | 465,391                | 513,241                | 583,627                | 563,152                |
| Operating grants and contributions                      | 8,803,688              | 8,811,085              | 10,284,432             | 9,547,201              | 9,184,599              | 9,148,913              |
| Capital grants and contributions                        | 231,693                | 1,777,966              | 3,142,226              | 1,336,930              | 2,751,871              | 2,638,714              |
| Total governmental activities program revenues          | 18,374,318             | 17,850,684             | 21,713,078             | 22,052,566             | 24,981,832             | 26,010,472             |
| Business-type activities - Water and sewer:             |                        |                        |                        |                        |                        |                        |
| Charges for services                                    | 17,625,565             | 20,563,318             | 20,385,299             | 22,619,205             | 24,944,170             | 25,404,755             |
| Operating grants and contributions                      | -                      | 30,806                 | -                      | -                      | -                      | -                      |
| Capital grants and contributions                        | 4,385,957              | 6,847,385              | 8,430,400              | 4,911,208              | 8,364,981              | 2,662,317              |
| Total business-type activities program revenues         | <b>22,011,522</b>      | <b>27,441,509</b>      | <b>28,815,699</b>      | <b>27,530,413</b>      | <b>33,309,151</b>      | <b>28,067,072</b>      |
| Total primary government program revenues               | <b>\$ 40,385,840</b>   | <b>\$ 45,292,193</b>   | <b>\$ 50,528,777</b>   | <b>\$ 49,582,979</b>   | <b>\$ 58,290,983</b>   | <b>\$ 54,077,544</b>   |
| <b>Net (Expense) Revenue</b>                            |                        |                        |                        |                        |                        |                        |
| Governmental activities                                 | \$ (56,288,193)        | \$ (60,704,611)        | \$ (61,200,629)        | \$ (66,693,640)        | \$ (60,604,803)        | \$ (61,742,034)        |
| Business-type activities                                | <u>(992,634)</u>       | <u>4,174,339</u>       | <u>2,986,415</u>       | <u>(612,021)</u>       | <u>5,202,716</u>       | <u>(2,223,314)</u>     |
| Total primary government net expense                    | <b>\$ (57,280,827)</b> | <b>\$ (56,530,272)</b> | <b>\$ (58,214,214)</b> | <b>\$ (67,305,661)</b> | <b>\$ (55,402,087)</b> | <b>\$ (63,965,348)</b> |
| <b>General Revenues and Other Changes in Net Assets</b> |                        |                        |                        |                        |                        |                        |
| Governmental activities:                                |                        |                        |                        |                        |                        |                        |
| Property taxes  | \$ 44,784,294          | \$ 46,791,310          | \$ 48,495,510          | \$ 50,357,630          | \$ 52,574,000          | \$ 55,624,617          |
| State-shared revenues                                   | 13,315,069             | 14,431,298             | 11,249,778             | 11,127,156             | 11,003,347             | 10,675,667             |
| Interest  | 1,913,772              | 2,058,855              | 709,149                | 1,155,124              | 2,034,936              | 3,383,824              |
| Gain on sale of capital assets                          | 975,870                | -                      | -                      | 105,454                | 256,994                | 227,321                |
| Insurance proceeds                                      | -                      | -                      | -                      | -                      | 18,763,736             | -                      |
| Franchise fees and other                                | 1,769,580              | 3,039,809              | 1,425,963              | 1,319,937              | 1,371,831              | 1,527,988              |
| Extraordinary item                                      | -                      | -                      | (31,000,000)           | -                      | -                      | -                      |
| Total governmental activities expenses                  | 62,758,585             | 66,321,272             | 30,880,400             | 64,065,301             | 86,004,844             | 71,439,417             |
| Business-type activities - Interest                     | 1,036,590              | 1,229,875              | 532,552                | 615,574                | 1,150,182              | 1,812,012              |
| Total primary government                                | <b>\$ 63,795,175</b>   | <b>\$ 67,551,147</b>   | <b>\$ 31,412,952</b>   | <b>\$ 64,680,875</b>   | <b>\$ 87,155,026</b>   | <b>\$ 73,251,429</b>   |
| <b>Change in Net Assets</b>                             |                        |                        |                        |                        |                        |                        |
| Governmental activities                                 | \$ 6,470,392           | \$ 5,616,661           | \$ (30,320,229)        | \$ (2,628,339)         | \$ 25,400,041          | \$ 9,697,383           |
| Business-type activities                                | <u>43,956</u>          | <u>5,404,214</u>       | <u>3,518,967</u>       | <u>3,553</u>           | <u>6,352,898</u>       | <u>(411,302)</u>       |
| Total primary government                                | <b>\$ 6,514,348</b>    | <b>\$ 11,020,875</b>   | <b>\$ (26,801,262)</b> | <b>\$ (2,624,786)</b>  | <b>\$ 31,752,939</b>   | <b>\$ 9,286,081</b>    |

# City of Sterling Heights, Michigan

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

|   | Fiscal Year          |                      |                      |                      |                      |                      |                      |                      |                      |                      |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|   | 1998                 | 1999                 | 2000                 | 2001                 | 2002                 | 2003                 | 2004                 | 2005                 | 2006                 | 2007                 |
| <b>General Fund:</b>                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| Reserved                                  | \$ 613,308           | \$ 581,251           | \$ 617,242           | \$ 528,424           | \$ 489,404           | \$ 580,930           | \$ 593,593           | \$ 655,400           | \$ 662,581           | \$ 679,962           |
| Unreserved                                | 14,482,786           | 16,687,536           | 14,915,455           | 15,923,759           | 17,346,558           | 17,641,156           | 19,057,927           | 13,345,638           | 14,387,663           | 15,037,933           |
| <b>Total General Fund</b>                 | <b>\$ 15,096,094</b> | <b>\$ 17,268,787</b> | <b>\$ 15,532,697</b> | <b>\$ 16,452,183</b> | <b>\$ 17,835,962</b> | <b>\$ 18,222,086</b> | <b>\$ 19,651,520</b> | <b>\$ 14,001,038</b> | <b>\$ 15,050,244</b> | <b>\$ 15,717,895</b> |
| <b>All other governmental funds:</b>      |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| Reserved                                  | \$ 442,252           | \$ 1,159,916         | \$ 1,690,683         | \$ 1,982,635         | \$ 679,942           | \$ 1,060,623         | \$ 1,027,906         | \$ 735,565           | \$ 1,536,063         | \$ 534,266           |
| Unreserved, reported in:                  |                      |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| Special Revenue Funds                     | 9,122,244            | 15,110,643           | 17,671,853           | 17,255,612           | 20,268,530           | 15,588,126           | 10,981,941           | 5,168,955            | 2,547,940            | 5,810,853            |
| Debt Service Funds                        | 1,062,558            | 949,523              | 791,593              | 599,914              | 545,540              | 277,483              | 248,467              | 236,999              | 284,417              | 118,705              |
| Capital Projects Funds                    | 5,487,619            | 7,982,621            | 6,006,021            | 4,685,906            | 5,136,412            | 3,866,901            | 2,861,154            | 3,446,888            | 3,756,197            | 2,662,224            |
| <b>Total all other governmental funds</b> | <b>\$ 16,114,673</b> | <b>\$ 25,202,703</b> | <b>\$ 26,160,150</b> | <b>\$ 24,524,067</b> | <b>\$ 26,630,424</b> | <b>\$ 20,793,133</b> | <b>\$ 15,119,468</b> | <b>\$ 9,588,407</b>  | <b>\$ 8,124,617</b>  | <b>\$ 9,126,048</b>  |

# City of Sterling Heights, Michigan

|   | 1998                | 1999                | 2000                | 2001               | 2002 (I)           |
|---|---------------------|---------------------|---------------------|--------------------|--------------------|
| <b>Revenues</b>   |                     |                     |                     |                    |                    |
| Property taxes  | \$ 38,377,602       | \$ 39,847,195       | \$ 41,266,995       | \$ 42,155,402      | \$ 44,773,685      |
| Fees and permits  | 1,927,254           | 1,950,414           | 1,855,159           | 2,253,273          | 1,916,542          |
| Federal sources   | 1,749,186           | 1,016,601           | 1,178,322           | 1,657,762          | 1,280,774          |
| State and local sources   | 18,040,933          | 18,653,817          | 19,281,979          | 20,293,929         | 20,676,922         |
| Fines and forfeitures   | 2,608,848           | 2,776,653           | 2,798,853           | 2,781,114          | 2,299,389          |
| Charges for services  | 5,097,114           | 5,371,619           | 5,451,881           | 5,791,473          | 5,514,851          |
| Interest income   | 2,394,710           | 2,692,819           | 3,424,163           | 3,509,122          | 1,921,851          |
| Special assessments   | 437,830             | 443,641             | 319,727             | 164,086            | 179,973            |
| Rental income   | 944,852             | 1,075,936           | 1,035,063           | 1,240,272          | 1,047,761          |
| Cable revenue   | 673,080             | 868,817             | 972,802             | 1,264,214          | 1,302,183          |
| Other   | 1,944,402           | 1,231,428           | 1,388,993           | 1,110,088          | 2,074,758          |
| <br>Total revenues  | <br>74,195,811      | <br>75,928,940      | <br>78,973,937      | <br>82,220,735     | <br>82,988,689     |
| <b>Expenditures</b>   |                     |                     |                     |                    |                    |
| Current:  |                     |                     |                     |                    |                    |
| General government  | 6,938,739           | 7,030,523           | 7,663,131           | 8,368,507          | 8,550,972          |
| 41A District Court  | 2,072,201           | 2,044,259           | 1,999,838           | 2,131,093          | 2,178,525          |
| Public safety   | 27,118,090          | 26,932,023          | 28,089,598          | 30,386,650         | 30,913,608         |
| Public works  | 14,503,055          | 14,885,110          | 15,456,764          | 16,492,407         | 16,910,029         |
| Recreation and culture  | 3,633,902           | 3,619,970           | 3,795,871           | 4,035,209          | 4,323,476          |
| General expenditures  | 2,313,442           | 2,438,087           | 2,505,031           | 2,454,301          | 2,539,196          |
| Capital outlay  | 11,658,975          | 12,500,787          | 18,815,645          | 14,107,920         | 13,053,333         |
| Debt service:   |                     |                     |                     |                    |                    |
| Principal   | 4,106,116           | 4,857,770           | 5,299,440           | 5,667,440          | 5,051,381          |
| Interest  | 1,980,260           | 1,975,190           | 1,994,942           | 2,380,172          | 2,243,791          |
| <br>Total expenditures  | <br>74,324,780      | <br>76,283,719      | <br>85,620,260      | <br>86,023,699     | <br>85,764,311     |
| <b>Excess of Expenditures Over Revenues</b>                           | <b>(128,969)</b>    | <b>(354,779)</b>    | <b>(6,646,323)</b>  | <b>(3,802,964)</b> | <b>(2,775,622)</b> |
| <b>Other Financing Sources (Uses)</b>                                 |                     |                     |                     |                    |                    |
| Long-term financing   | 4,811,775           | 9,120,500           | 7,859,080           | 4,421,872          | 1,725,000          |
| Proceeds from sale of fixed assets                                    | -                   | -                   | -                   | -                  | 1,338,442          |
| Bond premium  | -                   | -                   | -                   | -                  | -                  |
| Net payments to refunded bond escrow<br>agent and bond issuance costs | -                   | -                   | -                   | -                  | -                  |
| Transfers in  | 9,329,011           | 10,546,430          | 10,050,315          | 10,389,950         | 12,319,565         |
| Transfers out   | (9,329,011)         | (10,546,430)        | (10,050,315)        | (10,389,950)       | (12,319,565)       |
| <br>Total other financing sources (uses)                              | <br>4,811,775       | <br>9,120,500       | <br>7,859,080       | <br>4,421,872      | <br>3,063,442      |
| <b>Net Change in Fund Balances - Before extraordinary items</b>       | <b>4,682,806</b>    | <b>8,765,721</b>    | <b>1,212,757</b>    | <b>618,908</b>     | <b>287,820</b>     |
| <b>Extraordinary Items - Lawsuit settlement payments</b>              | <b>-</b>            | <b>-</b>            | <b>-</b>            | <b>-</b>           | <b>-</b>           |
| <b>Net Change in Fund Balances</b>                                    | <b>\$ 4,682,806</b> | <b>\$ 8,765,721</b> | <b>\$ 1,212,757</b> | <b>\$ 618,908</b>  | <b>\$ 287,820</b>  |
| <b>Debt Service as a Percentage of Noncapital Expenditures</b>        | <b>9.71%</b>        | <b>10.71%</b>       | <b>10.92%</b>       | <b>11.19%</b>      | <b>10.03%</b>      |

(I) 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)**

| 2003                      | 2004                      | 2005                      | 2006                    | 2007                    |
|---------------------------|---------------------------|---------------------------|-------------------------|-------------------------|
| \$ 46,791,310             | \$ 48,495,510             | \$ 50,357,630             | \$ 52,574,000           | \$ 55,624,617           |
| 2,036,864                 | 2,318,120                 | 2,012,360                 | 1,986,333               | 1,784,156               |
| 752,977                   | 1,629,936                 | 2,069,321                 | 3,198,148               | 2,755,145               |
| 20,161,887                | 20,176,008                | 19,607,043                | 19,721,028              | 19,894,287              |
| 2,587,756                 | 3,069,824                 | 2,995,613                 | 2,890,745               | 2,563,520               |
| 5,875,269                 | 6,334,722                 | 6,695,039                 | 7,795,120               | 8,038,601               |
| 1,760,354                 | 567,049                   | 977,664                   | 1,788,092               | 2,511,234               |
| 68,497                    | 372,917                   | 73,776                    | 28,017                  | 130,082                 |
| 1,253,148                 | 1,298,796                 | 1,566,845                 | 1,357,037               | 1,443,651               |
| 1,120,768                 | 1,224,778                 | 1,319,937                 | 1,371,831               | 1,527,988               |
| 1,927,055                 | 2,758,591                 | 1,980,022                 | 1,731,700               | 1,511,396               |
| <br>84,335,885            | <br>88,246,251            | <br>89,655,250            | <br>94,442,051          | <br>97,784,677          |
| <br><br>8,733,703         | <br>9,091,026             | <br>10,042,438            | <br>10,109,764          | <br>10,562,158          |
| 2,173,817                 | 2,342,220                 | 2,472,160                 | 2,660,587               | 2,847,111               |
| 33,857,315                | 35,779,556                | 38,346,169                | 39,440,275              | 41,610,977              |
| 18,334,751                | 18,280,775                | 21,418,948                | 18,545,503              | 18,734,562              |
| 4,447,809                 | 4,553,035                 | 4,669,116                 | 4,868,429               | 5,180,497               |
| 2,771,249                 | 3,388,336                 | 2,651,054                 | 3,555,955               | 3,791,084               |
| 11,763,846                | 13,041,634                | 12,476,405                | 10,576,821              | 14,756,585              |
| <br>4,466,382             | <br>4,436,681             | <br>5,056,539             | <br>5,030,000           | <br>14,000,000          |
| <br>1,968,669             | <br>1,827,203             | <br>2,334,584             | <br>2,479,375           | <br>2,336,756           |
| <br><u>88,517,541</u>     | <br><u>92,740,466</u>     | <br><u>99,467,413</u>     | <br><u>97,266,709</u>   | <br><u>113,819,730</u>  |
| <br>(4,181,656)           | <br>(4,494,215)           | <br>(9,812,163)           | <br>(2,824,658)         | <br>(16,035,053)        |
| <br>4,916,772             | <br>30,355,000            | <br>13,720,000            | <br>-                   | <br>7,900,000           |
| <br>-                     | <br>-                     | <br>476,081               | <br>550,074             | <br>-                   |
| <br>-                     | <br>975,374               | <br>91,759                | <br>-                   | <br>26,815              |
| <br>(4,916,772)           | <br>(5,075,000)           | <br>(8,511,067)           | <br>-                   | <br>-                   |
| <br>8,807,280             | <br>6,462,170             | <br>8,354,684             | <br>9,931,683           | <br>18,458,535          |
| <br><u>(8,807,280)</u>    | <br><u>(6,462,170)</u>    | <br><u>(6,639,684)</u>    | <br><u>(8,071,683)</u>  | <br><u>(8,681,215)</u>  |
| <br><u>-</u>              | <br><u>26,255,374</u>     | <br><u>7,491,773</u>      | <br><u>2,410,074</u>    | <br><u>17,704,135</u>   |
| <br>(4,181,656)           | <br>21,761,159            | <br>(2,320,390)           | <br>(414,584)           | <br>1,669,082           |
| <br><u>-</u>              | <br><u>(25,000,000)</u>   | <br><u>(6,000,000)</u>    | <br><u>-</u>            | <br><u>-</u>            |
| <br><u>\$ (4,181,656)</u> | <br><u>\$ (3,238,841)</u> | <br><u>\$ (8,320,390)</u> | <br><u>\$ (414,584)</u> | <br><u>\$ 1,669,082</u> |
| <br><b>8.38%</b>          | <br><b>7.86%</b>          | <br><b>8.50%</b>          | <br><b>8.66%</b>        | <br><b>16.49%</b>       |

# City of Sterling Heights, Michigan

## General Government Tax Revenues by Source Last Ten Fiscal Years

| Fiscal Year<br>Ended June 30 | General Fund Property Taxes             |              |              |               | Debt Service Funds Property Taxes |                      |              |  | Total All<br>Property Taxes |  |
|------------------------------|---|--------------|--------------|---------------|-----------------------------------|----------------------|--------------|--|-----------------------------|--|
|                              | Police and Fire<br>Retirement<br>System |              |              |               | General Drain                     | RS&T Debt<br>Service | Total        |  |                             |  |
|                              | Operating                               | Refuse       | Total        |               |                                   |                      |              |  |                             |  |
| 1998                         | \$ 28,788,728                           | \$ 3,451,184 | \$ 3,228,325 | \$ 35,468,237 | \$ 706,307                        | \$ 2,203,057         | \$ 2,909,364 |  | \$ 38,377,601               |  |
| 1999                         | 30,117,888                              | 3,575,404    | 2,514,557    | 36,207,849    | 1,036,993                         | 2,602,354            | 3,639,347    |  | 39,847,196                  |  |
| 2000                         | 31,106,672                              | 3,937,131    | 2,120,379    | 37,164,182    | 1,096,095                         | 3,006,718            | 4,102,813    |  | 41,266,995                  |  |
| 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                  |  |

# City of Sterling Heights, Michigan

## Property Tax Levies and Collections Last Ten Fiscal Years

| Tax Year | Fiscal Year Ended<br>June 30 | Total<br>Tax Levy (1) | Collected Within the<br>Fiscal Year of the Levy |                       | Subsequent<br>Collection of<br>Delinquent<br>Taxes | Total<br>Collections |                       |
|----------|------------------------------|-----------------------|---|-----------------------|--|----------------------|-----------------------|
|          |                              |                       | Amount  | Percentage<br>of Levy |  | to Date<br>Amount    | Percentage<br>of Levy |
| 1997     | 1998                         | \$ 38,183,037         | \$ 37,679,804                                   | 98.68                 | \$ 428,812   | \$ 38,108,616        | 99.81                 |
| 1998     | 1999                         | 39,769,794            | 39,186,402                                      | 98.53                 | 533,033  | 39,719,435           | 99.87                 |
| 1999     | 2000                         | 41,262,657            | 40,512,689                                      | 98.18                 | 594,083  | 41,106,772           | 99.62                 |
| 2000     | 2001                         | 42,334,773            | 41,427,546                                      | 97.86                 | 581,589  | 42,009,135           | 99.23                 |
| 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 (2)        |   |                       |  |                      |                       |

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

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

Source: City Treasurer's Office

# City of Sterling Heights, Michigan

## City Direct Rates

| Fiscal Year (Tax Year) | City Direct Rates |         |  |                       |                                       |          |   |                                |   |            |           | Macomb County         |  |  |
|------------------------|-------------------|---------|--|-----------------------|---------------------------------------|----------|---|--------------------------------|---|------------|-----------|-----------------------|--|--|
|                        | Operating<br>(I)  | Refuse  | Police and<br>Fire<br>Retirement<br>System | Drain Debt<br>Service | Public<br>Improvement<br>Debt Service | Total    | Macomb<br>Intermediate<br>School District | Macomb<br>Community<br>College | Huron/<br>Clinton<br>Metro<br>Authority | S.M.A.R.T. | Operating | Drain Debt<br>Service |  |  |
| 1998 (1997)            |                   |         |  |                       |                                       |          |   |                                |   |            |           |                       |  |  |
| Homestead              | 8.60204           | 1.03121 | 0.96462                                    | 0.21146               | 0.66067                               | 11.47000 | 2.03670                                   | 1.65390                        | 0.22360                                 | 0.33000    | 4.20000   | 0.00800               |  |  |
| Non-homestead          | 8.60204           | 1.03121 | 0.96462                                    | 0.21146               | 0.66067                               | 11.47000 | 2.03670                                   | 1.65390                        | 0.22360                                 | 0.33000    | 4.20000   | 0.00800               |  |  |
| 1999 (1998)            |                   |         |  |                       |                                       |          |   |                                |   |            |           |                       |  |  |
| Homestead              | 8.47965           | 1.00665 | 0.70797                                    | 0.29230               | 0.73343                               | 11.22000 | 2.03630                                   | 1.61340                        | 0.22350                                 | 0.32990    | 4.20000   | 0.00800               |  |  |
| Non-homestead          | 8.47965           | 1.00665 | 0.70797                                    | 0.29230               | 0.73343                               | 11.22000 | 2.03630                                   | 1.61340                        | 0.22350                                 | 0.32990    | 4.20000   | 0.00800               |  |  |
| 2000 (1999)            |                   |         |  |                       |                                       |          |   |                                |   |            |           |                       |  |  |
| Homestead              | 8.26879           | 1.04657 | 0.56364                                    | 0.29142               | 0.79958                               | 10.97000 | 2.02100                                   | 1.58400                        | 0.22180                                 | 0.32730    | 4.20000   | 0.00800               |  |  |
| Non-homestead          | 8.26879           | 1.04657 | 0.56364                                    | 0.29142               | 0.79958                               | 10.97000 | 2.02100                                   | 1.58400                        | 0.22180                                 | 0.32730    | 4.20000   | 0.00800               |  |  |
| 2001 (2000)            |                   |         |  |                       |                                       |          |   |                                |   |            |           |                       |  |  |
| Homestead              | 8.08550           | 1.07470 | 0.56070                                    | 0.21070               | 0.78840                               | 10.72000 | 2.02100                                   | 1.51400                        | 0.22020                                 | 0.32730    | 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    | 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    | 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    | 4.20000   | 0.00600               |  |  |
| 2003 (2002)            |                   |         |  |                       |                                       |          |   |                                |   |            |           |                       |  |  |
| Homestead              | 8.29230           | 1.05870 | 0.62400                                    | 0.32640               | 0.32860                               | 10.63000 | 2.98630                                   | 1.69250                        | 0.21700                                 | 0.60000    | 4.20000   | 0.00580               |  |  |
| Non-homestead          | 8.29230           | 1.05870 | 0.62400                                    | 0.32640               | 0.32860                               | 10.63000 | 2.98630                                   | 1.69250                        | 0.21700                                 | 0.60000    | 4.20000   | 0.00580               |  |  |
| 2004 (2003)            |                   |         |  |                       |                                       |          |   |                                |   |            |           |                       |  |  |
| Homestead              | 8.19630           | 1.06960 | 0.78090                                    | 0.33660               | 0.24160                               | 10.62500 | 2.97290                                   | 1.58590                        | 0.21610                                 | 0.59730    | 4.20000   | 0.00580               |  |  |
| Non-homestead          | 8.19630           | 1.06960 | 0.78090                                    | 0.33660               | 0.24160                               | 10.62500 | 2.97290                                   | 1.58590                        | 0.21610                                 | 0.59730    | 4.20000   | 0.00580               |  |  |
| 2005 (2004)            |                   |         |  |                       |                                       |          |   |                                |   |            |           |                       |  |  |
| Homestead              | 8.09570           | 1.10550 | 0.89050                                    | 0.30160               | 0.23170                               | 10.62500 | 2.96150                                   | 1.50020                        | 0.21540                                 | 0.59490    | 4.20000   | 0.00580               |  |  |
| Non-homestead          | 8.09570           | 1.10550 | 0.89050                                    | 0.30160               | 0.23170                               | 10.62500 | 2.96150                                   | 1.50020                        | 0.21540                                 | 0.59490    | 4.20000   | 0.00580               |  |  |
| 2006 (2005)            |                   |         |  |                       |                                       |          |   |                                |   |            |           |                       |  |  |
| Homestead              | 8.76420           | 0.82660 | 0.60490                                    | 0.24130               | 0.18800                               | 10.62500 | 2.94300                                   | 1.42120                        | 0.21460                                 | 0.59120    | 4.20000   | 0.00580               |  |  |
| Non-homestead          | 8.76420           | 0.82660 | 0.60490                                    | 0.24130               | 0.18800                               | 10.62500 | 2.94300                                   | 1.42120                        | 0.21460                                 | 0.59120    | 4.20000   | 0.00580               |  |  |
| 2007 (2006)            |                   |         |  |                       |                                       |          |   |                                |   |            |           |                       |  |  |
| Homestead              | 8.97760           | 0.81420 | 0.51180                                    | 0.23390               | 0.18750                               | 10.72500 | 2.94300                                   | 1.42120                        | 0.21460                                 | 0.59000    | 4.20000   | 0.00550               |  |  |
| Non-homestead          | 8.97760           | 0.81420 | 0.51180                                    | 0.23390               | 0.18750                               | 10.72500 | 2.94300                                   | 1.42120                        | 0.21460                                 | 0.59000    | 4.20000   | 0.00550               |  |  |

(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, 2007.

Source: Municipal Advisory Council of Michigan

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

## Overlapping Rates

| Utica Community School District (2) |          |              |         |                     |          |              |         | Warren Consolidated School District (2) |                |          |              | Total Direct and Overlapping Rates by Resident's School District |       |
|-------------------------------------|----------|--------------|---------|---------------------|----------|--------------|---------|---|----------------|----------|--------------|--|-------|
| State Education Tax                 |          |              |         | State Education Tax |          |              |         | Utica Community                         |                |          |              | Warren Consolidated  |       |
| Operating/ Tax                      | Local    | Supplemental | Debt    | Operating/ Tax      | Local    | Supplemental | Sinking | Debt                                    | Operating/ Tax | Local    | Supplemental | Operating/ Tax   | Local |
| 6.00000                             | 0.00000  | 0.00000      | 3.50000 | 6.00000             | 0.00000  | 8.82660      | 0.00000 | 1.00000                                 | 29.42220       | 35.74880 |              |  |       |
| 6.00000                             | 18.00000 | 0.00000      | 3.50000 | 6.00000             | 18.00000 | 0.00000      | 0.00000 | 1.00000                                 | 47.42220       | 44.92220 |              |  |       |
| 6.00000                             | 0.00000  | 0.00000      | 3.50000 | 6.00000             | 0.00000  | 8.77760      | 0.00000 | 1.00000                                 | 29.13110       | 35.40870 |              |  |       |
| 6.00000                             | 18.00000 | 0.00000      | 3.50000 | 6.00000             | 18.00000 | 0.00000      | 0.00000 | 1.00000                                 | 47.13110       | 44.63110 |              |  |       |
| 6.00000                             | 0.00000  | 0.00000      | 3.50000 | 6.00000             | 0.00000  | 8.34560      | 0.00000 | 1.00000                                 | 28.83210       | 34.67770 |              |  |       |
| 6.00000                             | 18.00000 | 0.00000      | 3.50000 | 6.00000             | 18.00000 | 0.00000      | 0.00000 | 1.00000                                 | 46.83210       | 44.33210 |              |  |       |
| 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  | 7.46620      | 0.99640 | 2.50000                                 | 29.83160       | 37.29420 |              |  |       |
| 6.00000                             | 18.00000 | 0.00000      | 3.50000 | 6.00000             | 18.00000 | 0.00000      | 0.99640 | 2.50000                                 | 47.83160       | 47.82800 |              |  |       |
| 5.00000                             | 0.00000  | 0.00000      | 3.50000 | 5.00000             | 0.00000  | 7.33420      | 0.99640 | 2.35000                                 | 28.70300       | 35.88360 |              |  |       |
| 5.00000                             | 18.00000 | 0.00000      | 3.50000 | 5.00000             | 18.00000 | 0.00000      | 0.99640 | 2.35000                                 | 46.70300       | 46.54940 |              |  |       |
| 6.00000                             | 0.00000  | 0.00000      | 3.50000 | 6.00000             | 0.00000  | 6.76620      | 0.99640 | 2.28000                                 | 29.60280       | 36.14540 |              |  |       |
| 6.00000                             | 18.00000 | 0.00000      | 3.50000 | 6.00000             | 18.00000 | 0.00000      | 0.99640 | 2.28000                                 | 47.60280       | 47.37920 |              |  |       |
| 6.00000                             | 0.00000  | 0.00000      | 3.50000 | 6.00000             | 0.00000  | 6.71660      | 0.99640 | 2.28000                                 | 29.50080       | 35.99380 |              |  |       |
| 6.00000                             | 17.93160 | 0.00000      | 3.50000 | 6.00000             | 18.00000 | 0.00000      | 0.99640 | 2.28000                                 | 47.43240       | 47.27720 |              |  |       |
| 6.00000                             | 0.00000  | 0.00000      | 3.50000 | 6.00000             | 0.00000  | 6.55300      | 0.99640 | 2.28000                                 | 29.59930       | 35.92870 |              |  |       |
| 6.00000                             | 17.93160 | 0.00000      | 3.50000 | 6.00000             | 18.00000 | 0.00000      | 0.99640 | 2.28000                                 | 47.53090       | 47.37570 |              |  |       |

# City of Sterling Heights, Michigan

---

|                                | 1998                           | 1999                           | 2000                           | 2001                           | 2002                           |
|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| <b>State Equalized Value</b>   |                                |                                |                                |                                |                                |
| SEV Equivalent                 | \$ 3,433,720,050               | \$ 3,770,255,255               | \$ 4,095,828,980               | \$ 4,384,642,350               | \$ 4,786,398,900               |
| IFT Exemption                  | <u>155,455,150</u>             | <u>163,817,900</u>             | <u>184,401,100</u>             | <u>205,204,050</u>             | <u>261,109,300</u>             |
| Total SEV                      | <b><u>\$ 3,589,175,200</u></b> | <b><u>\$ 3,934,073,155</u></b> | <b><u>\$ 4,280,230,080</u></b> | <b><u>\$ 4,589,846,400</u></b> | <b><u>\$ 5,047,508,200</u></b> |
| <b>Taxable Value</b>           |                                |                                |                                |                                |                                |
| By Class:                      |                                |                                |                                |                                |                                |
| Real property                  | \$ 2,671,587,302               | \$ 2,826,351,500               | \$ 2,974,814,700               | \$ 3,145,249,054               | \$ 3,356,956,900               |
| Personal property              | <u>790,037,000</u>             | <u>874,346,800</u>             | <u>949,326,300</u>             | <u>979,571,300</u>             | <u>1,086,927,400</u>           |
| Total value                    | <b><u>\$ 3,461,624,302</u></b> | <b><u>\$ 3,700,698,300</u></b> | <b><u>\$ 3,924,141,000</u></b> | <b><u>\$ 4,124,820,354</u></b> | <b><u>\$ 4,443,884,300</u></b> |
| Total direct tax rate          | <b><u>\$ 11.47000</u></b>      | <b><u>\$ 11.22000</u></b>      | <b><u>\$ 10.97000</u></b>      | <b><u>\$ 10.72000</u></b>      | <b><u>\$ 10.65000</u></b>      |
| By Type:                       |                                |                                |                                |                                |                                |
| Residential                    | \$ 1,946,983,602               | \$ 2,068,663,200               | \$ 2,192,313,900               | \$ 2,329,156,554               | \$ 2,502,544,100               |
| Commercial                     | 387,318,800                    | 404,666,300                    | 420,041,700                    | 446,957,000                    | 465,723,900                    |
| Industrial                     | 296,688,200                    | 312,148,800                    | 335,000,300                    | 343,988,000                    | 359,713,900                    |
| Personal property              | 519,723,400                    | 587,584,200                    | 607,982,900                    | 594,310,700                    | 593,683,800                    |
| IFT real and personal property | <u>310,910,300</u>             | <u>327,635,800</u>             | <u>368,802,200</u>             | <u>410,408,100</u>             | <u>522,218,600</u>             |
| Total                          | 3,461,624,302                  | 3,700,698,300                  | 3,924,141,000                  | 4,124,820,354                  | 4,443,884,300                  |
| Less exempt property           | <u>(155,455,150)</u>           | <u>(163,817,900)</u>           | <u>(184,401,100)</u>           | <u>(205,204,050)</u>           | <u>(261,109,300)</u>           |
| Total taxable value            | <b><u>\$ 3,306,169,152</u></b> | <b><u>\$ 3,536,880,400</u></b> | <b><u>\$ 3,739,739,900</u></b> | <b><u>\$ 3,919,616,304</u></b> | <b><u>\$ 4,182,775,000</u></b> |
| <b>Total taxable value as</b>  |                                |                                |                                |                                |                                |
| a % of SEV equivalent          | <b>96.29%</b>                  | <b>93.81%</b>                  | <b>91.31%</b>                  | <b>89.39%</b>                  | <b>87.39%</b>                  |
| <b>Total taxable value as</b>  |                                |                                |                                |                                |                                |
| a % of total value             | <b>95.51%</b>                  | <b>95.57%</b>                  | <b>95.30%</b>                  | <b>95.03%</b>                  | <b>94.12%</b>                  |

Source: City of Sterling Heights, Assessor's Office

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

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

# City of Sterling Heights, Michigan

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

| Company Name            | Product/Service                           | Year Ended June 30, 2007 |      |                       | Year Ended June 30, 1998 |      |                       |
|-------------------------|---|--------------------------|------|-----------------------|--------------------------|------|-----------------------|
|                         |   | Taxable Value            | Rank | Percent of Total City | Taxable Value            | Rank | Percent of Total City |
|                         |   |                          |      | Taxable Value         |                          |      | Taxable Value         |
| DaimlerChrysler         | Automotive assembly and stamping          | \$ 275,309,675           | 1    | 5.32                  | \$ 217,435,150           | 2    | 6.58                  |
| Ford Motor Company      | Automotive manufacturing and drive shafts | 225,921,850              | 2    | 4.37                  | 286,619,700              | 1    | 8.67                  |
| Detroit News Agency     | Printing plant - Newspapers               | 41,244,025               | 3    | 0.80                  | 21,765,800               | 5    | 0.66                  |
| DTE Energy              | Public electric utility                   | 39,525,300               | 4    | 0.76                  | 40,519,500               | 3    | 1.23                  |
| Lakeside Associates     | Retail shopping center                    | 34,303,100               | 5    | 0.66                  | 32,361,100               | 4    | 0.98                  |
| General Dynamics        | Administrative engineering and design     | 30,218,500               | 6    | 0.58                  | 19,072,500               | 6    | 0.58                  |
| Laurel/Shoal Creek      | Office and apartment complex              | 17,352,550               | 7    | 0.34                  | 13,826,500               | 10   | 0.42                  |
| Ledd's Development      | Office and business complex               | 16,284,250               | 8    | 0.31                  | -                        | -    | -                     |
| Market Place Properties | Retail shopping center                    | 16,195,150               | 9    | 0.31                  | -                        | -    | -                     |
| Forum at Gateways       | Theatre complex                           | 12,819,400               | 10   | 0.25                  | -                        | -    | -                     |
| Consumers Power         | Public utility for gas                    | -                        | -    | -                     | 16,357,300               | 7    | 0.49                  |
| T.R.W.                  | Auto sub-component assembly               | -                        | -    | -                     | 16,333,300               | 8    | 0.49                  |
| MNP Corporation         | Nut, bolt, and wire manufacturer          | -                        | -    | -                     | 14,073,750               | 9    | 0.43                  |
|                         | Ten largest taxpayers                     | 709,173,800              |      | <u>13.70</u>          | 678,364,600              |      | <u>20.53</u>          |
|                         | Other taxpayers                           | 4,464,294,275            |      |                       | 2,627,804,552            |      |                       |
|                         | Total taxable value                       | <u>\$ 5,173,468,075</u>  |      |                       | <u>\$ 3,306,169,152</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<br>Year Ended<br>June 30 | General<br>Obligation<br>Bonds | County<br>Issued<br>Bonds | Amounts<br>Available<br>in Debt<br>Service Funds | Total         | Percentage of<br>Estimated<br>Total Taxable<br>Value of<br>Property (1) | Per<br>Population | Per<br>Capita |
|---------------------------------|--------------------------------|---------------------------|--|---------------|---|-------------------|---------------|
| 1998                            | \$ 17,961,770                  | \$ 6,883,858              | \$ (515,436)                                     | \$ 24,330,192 | 0.7086  | 122,900           | \$ 197.97     |
| 1999                            | 17,510,000                     | 7,392,862                 | (323,278)  | 24,579,584    | 0.6519  | 123,530           | 198.98        |
| 2000                            | 18,090,000                     | 6,528,423                 | (255,877)  | 24,362,546    | 0.5948  | 124,471           | 195.73        |
| 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                 | (284,417)  | 37,650,583    | 0.6277  | 128,692           | 292.56        |
| 2007                            | 21,590,000                     | 7,325,000                 | (118,705)  | 28,796,295    | 0.4622  | 128,914           | 223.38        |

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

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

# City of Sterling Heights, Michigan

## Ratios of Outstanding Debt by Type Last Ten Fiscal Years

| Fiscal<br>Year Ended<br>June 30 | Governmental Activities        |                                     |                                |                            |  | Total<br>Primary<br>Government | Percentage<br>of Personal<br>Income (I) | Population | Per<br>Capita |
|---------------------------------|--------------------------------|-------------------------------------|--------------------------------|----------------------------|--|--------------------------------|---|------------|---------------|
|                                 | General<br>Obligation<br>Bonds | Michigan<br>Transportation<br>Bonds | Special<br>Assessment<br>Bonds | County-<br>issued<br>Bonds |  |                                |   |            |               |
| 1998                            | \$ 17,961,770                  | \$ 14,450,000                       | \$ 1,490,000                   | \$ 6,883,858               |  | \$ 40,785,628                  | N/A                                     | 122,900    | \$ 331.86     |
| 1999                            | 17,510,000                     | 18,885,000                          | 1,340,000                      | 7,392,862                  |  | 45,127,862                     | N/A                                     | 123,530    | 365.32        |
| 2000                            | 18,090,000                     | 21,960,000                          | 1,175,000                      | 6,528,423                  |  | 47,753,423                     | 1.54%                                   | 124,471    | 383.65        |
| 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                     | 1.54%                                   | 128,914    | 384.17        |

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, 2007

### Direct Debt

#### General Obligation Bonds

|          |                      |                  |
|----------|----------------------|------------------|
| 05/01/97 | Roads                | \$ 225,000       |
| 04/21/98 | Roads                | 375,000          |
| 05/01/99 | Roads                | 700,000          |
| 06/14/04 | Judgment Funding, LT | 12,845,000       |
| 04/27/05 | Limited Tax          | 2,770,000        |
| 04/01/07 | Limited Tax          | <u>3,250,000</u> |
|          |                      | \$ 20,165,000    |

#### Building Authority Bonds

|          |                                       |                  |
|----------|---------------------------------------|------------------|
| 02/02/00 | City Center Commons                   | 325,000          |
| 11/05/03 | Judical Center Refunding, Series 2003 | <u>1,100,000</u> |

#### Michigan Transportation Fund Bonds

|          |                              |                  |
|----------|------------------------------|------------------|
| 05/01/99 | Bonds                        | 3,300,000        |
| 04/18/00 | Bonds                        | 200,000          |
| 07/30/02 | Refunding Bonds, Series 2002 | 1,820,000        |
| 12/09/03 | Refunding Bonds, Series 2003 | 2,325,000        |
| 04/05/05 | Refunding Bonds, Series 2005 | 3,215,000        |
| 05/19/05 | Bonds                        | 5,100,000        |
| 04/01/07 | Bonds                        | <u>4,650,000</u> |
|          |                              | 20,610,000       |

#### Share of County-issued Drain Bonds

|                               |                   |
|-------------------------------|-------------------|
| Total direct debt outstanding | 49,525,000        |
| Less: MTF Bonds               | <u>20,610,000</u> |
| Net direct debt outstanding   | 28,915,000        |

#### Overlapping Debt

|  |                                     |                       |                |
|--|-------------------------------------|-----------------------|----------------|
| 40.83%   | Utica Community School District     | 223,980,000           | 91,451,034     |
| 42.95%   | Warren Consolidated School District | 145,124,000           | 62,330,758     |
| 16.30%   | Macomb County at large              | 85,451,318            | 13,928,565     |
| 15.97%   | Macomb Intermediate School District | 2,000,000             | <u>319,400</u> |
| Total overlapping debt                           |                                     | <u>168,029,757</u>    |                |
| Net direct debt outstanding and overlapping debt |                                     | <u>\$ 196,944,757</u> |                |

Source: Municipal Advisory Council of Michigan, Detroit, Michigan

# **City of Sterling Heights, Michigan**

---

**Legal Debt Margin**  
**June 30, 2007**

Valuation for debt limit:

|   |                                    |
|---|------------------------------------|
| 2006 State Equalized Value (2007 Fiscal Year)                         | \$ 6,007,307,500                   |
| Addback of Assessed Value Equivalent - 2006 SEV of Act 198 exemptions | <u>446,753,450</u>                 |
| <br>Total valuation for debt limit                                    | <br><b><u>\$ 6,454,060,950</u></b> |

|   |                |
|---|----------------|
| Debt limit (10 percent of state equalized valuation and equivalent) (I) | \$ 645,406,095 |
|---|----------------|

Debt applicable to limit:

|   |                       |
|---|-----------------------|
| Amount of total direct outstanding debt | \$ 49,525,000         |
| Less Michigan Transportation Fund Bonds | <u>20,610,000</u>     |
| <br>Net debt applicable limit           | <br><u>28,915,000</u> |

|                   |                                  |
|-------------------|----------------------------------|
| Legal debt margin | <br><b><u>\$ 616,491,095</u></b> |
|-------------------|----------------------------------|

(I) 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                  |                              |                              |                              |                              |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|   | 1998                         | 1999                         | 2000                         | 2001                         | 2002                         |
| Debt limit  | \$ 358,917,520               | \$ 393,407,316               | \$ 428,023,008               | \$ 458,984,640               | \$ 504,750,820               |
| Total net debt applicable to limit                                      | <u>(24,845,628)</u>          | <u>(24,902,862)</u>          | <u>(24,618,423)</u>          | <u>(25,165,984)</u>          | <u>(23,499,602)</u>          |
| Legal debt margin   | <b><u>\$ 334,071,892</u></b> | <b><u>\$ 368,504,454</u></b> | <b><u>\$ 403,404,585</u></b> | <b><u>\$ 433,818,656</u></b> | <b><u>\$ 481,251,218</u></b> |
| Total net debt applicable to the limit<br>as a percentage of debt limit | 6.92%                        | 6.33%                        | 5.75%                        | 5.48%                        | 4.66%                        |

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

# City of Sterling Heights, Michigan

## Pledged Revenue Coverage Last Ten Fiscal Years

| Fiscal Year<br>Ended |              | Limited Tax Obligation Bonds       |            |              |       |  | Coverage     |
|----------------------|--------------|------------------------------------|------------|--------------|-------|--|--------------|
|                      |              | Collections                        | Principal  | Interest     | Total |  |              |
| 1998                 | \$ 807,437   | \$ 545,000                         | \$ 260,663 | \$ 805,663   | 1.002 |  |              |
| 1999                 | 833,700      | 625,000                            | 206,950    | 831,950      | 1.002 |  |              |
| 2000                 | 838,136      | 620,000                            | 216,173    | 836,173      | 1.002 |  |              |
| 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 |  |              |
| Fiscal Year<br>Ended |              | Michigan Transportation Fund Bonds |            |              |       |  | Coverage     |
|                      |              | Collections                        | Principal  | Interest     | Total |  |              |
| 1998                 | \$ 3,033,392 | \$ 1,298,110                       | \$ 846,096 | \$ 2,144,206 | 1.415 |  |              |
| 1999                 | 3,037,893    | 1,311,770                          | 855,830    | 2,167,600    | 1.402 |  |              |
| 2000                 | 3,198,450    | 1,315,000                          | 960,470    | 2,275,470    | 1.406 |  |              |
| 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 |  |              |
| Fiscal Year<br>Ended |              | Special Assessment Bonds           |            |              |       |  | Coverage (I) |
|                      |              | Collections                        | Principal  | Interest     | Total |  |              |
| 1998                 | \$ 333,612   | \$ 350,000                         | \$ 74,252  | \$ 424,252   | 0.786 |  |              |
| 1999                 | 443,713      | 150,000                            | 66,908     | 216,908      | 2.046 |  |              |
| 2000                 | 222,380      | 165,000                            | 60,136     | 225,136      | 0.988 |  |              |
| 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                 | -            | -                                  | -          | -            | -     |  |              |

(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 Eight Fiscal Years

| Fiscal<br>Year Ended<br>June 30 | Estimated<br>Population | Median<br>Age<br>(2) | Education<br>Age 25 or Older (2)     |                                   |       | Per Capita<br>Income<br>(2) | Income<br>(in thousands) | Number of<br>Households<br>(3) | Median<br>Household                |                          |
|---------------------------------|-------------------------|----------------------|--------------------------------------|-----------------------------------|-------|-----------------------------|--------------------------|--------------------------------|------------------------------------|--------------------------|
|                                 |                         |                      | High School<br>Graduate<br>or Higher | Bachelor's<br>Degree<br>or Higher |       |                             |                          |                                | Income<br>(in 1999<br>dollars) (3) | Unemployment<br>Rate (4) |
| 2000                            | 124,471                 | (2)                  | 37                                   | 84.0%                             | 23.0% | \$ 24,958                   | \$ 3,106,547             | 45,594                         | \$ 62,274                          | 2.5%                     |
| 2001                            | 125,140                 | (1)                  | N/A                                  | N/A                               | N/A   | N/A                         | 3,123,244                | 46,072                         | 62,274                             | 4.1%                     |
| 2002                            | 125,800                 | (1)                  | N/A                                  | N/A                               | N/A   | N/A                         | 3,139,716                | 48,775                         | 62,274                             | 4.8%                     |
| 2003                            | 126,470                 | (1)                  | N/A                                  | N/A                               | N/A   | N/A                         | 3,156,438                | 48,990                         | 62,274                             | 5.3%                     |
| 2004                            | 127,270                 | (1)                  | N/A                                  | N/A                               | N/A   | N/A                         | 3,176,405                | 49,260                         | 62,274                             | 5.4%                     |
| 2005                            | 128,026                 | (1)                  | N/A                                  | N/A                               | N/A   | N/A                         | 3,195,273                | 49,405                         | 62,274                             | 5.6%                     |
| 2006                            | 128,692                 | (1)                  | N/A                                  | N/A                               | N/A   | N/A                         | 3,211,895                | 49,871                         | 62,274                             | 6.3%                     |
| 2007                            | 128,914                 | (1)                  | N/A                                  | N/A                               | N/A   | N/A                         | 3,217,436                | 50,761                         | 62,274                             | 7.3%                     |

Sources:

- (1) City of Sterling Heights
- (2) United States Census Bureau - 2000 Census (last reported)
- (3) Southeast Michigan Council of Governments (SEMCOG)
- (4) Michigan Department of Labor and Economic Growth

# City of Sterling Heights, Michigan

## Miscellaneous Demographics

| <b>Population</b>                  |                      | <b>Labor Characteristics</b>  |                                 |        |
|------------------------------------|----------------------|---|---------------------------------|--------|
|                                    |                      |   | 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                           |        |
|                                    |                      | <b>Total</b>  | <b>64,340</b>                   |        |
| <b>Income Characteristics</b>      |                      | <b>By Industry:</b>   |                                 |        |
| Household Income                   | Number of Households | <b>By Industry:</b>   |                                 |        |
| 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                           |        |
|                                    |                      | <b>Total</b>  | <b>64,340</b>                   |        |
| <b>Residential Characteristics</b> |                      |   |                                 |        |
| Single Family                      | 75.21%               |   |                                 |        |
| Multi Family                       | 21.18%               |   |                                 |        |
| Mobile Homes                       | 3.61%                |   |                                 |        |
| <b>Age Statistics</b>              |                      | <b>Educational Characteristics</b>  |                                 |        |
| 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, 2007 |      |                       | Year Ended June 30, 1998 |      |                       |
|-----------------------------|--|--------------------------|------|-----------------------|--------------------------|------|-----------------------|
|                             |  | Employees                | Rank | Total City Employment | Employees                | Rank | Total City Employment |
| DaimlerChrysler AG          | Automotive assembly and stamping           | 6,875                    | 1    | 12.64%                | 6,875                    | 1    | (I)                   |
| Utica Community Schools     | Education                                  | 4,150                    | 2    | 7.63%                 | 4,150                    | 3    |                       |
| Lakeside Associates         | Retail shopping center                     | *2,500                   | 3    | 0.00%                 | 2,500                    | 4    |                       |
| Warren Consolidated Schools | Education                                  | 2,200                    | 4    | 4.05%                 | 2,200                    | 5    |                       |
| General Dynamics            | Defense-related manufacturing              | 1,425                    | 5    | 2.62%                 | 1,425                    | 6    |                       |
| Ford Motor Company          | Automotive axles and chassis components ** | 1,250                    | 6    | 2.30%                 | 6,500                    | 2    |                       |
| Detroit News                | Printing plant - Newspapers                | 1,200                    | 7    | 2.21%                 | 730                      | 8    |                       |
| MNP                         | Nut, bolt, and wire manufacturer           | 580                      | 8    | 1.07%                 | 580                      | 11   |                       |
| Cadillac Products, Inc.     | Plastic bags, sheets, paper                | 750                      | 9    | 1.38%                 | 750                      | 7    |                       |
| City of Sterling Heights    | Local government                           | 637                      | 10   | 1.17%                 | 623                      | 10   |                       |
| Collins & Aikman            | Automotive interior                        | 580                      | 11   | 1.07%                 | -                        |      |                       |
| Key Safety Systems, Inc.    | Safety systems                             | 560                      | 12   | 1.03%                 | 560                      | 13   |                       |
| U.S. Farathane Corporation  | Paints and finishes                        | 550                      | 13   | 1.01%                 | -                        |      |                       |
| Miliken Millwork            | Wooden, stainless steel doors and stairs   | 500                      | 14   | 0.92%                 | -                        |      |                       |
| Mayco Plastics              | Plastic injection molding                  | 400                      | 15   | 0.74%                 | 650                      | 9    |                       |
| T.R.W.                      | Auto sub-component assembly                | -                        | -    | -                     | 570                      | 12   |                       |
| Chivas Products Ltd.        | Moldings                                   | -                        | -    | -                     | 500                      | 14   |                       |
| Modular Plastics            | Plastic molds                              | -                        | -    | -                     | 330                      | 15   |                       |
|                             | Fifteen largest employers                  | 21,657                   |      | 47.67%                | <u>28,943</u>            |      |                       |
|                             | Other employers                            | <u>32,727</u>            |      | 60.18%                |                          |      |                       |
|                             | Total employment                           | <u>54,384</u>            |      |                       |                          |      |                       |

\* Approximate number of employees, including seasonal help, is 4,000.

\*\* During the year, Ford Motor Company reacquired ACH. As a result, total combined employees at June 30, 2007 are unknown.

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

Source: City of Sterling Heights, Chamber of Commerce and Michigan Manufacturing Directory, 2007 Edition

# City of Sterling Heights, Michigan

## Operating Indicators by Function Last Ten Fiscal Years

|                                       | Fiscal Year |         |         |         |         |         |         |         |         |         |
|---------------------------------------|-------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|                                       | 1998        | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    |
| <b>General Government</b>             |             |         |         |         |         |         |         |         |         |         |
| <b>Election Data</b>                  |             |         |         |         |         |         |         |         |         |         |
| Registered voters                     | 81,136      | 84,437  | 77,508  | 77,134  | 79,426  | 79,100  | 79,221  | 83,461  | 83,910  | 83,639  |
| Voters at polls                       | 16,862      | 30,875  | 11,604  | 42,229  | 9,285   | 30,309  | 10,445  | 45,608  | 7,654   | 34,405  |
| Absentee ballots                      | 7,772       | 8,240   | 6,639   | 10,593  | 6,981   | 8,908   | 7,113   | 14,801  | 7,605   | 11,904  |
| Percent voting                        | 30.36%      | 46.32%  | 23.54%  | 68.48%  | 20.48%  | 49.58%  | 22.16%  | 72.38%  | 18.18%  | 55.37%  |
| <b>41A District Court</b>             |             |         |         |         |         |         |         |         |         |         |
| <b>Court Cases</b>                    |             |         |         |         |         |         |         |         |         |         |
| Civil                                 | 1,469       | 1,454   | 1,526   | 1,754   | 2,000   | 2,300   | 2,508   | 2,709   | 2,862   | 3,239   |
| Criminal                              | 7,859       | 8,338   | 8,488   | 6,651   | 5,827   | 5,920   | 4,782   | 3,994   | 4,211   | 4,533   |
| Landlord and tenant                   | 1,602       | 1,705   | 1,713   | 1,642   | 1,930   | 2,200   | 2,285   | 2,203   | 2,226   | 2,433   |
| Small claims                          | 745         | 596     | 605     | 639     | 657     | 612     | 610     | 513     | 488     | 432     |
| Traffic                               | 32,557      | 33,534  | 34,571  | 25,405  | 20,859  | 25,044  | 27,282  | 25,338  | 24,256  | 27,143  |
| <b>Public Safety</b>                  |             |         |         |         |         |         |         |         |         |         |
| <b>Police Protection</b>              |             |         |         |         |         |         |         |         |         |         |
| Adult arrests                         | 3,485       | 3,585   | 3,836   | 3,452   | 3,198   | 2,988   | 2,707   | 2,406   | 2,560   | 3,326   |
| Civil infractions                     | 27,832      | 26,691  | 27,087  | 21,265  | 14,303  | 18,450  | 18,605  | 23,627  | 23,819  | 26,582  |
| Group A offenses (2)                  | 9,095       | 7,361   | 7,823   | 7,379   | 6,873   | 6,897   | 6,260   | 6,474   | 7,926   | 7,873   |
| Group B offenses (3)                  | 3,259       | 2,753   | 3,137   | 3,129   | 2,808   | 2,424   | 3,623   | 4,170   | 4,609   | 4,491   |
| Injury accidents                      | 906         | 882     | 836     | 804     | 747     | 766     | 884     | 862     | 810     | 806     |
| Juvenile arrests                      | 393         | 338     | 349     | 299     | 318     | 225     | 246     | 183     | 239     | 251     |
| OUIL arrests                          | 441         | 634     | 626     | 593     | 541     | 405     | 412     | 361     | 375     | 328     |
| Parking violations                    | 2,221       | 1,774   | 1,816   | 1,918   | 1,616   | 2,293   | 1,696   | 1,713   | 1,730   | 2,016   |
| Property damage                       | 3,251       | 3,042   | 3,282   | 3,476   | 3,261   | 3,317   | 3,637   | 3,669   | 3,663   | 3,415   |
| Private property damage               | 1,598       | 1,646   | 1,663   | 1,673   | 1,546   | 1,419   | 1,426   | 1,439   | 1,304   | 1,322   |
| Total traffic violations              | 38,283      | 35,205  | 36,301  | 29,389  | 24,543  | 27,012  | 24,208  | 26,972  | 25,379  | 29,166  |
| <b>Fire Protection</b>                |             |         |         |         |         |         |         |         |         |         |
| Emergency alarms answered             | 7,170       | 8,080   | 7,820   | 7,747   | 8,425   | 5,966   | 9,215   | 9,292   | 9,573   | 10,261  |
| Fire inspections conducted            | 4,154       | 4,537   | 4,482   | 4,202   | 4,139   | 3,871   | 4,427   | 3,832   | 4,204   | 4,624   |
| Inspection violations issued          | 815         | 2,431   | 4,071   | 3,890   | 3,239   | 3,225   | 4,451   | 3,697   | 6,020   | 10,292  |
| Medical emergencies                   | 4,583       | 5,568   | 5,052   | 5,191   | 5,517   | 5,888   | 6,551   | 6,719   | 6,927   | 7,493   |
| Training hours completed              | 37,081      | 37,982  | 35,016  | 33,798  | 36,491  | 32,839  | 34,583  | 35,809  | 34,124  | 33,538  |
| <b>Recreation and Culture</b>         |             |         |         |         |         |         |         |         |         |         |
| <b>Parks and Recreation</b>           |             |         |         |         |         |         |         |         |         |         |
| Adult athletics attendance            | 24,900      | 14,115  | 12,675  | 18,810  | 19,383  | 14,150  | 13,980  | 15,825  | 19,480  | 18,782  |
| Instructional swim attendance         | 8,500       | 9,130   | 9,030   | 8,390   | 8,281   | 9,025   | 9,640   | 9,592   | 8,896   | 9,386   |
| Instructional rec. attendance         | 24,000      | 27,090  | 27,230  | 26,840  | 26,620  | 24,330  | 24,285  | 24,970  | 28,070  | 26,567  |
| Nature program attendance             | 24,625      | 23,450  | 22,465  | 22,750  | 15,460  | 27,290  | 28,350  | 29,362  | 22,748  | 24,582  |
| Senior program attendance             | 74,520      | 89,230  | 86,530  | 89,990  | 111,120 | 121,990 | 126,280 | 111,020 | 111,610 | 103,528 |
| Special event attendance              | 72,000      | 54,500  | 55,710  | 55,890  | 68,530  | 68,480  | 68,500  | 71,930  | 72,725  | 73,000  |
| Special recreation program attendance | 12,560      | 13,860  | 13,820  | 13,880  | 15,585  | 15,700  | 15,870  | 15,895  | 16,870  | 14,878  |
| Summer playground attendance          | 23,000      | 21,580  | 18,775  | 21,250  | 21,097  | 19,120  | 15,600  | 11,646  | 9,992   | 11,025  |
| Youth athletics attendance            | 53,000      | 55,000  | 66,840  | 45,930  | 45,064  | 56,035  | 56,080  | 53,325  | 49,480  | 53,978  |
| <b>Library</b>                        |             |         |         |         |         |         |         |         |         |         |
| Book Van deliveries                   | 10,181      | 10,771  | 9,125   | 8,098   | 9,126   | 9,759   | 12,623  | 12,844  | 12,820  | 11,242  |
| Community meeting room reservations   | N/A         | N/A     | N/A     | N/A     | N/A     | N/A     | 295     | 150     | 299     | 341     |
| In-house materials usage              | N/A         | N/A     | N/A     | N/A     | N/A     | 190,771 | 159,897 | 139,897 | 140,033 | 144,698 |
| Interlibrary loan requests            | 23,212      | 23,448  | 17,869  | 17,995  | 45,832  | 86,855  | 88,657  | 99,078  | 109,995 | 120,393 |
| Interlibrary loans - Lent             | N/A         | N/A     | N/A     | N/A     | N/A     | 70,782  | 75,931  | 89,405  | 100,260 | 109,814 |
| Items circulated                      | 662,773     | 635,697 | 540,720 | 447,240 | 690,262 | 687,070 | 662,579 | 641,730 | 648,967 | 635,425 |
| Library visits                        | 300,173     | 283,793 | 219,708 | 193,505 | 296,249 | 309,531 | 371,398 | 388,706 | 417,601 | 420,716 |
| Online computer uses                  | 222,750     | 248,273 | 211,267 | 170,452 | 187,950 | 296,414 | 357,869 | 441,111 | 456,752 | 492,979 |
| Program attendance                    | 7,734       | 13,659  | 11,045  | 14,687  | 24,004  | 23,046  | 22,034  | 22,780  | 21,275  | 25,470  |
| Reference transactions                | 127,555     | 111,985 | 102,602 | 95,289  | 135,514 | 137,941 | 132,104 | 141,056 | 133,617 | 132,557 |
| Registered borrowers                  | 56,590      | 56,969  | 52,616  | 53,680  | 53,822  | 53,435  | 53,476  | 57,050  | 50,390  | 50,599  |

# City of Sterling Heights, Michigan

## Operating Indicators by Function (Continued) Last Ten Fiscal Years

|                                 | 1998     | 1999     | 2000     | 2001     | 2002     | 2003     | 2004     | 2005     | 2006 (4) | 2007     |
|---------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| <b>Water and Sewer Services</b> |          |          |          |          |          |          |          |          |          |          |
| Customers:                      |          |          |          |          |          |          |          |          |          |          |
| Residential                     | 32,153   | 32,512   | 33,048   | 33,495   | 34,049   | 34,302   | 34,529   | 34,535   | 34,850   | 35,021   |
| Commercial/Industrial           | 3,000    | 3,284    | 3,266    | 3,367    | 3,534    | 3,582    | 3,741    | 4,185    | 4,272    | 4,477    |
| Water (in thousand cubic feet): |          |          |          |          |          |          |          |          |          |          |
| Purchased from Detroit          | 859,619  | 888,703  | 865,058  | 847,075  | 843,530  | 885,283  | 828,398  | 867,931  | 803,969  | 775,817  |
| Sold to residents               | 825,387  | 923,840  | 887,265  | 800,654  | 845,667  | 881,780  | 815,645  | 811,252  | 852,661  | 789,033  |
| Rates (per thousand):           |          |          |          |          |          |          |          |          |          |          |
| 1,000 CU. FT.                   | \$ 17.03 | \$ 17.54 | \$ 18.07 | \$ 18.94 | \$ 20.72 | \$ 22.77 | \$ 22.72 | \$ 25.42 | \$ 27.13 | \$ 28.64 |
| Next 2,000 CU.FT.               | 15.69    | 16.16    | 16.64    | 17.44    | 19.08    | 21.28    | (I)      | (I)      | 27.13    | 28.64    |
| Over 3,000 CU.FT.               | 14.41    | 15.12    | 15.69    | 16.45    | 18.01    | 20.57    | (I)      | (I)      | 27.96    | 29.50    |
| Sewer only - Per billing        | 15.00    | 15.00    | 15.00    | 15.00    | 15.00    | 15.00    | 15.00    | 15.00    | 15.00    | 25.00    |

(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.

Source: City of Sterling Heights

# City of Sterling Heights, Michigan

## Capital Asset Statistics by Function Last Ten Fiscal Years

|                                 | 1998    | 1999    | 2000    | 2001    | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    |
|---------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>General Government</b>       |         |         |         |         |         |         |         |         |         |         |
| <b>Buildings</b>                |         |         |         |         |         |         |         |         |         |         |
| City Center Commons             |         |         |         |         |         |         |         |         |         |         |
| 41A District Court              |         |         |         |         |         |         |         |         |         |         |
| <b>Public Safety</b>            |         |         |         |         |         |         |         |         |         |         |
| <b>Police Protection</b>        |         |         |         |         |         |         |         |         |         |         |
| Stations                        |         |         |         |         |         |         |         |         |         |         |
| Vehicles - Marked               | 44      | 45      | 45      | 48      | 48      | 48      | 48      | 49      | 49      | 49      |
| Vehicles - Unmarked             | 68      | 68      | 68      | 68      | 68      | 68      | 68      | 68      | 80      | 82      |
| <b>Fire Protection</b>          |         |         |         |         |         |         |         |         |         |         |
| Stations                        | 5       | 5       | 5       | 5       | 5       | 5       | 5       | 5       | 5       | 5       |
| Vehicles - Extinguishment       | 10      | 10      | 10      | 11      | 12      | 13      | 14      | 14      | 14      | 15      |
| <b>Public Works</b>             |         |         |         |         |         |         |         |         |         |         |
| <b>Streets and Sidewalks</b>    |         |         |         |         |         |         |         |         |         |         |
| Miles of City:                  |         |         |         |         |         |         |         |         |         |         |
| Primary streets                 | 58      | 58      | 59      | 60      | 60      | 60      | 60      | 60      | 60      | 60      |
| Secondary streets               | 279     | 280     | 282     | 281     | 282     | 285     | 285     | 286     | 287     | 289     |
| Sidewalks                       | 527     | 529     | 532     | 535     | 537     | 565     | 565     | 566     | 605     | 607     |
| Bridges                         | 11      | 11      | 11      | 11      | 11      | 11      | 11      | 11      | 11      | 11      |
| Buildings                       | 2       | 2       | 2       | 2       | 2       | 2       | 2       | 2       | 2       | 2       |
| Street lights                   | 2,168   | 2,290   | 2,290   | 2,474   | 2,490   | 2,495   | 2,475   | 2,472   | 2,508   | 2,513   |
| Vehicles - Snow plows           | 19      | 19      | 20      | 21      | 21      | 21      | 21      | 21      | 20      | 21      |
| <b>Water and Sewer Services</b> |         |         |         |         |         |         |         |         |         |         |
| Fire hydrants                   | 5,720   | 5,901   | 6,033   | 6,488   | 6,597   | 6,633   | 6,796   | 6,932   | 7,015   | 7,050   |
| Miles of water mains            | 499     | 518     | 525     | 535     | 544     | 554     | 558     | 563     | 569     | 570     |
| Miles of sanitary sewers        | 387     | 401     | 406     | 412     | 415     | 415     | 422     | 424     | 428     | 429     |
| <b>Recreation and Culture</b>   |         |         |         |         |         |         |         |         |         |         |
| <b>Parks and Recreation</b>     |         |         |         |         |         |         |         |         |         |         |
| Acres                           | 800     | 800     | 800     | 810     | 811     | 820     | 820     | 820     | 820     | 820     |
| Developed parks                 | 25      | 25      | 25      | 26      | 27      | 28      | 28      | 28      | 28      | 28      |
| Buildings                       | 3       | 3       | 3       | 3       | 3       | 3       | 3       | 3       | 3       | 3       |
| <b>Library</b>                  |         |         |         |         |         |         |         |         |         |         |
| Book collections                | 189,596 | 182,015 | 183,167 | 215,840 | 191,481 | 197,472 | 186,992 | 189,822 | 190,791 | 188,365 |
| Other collections (I)           | 19,666  | 20,528  | 23,198  | 24,786  | 25,442  | 28,250  | 24,622  | 23,937  | 23,776  | 35,619  |
| 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 Last Ten Fiscal Years at Market Value

| Fiscal Year<br>Ended June 30 | Residential      |               |                        |                   |                     |  |  |  |
|------------------------------|------------------|---------------|------------------------|-------------------|---------------------|--|--|--|
|                              | New Construction |               | Additions/Improvements |                   | Total Residential   |  |  |  |
| Number                       | Value            | Number        | Value                  | Total Residential |                     |  |  |  |
| 1998                         | 613              | \$ 70,925,657 | 1,229                  | \$ 5,018,127      | \$ 75,943,784       |  |  |  |
| 1999                         | 450              | 55,025,833    | 1,499                  | 5,170,833         | 60,196,666          |  |  |  |
| 2000                         | 304              | 38,156,806    | 1,864                  | 6,261,197         | 44,418,003          |  |  |  |
| 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          |  |  |  |
| Commercial                   |                  |               |                        |                   |                     |  |  |  |
| Fiscal Year<br>Ended June 30 | New Construction |               | Additions/Improvements |                   | Total<br>Commercial |  |  |  |
|                              | Number           | Value         | Number                 | Value             | Total<br>Commercial |  |  |  |
| 1998                         | 43               | \$ 28,833,159 | 255                    | \$ 21,239,729     | \$ 50,072,888       |  |  |  |
| 1999                         | 36               | 39,098,478    | 277                    | 22,097,699        | 61,196,177          |  |  |  |
| 2000                         | 68               | 31,976,338    | 237                    | 28,031,281        | 60,007,619          |  |  |  |
| 2001                         | 96               | 40,493,780    | 156                    | 20,199,408        | 60,693,188          |  |  |  |
| 2002                         | 42               | 25,736,795    | 295                    | 16,143,812        | 41,880,607          |  |  |  |
| 2003                         | 19               | 17,228,169    | 265                    | 18,095,804        | 35,323,973          |  |  |  |
| 2004                         | 29               | 28,123,162    | 272                    | 59,264,545        | 87,387,707          |  |  |  |
| 2005                         | 31               | 34,143,253    | 271                    | 26,257,489        | 60,400,742          |  |  |  |
| 2006                         | 24               | 25,096,450    | 302                    | 26,567,543        | 51,663,993          |  |  |  |
| 2007                         | 24               | 44,813,309    | 254                    | 40,418,973        | 85,232,282          |  |  |  |

Source: City of Sterling Heights Office of Building Services

# City of Sterling Heights, Michigan

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

| <u>Function</u>         | Full-time and Part-time Employees as of June 30 |            |            |            |            |            |            |            |            |            |
|-------------------------|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                         | 1998  | 1999       | 2000       | 2001       | 2002       | 2003       | 2004       | 2005       | 2006       | 2007       |
| General government      | 93  | 95         | 96         | 99         | 99         | 99         | 97         | 95         | 95         | 94         |
| 41A District Court      | 38  | 37         | 37         | 37         | 37         | 37         | 36         | 38         | 38         | 40         |
| Public safety:          |   |            |            |            |            |            |            |            |            |            |
| Police                  | 254   | 265        | 265        | 266        | 266        | 263        | 259        | 258        | 259        | 259        |
| Fire                    | 107   | 107        | 107        | 107        | 114        | 111        | 107        | 107        | 107        | 108        |
| Public Works:           |   |            |            |            |            |            |            |            |            |            |
| City development        | 46  | 49         | 50         | 50         | 51         | 51         | 50         | 50         | 50         | 32         |
| Public works            | 43  | 55         | 56         | 56         | 57         | 45         | 43         | 43         | 43         | 43         |
| Street services         | 23  | 23         | 23         | 23         | 23         | 23         | 23         | 23         | 23         | 23         |
| Engineering (I)         | -   | -          | -          | -          | -          | -          | -          | -          | -          | 19         |
| Recreation and culture: |   |            |            |            |            |            |            |            |            |            |
| Parks and recreation    | 16  | 16         | 16         | 16         | 16         | 16         | 16         | 16         | 16         | 16         |
| Library                 | 42  | 42         | 42         | 42         | 42         | 42         | 41         | 41         | 41         | 41         |
| Water and sewer         | 42  | 41         | 41         | 41         | 41         | 41         | 41         | 41         | 41         | 41         |
| Total                   | <b>704</b>                                      | <b>730</b> | <b>733</b> | <b>737</b> | <b>746</b> | <b>728</b> | <b>713</b> | <b>712</b> | <b>713</b> | <b>716</b> |

(I) Prior to 2007 engineering employees were included in City Development.

Source: City of Sterling Heights

## **Continuing Disclosure**

---

# City of Sterling Heights, Michigan

## State-shared Revenues Last Ten Fiscal Years

| <u>Fiscal Year<br/>Ended June 30</u> | <u>Modified Accrual<br/>Basis of Accounting</u> | <u>Accrual Basis of<br/>Accounting</u> |
|--------------------------------------|---|--|
| 1998                                 | \$ 11,274,771                                   | N/A                                    |
| 1999                                 | 12,040,644                                      | N/A                                    |
| 2000                                 | 12,489,726                                      | N/A                                    |
| 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                             |

## Gas and Weight Taxes Last Ten Fiscal Years

| <u>Fiscal Year<br/>Ended June 30</u> | <u>Type of Street</u> |                    | <u>Total<br/>Gas and Weight Tax<br/>(Act 51) Receipts</u> |
|--------------------------------------|-----------------------|--------------------|---|
|                                      | <u>Major Roads</u>    | <u>Local Roads</u> |   |
| 1998                                 | \$ 4,206,150          | \$ 1,860,634       | \$ 6,066,784  |
| 1999                                 | 4,408,865             | 1,666,920          | 6,075,785   |
| 2000                                 | 4,642,820             | 1,754,080          | 6,396,900   |
| 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   |

Source: City of Sterling Heights

# City of Sterling Heights, Michigan

**Labor Agreements**  
**June 30, 2007**

| Name  | Contract Expiration Date | Actual Number of Employees Covered |
|---|--------------------------|------------------------------------|
| <b>Union Employees</b>  |                          |                                    |
| Technical/Office Employees<br>Michigan Association of Public Employees (MAPE)   | 6/30/2007                | 114                                |
| Police Clerical Employees<br>Michigan Association of Police (MAP)               | 6/30/2006                | 28                                 |
| Emergency Dispatchers<br>Police Officers Association of Michigan (POAM)         | 6/30/2007                | 23                                 |
| Department of Public Works Field Employees<br>Teamsters, Local 214              | 6/30/2007                | 70                                 |
| Department of Public Works Supervisors<br>AFSCME, Local 1917, Council 25        | 6/30/2007                | 9                                  |
| Firefighters<br>International Association of Firefighters, Local 1557           | 6/30/2007                | 101                                |
| Police Officers<br>Michigan Association of Police (MAP)                         | 6/30/2011                | 131                                |
| Police Command Officers<br>Sterling Heights Police Command Officers Association | 6/30/2007                | 38                                 |
| Court Clerical<br>AFSCME, Local 1884, Council 25                                | 6/30/2011                | 23                                 |
| Professional and Technical Employees<br>United Auto Workers, Unit 40, Local 412 | 6/30/2008                | 58                                 |
| Supervisory Employees<br>United Auto Workers, Unit 41, Local 412                | 6/30/2012                | 23                                 |
| Executive Employees<br>Michigan Association of Public Employees (MAPE)          | 6/30/2008                | 5                                  |
| <b>Nonunion Employees</b>   |                          |                                    |
| City Manager  | N/A                      | 1                                  |
| 41A District Court Judges   | N/A                      | 3                                  |
| 41A District Court Administration   | N/A                      | 10                                 |

Source: City of Sterling Heights